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# AUDIT AND CORPORATE PRACTICES **COMMITTEE ANNUAL REPORT**

Mexico City, March 15<sup>th</sup>, 2018

## **To the Board of Directors of Grupo Financiero Banorte, S.A.B. de C.V.**

In accordance with Articles 58 articles of the Law to Regulate Financial Groups and 43 of the Stock Market Law, the Audit and Corporate Practices Committee (Committee) presents its annual report of activities for 2017.

The contents of this report shall refer to Grupo Financiero Banorte (GFNorte) and the following relevant institutions: Banco Mercantil del Norte, S.A., Casa de Bolsa Banorte Ixe, S.A. de C.V, Arrendadora y Factor Banorte, S.A. de C.V. SOFOM ER (Leasing and Factoring), Solida Administradora de Portafolios, S.A. de C.V. SOFOM ER, Seguros Banorte, S.A. de C.V.(Insurance company), Pensiones Banorte, S.A. de C.V. (Annuities company) and Banorte Ahorro y Previsión S.A. de C.V. (Long Term Savings).

### **I. In regards to auditing:**

- a) Regarding the state of the Internal Control System (ICS) and Internal Audit of GFNorte and its relevant entities, and deficiencies and deviations, the following elements were taken into consideration:
1. Their respective General Directors prepared the annual reports on activities in Internal Control issues of the relevant entities.
  2. The Internal Comptrollers' reports for GFNorte's relevant entities in Mexico, with their opinion on the functioning of the ICS.
  3. The Internal Audit's opinion on the situation of the ICS of the relevant entities.
  4. Reports on relevant deficiencies and observations of GFNorte and its subsidiaries, presented by Internal Audit and the follow-up on corrective measures.
  5. The External Auditor's reports of observations to Internal Control and its opinion of the financial statements of GFNorte and its subsidiaries.
  6. The inspection reports by competent authorities.
  7. Commissioners' reports on GFNorte's relevant entities.
  8. Reports of other Audit Committees on relevant events and the minutes of their meetings.
  9. Reports on the management Internal Audit and fulfillment of its work program.

Taking into consideration the aforementioned elements, the ICS of GFNorte and its relevant entities is reported to function properly, and of those identified deficiencies or deviations, some have been corrected and others are in the process of being taken care of.

With respect to the functioning of Internal Audit, the area has maintained its independence, reasonably met its work program in accordance with best practices, and effectively monitored the implementation of measures to correct observations and take advantage of detected areas of opportunity.

- b) No significant non-compliance with operating guidelines and policies and accounting records for GFNorte and its relevant subsidiaries were found; identified areas of opportunity were reported to policy-makers and steps were taken to address them, along with a follow-up system that was established to ensure proper implementation.
- c) A performance evaluation of the legal entity that provides the external audit services confirmed the quality of the firm Galaz, Yamazaki, Ruiz Urquiza, S.C. (Deloitte Touche Tohmatsu member) in the performance of its activities and in its relationships with the Administration and the Committee, as well as with the Auditor in charge.

Also the content of its opinions and reports are considered of quality and useful in supporting the Committee, stressing that their results and opinions do not present differences with the Administration.

- d) With regards to the description and assessment of the additional or complementary services provided by the External Auditor, it was approved to hire them during the fiscal year to obtain an opinion on the interim financial statements as part of the Capitalization Instruments' (Subordinated Debt) issuance process, a structural analysis of the personnel's pension plan, of the funds that it is comprised of, the resources generated and its handling with regards to deferred taxes for the plan and to carry out work associated with the Placement Program as a recurrent issuer that Banco Mercantil del Norte plans to realize in the national market over the next 5 years.

A review the fiscal situation of Grupo Financiero Interacciones and those companies for the fiscal years of 2015, 2016 and 2017 and to carry out work related to the Financial Due Diligence was also approved.

And lastly, authorization was given to hire them to review reports for sustainability, local taxes and transfer prices for intercompany operations.

- e) A review of the financial statements for GFNorte and its subsidiaries was carried out as of December 31st, 2017 and the dictum of the External Auditor confirmed that they were prepared in accordance with the applicable accounting principles in all material aspects, and recommended their approval to the Board of Directors. The Committee also reviewed quarterly interim financial statements for the year.
- f) In regard to major modifications to policies and accounting criteria used during the fiscal year, it was reported that modifications were made to comply with changes in applicable provisions, which are described in Note 4 of the financial statements denominated "Main Accounting Policies", which contains a detailed explanation of them and their effects.
- g) No relevant observations were received during the fiscal year from shareholders, Board members, directors, employees or any third party with respect to accounting, internal controls or internal and external audit, or allegations of irregular events. Based on best practices, there is an established anonymous complaints system which the Committee follows up on with due attention.
- h) With regards to the follow-up of agreements between the Shareholders' Assembly and the Board of Directors, such bodies have not asked the Committee to follow-up on any agreement.
- i) During the fiscal year, Bank of Mexico paid an inspection visit which focused on issues related to financial markets, payment methods and compliance with the Transparency Law.

For its part, the CNBV made observations related mainly to car and payroll loans, some inconsistencies in risk calculations, and aspects of accounting records and investment services.

In December, responses were provided to CNBV on these observations by contributing additional information in some places in order to ensure the matter is addressed, in other cases by pointing out the correction plan that is already underway and for certain cases reporting that the corresponding analysis will be carried out to initiate the correction programs.

The main findings were reported to the Board of Directors in the meeting held on January 25<sup>th</sup>, 2018.

- d) Among other relevant activities carried out within the Committee's responsibilities are the review of operations of the Conflict of Interest Prevention System in GFNorte and the remediation plan for the observations detected by Internal Audit in the Foreign Exchange and Fiduciary Market processes.

In terms of Technology, the Committee reviewed the actions to fully remedy the problem of users with incorrect profiles and the progress of the project to improve customer identification mechanisms to comply with provisions to prevent identity theft.

During the fiscal year, the Committee followed up on the progress in the implementation of the new Fiduciary operating model.

Regarding the Internal Audit function, the Committee evaluated the results of the review carried out by the Mexican Institute of Internal Auditors (IMAI), and the work plan to address the areas of opportunity identified in the Technology Audit function.

Regarding the communication with the External Auditor, the Committee reviewed relevant events of the audit for the 2017 fiscal year and other issues considered in its external audit plan such as new developments in corporate governance and fiscal practices, the results of the evaluation on the level of compliance with the new legislation (Solvency II) presented by the Insurance and Annuities companies, the results of the review of the General Information Technology Controls (CGTI) and other matters related to the audit.

In addition, the Committee reviewed the status of the value added services of the External Auditor pending completion of 2015 and 2016 fiscal years and authorized those corresponding to 2017.

In relation to the event that occurred in the Casa de Bolsa Banorte Ixe, the Committee followed up on it, reviewing together with the areas of Private Banking, Legal, Comptroller and Internal Audit the identified areas of opportunity and actions for their mitigation.

In terms of credit, the Committee reviewed the actions of the Analytical area to help reduce the cost of risk of the Payroll Loan product and the results of the Loan Review for the 2017 fiscal year applicable to Banco Mercantil del Norte and Leasing and Factoring.

In relation to the merger with Grupo Financiero Interacciones (GFI), the Committee held work meetings both independently, as well as with members of Management and their legal and financial advisors; as well as with other external advisors of the Committee itself.

On this point, the Committee reviewed the presentations of Management and the financial experts hired by Management, as well as that of the expert hired by the Committee.

Based on the foregoing, the Committee recommended submitting to the Board of Directors for its analysis and evaluation, the opinions of the independent experts who were hired to evaluate the proposed merger with Grupo Financiero Interacciones from different perspectives, the Board of Directors agreeing to authorize Management to continue with the negotiation and present the project to the Shareholders' Assembly for approval.

With respect to other issues, the Committee reviewed the selection process of the external auditor in Banorte USA, the training course for Board Members in the field of Prevention of Money Laundering and Terrorist Financing, information on financial profitability (ROE) by product and segment, the Uniteller Financial Services business plan, the process of analysis of quality in products and services and information on GFNorte's manuals and regulations.

**II. In regards to Corporate Practices:**

- a) Regarding comments on the performance of relevant executives, the Secretariat of the Human Resources Committee reported that during the fiscal year there were no cases of executives acting in breach of the established policies.
- b) Transactions with related parties were approved by the Board of Directors and to December 31st, 2017 loans provided through Banco Mercantil del Norte to related parties totaled Ps 19.410 billion, less than the limit established by the corresponding regulation.

Intercompany transactions were carried out at market prices, which was verified by the External Auditor who did not report any findings.

In 2017, the Committee monitored the implementation of GFNorte's system for the prevention of conflicts of interest, relying on the management reports of Audit and Internal Control to do this.

- c) With regards to emolument packages for the CEO and relevant officers, there is a compensation system approved by the Board of Directors, which divides remuneration into ordinary and extraordinary and includes rules to defer the latter according to established risk indicators and policy compliance, which has been applied consistently during the fiscal year taking into account review results by Internal Audit and reports presented by the Human Resources Committee and the Risk Policy Committee to the Board of Directors.
- d) During the fiscal year the Board of Directors did not award dispensations to directors or relevant managers to take advantage of business opportunities.

Sincerely,

**Hector Reyes Retana y Dahl**

President of Audit and Corporate Practices Committee of  
Grupo Financiero Banorte, S.A.B. de C.V.

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

**Deloitte.**

## Opinion

We have audited the consolidated financial statements of Grupo Financiero Banorte, S.A.B. Of C.V. And Subsidiaries (the Holding), which comprise the consolidated balance sheets as of December 31, 2017 and 2016, and the consolidated income statements, 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 Holding Company as of December 31, 2017 and 2016, 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 Holding Companies of Financial Groups subject to the Supervision of the National Banking and Securities Commission" (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 further explained 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 Holding 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.

- **Allowance for Loan Losses (see Note 4 and 11 to the consolidated financial statements)**

The methodology for calculating the allowance for Loan Losses 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) Testing the design and operational effectiveness of the relevant controls regarding the valuation of the Allowance for Loan Losses of the Financial Group.
- b) Recalculating 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) Involving our team of Regulatory Compliance specialists.
- d) Validating the accurate 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 Holding Company does not recognize the effect of impairment even if there is objective evidence that a security is impaired.

Our audit evidence, with respect to the aforementioned in the previous paragraph, included the following:

- a) We reviewed the integrity by confirmation of the custodian (SD INDEVAL, Institución para el Depósito de Valores, S.A. de C.V. 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) 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.
- c) In the case of investments that show signs of deterioration and for which the Management of the Financial Group performed an impairment analysis, we verified 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 Financial Group.

In the accounting policies of the Holding 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 methodology when the estimate cannot 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) Testing the design and operational effectiveness of the key controls with respect to the valuation of derivative financial instruments of the Financial Group.
- b) Reviewing 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) Involving our team of Capital Market specialists.
- d) Reviewing the accurate presentation and disclosure in the consolidated financial statements.

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

• **Subordinated debentures (see Notes 4 and 23)**

On July 6, 2017, the Institution concluded an issuance of Subordinated NonPreferred Non-Cumulative Tier 1 Capital Notes (Tier 1) (Notes) in the international markets.

The Notes issued are perpetual and with write-down contingent, with payment of interest in a discretionary manner at the election of the issuer.

Our audit procedures with respect to the paragraphs referred to above, were the following:

- a) Review that the notes issued shall be recorded in accordance with the consultation of accounting criterion issued by the Commission on January 28, 2018.
- b) Review that the cash flow received was recorded on the bank statement on behalf of Banorte.
- c) Review that the repayments of capital and interest shall be recorded in accordance with the consultation of accounting criterion issued by the Commission.
- d) Review the correct presentation and disclosure in the consolidated financial statements.

The results of our audit procedures described above were reasonable and we did not find any 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. If based on the work we have done, we conclude that there is a material error in the other information; we would have to report this fact. We have nothing to report on this matter.

**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 Holding Company's ability to continue operating, 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 governance of the Holding Company are responsible for supervising the financial information process of the Holding Company.

**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:

- 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.
- Obtain knowledge of the material internal control to audit in order to design appropriate audit procedures for the circumstances and not in order to express an opinion on the effectiveness of the internal control of the Holding Company.
- Evaluate the adequacy of the accounting policies applied and the reasonableness of the accounting estimates and the corresponding information disclosed by the Management.
- Conclude on the adequacy of the use of the accounting standard of the operating company by its Management and, based on the audit evidence obtained, we conclude on whether there is a material uncertainty related to facts or conditions that may generate significant doubts about the ability of the Holding Company to continue operating. If we conclude that material uncertainty exists, it is required that we highlight this in our audit report to the corresponding information disclosed in the financial statements or, if such 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 Holding Company to cease operating.

- 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 such fashion these are considered reasonably presented.
- Obtain sufficient and adequate evidence regarding the financial information of the entities or business activities within the Holding Company to express an opinion on the consolidated financial statements. We are responsible for the management, supervision and performance of the audit of the Holding Company. We are solely responsible for our audit opinion.

We communicate to those responsible for the governance of the Holding Company 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 identified in the course of the audit.

We also provide to those responsible for the governance with a statement that we have met with the applicable ethics requirements regarding independence and communicate 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 these 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 21, 2018

## CONSOLIDATED BALANCE SHEETS

Grupo Financiero Banorte, S.A.B. de C.V. and Subsidiaries  
As of December 31, 2017 and 2016  
(In millions of Mexican pesos)

ASSETS	2017	2016
CASH AND CASH EQUIVALENTS	Ps. 76,269	Ps. 65,886
MARGIN SECURITIES	1,986	2,185
INVESTMENTS IN SECURITIES		
Trading securities	239,019	181,777
Securities available for sale	168,540	195,087
Securities held to maturity	95,310	81,920
	502,869	458,784
DEBTOR BALANCES UNDER REPURCHASE AND RESALE AGREEMENTS	678	-
DERIVATIVES FINANCIAL INSTRUMENTS		
For trading purposes	25,520	41,134
For hedging purposes	205	742
	25,725	41,876
VALUATION ADJUSTMENTS FOR ASSET HEDGING	99	114
PERFORMING LOAN PORTFOLIO		
Commercial loans		
Business loans	233,777	224,218
Financial institution's loans	5,944	4,650
Government loans	134,905	134,798
Consumer loans	105,567	88,332
Mortgage loans		
Medium and residential	131,563	110,825
Low-income housing	26	40
Loans acquired from INFONAVIT or FOVISSSTE	3,816	3,942
TOTAL PERFORMING LOAN PORTFOLIO	615,598	566,805
PAST-DUE LOAN PORTFOLIO		
Commercial loans		
Business loans	6,719	5,672
Financial institutions' loans	-	344
Consumer loans	4,440	3,247
Mortgage loans		
Medium and residential	1,179	952
Low-income housing	1	1
Loans acquired from INFONAVIT or FOVISSSTE	143	96
TOTAL PAST-DUE LOAN PORTFOLIO	12,482	10,312
LOAN PORTFOLIO	628,080	577,117
(Minus) Allowance for loan losses	(16,122)	(14,384)
LOAN PORTFOLIO, net	611,958	562,733
ACQUIRED COLLECTION RIGHTS	2,477	2,025
TOTAL LOAN PORTFOLIO, net	614,435	564,758
ACCOUNTS RECEIVABLE FROM INSURANCE AND ANNUITIES, net	1,904	1,908
PREMIUM RECEIVABLES, net	4,031	4,245
ACCOUNTS RECEIVABLE FROM REINSURANCE, net	8,717	7,166
RECEIVABLES GENERATED BY SECURITIZATIONS	141	155
OTHER ACCOUNTS RECEIVABLE, net	51,834	50,366
MERCHANDISE INVENTORY	783	438
FORECLOSED ASSETS, net	1,100	1,610
PROPERTY, FURNITURE AND EQUIPMENT, net	18,170	15,829
PERMANENT STOCK INVESTMENTS	13,771	13,764
LONG-TERM ASSETS AVAILABLE FOR SALE	-	5,299
DEFERRED TAXES, net	2,949	3,994
OTHER ASSETS		
Deferred charges, advance payments and intangibles	28,238	26,315
Other short-term and long-term assets	448	3,427
<b>TOTAL ASSETS</b>	<b>Ps. 1,354,147</b>	<b>Ps. 1,268,119</b>

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, 2017, the stockholders' equity amounts to Ps. 9,636.

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	2017	2016
DEPOSITS		
Demand deposits	Ps. 393,308	Ps. 381,203
Time deposits		
General public	239,174	190,461
Money market	3,679	1,459
Senior debt issued	3,003	85
Global account of deposits without movements	1,657	1,352
	640,821	574,560
INTERBANK AND OTHER LOANS		
Demand loans	-	4,019
Short-term loans	18,213	17,155
Long-term loans	15,730	17,462
	33,943	38,636
TECHNICAL RESERVES	107,794	90,369
CREDITOR BALANCES UNDER REPURCHASE AND RESALE AGREEMENTS	301,665	308,777
COLLATERAL SOLD OR PLEDGED		
Repurchase or resale agreements (creditor balance)	3	-
DERIVATIVES FINANCIAL INSTRUMENTS		
For trading purposes	24,608	40,403
For hedging purposes	12,401	9,372
	37,009	49,775
ACCOUNTS PAYABLE TO REINSURERS, net	1,255	1,747
OTHER ACCOUNTS PAYABLES		
Income tax	3,132	3,114
Employee profit sharing	405	396
Creditors from settlements of transactions	16,047	7,348
Creditors from collaterals received in cash	11,083	10,326
Sundry creditors and other payables	20,532	18,037
	51,199	39,221
SUBORDINATED DEBENTURES	32,445	21,917
DEFERRED CREDITS AND ADVANCED COLLECTIONS	429	416
TOTAL LIABILITIES	1,206,563	1,125,418
STOCKHOLDERS' EQUITY		
PAID-IN CAPITAL		
Common stock	14,591	14,574
Additional paid-in capital	35,592	36,427
	50,183	51,001
OTHER CAPITAL		
Capital reserves	5,491	4,825
Retained earnings from prior years	71,294	68,492
Result from valuation of securities available for sale	(2,390)	(2,592)
Result from valuation of instruments for cash flow hedging	(3,588)	(2,089)
Result from valuation of reserve for unexpired risks variations in rates	96	87
Result from Conversions	1,684	2,084
Defined remedies for employees benefits	(926)	(370)
Net income	23,908	19,308
	95,569	89,745
MINORITY INTEREST	1,832	1,955
TOTAL STOCKHOLDERS' EQUITY	147,584	142,701
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>Ps. 1,354,147</b>	<b>Ps. 1,268,119</b>

Act. José Marcos Ramírez Miguel  
CEO

Eng. Rafael Arana de la Garza  
Managing Director - COO, Administration and Finance

C.P. Isaiás Velázquez González  
Managing Director - Internal Audit

Lic. Jorge Eduardo Vega Camargo  
Deputy Managing Director - Controller

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

# CONSOLIDATED INCOME STATEMENTS

Grupo Financiero Banorte, S.A.B. de C.V. and Subsidiaries  
for the years ended December 31, 2017 and 2016  
(In millions of Mexican pesos)

	<b>2017</b>	<b>2016</b>
Interest income	Ps. 110,509	Ps. 80,264
Premium revenue, net	25,043	21,307
Interest expense	(44,635)	(27,383)
Increase in technical reserves	(12,645)	(8,477)
Casualty rate, claims and other contractual obligations, net	(14,906)	(12,654)
<b>NET INTEREST INCOME</b>	<b>63,366</b>	<b>53,057</b>
Provisions for loan losses	(15,213)	(13,313)
<b>NET INTEREST INCOME AFTER ALLOWANCE FOR LOAN LOSSES</b>	<b>48,153</b>	<b>39,744</b>
Commission and fee income	19,542	16,683
Commission and fee expense	(7,558)	(6,056)
Brokerage revenues	2,657	2,346
Other operating income (expenses)	3,211	3,491
Non-interest expense	(34,061)	(31,243)
	(16,209)	(14,779)
<b>OPERATING INCOME</b>	<b>31,944</b>	<b>24,965</b>
Equity in earnings of unconsolidated subsidiaries and associated companies	1,264	1,246
<b>INCOME BEFORE INCOME TAX</b>	<b>33,208</b>	<b>26,211</b>
Current income tax	(8,469)	(7,056)
Deferred income taxes, net	(579)	178
	(9,048)	(6,878)
<b>INCOME BEFORE DISCONTINUED OPERATIONS</b>	<b>24,160</b>	<b>19,333</b>
Discontinued Operations	89	243
<b>INCOME BEFORE NONCONTROLLING INTEREST</b>	<b>24,249</b>	<b>19,576</b>
Minority Interest	(341)	(268)
<b>NET INCOME</b>	<b>Ps. 23,908</b>	<b>Ps. 19,308</b>

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.

**Act. José Marcos Ramírez Miguel**  
CEO

**Eng. Rafael Arana de la Garza**  
Managing Director - COO, Administration and Finance

**C.P. Isaías Velázquez González**  
Managing Director - Internal Audit

**Lic. Jorge Eduardo Vega Camargo**  
Deputy Managing Director - Controller

**C.P.C. Mayra Nelly López López**  
Executive Director - Accounting

# CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

Grupo Financiero Banorte, S.A.B. de C.V. and Subsidiaries  
For the years ended December 31, 2017 and 2016  
(In millions of Mexican pesos)

	PAID-IN CAPITAL				OTHER CAPITAL							Total stockholders' equity	
	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	Result in the valuation of unexpired risk reserves due to changes in rates	Cumulative foreign currency translation adjustment	Defined remedies for employees benefits	Net income	Total majority interest		Total minority interest
<b>Balances, January 1, 2016</b>	Ps. 14,606	Ps. 36,424	Ps. 5,765	Ps. 62,860	Ps. (1,552)	Ps. (828)	Ps. -	Ps. 1,069	Ps. -	Ps. 17,108	Ps. 135,452	Ps. 1,900	Ps. 137,352
<b>TRANSACTIONS APPROVED BY STOCKHOLDERS:</b>													
Share repurchase for executive shares' plan payable in equity instruments	(32)	28	(940)	-	(8)	-	-	-	-	-	(952)	-	(952)
Transfer of prior year's result	-	-	-	17,108	-	-	-	-	-	(17,108)	-	-	-
Dividends declared at the General Stockholders' meetings on:													
February 19, June 28 and August 19 2016	-	-	-	(7,229)	-	-	-	-	-	-	(7,229)	-	(7,229)
Special criterion of the Commission for sale of INB	-	-	-	(3,741)	-	-	-	-	-	-	(3,741)	-	(3,741)
<b>Total transactions approved by stockholders</b>	<b>(32)</b>	<b>28</b>	<b>(940)</b>	<b>6,138</b>	<b>(8)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(17,108)</b>	<b>(11,922)</b>	<b>-</b>	<b>(11,922)</b>
<b>COMPREHENSIVE INCOME:</b>													
Net income	-	-	-	-	-	-	-	-	-	19,308	19,308	-	19,308
Result from valuation of securities available for sale	-	-	-	-	(1,032)	-	-	-	-	-	(1,032)	-	(1,032)
Effect of subsidiaries, affiliates and mutual funds	-	(25)	-	(44)	-	-	-	1,015	-	-	946	-	946
Result from valuation of instruments for cash flow hedging	-	-	-	-	-	-	-	-	(370)	-	(370)	-	(370)
Result from valuation of instruments for cash flow hedging variations in rates	-	-	-	(462)	-	-	-	-	-	-	(462)	-	(462)
<b>Total comprehensive income</b>	<b>-</b>	<b>(25)</b>	<b>-</b>	<b>(506)</b>	<b>(1,032)</b>	<b>(1,261)</b>	<b>87</b>	<b>1,015</b>	<b>(370)</b>	<b>19,308</b>	<b>17,216</b>	<b>-</b>	<b>17,216</b>
Minority Interest	-	-	-	-	-	-	-	-	-	-	-	55	55
<b>Balances, December 31, 2016</b>	<b>14,574</b>	<b>36,427</b>	<b>4,825</b>	<b>68,492</b>	<b>(2,592)</b>	<b>(2,089)</b>	<b>87</b>	<b>2,084</b>	<b>(370)</b>	<b>19,308</b>	<b>140,746</b>	<b>1,955</b>	<b>142,701</b>
<b>TRANSACTIONS APPROVED BY STOCKHOLDERS:</b>													
Share repurchase for executive shares' plan payable in equity instruments	17	(823)	211	-	(5)	-	-	-	-	-	(600)	-	(600)
Transfer of prior year's result	-	-	-	19,308	-	-	-	-	-	(19,308)	-	-	-
Dividends declared at the General Stockholders' meetings on:													
February 24 and June 20 2017	-	-	-	(14,645)	-	-	-	-	-	-	(14,645)	-	(14,645)
Special criterion of the Commission for sale of INB	-	-	-	(357)	-	-	-	-	-	-	(357)	-	(357)
Share-based payments payable in stock options	-	-	455	(455)	-	-	-	-	-	-	-	-	-
<b>Total transactions approved by stockholders</b>	<b>17</b>	<b>(823)</b>	<b>666</b>	<b>3,851</b>	<b>(5)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(19,308)</b>	<b>(15,602)</b>	<b>-</b>	<b>(15,602)</b>
<b>COMPREHENSIVE INCOME:</b>													
Net income	-	-	-	-	-	-	-	-	-	23,908	23,908	-	23,908
Result from valuation of securities available for sale	-	-	-	-	207	-	-	-	-	-	207	-	207
Effect of subsidiaries, affiliates and mutual funds	-	(12)	-	(23)	-	-	-	(400)	-	-	(435)	-	(435)
Result from valuation of instruments for cash flow hedging	-	-	-	-	-	(1,499)	-	-	-	-	(1,499)	-	(1,499)
Result from valuation of reserve for unexpired risks variations in rates	-	-	-	-	-	-	9	-	-	-	9	-	9
Defined remedies for employees benefits	-	-	-	-	-	-	-	-	(556)	-	(556)	-	(556)
Modification in consumer loan rating provisions	-	-	-	(725)	-	-	-	-	-	-	725	-	725
Interest on subordinated debentures	-	-	-	(301)	-	-	-	-	-	-	(301)	-	(301)
<b>Total comprehensive income</b>	<b>-</b>	<b>(12)</b>	<b>-</b>	<b>(1,049)</b>	<b>207</b>	<b>(1,499)</b>	<b>9</b>	<b>(400)</b>	<b>(556)</b>	<b>23,908</b>	<b>20,608</b>	<b>-</b>	<b>20,608</b>
Minority Interest	-	-	-	-	-	-	-	-	-	-	-	(123)	(123)
<b>Balances, December 31, 2017</b>	<b>Ps. 14,591</b>	<b>Ps. 35,592</b>	<b>Ps. 5,491</b>	<b>Ps. 71,294</b>	<b>Ps. (2,390)</b>	<b>Ps. (3,588)</b>	<b>Ps. 96</b>	<b>Ps. 1,684</b>	<b>Ps. (926)</b>	<b>Ps. 23,908</b>	<b>Ps. 145,752</b>	<b>Ps. 1,832</b>	<b>Ps. 147,584</b>

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.

Act. José Marcos Ramírez Miguel  
CEO

Eng. Rafael Arana de la Garza  
Managing Director - COO, Administration and Finance

C.P. Isaias Velázquez González  
Managing Director - Internal Audit

Lic. Jorge Eduardo Vega Camargo  
Deputy Managing Director - Controller

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

# CONSOLIDATED CASH FLOW STATEMENTS

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

For the years ended December 31, 2017 and 2016

(In millions of Mexican pesos)

	<b>2017</b>	<b>2016</b>
	Ps. 23,908	Ps. 19,308
Net income		
Items not requiring (generating) resources:		
Depreciation and amortization	1,688	1,170
Technical reserves	12,645	8,477
Other provisions	(260)	3,449
Current and deferred income tax	9,048	6,878
Discontinued Operations	89	243
Equity in earnings of unconsolidated subsidiaries and associated companies	(923)	(978)
	<b>46,195</b>	<b>38,547</b>
<b>OPERATING ACTIVITIES:</b>		
Changes in margin accounts	200	(2,094)
Changes in investments in securities	(44,085)	(24,797)
Changes in debtor balances under repurchase and resale agreements	(679)	493
Changes in asset position of derivatives	15,628	(22,051)
Change in loan portfolio	(49,202)	(62,669)
Changes in acquired collection rights	(452)	192
Changes in accounts receivable from insurance and annuities, net	5	(20)
Changes in debtor premiums, (net)	214	169
Changes in reinsurance and surety agencies (net) (asset)	(1,550)	(1,294)
Changes in receivables generated by securitizations	15	29
Change in foreclosed assets	510	611
Change in other operating assets	(3,828)	(23,467)
Change in deposits	66,262	35,268
Change in interbank and other loans	(4,691)	7,556
Change in creditor balances under repurchase and sale agreements	(7,112)	(6,378)
Collateral sold or pledged	3	(1)
Change in liability position of derivative financial instruments	(15,796)	20,464
Change in technical reserves (net)	4,780	947
Changes in reinsurance and surety agencies (net) (liability)	(492)	11
Change in subordinated debentures	10,952	4,464
Change in other operating liabilities	12,826	6,958
Change in hedging instruments related to operations	3,566	3,706
Assets for discontinued operations	(8,069)	(1,224)
Income tax	(184)	(6,976)
Net cash flows (used in) provided by operating activity	(25,016)	(31,556)
<b>INVESTING ACTIVITIES:</b>		
Proceeds on disposal of property, furniture and equipment	742	1,033
Payments for acquisition of property, furniture and equipment	(4,780)	(4,083)
Collections by disposal of subsidiaries and associates and agreements by joint control	3,195	2
Payment on acquisitions of subsidiaries and associated companies	-	(2)
Assets for discontinued operations	-	(10)
Charges for cash Dividends	2,364	1,122
Net cash flows used in investment activity	1,521	(1,938)
<b>FINANCING ACTIVITIES:</b>		
Dividends paid	(14,645)	(7,229)
Repurchase of shares	(1,181)	(1,394)
Interest on subordinated debentures paid	(301)	-
Net cash flow (used in) provided by financing activity	(16,127)	(8,623)
Net decrease (increase) in cash and cash equivalents	10,410	(42,117)
Effects from changes in the value of cash and cash equivalents	(27)	155
Cash and cash equivalents at the beginning of the year	65,886	107,848
<b>Cash and cash equivalents at the end of the year</b>	<b>Ps. 76,269</b>	<b>Ps. 65,886</b>

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.

**Act. José Marcos Ramírez Miguel**  
CEO

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Executive Director - Accounting



## NOTES

### TO CONSOLIDATED FINANCIAL STATEMENTS

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

For the years ended December 31, 2017 and 2016

(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 or Holding Company) 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 Law Regulating Financial Groups, subject to the supervision and monitoring of the 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), 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 commercial banking, brokerage, leasing, financial factoring, warehousing services in general, pensions, life and damage insurance, as well as disposal, management, collection and negotiation, 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, 2017.

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 Institution performs its activities throughout Mexico and until March 2017, the United States of America.

The Financial Group's consolidated financial statements have been approved by the Board of Directors at its January 25, 2018 meeting in accordance with the responsibility assigned to this Organ.

#### 2 - SIGNIFICANT EVENTS DURING THE YEAR

##### a) Sale of INB

On March 31, 2017, the Institution finalized through INB Financial Corporation (subsidiary of the Institution) the sale of its ownership in the representative shares of Inter National Bank, in favor of a group of investors in the United States of America.

On that date, the item of long-term assets available for sale that had been registered in December 2016 was discharged and the cash received from the sale was given in the amount of 170 million USD. Prior to the sale, a cash dividend was paid in the amount of 60 million USD.

The aforementioned derives from the corporate restructuring process that Financial Group is going through; further information may be checked in Institution's financial statements corresponding to 2016.

##### b) Prepayment of subordinated obligations Q Banorte 08

On January 3, 2017, the Institution prepaid Subordinated Non-Preferred and Non-Convertible Obligations Q Banorte 08 amounting to Ps 3 billion, issued on March 11, 2008 and due on February 27, 2018.



**c) Issuance of capital notes Tier 1 for USD 900 (Subordinated debentures)**

On July 6, 2017, the Institution successfully issued Subordinated NonPreferred Non-Cumulative Tier 1 Capital Notes for USD 900 million in the international markets (equivalent to \$16,522), under the following features:

Tier 1 Capital Notes were issued in two series:

- BANORT 6 PERP (BANOD19 999999) for USD 350 million, callable at the fifth year, carrying a coupon rate of 6.875%.
- BANORT 7 PERP (BANOE91 999999) for USD 550 million, callable at the tenth year, carrying a coupon rate of 7.625%.

Both series were rated by Moody's and S&P Ba2 and BB, respectively. The Capital Notes are Basel III-compliant.

Such issuance was registered in the liabilities and the interest generated by the Notes are payable against Retained earnings from prior years, given the established feature in the obligations to pay in a discretionary manner yields at the option of the issuer, it is considered a component of capital.

Proceeds from the issuance will be used for general corporate purposes and to strengthen the bank's regulatory Capital.

**d) Prepayment of subordinated obligations Q Banorte 12**

On June 30, 2017, the Institution prepaid subordinated preferred & nonconvertible obligations Q Banorte 12 amounting to Ps 3,200, issued on June 8, 2012 and due on May 27, 2022.

**e) Following-up on loan exposure to the housing development sector**

Derived from the restructuring processes and agreements reached with Homex, S.A.B. de C.V., in 2017 the Institution received in exchange for the unsecured credits, shares for an amount equivalent to the unsecured credit exposure, net of reserves, which reduced the past due loans of this company in \$138.

The shares received as payment in kind were initially recorded as "Foreclosed assets" based on the requirements established in the accounting criteria B-7 "Foreclosed assets".

Subsequently, in accordance with its intention and business plan, the Institution reclassified shares to Investments in Securities (in the "Securities available for sale" category, see Note 6b). The Institution records these assets at fair value.

**f) Fusion with Grupo Financiero Interacciones, S.A.B. de C.V. (GF Interactions)**

During October 2017, the Financial Group and GF Interacciones entered into a binding merger agreement in which the parent acquired from GF Interacciones for a share exchange transaction at that date at \$ 12,845. As a result of this transaction, the parent company will issue 109,727,031 new shares and exchange them with a change factor of 0.4065 shares of the Parent Company for each share of GF Interacciones. In addition to the shares of the Financial Group, the shareholders of GF Interacciones will receive a cash payment of \$ 13,713 from a combination of dividend payments and a reduction of their own capital. Interactions operations will be integrated into the Financial Group as a merging company.

Likewise, on December 5, the Financial Group and GF Interacciones held their respective Shareholders' Assemblies in which the following were approved: i) the relevant acquisition of assets by the Financial Group, in terms of its bylaws and ii) merger with the Financial Group, in its nature of merger, with GF Interacciones, in its merged nature.

The merger will take effect once the applicable authorizations and the resolutions adopted by Assemblies of Shareholders of the Financial Group and GF Interacciones are registered in the Public Records of Commerce of the registered office of each of them, in terms of the provisions of article 1 of the Law to Regulate Financial Groups.

### 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, 2017 and 2016 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, 2017 and 2016, the Grupo Financiero Banorte S.A.B. de C.V.'s consolidated subsidiaries and its equity ownership is as follows:

	<b>2017</b>	2016
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%	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	99.46%	99.28%

Equity investments in mutual funds and investments in associated companies are valued under the equity method according to the accounting principles established by the Commission.

#### 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 (19.66 for 2017), 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 (18.92 for 2017). The conversion effects are presented in the Financial Group's stockholders' equity.

#### Dispose of INB and application of Special Accounting Criteria

During 2016, the Holding Company decided to dispose of the Inter National Bank (INB), as part of the corporate restructuring program given the constraints to develop 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 Holding Company 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 Holding Company to recognize the income derived from the sale of INB shares in "Income from prior years" and not in the results of the year in accordance with the corresponding requirements set forth in the NIF.

As part of the sale process and as requirements established in Bulletin C-15 "Deterioration of long-term assets and their disposal " have been met, the Holding Company has classified its investment in INB as a long-term asset available 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; therefore, assets and liabilities as of December 31, 2016 are presented net in the Balance Sheet in accordance with the accounting criteria issued by the Commission; whereas the profits of such entity have been presented as discontinued operations for the years ended December 31, 2017 and 2016.

As of December 31, 2017 and 2016, the comparison between the net book value of the investment and the estimated sale value generated a difference of (Ps.357) and (Ps. 3,741) which was recorded by decreasing the value of the investment in the assets against a reduction in "Income from prior years".

If the authorized Special Accounting Criteria were not applied, the amounts that would have been recognized and presented in the Consolidated Balance Sheet as of December 31, 2017 and 2016 in the items affected would be:

	<b>2017</b>		
	Figures Without Special Accounting Criteria	Figures with Special Accounting Criteria	Variation
Retained earnings from prior years	Ps. 71,651	Ps. 71,294	Ps. (357)
Net Income	23,551	23,908	357
<b>Total stockholders' equity</b>	<b>147,584</b>	<b>147,584</b>	<b>-</b>
<b>Total liabilities and stockholders' equity</b>	<b>Ps. 1,354,147</b>	<b>Ps. 1,354,147</b>	<b>Ps. -</b>

  

	<b>2016</b>		
	Figures Without Special Accounting Criteria	Figures with Special Accounting Criteria	Variation
Retained earnings from prior years	Ps. 72,233	Ps. 68,492	Ps. (3,741)
Net Income	15,567	19,308	3,741
Total stockholders' equity	142,701	142,701	-
<b>Total liabilities and stockholders' equity</b>	<b>Ps. 1,268,119</b>	<b>Ps. 1,268,119</b>	<b>Ps. -</b>

#### Assets, liabilities and discontinued results

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

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

As of December 31, 2017 and 2016, the discontinued results are as follows:

<b>Income statements</b>	<b>2017</b>		<b>2016</b>	
Interest income	Ps. 283		Ps. 1,077	
Interest expense	(22)		(81)	
Net Interest Income	261		996	
Provisions for loan losses	-		33	
Net interest income after allowance for loan losses	261		1,029	
Non-Interest income	59		259	
Non-Interest expenses	(195)		(887)	
Operating Income	125		401	
Income Tax	(36)		(158)	
<b>Net Income</b>	<b>Ps. 89</b>		<b>Ps. 243</b>	

#### 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 2017 and 2016, 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 of provisions on consumer loans rating, affiliates and mutual funds; the cumulative conversion effect, Interest on subordinated debentures and the result from valuation of cash flow hedging instruments.

## 4 - SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies of the Holding Company 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

#### A. NIF D-3 Benefits to employees

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 publish the transitory articles that identify the options that institutions have to recognize the accounting effects as result of the entry into force of the new NIF.

Based on the above, the Holding 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 became effective 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 by registering 20% of the balances in that year and 20% additional in each of the subsequent years, reaching 100% in a maximum period of 5 years.

The total amounts to be recognized were determined using the corporate bonds' discount rate for 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 registered, recording 20% during the year 2016, which affected the items "Earnings from prior years" and correspondingly "Provision for employee benefits" and in liabilities "Sundry creditors and other payables", as follows:

Discount rate	Total balance to be applied	Annual application 20%	Gradual recognition as of December 31 2017
Corporate Bonds	Ps. 183	Ps. 37	Ps. 74

- II. In the case of the accumulated balance of gains or losses of the plan to be recognized (broker approach), it is progressively registered, recording 20% during the year 2017, which affected the items "Provision for employee benefits" and correspondingly " Other creditors & accounts payable" and in liabilities " Remeasurements of defined benefits for employees within "Earned Capital", as follows:

Discount rate	Total balance to be applied	Annual application 20%	Gradual recognition as of December 31 2017
Corporate Bonds	Ps. 2,729	Ps. 546	Ps. 1,092

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

The amounts that would have been recognized and presented in the consolidated balance sheet as of December 31, 2017, had the aforementioned option not been applied in the affected items are:

<b>Concept</b>	<b>Amount</b>
Other assets and short and long term (1)	Ps. (1,299)
Total assets	1,352,400
Retained earnings from prior years	71,185
Remediest for benefits to employees	(2,564)
Total stockholders' equity	145,836
<b>Total liabilities and stockholders' equity</b>	<b>Ps. 1,352,400</b>

<sup>(1)</sup> In this item, the "Provision for employee benefits" account is netted to show "Net Asset for defined benefits" arising from the prepayments made by the Holding Company.

## B. Improvements to NIFs

i. Improvements to NIF's 2017 - The following improvements were issued effective as of January 1, 2017, which generates 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 combinations - It is indicated that the recognition of change to this NIF effective as of January 2016 should be made prospectively and not retrospectively as previously indicated. Said change establishes that it is not 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 reporting period - a reclassification of liability is allowed if at the date of authorization for the issuance of the financial statements an agreement is reached to maintain the payments a long term with the conditions of payment and in the one that has fallen into default, 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 the shares of an entity that the date of said registration were already owned by investors and so the issuer had already received the funds, have to be recognized in the net profit or loss at the time of its accrued, there was no capital transaction. It further clarifies that any expense incurred in the collection of repurchased shares must be recognized as a decrease in issued and placed capital.

NIF D-3, Employee benefits - It is modified to establish, as a basic principle, that the discount rate to the determination of the present value of the long-term labor liabilities should be a free market rate of, or with very low credit risk, representing the value of money over time; in an indistinct way, whether the government bond market rate or the market rate of high-quality corporate bonds in absolute terms in a deep market, provided that the last fulfillment with the requirements set out in Appendix B-Application guides, B1-Guide for the identification of high quality corporate bond issues in absolute terms in an efficient market. Early application allowed

ii. Improvements to NIF 2017 - The following improvements were issued and don't generate accounting changes:

NIF C-3, Receivables

Bulletin C-15, Impairment of long-lived assets and their disposition

## 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 2017 and 2016 was 9.97% and 10.39%, respectively. Therefore, the Mexican economy is considered as non-inflationary. However, assets, liabilities and stockholders' equity as of December 31, 2017 and 2016 include the restatement effects recorded up until December 31, 2007.

The Mexican inflation rates for the years ended December 31, 2017 and 2016 were 6.68% and 3.38%, 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 debt classified as available for sale were to be increased and such reversal of the impairment effect may be objectively related to an event occurring after the impairment were to be recognized in the results of the year, the loss due to impairment shall be reversed in the results of the year.

The loss due to impairment recognized in the income statement of securities 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 policy 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.

The restructured credits or renewed with single payment of principal at maturity, regardless of whether the payment of interests is periodic or at maturity, it is considered that there is sustained payment of credit when, The accredited has covered at least 20%t of the original amount of the loan at the time of the restructuring or renewal, Or, has covered the amount of accrued interest in accordance with the scheme of payments by restructuring or renewal for a period of 90 days.

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**

#### **Modification in consumer not revolving and mortgage loans rating provisions**

On 6 January 2017 the Commission published a resolution amending the provisions in which corresponds to the Methodologies for the rating of the portfolios of consumption not revolving and mortgage, which remain a focus of expected loss and incorporate most recent information on the performance of the industry in its new factors. The main change in both methodologies is that in addition to contemplate the credit experience of the accredited with the institution that grants the credit, also contemplate the credit behavior of those accredited with other institutions according to the information of the societies of credit information. New methodologies are effective as of June 1, 2017.

The financial effect recognized by the Institution at the end of June 2017 derived from the modified methodologies, less the allowance that would be taken by the balance of those portfolios with prior methodologies is Ps. 1.054. The accounting of this financial effect was an increase in the allowance for loan losses for Ps. 1.054 (liabilities), an increase of deferred tax liabilities for Ps. 316 (asset) and a decrease to retained earnings from prior years for Ps. 725 (equity)

#### **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.

In the case of consumer mortgage and commercial loans, the Institution applies the Provisions for rating the loan portfolio as issued by the Commission and published in the Official Gazette of the Federation on June 24, 2013.

On June 24, 2013, the Commission issued changes to commercial loan rating Provisions. Such changes state that in order to rate a loan, the likelihood of default, gravity of the loss and exposure to noncompliance should be taken into account, as indicated later in this section.

Such provisions also establish general methodologies for the rating and calculating the allowance for each type of loan, while 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 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, while 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.

**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, 2017 and 2016, the premiums over 45 days old that have not been cancelled amounted to Ps. 111 and Ps. 595 , 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**

Through securitization transactions involving the transfer of ownership in mortgage and government loans, the Financial Group transfers those financial assets to a trust so that it may publicly issue securities through an intermediary. The securities represent the right to the yield on the securitized portfolio and, as compensation; the Financial Group receives cash and a record, which grants it the right over the trust's residual cash flows after settling the certificates to their holders. This record is registered at its fair value under "Receivables generated by securitizations".

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:

<b>Movable property reserves</b>	
<b>Time elapsed as of award date or receipt as payment in kind (months)</b>	<b>Reserve percentage</b>
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:

<b>Real estate property reserves</b>	
<b>Time elapsed as of award date or receipt as payment in kind (months)</b>	<b>Reserve percentage</b>
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, 2017 and 2016.

**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**

According to the Commission, all technical reserves must be audited by independent actuaries on a yearly basis. On February 7 2018 and January 31, 2017, the actuaries have confirmed that in their opinion, the amounts of the reserves recorded by the Financial Group as of December 31, 2017 and 2016, respectively, are reasonably acceptable based on its liabilities, and are within the parameters that the actuarial practice indicates and comply 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 Insurance Company used the valuation methods of the provisions set forth in Chapter 5, “Technical Reserves” in the CUSF published in the Official Gazette on December 19, 2014.

**1) Unexpired risk reserve:**

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

The unexpired risk reserve will include the amount of premiums issued in advance, understanding that a premium issued in advance is when it is issued 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 unexpired risk reserve is valued in accordance with the following:

- I. The amount of the unexpired 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 liabilities, understood as the weighted average probability of these flows, considering the time value of money based on the risk-free market interest rate curves for each currency or monetary unit provided by the price provider with which they maintain a 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 the total of gross revenues and expenses (without deducting Reinsurance Recoveries), which are necessary to meet the obligations of the insurance and reinsurance contracts throughout their period of validity, as well as other liabilities that the Insurance Institution or *Sociedad 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 *Sociedad Mutualista* 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 and adjustments of less than the estimates of claims. Future premiums for these effects will not be considered as premiums 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 *Sociedad Mutualista* as a result of claims and adjustments of having more derivatives vs. 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 *Sociedad Mutualista* will incur in order to meet the obligations of the insurance and reinsurance contracts, as well as the effect of the exchange rate and inflation, including that relating to expenses and claims.
- VII. In the constitution and valuation of the unexpired risk reserve, the amount of the guaranteed assets, 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 *Sociedad Mutualista* 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 and sufficient information. 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 unexpired risk reserves, the liabilities should be segmented into homogeneous risk groups.
- X. The short-term and long-term liabilities should be segmented in the valuation and constitution of the unexpired risk reserve so that the Institutions maintain an adequate balance in the investments of resources in the short and long term, and these hold are coherent with the nature of the liabilities to which they are related, and

XI. Processes and procedures should be established to ensure that the best estimate, as well as the assumptions underlying its calculation, is 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 *Sociedad Mutualista* 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 liabilities have attained, in a number of times such that, by statistical criteria, it is determined that such number of times exceeds the maximum number of times that such estimate could have been deferred. The methodology for the estimation of Reinsurance Recovery should be included as part of the actuarial method.

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.

**Banorte Ahorro y Previsión (Seguros y Pensiones)**

**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.

Premium income is recorded at the time premiums are settled



**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, 2017 and 2016, this line item was composed as follows:

	<b>2017</b>	<b>2016</b>
Cash	Ps. 23,350	Ps. 20,156
Banks	52,826	45,628
Other deposits and available funds	93	102
	<b>Ps. 76,269</b>	<b>Ps. 65,886</b>

"Banks" is represented by cash in Mexican pesos and US dollars converted at the exchange rate issued by Banco de México of Ps. 19.6629 and Ps. 20.6194 for 2017 and 2016, respectively, and is made up as follows:

	Mexican pesos		USD		Total	
	<b>2017</b>	<b>2016</b>	<b>2016</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Call money	Ps. 6,137	Ps. -	Ps. -	Ps. 5,155	Ps. 6,137	Ps. 5,155
Deposits with foreign credit institutions	-	-	11,952	14,477	11,952	14,477
Domestic banks	32	62	-	-	32	62
Banco de México	33,730	25,853	975	81	34,705	25,934
	<b>Ps. 39,899</b>	<b>Ps. 25,915</b>	<b>Ps. 12,927</b>	<b>Ps. 19,713</b>	<b>Ps. 52,826</b>	<b>Ps. 45,628</b>

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, 2017 and 2016, the Financial Group had made monetary regulation deposits of Ps. 25,687 and Ps. 25,683, respectively.

As of December 31, 2017 and 2016, the total sum of restricted cash and cash equivalents is Ps. 43,198 and Ps. 34,466, 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, 2017 and 2016, the balance with Banco de México are Ps. 9,018 and Ps. 251, related to the deposit auctions.

As of December 31, 2017 and 2016, "Other Deposits and Available Funds" includes:

	<b>2017</b>	<b>2016</b>
Minted metals in gold and silver	Ps. 43	Ps. 51
Cashable checks received, pending payment at a 3-day term	44	40
Remittances	6	11
	<b>Ps. 93</b>	<b>Ps. 102</b>

The exchange rates used for the conversion of gold and silver coins (Centenarios and Troy ounces, respectively) was Ps. 624.35 and Ps. 370.94, per unit, respectively, in 2017; and Ps. 581.13 and Ps. 376.10, per unit, respectively, in 2016.



## 6 - INVESTMENTS IN SECURITIES

### a. Trading securities

As of December 31, 2017 and 2016, trading securities are as follows:

	2017			2016	
	Acquisition cost	Accrued interest	Valuation increase (decrease)	Book value	Book value
<b>Government securities</b>	<b>\$ 196,330</b>	<b>\$ 1,210</b>	<b>\$ 166</b>	<b>\$ 197,706</b>	<b>\$ 151,347</b>
<b>Not restricted</b>	<b>11,119</b>	<b>160</b>	<b>9</b>	<b>11,288</b>	<b>8,650</b>
D Bonds	12	-	-	12	(442)
M Bonds	(357)	1	(7)	(363)	198
BPA	1	-	-	1	553
CEBUR - Government	152	-	2	154	321
CEBUR - Municipality	1	-	-	1	1
CETES	9,606	156	(24)	9,738	7,299
Eurobonds	31	-	-	31	12
UDIBONOS	1,673	3	38	1,714	708
<b>Restricted</b>	<b>185,211</b>	<b>1,050</b>	<b>157</b>	<b>186,418</b>	<b>142,697</b>
D Bonds	28,230	56	8	28,294	22,367
M Bonds	984	4	(7)	981	181
BPA	151,477	983	155	152,615	117,640
CEBUR - Government	2,493	7	(6)	2,494	2,141
CETES	1,799	-	(1)	1,798	20
UDIBONOS	228	-	8	236	348
<b>Bank securities</b>	<b>39,040</b>	<b>106</b>	<b>10</b>	<b>39,156</b>	<b>28,800</b>
<b>Not restricted</b>	<b>3,318</b>	<b>1</b>	<b>-</b>	<b>3,319</b>	<b>2,369</b>
CEBUR - development bank	3	-	-	3	206
CEBUR - bank	42	-	-	42	242
CEDES	16	-	-	16	-
Other bank securities	59	-	-	59	527
Promissory Notes	3,198	1	-	3,199	1,394
<b>Restricted</b>	<b>35,722</b>	<b>105</b>	<b>10</b>	<b>35,837</b>	<b>26,431</b>
CEBUR - development bank	1,878	3	-	1,881	1,543
CEBUR - bank	12,898	45	9	12,952	15,253
CEDES	13,955	54	(1)	14,008	7,017
Other bank securities	727	3	1	731	731
Promissory Notes	6,264	-	1	6,265	1,887
<b>Private securities</b>	<b>1,776</b>	<b>1</b>	<b>380</b>	<b>2,157</b>	<b>1,630</b>
<b>Not restricted</b>	<b>1,621</b>	<b>1</b>	<b>380</b>	<b>2,002</b>	<b>1,518</b>
Shares	412	-	327	739	560
Investment funds	768	-	27	795	389
CEBUR - corporate	447	1	28	476	413
CEBUR - fiduciary	(9)	-	(2)	(11)	-
Eurobonds	3	-	-	3	156
<b>Restricted</b>	<b>155</b>	<b>-</b>	<b>-</b>	<b>155</b>	<b>112</b>
CEBUR - corporate	129	-	(1)	128	112
CEBUR - fiduciary	26	-	1	27	-
	<b>\$ 237,146</b>	<b>\$ 1,317</b>	<b>\$ 556</b>	<b>\$ 239,019</b>	<b>\$ 181,777</b>

During 2017 and 2016, the Financial Group recognized under "Brokerage revenues" a loss of Ps. 761 and Ps. 207, respectively, for the fair value valuation of these instruments.

As of December 31, 2017 and 2016, there are Ps. 222,410 and Ps. 169,240, respectively, in restricted trading securities associated mainly with repurchase operations.

**b. Securities available for sale**

As of December 31, 2017 and 2016, securities available for sale were as follows:

	<b>2017</b>			<b>2016</b>	
	Acquisition cost	Accrued interest	Valuation increase (decrease)	Book value	Book value
<b>Government securities</b>	<b>\$ 132,886</b>	<b>\$ 2,288</b>	<b>\$ 562</b>	<b>\$ 135,736</b>	<b>\$ 165,125</b>
<b>Not restricted</b>	<b>48,499</b>	<b>688</b>	<b>222</b>	<b>49,409</b>	<b>27,121</b>
D Bonds	100	-	-	100	100
M Bonds	374	1	(38)	337	438
BPA	(4,412)	-	3	(4,409)	-
BREMs	7,778	6	-	7,784	7,781
CEBUR - Government	269	2	15	286	548
CEBUR - Municipality	302	7	89	398	445
CEBUR - UDI	17	-	3	20	58
CETES	1,820	-	-	1,820	8
Eurobonds	42,251	672	150	43,073	17,743
<b>Restricted</b>	<b>84,387</b>	<b>1,600</b>	<b>340</b>	<b>86,327</b>	<b>138,004</b>
D Bonds	11,377	49	5	11,431	-
BPA	64,240	1,457	(53)	65,644	129,474
CEBUR - Government	5,949	25	(1)	5,973	8,429
CETES	96	-	-	96	101
Eurobonds	2,725	69	389	3,183	-
<b>Bank securities</b>	<b>6,514</b>	<b>10</b>	<b>(1)</b>	<b>6,523</b>	<b>4,878</b>
<b>Not restricted</b>	<b>6,514</b>	<b>10</b>	<b>(1)</b>	<b>6,523</b>	<b>4,878</b>
CEBUR - bank	254	2	33	289	287
CEDES	5,836	8	(3)	5,841	4,225
Structured notes	424	-	(31)	393	366
<b>Private securities</b>	<b>29,965</b>	<b>437</b>	<b>(4,121)</b>	<b>26,281</b>	<b>25,084</b>
<b>Not restricted</b>	<b>28,260</b>	<b>393</b>	<b>(4,156)</b>	<b>24,497</b>	<b>23,444</b>
Shares	4,525	-	(3,935)	590	1,614
Investment funds	3,570	-	102	3,672	3,435
CEBUR - BORHIS	122	-	(81)	41	57
CEBUR - corporate	5,460	40	(599)	4,901	5,090
Eurobonds	14,583	353	357	15,293	13,188
Subordinated debentures	-	-	-	-	60
<b>Restricted</b>	<b>1,705</b>	<b>44</b>	<b>35</b>	<b>1,784</b>	<b>1,640</b>
Eurobonds	1,705	44	35	1,784	1,640
	<b>\$ 169,365</b>	<b>\$ 2,735</b>	<b>\$ (3,560)</b>	<b>\$ 168,540</b>	<b>\$ 195,087</b>

As of December 31, 2017 and 2016, there are Ps. 88,111 and Ps. 134,644, respectively, in restricted securities available for sale, mainly associated with securities repurchasing transactions.

As of December 31, 2017, the balance of BREMSR amounted to 77,783,110 securities, acquired in May 2016, these BREMSRs were initially classified as securities available due to the legal impossibility to classify them as trading securities since they did not have a secondary market, ie they are not subject to trading operations. They could not be classified as 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 on TIIE28 interest rate, which is feasible only in the category of securities available for-sale in accordance with paragraph 60 of the Criterion B-5.

Derived from the processes of restructuring and agreements reached with HOMEX, during 2017 the Institution received in exchange for uncollateralized credits, 138,198,154 shares (see Note 2e).

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

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

Subsequently, in accordance with its intention and business plan, the Holding Company reclassified shares and optional securities to receive shares under Investments in Securities (in the “Securities available for sale”, see Note 6b) and Derivatives (See Note 8), respectively. The Holding Company values these assets at fair value.

Shares received in exchange were initially recorded as a property awarded and subsequently reclassified to investments in securities within the category of securities available for sale and will be valued on the market in accordance with applicable accounting rules. At December 31, 2017 and 2016, the impairment on market value of these shares was (Ps. 524) and (Ps. 1,249), respectively, recorded in equity in the Income Statement for Valuation of available-for-sale securities.

c. Securities held to maturity

As of December 31, 2017 and 2016, securities held to maturity are as follows:

	<b>2017</b>			<b>2016</b>
	Acquisition cost	Accrued interest	Book value	Book value
<b>Government securities</b>	<b>\$ 88,616</b>	<b>\$ 241</b>	<b>\$ 88,857</b>	<b>\$ 75,482</b>
<b>Not restricted</b>	<b>85,837</b>	<b>226</b>	<b>86,063</b>	<b>72,903</b>
CEBUR - Government	1,735	23	1,758	1,778
CEBUR - Municipality	2,862	59	2,921	2,811
CEBUR - UDI	241	2	243	258
CETES specials	523	-	523	950
UDIBONOS	80,476	142	80,618	67,106
<b>Restricted</b>	<b>2,779</b>	<b>15</b>	<b>2,794</b>	<b>2,579</b>
CEBUR - Municipality	2,580	15	2,595	2,579
UDIBONOS	199	-	199	-
<b>Bank securities</b>	<b>1,202</b>	<b>675</b>	<b>1,877</b>	<b>1,731</b>
<b>Not restricted</b>	<b>1,202</b>	<b>675</b>	<b>1,877</b>	<b>1,731</b>
CEBUR - bank	722	14	736	690
CEDES	300	539	839	758
Structured notes	180	122	302	283
<b>Private securities</b>	<b>4,032</b>	<b>573</b>	<b>4,605</b>	<b>4,707</b>
<b>Not restricted</b>	<b>1,440</b>	<b>564</b>	<b>2,004</b>	<b>1,983</b>
CEBUR - corporate	1,440	564	2,004	1,983
<b>Restricted</b>	<b>2,592</b>	<b>9</b>	<b>2,601</b>	<b>2,763</b>
CEBUR - BORHIS	1	-	1	22
CEBUR - corporate	2,591	9	2,600	2,741
<b>Other securities</b>	<b>(29)</b>	<b>-</b>	<b>(29)</b>	<b>(39)</b>
	<b>\$ 93,821</b>	<b>\$ 1,489</b>	<b>\$ 95,310</b>	<b>\$ 81,920</b>

As of December 31, 2016 and 2015, there are Ps. 5,395 and Ps. 5,342, respectively, in restricted trading securities associated mainly with repurchasing operations.

As of December 31, 2017, 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
CETES specials	\$ 155	\$ 368	\$ -	\$ 523
Certificados bursátiles	63	1,573	11,222	12,858
Certificados de Depósito	839	-	-	839
Notas Estructuradas	-	302	-	302
Udibonos	1,150	-	79,667	80,817
Other securities	-	-	(29)	(29)
	<b>\$ 2,207</b>	<b>\$ 2,243</b>	<b>\$ 90,860</b>	<b>\$ 95,310</b>

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, 2017 and 2016 is as follows:

Type of collateral:	Instrument category	2017 Fair value in millions	
		Pesos	USD
Cash	-	Ps. 9	16,002
		<b>Ps. 9</b>	<b>16,002</b>

  

Type of collateral:	Instrument category	2016 Fair value in millions	
		Pesos	USD
Cash	-	Ps. 9	16,002
		<b>Ps. 9</b>	<b>16,002</b>

As of December 31, 2017, the Financial Group had no instruments received as collateral.

As of December 2017 and 2016, interest income is as follows:

Concept	2017		2016	
Trading securities	Ps.	19,966	Ps.	13,693
Securities available for sale		8,502		5,440
Securities held to maturity		505		377
	<b>Ps.</b>	<b>28,973</b>	<b>Ps.</b>	<b>19,510</b>

**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, 2017 and 2016 the amount recorder for the impairment of securities held to maturity was Ps. 927 and Ps. 37.

During 2017 and 2016, not interest incomes were accounted related to securities impairment.

## 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

	2017	2016
<b>Instrument</b>		
CETES	Ps. 1,797	Ps. 10
Development Bonds	32,391	19,308
Bonds IPAB	19,220	15,272
Quarterly IPAB bonds	148,524	167,540
Semi-annual IPAB bonds	49,589	63,886
20-year bonds	876	153
UDIBONOS	11	9
<b>Government securities</b>	<b>252,408</b>	<b>266,178</b>
Promissory Notes	6,264	1,887
CEDES	14,008	7,017
CEBUR Bank	12,950	15,254
Financial Institution Negotiable Instruments	731	703
<b>Bank securities</b>	<b>33,953</b>	<b>24,888</b>
Short-term CEBUR	15,303	5,451
Mortgage certificates	1	10,717
Certificates of deposit	-	1,543
<b>Private securities</b>	<b>15,304</b>	<b>17,711</b>
	<b>Ps. 301,655</b>	<b>Ps. 308,777</b>

With the Financial Group acting as the vendor, accrued premiums were charged to the results of operations as of December 31, 2017 and 2016 for Ps. 20,757 and Ps. 13,848, respectively, which are presented in the "Interest Expenses heading."

During 2017, 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	2017				2016			
	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. 2,501	Ps. 2,498	Ps. 3	Ps. -	Ps. -	Ps. -	Ps. -	Ps. -
Development Bonds	373	-	373	-	101	101	-	-
Bonds IPAB	1,502	1,502	-	-	-	-	-	-
Quarterly IPAB bonds	48,218	48,216	2	-	13,067	13,067	-	-
Semi-annual IPAB bonds	5,002	5,002	-	-	1082	1082	-	-
Udibonos	-	-	-	-	-	-	-	-
20-year bonds	2,301	2,001	300	-	1,701	1,701	-	-
<b>Government securities</b>	<b>59,897</b>	<b>59,219</b>	<b>678</b>	<b>-</b>	<b>15,951</b>	<b>15,951</b>	<b>-</b>	<b>-</b>
CEDES	3,408	3,408	-	-	2,008	2,008	-	-
Bank bonds	188	188	-	-	1,529	1,529	-	-
Securitized bank certificates	389	389	-	-	916	916	-	-
<b>Bank securities</b>	<b>3,985</b>	<b>3,985</b>	<b>-</b>	<b>-</b>	<b>4,453</b>	<b>4,453</b>	<b>-</b>	<b>-</b>
Short-term CEBUR	2,628	2,631	-	-	3,322	3,322	-	-
<b>Private securities</b>	<b>2,628</b>	<b>2,631</b>	<b>-</b>	<b>-</b>	<b>3,322</b>	<b>3,322</b>	<b>-</b>	<b>-</b>
	<b>Ps. 66,510</b>	<b>Ps. 65,835</b>	<b>Ps. 678</b>	<b>Ps. -</b>	<b>Ps. 23,726</b>	<b>Ps. 23,726</b>	<b>Ps. -</b>	<b>Ps. -</b>

With the Financial Group acting as the purchaser, accrued premiums charged to the results of operations as of December 31, 2017 and 2016 were Ps. 235 and Ps. 582, respectively, which are presented in the "Interest Income" Heading.

During 2017, repurchase transactions carried out by the Financial Group in its capacity as purchaser ranged in term from 1 to 364 days

By December 31, 2017, the amount of securities corresponding to guarantees granted and received in repurchase transactions that involved the transfer of property totaled Ps. 145,077 and Ps. 184,011, respectively, and by December 31, 2016, the totals were Ps. 89,288 in guarantees granted and Ps. 101,473 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, 2017, 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, 2017 and 2016, the Financial Group's derivatives positions held for trading purposes are as follows

<b>Asset position</b>	<b>2017</b>	<b>2016</b>
<b>Forwards</b>		
Foreign currency forwards	Ps. 120	Ps. 9
<b>Options</b>		
Interest rate options	849	1,051
Stock options	13	4
Currency	111	263
<b>Swaps</b>		
Interest rate swaps	20,921	34,570
Exchange rate swaps	3,506	5,237
<b>Total trading</b>	<b>Ps. 25,520</b>	<b>Ps. 41,134</b>
<b>Options</b>		
Rate Options	25	46
<b>Swaps</b>		
Interest rate swaps	180	696
<b>Total hedging</b>	<b>205</b>	<b>742</b>
<b>Total position</b>	<b>Ps. 25,725</b>	<b>Ps. 41,876</b>
<b>Liability position</b>	<b>2017</b>	<b>2016</b>
<b>Forwards</b>		
Foreign currency forwards	Ps. 55	Ps. 28
<b>Options</b>		
Interest rate options	784	1,112
Currency options	177	1
<b>Swaps</b>		
Interest rate swaps	18,322	32,937
Exchange rate swaps	5,270	6,325
<b>Total trading</b>	<b>24,608</b>	<b>40,403</b>
<b>Swaps</b>		
Interest rate swaps	492	168
Exchange rate swaps	11,909	9,204
<b>Total hedging</b>	<b>12,401</b>	<b>9,372</b>
<b>Total position</b>	<b>Ps. 37,009</b>	<b>Ps. 49,775</b>

The following are notional bonds in different currencies, depending on the type of product, by December 31, 2017:

#### Trading instruments

Instrument	MXN		USD		UDI	
Foreign currency forwards	Ps.	8,389	Ps.	431	Ps.	-
Interest rate options		132,865		705		-
Stock options		3		-		-
Opciones de divisa		410		-		-
Foreign currency swaps (receiving leg)		46,006		1,629		960
Foreign currency swaps (paying leg)		35,890		2,226		960
Interest rate swaps (receiving leg)		1,235,531		19,888		-
Interest rate swaps (paying leg)		1,235,531		19,888		-

#### Hedging instruments

Instrument	MXN		USD		EUR		GBP	
Interest rate options	Ps.	7,900	Ps.	-	Ps.	-	Ps.	-
Foreign currency swaps (receiving leg)		25,325		-		-		-
Foreign currency swaps (paying leg)		-		820		462		128
Interest rate swaps (receiving leg)		48,227		-		-		-
Interest rate swaps (paying leg)		48,227		-		-		-

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

Forwards	Options	Swaps	CCS
Fx-USD	Fx-USD	TIIIE 28	TIIIE 28
Fx-EUR	TIIIE 28	TIIIE 91	TIIIE 91
Fx-CAD	TIIIE 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 34

Transactions carried out for hedging purposes have maturities from 2017 to 2031 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, 2017 is USD 898,031 thousand, and Ps. 5,600 thousand, while as of December 31, 2016 it was USD 776,059 thousand and Ps.8,700 . Futures transactions are made through recognized markets, and as of December 31, 2017 they represent 38% of the nominal amount of all the derivatives' operations contracts; the remaining 62% correspond to option, swap and fx forwards transactions in Over the Counter (OTC) markets.

As of December 31, 2017 and 2016, the collateral was comprised mainly of cash. Their fair value is shown in Note 6 d).

During 2017 and 2016, the net earnings from the valuation and realization of derivative financial instruments were Ps. 1,223 and Ps. 371, 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. 60.

As of December 31, 2017 and 2016, the main positions hedged by the Financial Group and the derivatives designated to cover such positions are:

Cash flow hedging:

- Forecast funding using TIEE 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, 2017, there are - hedge files related to hedging transactions. Their effectiveness ranges 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, 2017, 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, 2017, 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
Fondeo pronosticado	Ps. 379	Ps. 899	Ps. 2,389	Ps. 570
Depósitos de Regulación Monetaria	500	1,155	2,957	1,141
Assets denominated in USD	10	9	144	472
Assets denominated in Euros	3	1	27	96
Assets denominated in GBP	15	18	199	214
	<b>Ps. 907</b>	<b>Ps. 2,082</b>	<b>Ps. 5,716</b>	<b>Ps. 2,493</b>

The fair value of the instruments designated as cash flows hedging, recognized in overall earnings in stockholders equity as of December 31, 2017 and 2016 totaled (Ps. 5,214) and (Ps. 2,131), respectively. Furthermore, Ps. 184 and Ps. 63, respectively, were reclassified from stockholders' equity to results.

The gains recognized in derivatives financial instruments' results designated for trading were Ps. 783 and Ps. 382, on December 31, 2017 and 2016, 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	(2,935)	(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
Balance, December 31, 2016	(5,214)	(3,083)	184



## 9 - LOAN PORTFOLIO

As of December 31, 2017 and 2016, the loan portfolio by loan type is as follows:

	Performing loan portfolio		Past-due loan portfolio		Total	
	2017	2016	2017	2016	2017	2016
Commercial loans						
Denominated in domestic currency						
Commercial	Ps. 186,520	Ps. 177,017	Ps. 5,281	Ps. 5,281	Ps. 191,523	Ps. 182,298
Rediscounted portfolio	8,212	7,561	264	264	8,319	7,825
Denominated in USD						
Commercial	35,196	35,256	127	127	36,805	35,384
Rediscounted portfolio	3,849	4,384	-	-	3,849	4,384
<b>Total commercial loans</b>	<b>233,777</b>	<b>224,218</b>	<b>5,672</b>	<b>5,672</b>	<b>240,496</b>	<b>229,891</b>
Loans to financial institutions	5,944	4,650	344	344	5,944	4,994
Consumer loans						
Credit card	33,906	28,445	1,624	1,623	36,093	30,068
Other consumer loans	71,661	59,887	2,253	1,624	73,914	61,511
Mortgage loans						
Denominated in domestic currency	135,250	114,618	1,303	1,034	136,553	115,652
Denominated in USD	-	-	-	-	-	-
Denominated in UDIS	155	188	20	15	175	203
Government loans	134,905	134,798	-	-	134,905	134,798
	<b>381,821</b>	<b>342,587</b>	<b>5,763</b>	<b>4,640</b>	<b>387,584</b>	<b>347,226</b>
<b>Total loan portfolio</b>	<b>Ps. 615,598</b>	<b>Ps. 566,805</b>	<b>Ps. 12,482</b>	<b>Ps. 10,312</b>	<b>Ps. 628,080</b>	<b>Ps. 577,117</b>

### Restructured loans

The restructured loans on December 31, 2017 and 2016 that modified their terms and rates are shown below:

	2017		2016	
	Performing	Past-due	Performing	Past-due
Commercial loans				
Business loans	Ps. 13,114	Ps. 1,131	Ps. 5,018	Ps. 1,465
Consumer loans	35	67	-	-
Mortgage loans	32	279	-	-
	<b>Ps. 13,181</b>	<b>Ps. 1,477</b>	<b>Ps. 5,018</b>	<b>Ps. 1,465</b>

As of December 31, 2017, 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. 2,383	Ps. 1,297	Ps. 701	Ps. 2,338	Ps. 6,719				
Consumer loans	4,186	247	2	5	4,440				
Mortgage loans	959	364	-	-	1,323				
	<b>Ps. 7,528</b>	<b>Ps. 1,908</b>	<b>Ps. 703</b>	<b>Ps. 2,343</b>	<b>Ps. 12,482</b>				

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				
	<b>Ps. 4,514</b>	<b>Ps. 433</b>	<b>Ps. 1</b>	<b>Ps. 5,364</b>	<b>Ps. 10,312</b>				

Past due loan movements for the years ended on December 31, 2017 and 2016 are shown below:

	<b>2017</b>		<b>2016</b>	
Balance at the beginning of the year	Ps.	10,312	Ps.	11,903
Liquidations		(2,725)		(3,164)
Write-offs*		(12,068)		(11,006)
Renewals		(442)		(2,538)
Loan portfolio purchases		-		1,776
Discounts		(652)		(320)
Foreclosures		(148)		(260)
Loan Portfolio Sales		-		(1,492)
Consumer loans		(5,797)		(6,018)
Mortgage loans		23,970		21,404
Fluctuation from foreign exchange rate		32		27
<b>Year-end balance</b>	<b>Ps.</b>	<b>12,482</b>	<b>Ps.</b>	<b>10,312</b>

\* Corresponds to 100% hedged loans.

As of December 31, 2017, the balance of deferred loan origination fees was Ps. 2,612 and the amount recorded in results was Ps. 1,171. Furthermore, the deferred balance of costs and expenses associated with initial loan originations was Ps. 2,668, and the amount recorded in results was Ps. 695. As of December 31, 2016, 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. 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, 2017 and 2016, the balance of written off loans that had been fully reserved as past due was Ps. 12,370 and Ps. 11,006, respectively.

On December 31, 2017 and 2016, revenues from recoveries of previously written-off loan portfolios were Ps. 1,749 and Ps. 1,549, respectively.

The loans granted per economic sectors as of December 31, 2017 and 2016, are shown below:

	<b>2017</b>		<b>2016</b>	
	<b>Amount</b>	<b>Concentration percentage</b>	<b>Amount</b>	<b>Concentration percentage</b>
Private (companies and individuals)	Ps. 240,496	38.29%	Ps. 229,890	39.84%
Financial institutions	5,944	0.95%	4,994	0.87%
Credit card and consumer	110,007	17.51%	91,579	15.87%
Mortgage	136,728	21.77%	115,856	20.07%
Government loans	134,905	21.48%	134,798	23.36%
	<b>Ps. 628,080</b>	<b>100.00%</b>	<b>Ps. 577,117</b>	<b>100.00%</b>

#### **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:

	<b>2017</b>	<b>2016</b>
Distressed commercial loans	Ps. 6,545	Ps. 7,177
Performing	1,495	1,380
Past-due	5,050	5,797
<b>Commercial loans</b>	<b>414,032</b>	<b>389,706</b>
Performing	412,363	389,490
Past-due	1,669	216
<b>Total rated commercial loans</b>	<b>420,577</b>	<b>396,883</b>
<b>Total portfolio</b>	<b>Ps. 667,136</b>	<b>Ps. 604,327</b>
<b>Distressed commercial loans/total portfolio</b>	<b>1.19%</b>	<b>1.19%</b>

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.

## **10 - LOANS RESTRUCTURED IN UDIS**

As of December 31, 2017 and 2016, the Financial Group has no mortgage loans restructured in UDIS.

### **Early termination of mortgage loan borrower support programs**

On June 30, 2010, the Federal Government through the SHCP and Banking Institutions signed an agreement for the early termination of the mortgage loan debtors support programs (punto final and UDIS trusts) (the Agreement); consequently as of January 1, 2011, the Financial Group absorbed its part of the early discount granted to mortgage loan debtors participating in the program.

The Agreement established a series of obligations for the Federal Government payable in 5 annual amortizations with a due date of June 1, 2015 which is when the last payment of Ps. 29 was received. Such payment included the monthly financial cost from the day immediately following the cut-off date and up to closing of the month immediately preceding the due date.

As of December 31, 2017, the remaining balance of SPECIAL CETES not repurchased by the Federal Government is Ps. 523 with maturities between 2017 and 2027.

## 11 - ALLOWANCE FOR LOAN LOSSES

The Financial Group's portfolio classification, which serves as the basis for recording the allowance for loan losses, is detailed below:

Risk category	2017							Total
	Required allowances for losses							
	Loan portfolio	Companies	Government	Financial institutions'- loans	Consumer portfolio	Mortgage portfolio		
Risk A1	Ps. 518,671	Ps. 964	Ps. 488	Ps. 94	Ps. 856	Ps. 205	Ps. 2,607	
Risk A2	53,964	269	161	6	501	37	974	
Risk B1	34,213	99	24	11	903	23	1,060	
Risk B2	14,639	99	-	-	389	35	523	
Risk B3	13,671	138	21	2	497	21	679	
Risk C1	8,730	110	6	7	470	76	669	
Risk C2	6,178	64	-	3	662	130	859	
Risk D	10,660	1,952	-	-	1,801	351	4,104	
Risk E	6,589	880	-	-	3,507	55	4,442	
Unclassified	179	-	-	-	-	-	-	
	<b>Ps. 667,494</b>	<b>Ps. 4,575</b>	<b>Ps. 700</b>	<b>Ps. 123</b>	<b>Ps. 9,586</b>	<b>Ps. 933</b>	<b>Ps. 15,917</b>	
<b>Less: Recorded allowance</b>	-	-	-	-	-	-	<b>16,122</b>	
<b>Reserve supplement*</b>							<b>Ps. 205</b>	

Risk category	2016							Total
	Required allowances for losses							
	Loan portfolio	Companies	Government	Financial institutions'- loans	Consumer portfolio	Mortgage portfolio		
Risk A1	Ps. 457,787	Ps. 907	Ps. 524	Ps. 88	Ps. 604	Ps. 163	Ps. 2,286	
Risk A2	53,868	279	46	9	536	50	920	
Risk B1	25,450	147	33	3	528	23	735	
Risk B2	25,046	69	58	1	804	35	967	
Risk B3	13,958	150	59	3	430	10	652	
Risk C1	6,952	89	16	2	419	46	572	
Risk C2	5,822	113	-	-	678	75	866	
Risk D	10,635	2,071	-	155	1,528	283	4,037	
Risk E	4,803	915	-	2	2,171	62	3,150	
Unclassified	7	-	-	-	-	-	-	
	<b>Ps. 604,327</b>	<b>Ps. 4,740</b>	<b>Ps. 736</b>	<b>Ps. 263</b>	<b>Ps. 7,698</b>	<b>Ps. 747</b>	<b>Ps. 14,185</b>	
<b>Less: recorded allowance</b>	-	-	-	-	-	-	<b>14,384</b>	
<b>Reserve Supplement*</b>							<b>Ps. 198</b>	

\* 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, 2017 and 2016, the provisions to cover 100% of the rating base for loan portfolios includes Ps. 21,438 and Ps. 11,357, respectively, for Granted Guarantors and Loan Acquisitions, which were recorded in memorandum accounts. Ps. 17,588 and Ps. 15,802 were also added for loans to related parties.

As of December 31, 2017 and 2016, the estimated allowance for loan losses is determined based on portfolio balances at those dates.

As of December 31, 2017 and 2016, the allowance for loan losses represents 129% and 139%, 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, 2017 and 2016.

Pursuant to the regulation in effect, as of December 31, 2017 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, 2017.

Type of Loan		Exposure to Default	Weighted Probability of Non-compliance	Weighted Severity of Loss
Commercial*	Ps.	344,569	5.6%	24.3%
Mortgage		136,728	3.3%	20.7%
Non-revolving consumer		73,918	9.4%	69.4%
Revolving Consumer loan		53,044	11.8%	76.3%

\* 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:

		2017	2016
Balance at the beginning of the year	Ps.	14,384	Ps. 13,813
Increase charged to results		14,859	12,970
Discounts and write-offs		(13,966)	(12,947)
Rebates granted to housing debtors		(9)	(8)
Recognized against results of previous years		1,054	672
Reclassification INB		-	(197)
Portfolio sale		(187)	-
Others		13	81
<b>Year-end balance</b>	<b>Ps.</b>	<b>16,122</b>	<b>Ps. 14,384</b>

As of December 31, 2017, the net amount of loan loss provisions charged to the Consolidated Income Statement totals Ps. 15,214 and is presented net of other operating income (expenses) for (Ps. 343), and due to the USD (12) exchange rate variation, such amounts are affected against results for Ps. 14,859 credited directly to the provision. As of December 31, 2016, the net amount of loan loss provisions charged to the Consolidated Income Statement totals Ps. 13,313, and is presented net of other operating income (expenses) for (Ps. 424), and due to the USD 81 exchange rate variation, such amounts are affected against results for Ps. 12,970 credited directly to the provision.

## 12 - ACQUIRED COLLECTION RIGHTS

The acquired collection rights are comprised as follows:

Valuation Method		2017	2016
Cash basis method	Ps.	1,378	Ps. 936
Cost recovery method		1,078	1,050
Interest method		21	39
	<b>Ps.</b>	<b>2,477</b>	<b>Ps. 2,025</b>

As of December 31, 2017, derived from applying the valuation methods (described in Note 4), the Financial Group recognized income from credit asset portfolios of Ps. 529, coupled with the corresponding amortization of Ps. 358, the effects of which were recognized under the "Other income (expense)" heading in the Consolidated Income Statement. For the year ended December 31, 2016, the Financial Group recognized income of Ps. 531, together with the respective amortization of Ps. 389.

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:

	<b>2017</b>	<b>2016</b>
Maritime and transportation	Ps. 96	Ps. 63
Automobile	1,280	1,512
Various	855	985
Accidents and health	735	646
Life	723	890
Pensions	114	56
	3,803	4,152
Federal public administration agencies' indebtedness	228	93
	<b>Ps. 4,031</b>	<b>Ps. 4,245</b>

### 14 - ACCOUNTS RECEIVABLE FROM REINSURANCE

This item is made up as follows:

	<b>2017</b>	<b>2016</b>
Insurance and annuities	Ps. 1,259	Ps. 2,768
Reinsurers' participation for pending claims	6,740	3,609
Reinsurers' participation for current risk	713	792
Other participations	300	46
Preemptive credit risk assessment of Foreign Reinsurers		
Foreign	(2)	(3)
Estimate for punishments	(293)	(46)
	<b>Ps. 8,717</b>	<b>Ps. 7,166</b>

### 15 - OTHER ACCOUNTS RECEIVABLE, NET

This item is made up as follows:

	<b>2017</b>	<b>2016</b>
Loans to officers and employees	Ps. 2,595	Ps. 2,573
Debtors from liquidation settlements	17,231	18,089
Debtors from cash collateral	17,663	16,011
Real estate property portfolios	2,024	1,082
Fiduciary rights*	8,589	8,785
Sundry debtors in Mexican pesos	3,433	3,905
Sundry debtors in foreign currency	366	78
Others	392	216
	52,293	50,739
Allowance for doubtful accounts	(459)	(373)
	<b>Ps. 51,834</b>	<b>Ps. 50,366</b>

\* 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, 2017 and 2016, the Financial Group recorded impairment of Ps. 75 in investment projects, respectively.

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

## 16 - FORECLOSED ASSETS, NET

As of December 31, 2017 and 2016, the foreclosed assets balance is as follows:

	2017		2016	
Moveable property	Ps.	95	Ps.	88
Real estate property		3,081		3,262
Goods pledged for sale		12		15
		3,188		3,365
Allowance for losses on foreclosed assets		(47)		(32)
Allowance for losses on foreclosed real estate assets		(2,037)		(1,717)
Allowance for losses on assets pledged for sale		(4)		(6)
		<b>(2,088)</b>		<b>(1,755)</b>
	<b>Ps.</b>	<b>1,100</b>	<b>Ps.</b>	<b>1,610</b>

As of December 31, 2017, aging of the reserves for foreclosed assets is made up as follows:

Concept / Months	18 to 24		More than 24		Total	
	Ps.	25	Ps.	22	Ps.	47
Moveable property						

  

Concept / Months	12 to 24		24 to 30		30 to 36		36 to 42		42 to 48		More than 48		Total	
	\$	19	\$	15	\$	12	\$	8	\$	106	\$	1,877		\$
Real estate property														
Goods pledged for sale		-		-		-		-		-		4		4
	<b>\$</b>	<b>19</b>	<b>\$</b>	<b>15</b>	<b>\$</b>	<b>12</b>	<b>\$</b>	<b>8</b>	<b>\$</b>	<b>106</b>	<b>\$</b>	<b>1,881</b>	<b>\$</b>	<b>2,041</b>

## 17 - PROPERTY, FURNITURE AND EQUIPMENT, NET

This item is made up as follows:

	2017		2016	
Furniture and equipment	Ps.	15,561	Ps.	13,706
Property intended for offices		9,973		8,510
Installation costs		5,916		5,470
		31,450		27,686
Less - Accumulated depreciation and amortization		(13,280)		(11,857)
	<b>Ps.</b>	<b>18,170</b>	<b>Ps.</b>	<b>15,829</b>

Depreciation recorded in the results of 2017 and 2016 was Ps. 1,688 and Ps. 1,170, 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
Property intended for offices	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 %	2017		2016	
Afore XXI-Banorte, S.A. de C.V.	50%	Ps.	13,493	Ps.	13,331
Capital I CI-3, S.A.P.I. de C.V.	50%		35		43
Maxcom Telecomunicaciones, S.A.B. de C.V.	7.99%		83		191
Controladora PROSA, S.A. de C.V.	19.73%		64		101
Sociedades de Inversión Ixe Fondos	Various		105		99
Fondo Chiapas, S.A. de C.V.	11.11%		17		15
Others	Various		(26)		(16)
		<b>Ps.</b>	<b>13,771</b>	<b>Ps.</b>	<b>13,764</b>



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. 2,949 and Ps. 3,994 as of December 31, 2017 and 2016, respectively, as detailed below:

	2017		2016	
	Temporary Differences	Deferred Effect	Temporary Differences	Deferred Effect
<b>Temporary Differences - _Assets</b>				
Allowance for loan losses	Ps. 1,676	Ps. 503	Ps. 275	Ps. 83
Tax loss carryforwards	3,711	1,113	5,191	1,557
Tax losses in foreclosure sales	-	-	-	-
Tax losses in stock sales	-	-	-	-
Surplus allowances for credit risks over the net tax limit	15,551	4,665	14,887	4,466
Excess of tax over book value of foreclosed and fixed assets	3,472	1,040	3,198	956
PTU	386	116	385	115
Fees collected in advance	3,474	1,042	3,233	970
Accounting provisions	3,369	1,011	3,492	1,048
Financial instruments valuation	2,617	785	5,887	1,766
Other assets	26	8	156	47
<b>Total assets</b>	<b>Ps. 34,282</b>	<b>Ps. 10,283</b>	<b>Ps. 36,704</b>	<b>Ps. 11,008</b>
<b>Temporary Differences - _Liabilities</b>				
Excess of tax over book value of foreclosed and fixed assets and expected payments	Ps. 852	Ps. 256	Ps. -	Ps. -
Portfolios acquired	11,738	3,521	1,025	307
Capitalizable projects' expenses	6,686	2,006	8,977	2,693
Provisions	2,901	870	-	-
Financial instruments valuation	2,033	609	7,768	2,330
Contributions to pension funds	-	-	3,192	958
Intangible assets	244	72	1,410	422
Deferred from the IXE purchase method	11,738	3,521	782	235
Other	6,686	2,006	234	69
<b>Total Liabilities</b>	<b>24,454</b>	<b>7,334</b>	<b>23,388</b>	<b>7,014</b>
<b>Deferred tax, net</b>		<b>Ps. 2,949</b>		<b>Ps. 3,994</b>

As discussed in Note 29, the applicable income tax rate is 30% for 2017, 2016 and later years.

As of December 31, 2017, the tax loss carryforwards updated as of that date and the year of the statute of limitations are analyzed as follows:

Expiration	amount
2021	\$ 14
2022	139
2023	1,915
2024	1,562
2025	3
2026	35
2027	43
	<b>\$ 3,711</b>

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, 2017 and 2016 a net amount of Ps. 2 and 16, respectively, was added to deferred taxes determined at a rate of 21% and 35% as per the tax law of the USA.

## 20 - OTHER ASSETS

This item is made up as follows:

	2017	2016
Net asset forecast from labor obligations and savings fund	Ps. 448	Ps. 2,885
Payments to amortize	18,470	16,398
Accumulated payment amortization	(2,876)	(2,220)
Goodwill	12,644	12,679
	<b>Ps. 28,686</b>	<b>Ps. 29,742</b>

As of December 31, 2017 and 2016, goodwill is as follows:

	2017	2016
Ixe Grupo Financiero, S.A.B. de C.V.	Ps. 11,537	Ps. 11,537
INB Financial Corp.	-	-
Banorte-Ixe Tarjetas, S.A. de C.V., SOFOM, ER	727	727
Uniteller Financial Services	380	400
Generali México Compañía de Seguros, S.A.	-	15
	<b>Ps. 12,644</b>	<b>Ps. 12,679</b>

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, 2017 and 2016.

## 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 2017 and 2016, the Financial Group generated a liquidity requirement of USD 981,294 thousand and USD 383,170 thousand, respectively, and held investments in liquid assets of USD 1,525,564 thousand and USD 1,106,523 thousand, representing a surplus of USD 544,270 thousand and USD 723,353 thousand, respectively.

**Deposits**

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

	<b>2017</b>	<b>2016</b>
<b>Demand deposits</b>		
<b>Non-interest bearing checking accounts:</b>		
Cash deposits	Ps. 215,800	Ps. 210,850
Checking accounts in US dollars for individual residents on the Mexican border	3,093	2,621
Demand deposits accounts	18,677	16,572
Interest bearing checking accounts:		
Other bank checking deposit	82,625	80,433
Savings accounts	-	-
Checking accounts in US dollars for individual residents on the Mexican border	1,909	2,110
Demand deposits accounts	71,204	68,617
	<b>393,308</b>	<b>381,203</b>
<b>Time deposits</b>		
<b>General public:</b>		
Fixed-term deposits	15,542	20,063
Retail time deposits	213,473	140,121
Promissory note with interest payable at maturity PRLV primary market for individuals	794	22,838
Promissory note with interest payable at maturity PRLV primary market for institutions	8,273	6,776
Foreign residents deposits	12	14
Provision for interest	1,080	649
	<b>239,174</b>	<b>190,461</b>
<b>Money market:</b>		
Over the counter promissory notes	3,678	1,458
Provision for interest	1	1
	<b>3,679</b>	<b>1,459</b>
	<b>242,853</b>	<b>191,920</b>
<b>Senior debt issued</b>	<b>3,003</b>	<b>85</b>
<b>Global Account of deposits without movements</b>	<b>1,657</b>	<b>1,352</b>
	<b>Ps. 640,821</b>	<b>Ps. 574,560</b>

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	2017				2016			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
General public								
Mexican pesos and UDIS	0.52%	0.66%	0.80%	0.76%	0.49%	0.56%	0.47%	0.47%
Foreign currency	0.02%	0.02%	0.02%	0.02%	0.02%	0.02%	0.02%	0.02%

**Time deposits:**

Foreign exchange	2017				2016			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
General public								
Mexican pesos and UDIS	4.85%	5.50%	5.86%	5.57%	2.75%	3.12%	3.43%	3.98%
Foreign currency	0.18%	0.18%	0.19%	0.20%	0.37%	0.23%	0.18%	0.22%
Money market	4.31%	6.64%	7.40%	7.27%	3.52%	3.10%	2.76%	3.72%

As of December 31, 2017 and 2016, the terms set for these deposits are as follows:

	2017			
	From 1 to 179 days	From 6 to 12 months	More than 1 year	Total
<b>General public</b>				
Fixed-term deposits	Ps. 13,179	Ps. 1,863	Ps. 500	Ps. 15,542
Demand deposits	211,259	10,053	434	221,746
Promissory note with interest payable at maturity PRLV primary market for individuals	749	27	18	794
Foreign residents deposits	12	-	-	12
Provision for interest	862	204	14	1,080
	<b>226,061</b>	<b>12,147</b>	<b>966</b>	<b>239,174</b>
<b>Money market:</b>				
Promissory notes	-	-	3,678	3,678
Provision for interest	-	-	1	1
	-	-	3,679	3,679
<b>Senior debt issued</b>	<b>3,003</b>	-	-	<b>3,003</b>
<b>Global account of deposits without movements</b>	<b>1,657</b>	-	-	<b>1,657</b>
	<b>Ps. 230,721</b>	<b>Ps. 12,147</b>	<b>Ps. 4,645</b>	<b>Ps. 247,513</b>

	2016			
	From 1 to 179 days	From 6 to 12 months	More than 1 year	Total
<b>General public:</b>				
Fixed-term deposits	Ps. 16,807	Ps. 1,384	Ps. 672	Ps. 18,864
Demand 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
	<b>181,566</b>	<b>7,917</b>	<b>978</b>	<b>190,461</b>
<b>Money market:</b>				
Promissory notes	-	-	1,458	1,458
Provision for interest	-	-	1	1
	-	-	1,459	1,459
<b>Senior debt issued</b>	<b>85</b>	-	-	<b>85</b>
<b>Global account of deposits without movements</b>	<b>1,352</b>	-	-	<b>1,352</b>
	<b>Ps. 183,003</b>	<b>Ps. 7,917</b>	<b>Ps. 2,437</b>	<b>Ps. 193,357</b>

## 22 - INTERBANK AND OTHER LOANS

The loans received from other banks as of December 31, 2017 and 2016 are as follows:

	Mexican pesos		Denominated in USD		Total	
	2017	2016	2017	2016	2017	2016
<b>Immediately due:</b>						
Domestic banks (Call money)	Ps. -	Ps. 4,019	Ps. -	Ps. -	Ps. 4,019	Ps. 4,019
<b>Short-term:</b>						
Commercial banking	4,157	9,040	5,719	67	9,876	9,107
Development banking	251	315	39	520	290	835
Public trusts	7,487	6,336	536	857	8,023	7,193
Provision for interest	17	14	7	6	24	20
	<b>11,912</b>	<b>15,705</b>	<b>6,301</b>	<b>1,450</b>	<b>18,213</b>	<b>17,155</b>
<b>Long-term:</b>						
Commercial banking	8,085	8,283	848	2,568	8,933	10,851
Development banking	-	-	2,804	2,751	2,804	2,751
Public trusts	3,530	3,537	463	323	3,993	3,860
	<b>11,615</b>	<b>11,820</b>	<b>4,115</b>	<b>5,642</b>	<b>15,730</b>	<b>17,462</b>
	<b>Ps. 23,527</b>	<b>Ps. 31,544</b>	<b>Ps. 10,416</b>	<b>Ps. 7,092</b>	<b>Ps. 33,943</b>	<b>Ps. 38,636</b>

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	2017				2016			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
<b>Call money</b>								
Mexican pesos and UDIS	5.82%	6.80%	6.79%	6.89%	3.27%	3.15%	4.15%	5.07%
<b>Other bank loans</b>								
Mexican pesos and UDIS	11.31%	10.66%	9.17%	10.50%	4.28%	4.33%	4.85%	5.14%
Foreign currency	2.35%	2.53%	2.96%	3.37%	2.14%	2.06%	2.16%	2.39%

## 23 - TECHNICAL RESERVES

	2017	2016
<b>Current risk:</b>		
Life	Ps. 86,527	Ps. 74,839
Accidents and health	1,663	1,579
Damages	3,315	3,256
	<b>91,505</b>	<b>79,674</b>
<b>Contractual obligations:</b>		
Claims and expirations	8,739	4,860
Unreported claims	3,247	2,449
Dividends on policies	84	170
Insurance funds under management	3	1
Security premiums	588	185
	<b>12,661</b>	<b>7,665</b>
<b>Contingency:</b>		
Catastrophic risk	1,207	992
Contingencies	1,667	1,443
Special	754	595
	<b>3,628</b>	<b>3,030</b>
	<b>Ps. 107,794</b>	<b>Ps. 90,369</b>

## 24 - SUNDRY CREDITORS AND OTHER PAYABLES

This item is made up as follows:

	2017		2016	
Cashier and certified checks and other negotiable instruments	Ps.	2,803	Ps.	2,729
Provision for employee retirement obligations and saving fund		612		500
Provisions for other obligations		7,535		7,475
Others		9,582		7,333
	<b>Ps.</b>	<b>20,532</b>	<b>Ps.</b>	<b>18,03</b>

## 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, 2017 and 2016, related to the Defined Benefit Pension Plan, seniority premiums and retiree medical coverage, determined by independent actuaries, is analyzed below:

	2017			
	Pension plan	Seniority premiums	Medical services	Total
Projected benefit obligation (PBO)	Ps. (1,353)	Ps. (255)	Ps. (3,571)	Ps. (5,179)
Fund market value	847	236	2,581	3,601
<b>Funded status</b>	(506)	(19)	(1,053)	(1,578)
Unrecognized prior service cost	-	-	110	110
Unrecognized actuarial losses	461	11	944	1,416
<b>Net projected asset</b>	<b>Ps. (45)</b>	<b>Ps. (8)</b>	<b>Ps. 1</b>	<b>Ps. (52)</b>

  

	2016			
	Pension plan	Seniority premiums	Medical services	Total
Projected benefit obligation (PBO)	Ps. (1,227)	Ps. (239)	Ps. (3,399)	Ps. (4,865)
Fund market value	1,228	339	3,852	5,419
<b>Funded status</b>	1	100	453	554
Unrecognized prior service cost	-	-	146	146
Unrecognized actuarial losses	667	17	1,368	2,052
<b>Net projected asset</b>	<b>Ps. 668</b>	<b>Ps. 117</b>	<b>Ps. 1,967</b>	<b>Ps. 2,752</b>

Moreover, as of December 31, 2016, a separate fund amounting to Ps. 3,566, (Ps. 5,419 in 2016) 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:

	2017		2016	
Service cost	Ps.	108	Ps.	206
Interest cost		434		406
Expected return on plan assets		(489)		(472)
<b>Amortizations of unrecognized items:</b>				
Profits (actuarial losses)		136		132
Cost of the advance reduction/liquidation of obligations		4		(85)
<b>Net periodic pension cost</b>	<b>Ps.</b>	<b>193</b>	<b>Ps.</b>	<b>187</b>

The rates used in the calculation of the projected benefit obligation and return on plan assets as of December 31, 2017 and 2016, are shown below:

<b>Concept</b>	<b>2017 Nominal</b>	<b>2016 Nominal</b>
Discount rate	9.25%	9.00%
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	3.50%	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:

<b>Concept</b>	<b>2017</b>	<b>2016</b>
Defined and projected benefit obligations	Ps. ( 277)	Ps. ( 248)
<b>Net projected liability</b>	<b>Ps. ( 277)</b>	<b>Ps. ( 248)</b>

The net periodic pension cost is as follows:

<b>Concept</b>	<b>2017</b>	<b>2016</b>
Service cost	Ps. 26	Ps. 37
Interest cost	9	15
<b>Net periodic pension cost</b>	<b>Ps. 35</b>	<b>Ps. 52</b>

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. 130 in 2017 and Ps. 126 in 2016.

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, 2017 and 2016, equivalent to Ps. 2,846 and Ps. 2,506, respectively, which is recorded under "Other assets" and is equivalent to the recorded plan liability.

As of December 31, 2017 and 2016, the PTU provision was Ps. 405 and Ps. 396, respectively.



## 26 - SUBORDINATED DEBENTURES

As of December 31, 2017 and 2016, the subordinated debentures in circulation are as follows:

	<b>2017</b>	<b>2016</b>
Non-preferred subordinated obligations, non-preferent, perpetual, non-cumulative 5 years callable BANOD19 999999 denominated in USD, with an interest rate of 6.875%.**	Ps. 6,882	-
Non-preferred subordinated obligations, non preferent, perpetual, non-cumulative 10 years callable BANOE91 999999 denominadas in USD, with an interest rate of 7.625%.**	Ps. 10,815	-
Non preferred subordinated nonconvertible debentures BANOC36 311004, maturing in October 2031, denominated in USD, with an interest rate of 5.75% payable semiannually and amortizing the capital at maturity.	Ps. 9,831	Ps. 10,310
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
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
Preferred subordinated nonconvertible debentures, Q BANORTE 08-U maturing in February 2028, paying interest at a 4.95% annual rate.	2,653	2,487
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.	2,360	2,474
Subordinated debentures, maturing in June 2034, denominated in US dollars, at a 3-month LIBOR interest rate plus 2.75%.*	-	212
Preferred subordinated debentures maturing in April 2034, denominated in US dollars, at a 3-month LIBOR interest rate plus 2.72%.*	-	212
Accrued interest	229	22
Issuance and placement expenses	(325)	-
	<b>Ps. 32,445</b>	<b>Ps. 21,917</b>

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. 18 and Ps. 10 in 2017 and 2016, respectively.

\* These obligations were liquidated prematurely as part of the sale of INB.

\*\* The above mentioned emission was registered as a liability and the interests generated by the notes are payable against the retained earnings from prior years, considering the characteristic established in the obligations to pay in an optional way the yields to election of the issuer, what is considered to be a capital component.

## 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, 2017 and 2016, the amount of the loans granted to related parties were as follows:

Institution granting the loan % over the limit	2017		% over the limit		2016	
Banco Mercantil del Norte, S.A. 11.8%	Ps.	19,410	19.8%	Ps.	9,792	

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 2017 and 2016:

Type of portfolio	Mexican pesos			Foreign Currency			Total		
	Aug 02	Dec 16	Dec 17	Aug 02	Dec 16	Dec 17	Aug 02	Dec 16	Dec 17
<b>Performing loan portfolio</b>									
Commercial	Ps. 5	Ps. -	Ps. -	Ps. 5	Ps. -	Ps. -	Ps. 10	Ps. -	Ps. -
Mortgage	54	22	19	-	-	-	54	22	19
<b>Total</b>	<b>59</b>	<b>22</b>	<b>19</b>	<b>5</b>	<b>-</b>	<b>-</b>	<b>64</b>	<b>22</b>	<b>19</b>
<b>Past-due loan portfolio</b>									
Commercial	405	237	184	293	11	1	698	248	185
Consumer	81	71	71	-	-	-	81	71	71
Mortgage	1,112	214	205	-	-	-	1,112	214	205
<b>Total</b>	<b>1,598</b>	<b>522</b>	<b>460</b>	<b>293</b>	<b>11</b>	<b>1</b>	<b>1,891</b>	<b>533</b>	<b>461</b>
<b>Total portfolio</b>	<b>1,657</b>	<b>544</b>	<b>479</b>	<b>298</b>	<b>11</b>	<b>1</b>	<b>1,955</b>	<b>555</b>	<b>480</b>
<b>Allowance for loan losses<sup>(1)</sup></b>									
Commercial	326	236	184	246	11	1	572	247	185
Consumer	77	71	71	-	-	-	77	71	71
Mortgage	669	226	205	-	-	-	669	226	205
<b>Total allowance for loan loss</b>	<b>1,072</b>	<b>533</b>	<b>460</b>	<b>246</b>	<b>11</b>	<b>-</b>	<b>1,318</b>	<b>544</b>	<b>461</b>
<b>Net portfolio</b>	<b>Ps. 585</b>	<b>Ps. 11</b>	<b>Ps. 19</b>	<b>Ps. 52</b>	<b>Ps. -</b>	<b>Ps. -</b>	<b>Ps. 637</b>	<b>Ps. 11</b>	<b>Ps. 19</b>

<sup>(1)</sup> Allowances required based on the classification methodology applied in the Financial Group that maintained a 98.83% equity interest in Sólida during 2017 and 2016.

As of December 31, 2017 and 2016, the composition of the Financial Group's loan portfolio excluding its subsidiaries is as follows:

Type of portfolio	Mexican pesos		Foreign Currency		Total	
	Dec 17	Dec 16	Dec 17	Dec 16	Dec 17	Dec 16
Commercial loans	Ps. 321,767	Ps. 313,319	Ps. 44,384	Ps. 42,279	Ps. 366,151	Ps. 355,598
Consumer loans	101,995	86,632	-	-	101,995	86,632
Mortgage loans	135,425	114,828	-	-	135,425	114,828
<b>Performing loan portfolio</b>	<b>559,187</b>	<b>514,779</b>	<b>44,384</b>	<b>42,279</b>	<b>603,571</b>	<b>557,058</b>
Commercial loans	5,115	5,862	1,610	141	6,725	6,003
Consumer loans	4,400	3,271	-	-	4,400	3,271
Mortgage loans	1,528	1,252	-	-	1,528	1,252
Past-due loan portfolio	11,043	10,385	1,610	141	12,653	10,526
<b>Total portfolio</b>	<b>570,230</b>	<b>525,164</b>	<b>45,994</b>	<b>42,220</b>	<b>616,224</b>	<b>567,584</b>
Allowance for loan losses	15,685	14,116	327	323	16,012	14,439
<b>Net portfolio</b>	<b>Ps. 554,545</b>	<b>Ps. 511,048</b>	<b>Ps. 45,667</b>	<b>Ps. 42,097</b>	<b>Ps. 600,212</b>	<b>Ps. 553,146</b>
<b>Allowance for loan losses % of past-due portfolio</b>					<b>126.55%</b>	<b>137.18%</b>
					<b>2.05%</b>	<b>1.85%</b>

## 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:

	2017		
	Interest MXP	Fees MXP	Total MXP
Cash and cash equivalents	Ps. 2,400	Ps. -	Ps. 2,400
Margin securities	111	-	111
Investment in securities	28,973	-	28,973
Securities repurchasing and loans	235	-	235
Hedging transactions	5,073	-	5,073
Commercial loans	32,463	439	32,902
Mortgage loans	12,284	514	12,798
Consumer loans	23,085	216	23,301
Others	4,716	-	4,716
	<b>Ps. 109,340</b>	<b>Ps. 1,169</b>	<b>Ps. 110,509</b>
	2016		
	Interest MXP	Fees MXP	Total MXP
Cash and cash equivalents	Ps. 1,634	Ps. -	Ps. 1,634
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
	<b>Ps. 79,058</b>	<b>Ps. 1,206</b>	<b>Ps. 80,264</b>

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:

	<b>2017</b>	<b>2016</b>
<b>Banking sector:</b>		
Net income	Ps. 18,339	Ps. 15,044
Stockholders' equity	86,062	92,787
Total portfolio	615,714	567,032
Past-due loan portfolio	12,192	10,060
Allowance for loan losses	(15,551)	(13,941)
Total net assets	1,056,423	1,030,435
<b>Brokerage sector:</b>		
Net income	972	832
Stockholders' equity	3,060	2,753
Portfolio balance	824,291	757,423
Total net assets	121,833	81,175
<b>Long term saving sector*</b>		
Net income	6,271	5,727
Stockholders' equity	25,996	22,513
Total net assets	139,625	119,283
<b>Other finance companies sector:</b>		
Net income	(158)	178
Stockholders' equity	9,087	9,050
Total portfolio**	34,052	29,170
Past-due loan portfolio	291	253
Allowance for loan losses	(572)	(442)
Total net assets	46,915	43,483
<b>Grupo Financiero Banorte (Financial Group)</b>		
Net income	23,889	19,292
Stockholders' equity	143,701	138,720
Total assets	143,701	138,720

\* For sector comparisons, Afore XXI Banorte's results are shown at 100% in this table. As of the fourth quarter of 2016, results are reported in Seguros Banorte through participation method.

c. The trading results for the years ended December 31, 2016 and 2015 are as follows:

	<b>2017</b>	<b>2016</b>
<b>Trading results:</b>		
Spot foreign currency	\$ (153)	\$ 82
Derivatives financial instruments	492	329
Investments in securities	(709)	(73)
<b>Valuation</b>	<b>(370)</b>	<b>338</b>
<b>Purchase-sales result, net</b>		
Spot foreign currency	\$ 1,729	\$ 1,511
Derivatives financial instruments	137	(14)
Investments in securities	1,161	511
Total trading results	3,027	2,008
<b>Total trading results</b>	<b>\$ 2,657</b>	<b>\$ 2,346</b>

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

<b>Economic sector</b>	<b>2017</b>		<b>%</b>	<b>2016</b>	
Agriculture	Ps.	8,128	1.3%	Ps.	7,546
Commerce		63,984	10.4%		53,059
Construction		33,050	5.4%		39,692
Manufacturing		31,258	5.1%		35,351
Mining		2,800	0.5%		150
Services		7,764	1.2%		7,444
Financial and real estate services		49,111	8.0%		46,767
Transportation		20,129	3.3%		16,182
Government		134,905	21.9%		134,798
Vivienda		135,405	22.0%		-
Mortgage		33,906	5.5%		114,807
Credit card		71,660	11.6%		28,445
Other consumer loans		12,478	2.0%		59,882
Leasing		11,020	1.8%		11,505
Factoring		63,984	1.3%		11,177
		<b>Ps. 615,598</b>	<b>100%</b>		<b>Ps. 566,805</b>

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

<b>Economic sector</b>	<b>2017</b>		<b>%</b>	<b>2016</b>	
Agriculture	\$	119	2%	Ps.	183
Commerce		1,451	13%		1,296
Construction		2,453	31%		3,247
Manufacturing		1,915	5%		493
Mining		3	-%		-
Services		452	5%		469
Financial and real estate services		73	1%		61
Transportation		99	1%		87
Vivienda		1,323	-%		-
Mortgage		2,187	10%		1,049
Credit card		2,253	16%		1,623
Other consumer loans		85	15%		1,624
Leasing		69	1%		132
Factoring	\$	119	0%		48
		<b>Ps. 12,482</b>	<b>100%</b>		<b>Ps. 10,312</b>

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

<b>Product</b>	<b>2017</b>						<b>Treasury and other</b>	<b>Total</b>
	<b>Geographical location</b>							
	<b>Monterrey</b>	<b>Mexico City</b>	<b>West</b>	<b>Northwest</b>	<b>South-east</b>			
Non-interest bearing checking accounts	Ps. 46,539	Ps. 74,998	Ps.23,016	Ps.23,001	Ps.27,536	Ps. 644	Ps. 195,734	
Interest-bearing checking accounts	12,564	55,125	7,672	9,322	22,711	558	107,952	
Current account Ps. and pre-established	8,026	13,918	3,688	3,730	5,472	4	34,818	
Non-interest bearing demand deposits, USD	7,176	14,735	1,648	8,827	2,472	593	35,451	
Interest bearing demand deposits, USD	6,785	3,722	1,056	3,346	780	1	15,690	
Retail time deposits	37,255	78,331	17,176	15,142	24,698	1,083	173,686	
Time deposits, USD	6,822	10,963	1,605	2,146	755	27	22,318	
Customers Money market	17,651	19,539	4,297	1,465	2,475	6,074	51,501	
Financial intermediaries	-	-	-	-	-	3,672	3,672	
<b>Total deposits</b>	<b>Ps. 139,815</b>	<b>Ps.272,710</b>	<b>Ps.60,138</b>	<b>Ps.66,979</b>	<b>Ps.86,899</b>	<b>Ps.12,656</b>	<b>Ps. 640,821</b>	

Product	2016							Total
	Geographical location							
	Monterrey	Mexico City	West	Northwest	South-east	Treasury and other		
Non-interest bearing checking accounts	Ps. 46,533	Ps. 75,880	Ps.23,494	Ps. 21,901	Ps.27,042	Ps. 499	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	
<b>Total deposits</b>	<b>Ps. 132,770</b>	<b>Ps.239,380</b>	<b>Ps.57,592</b>	<b>Ps.61,012</b>	<b>Ps.79,919</b>	<b>Ps. 3,886</b>	<b>Ps.574,560</b>	

## 29 - INCOME TAXES

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

### ISR

Pursuant to the ISR Law the rate for 2017 and 2016 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:

	2017	2016
Legal rate	30%	30%
Tax inflation	(3%)	(2%)
Non-tax accounting write-offs	-%	3%
Other entries	1%	(5%)
<b>Effective rate</b>	<b>28%</b>	<b>26%</b>

## 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	
	2017	2016
"O" Series	2,753,002,382	2,749,220,050
Paid-in Capital	Historical Amounts	
	2017	2016
"O" Series	Ps. 9,636	Ps. 9,619
Restatement in Mexican pesos through December 2007	4,955	4,955
	<b>Ps. 14,591</b>	<b>Ps. 14,574</b>

As of December 31, 2017 the outstanding shares performed as follows:

Outstanding shares as of January 1, 2016	2,749,220,050
Share repurchase for executive shares' plan payable in equity instruments	(11,092,000)
Liquidation of shares to executives	15,848,409
<b>Outstanding shares as of December 31, 2016</b>	<b>2,753,976,459</b>

### 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
Profits accumulated up to December 31, 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	-
Profit of the year 2017	71,294	-

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

	2017	2016
Capital contribution account	Ps. 72,479	Ps. 67,884
Net tax profit account at the end of 2013 (CUFIN)	20,381	11,255
CUFIN as of 2014	5,777	3,567
<b>Total</b>	<b>Ps. 98,637</b>	<b>Ps. 82,707</b>

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, 2017 and 2016, 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.

During 2017 and 2016, the Institution recorded Ps. 576 and Ps. 408, respectively in administration expenses as compensation for share-based payments against the paid-in capital.

As of December 31, 2017 and 2016, the Institution has 19,290,000 and 15,919,639 granted to its executives through various share-based payment plans. The share's average weighted price for all the plans during the year was Ps. 86.04 and Ps. 81.48.

During 2017 and 2016, 15,848,409 and 5,015,798 shares were operated, respectively.

### Capitalization Ratio (Banorte) (not audited)

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, 2017 sent to Banco de México to review is shown below.

Banorte's capitalization ratio as of December 31, 2016 was 17.23% of total risk (market, credit and operational), and 21.18% of credit risk, which in both cases exceed the current regulatory requirements.



**ANEXO 1-0**
**Format of disclosure of the integration of capital without considering transitory requirements in the application of regulatory adjustments**

Reference	Common equity level 1 (CET1): securities and allowance	Amount
1	Ordinary shares that qualify for common capital of level 1 plus its corresponding premium	18,753
2	Retained earnings from prior years	38,959
3	Other elements of comprehensive income (and other allowances)	26,760
6	Common equity level 1 before regulatory adjustments	84,472
<b>Common equity level 1: regulatory adjustment</b>		
8	Goodwill (net of deferred taxes to charge)	1,005
9	Other intangibles different to servicing asset of mortgage loans (net of deferred taxes to charge)	7,320
11	Result from valuation of instruments for cash flow hedging	(3,653)
13	Receivables generated by securitizations	141
15	Defined benefit pension plan	(943)
19 (conservative)	Significant investments in ordinary shares of banks, financial institutions and insurance companies outside the scope of regulatory consolidation, net of the short positions eligible, where the Institution holds more than 10% of the issued share capital (amount that exceeds the threshold of 10%)	671
26	Before regulatory national adjustments	1,591
A	of which: Other elements of comprehensive income (and other allowance)	1,591
28	Total regulatory adjustments to common equity level 1	9,252
29	Common equity level 1 (CET1)	75,220
<b>Additional equity level 1: securities</b>		
30	Instruments issued directly that qualify as additional equity of level 1, plus premium	17,697
33	Instruments issued directly subject to gradual elimination of additional equity level 1	2,406
36	Additional equity level 1 before regulatory adjustments	20,103
<b>Additional equity: regulatory adjustments</b>		
44	Additional equity level 1 (AT1)	20,103
45	Equity level 1 (T1 = CET1 + AT1)	95,323
<b>Equity level 2: instruments and allowances</b>		
46	Instruments issued directly that qualify as equity of level 2, plus premium	9,968
47	Instruments issued directly subject to gradual elimination of additional equity level 2	2,653
50	Allowances	665
51	Equity level 2 before regulatory adjustments	13,286
<b>Equity level 2: regulatory adjustments</b>		
58	Equity level 2 (T2)	13,286
59	Total equity (TC = T1 + T2)	108,609
60	Weighted assets for total risk	630,264
<b>Equity ratios and supplements</b>		
61	Common equity level 1 (as a percentage of weighted assets for total risk)	11.93%
62	Equity level 1 (as a percentage of weighted assets for total risk)	15.12%
63	Total equity (as a percentage of weighted assets for total risk)	17.23%
64	Institutional specific supplement (at least must consist of: the requirement of Level 1 common equity plus the capital conservation mattress plus the countercyclical mattress plus the G-SIB mattress; expressed as a percentage of weighted assets for total risk)	7%
65	of which: equity conservation supplement	2.54%
67	of which: Supplement of global banks systemically important (G-SIB)	0.36%
68	Common equity level 1 available to cover supplements (as a percentage of weighted assets for total risk)	2.73%
<b>Amounts below the thresholds for deduction (before risk weighting)</b>		
75	Deferred tax asset due to temporary differences (net of deferred tax liability)	3,512
<b>Limits applicable to the inclusion of reserves in the capital of Level 2</b>		
76	Reserves eligible for inclusion in level 2 capital with respect to exposures subject to standardized methodology (prior to the application of the limit)	665
77	Limit on the inclusion of provisions in Level 2 capital under standardized methodology	6,118
<b>Equity instruments subject to gradual elimination (applicable only between 1 January 2018 and 1 January 2022)</b>		
82	Current limit of AT1 instruments subject to gradual elimination	2,406
84	Current limit of AT2 instruments subject to gradual elimination	2,653

**Table II.1  
Balance Sheet figures**

Reference of balance sheet items	Balance Sheet figures	Amount presented in the balance sheet
	<b>Assets</b>	<b>1,055,733</b>
BG1	Cash and cash equivalents	75,480
BG2	Margin securities	1,986
BG3	Investments in securities	281,810
BG4	Debtor balances under repurchase en resale agreements	5
BG6	Derivatives financial instruments	25,716
BG7	Valuation adjustments for asset hedging	99
BG8	Loan portfolio, net	602,117
BG9	Receivables generated by securitization	141
BG10	Other accounts receivables	36,117
BG11	Foreclosed assets	752
BG12	Property, furniture and equipment	13,379
BG13	Permanent stock investment	1,953
BG15	Deferred taxes	3,512
BG16	Other assets	12,668
	<b>Liabilities</b>	<b>969,671</b>
BG17	Deposits	645,804
BG18	Interbank and other loans	15,134
BG19	Creditor balances under repurchase and resale agreements	193,365
BG22	Derivatives financial instruments	37,009
BG25	Other accounts payable	45,425
BG26	Subordinated debentures	32,445
BG28	Deferred credits and advance collections	485
	<b>Stockholders' equity</b>	<b>86,062</b>
BG29	Paid-in capital	18,753
BG30	Other capital	67,309
	<b>Memorandum accounts</b>	<b>1,151,520</b>
BG32	Contingent assets and liabilities	100
BG33	Credit commitments	213,098
BG34	Assets in trust or under mandate	290,749
BG36	Managed assets in custody	363,730
BG37	Collateral received	133,904
BG38	Collateral received and sold or given as a pledge	62,240
BG39	Investment banking transactions on account of third parties, (net)	87,333
BG40	Interest accrued but not charged of past due loans	365

**Table II.2  
Regulatory concepts considered for calculating the components of net Capital**

Identifier	Regulatory concepts considered for calculating the components of net Capital	Reference to the disclosure format for the capital integration of subparagraph (I) of this Annex	Amount in accordance with the notes to the table concepts regulatory considered for the calculation of the components of the Net Capital	Reference (s) of the item of the balance sheet and amount related to the regulatory concept considered for the calculation of the net Capital coming from the mentioned reference.
<b>Asset</b>				
1	Goodwill	8	1,005	BG16: 1,005(Goodwill)
2	Other Intangibles	9	7,320	BG16: 7,320 (Other Intangibles)
4	Receivables generated by securitization	13	141	BG9: 141 (Receivables generated by securitization)
11	Indirect investments in the capital of financial institutions where the institution owns more than 10% of the share capital issued	19	1,953	BG13: 1,953 (Permanent stock investment)
13	Reserves recognised as complementary capital	50	665	
<b>Liability</b>				
24	Deferred tax (liability) associated to goodwill	8	1,005	BG16: 1,005 (Goodwill)
25	Deferred tax (liability) associated to other intangible	9	7,320	BG16: 7,320 (Other Intangibles)
30	Subordinated debentures subject to transitory computing as basic Capital 2	33	20,103	BG26: 20,103 (Subordinated debentures)
32	Subordinated debentures subject to transitory computing as complementary Capital	47	12,622	BG26: 12,622 (Subordinated debentures)
<b>Stockholders' equity</b>				
34	Contributed Capital that complies with annex 1-Q	1	18,753	BG29: 18,753 (Contributed capital)
35	Retained earnings from prior years	2	38,959	BG30: 38,959 (Earned capital)
36	Result from valuation of instruments for cash flow hedging of items accounted at fair value	3	(3,653)	BG30; -3,653 (Earned capital)
37	Other elements of capital earned other than previous	3	32,003	BG30; 32,003 (Earned capital)
40	Result from valuation of instruments for cash flow hedging of items not accounted at fair value	3, 11	(3,653)	BG30; -3,653 (Earned capital)
41	Result from conversions	3, 26 - A	1,591	BG30; 1,591 (Earned capital)

**Table III.1  
Positions exposed at market risk by risk factor**

Concept	Amount of equivalent positions	Capital requirements
Transactions in local currency with nominal rate	41,007	3,281
Transactions in local currency with securities in local currency with surcharge and a rate reviewable	5,121	410
Transactions in local currency with real rate or denominated in UDI's	5,574	446
Positions in UDI's or with yield referred to INPC	27	2
Operations in foreign currency with nominal rate	12,908	1,033
Positions in foreign currency or with yield indexed to a exchange rate	3,760	301
Positions in capital instruments or with yield indexed at the cost of a capital instruments group	2,147	172

**Table III.2  
Assets subject to credit risk**

Concept	Risk Weighted Assets	Capital requirement
Group I B (weighted at 20%)	2	-
Group III (weighted at 20%)	10,570	846
Group III (weighted at 50%)	5,808	465
Group III (weighted at 100%)	3,227	258
Group IV (weighted at 20%)	369	30
Group V (weighted at 20%)	7,921	634
Group V (weighted at 50%)	100	8
Group V (weighted at 115%)	20,406	1,632
Group V (weighted at 150%)	7,321	586
Group VI (weighted at 50%)	3,176	254
Group VI (weighted at 75%)	31,832	2,547
Group VI (weighted at 100%)	14,293	1,143
Group VII_A (weighted at 20%)	147,684	11,815
Group VII_A (weighted at 50%)	3,665	293
Group VII_A (weighted at 100%)	5,795	464
Group VII_A (weighted at 115%)	150,583	12,047
Group VII_A (weighted at 150%)	1,282	103
Group VII B (weighted at 20%)	982	79
Group VIII (weighted at 115%)	816	65
Group VIII (weighted at 150%)	11,459	917
Group IX (weighted at 10%)	4,852	388
Group IX (weighted at 50%)	3,301	264
Group IX (weighted at 100%)	32,948	2,636
Securitizations with a Risk Degree of 1 (weighted at 20%)	1,194	96
Securitizations with a Risk Degree of 2 (weighted at 50%)	1,423	114
Securitizations with a Risk Degree of 3 (weighted at 100%)	552	44

**Assets subject to operational risk:**

	Risk Weighted Assets	Capital requirement
Total	Ps. 46,406	Ps. 3,172

**Average requirement for market and credit risk in the past 36 months**

41,156

**Average of the annual positive net income of last 36 months**

56,225

**Table IV.1  
Characteristics of the securities that are part of the net Capital**

<b>Reference</b>	<b>Characteristics</b>	<b>Q BANORTE 08U</b>
1	Issuer	Banco Mercantil del Norte, S.A., Institución de Banca Múltiple, Grupo Financiero Banorte.
2	identifier ISIN, CUSIP o Bloomberg	MX0QBA070037
3	Legal framework	LMV, LIC, CIRCULAR 2019/95, LGTOC
<b>Regulatory treatment</b>		
4	Level of capital with transience	Complementary Capital
6	Level of security	Credit institution without consolidating subsidiaries
7	Type of instrument	Subordinated debenture
8	Amount recognized in regulatory capital	494'543,600 (Four hundred and ninety-four million five hundred and forty three thousand six hundred) UDIs, respective to \$1,962,998,835.09 (One thousand nine hundred and sixty-two million nine hundred and ninety-eight thousand eight hundred and thirty-five pesos 09/100 M.N.).
9	Nominal value	100 (One hundred) UDIs
9A	Currency	UDI
10	Accounting classification	Liability at amortized cost
11	Date of issuance	11/03/2008
12	Security term	Maturity
13	Date of maturity	15/02/2028
14	Clause of advance payment	Yes
15	First date of advance payment	22/08/2023
15A	Regulatory or fiscal events	Yes
15B	Settlement price of the advance payment clause	Nominal value plus interest accrued at the date of the anticipated amortization
16	Subsequent dates of payment in advance	At any date of interest payment from the fifth year counted from the date of issue
<b>Yields / dividends</b>		
17	Type of yields/Dividends	Fix
18	Interest rate/Dividends	Real Gross (Yield)
19	Clause of cancellation of dividends	Yes
20	Discretion in payment	Partially discretionary
21	Clause of increase of interest	No
22	Yields/Dividends	Non-cumulative
23	Security convertibility	Non-convertibles
25	Convertibility grade	Non-convertible in shares
27	Security convertibility type	Non-convertibles
30	Value decrease clause (Write-Down)	No
35	Position of subordination in the event of liquidation	Preferential subordinated debentures
36	Default characteristics	No
<b>Reference</b>		
	<b>Characteristic</b>	<b>D2 IXEGB40 141020</b>
1	Issuer	Ixe Banco, S.A., Institución de Banca Múltiple, Ixe Grupo Financiero
2	Identifier ISIN, CUSIP o Bloomberg	USP59974AB40
3	Legal framework	New York Laws
<b>Regulatory treatment</b>		
4	Level of capital with transience	Basic Capital 2
6	Level of security	Credit institution without consolidating subsidiaries
7	Type of instrument	Subordinated debenture
8	Amount recognized in regulatory capital	U.S.\$120,000,000 (One hundred and twenty million dollars 00/100USD)
9	Nominal value	U.S. \$1,000.00 (Mil dólares 00/100 USD)
9 <sup>a</sup>	Currency	USD Dólar
10	Accounting classification	Liability at amortized cost
11	Date of issuance	14/10/2010

**Table IV.1  
Characteristics of the securities that are part of the net Capital**

Reference	Characteristics	Q BANORTE 08U
12	Security term	Maturity
13	Date of maturity	14/10/2020
14	Clause of advance payment	Yes
15	First date of advance payment	At any moment before maturity date
15 <sup>a</sup>	Regulatory or fiscal events	Yes
15B	Settlement price of the advance payment clause	Nominal value plus interest accrued at the date of the anticipated amortization
16	Subsequent dates of payment in advance	At any moment before maturity date
<b>Yields / dividends</b>		
7	Type of yields/Dividends	Fix
18	Interest rate/Dividends	IRUSDOLibor
19	Clause of cancellation of dividends	Yes
20	Discretion in payment	Discretionary
21	Clause of increase of interest	No
22	Yields/Dividends	Non-cumulative
23	Security convertibility	Non-convertibles
25	Convertibility grade	Non-convertible in shares
27	Security convertibility type	Non-convertibles
30	Value decrease clause (WriteDown)	No
35	Position of subordination in the event of liquidation	Non-preferential subordinated debentures
36	Default characteristics	Yes
37	Default characteristics description	Breach of 30 days in the interest payment, non-payment of principal on the due date or bankruptcy.

**Table V.1  
Weights involved in calculating the countercyclical Capital supplement of the institutions.**

Countercyclical Capital supplement of the institution	
0.00 millions	
Jurisdiction	Weighting
Germany	0.00%
Saudi Arabia	0.00%
Argentina	0.00%
Belgium	0.00%
Brazil	0.00%
Canada	0.00%
China	0.00%
Spain	0.00%
United States	0.00%
France	0.00%
Holland	0.00%
Hong Kong	1.25%
India	0.00%
Indonesia	0.00%
Italy	0.00%
Japan	0.00%
Korea	0.00%
Luxembourg	0.00%
Mexico	0.00%
United Kingdom	0.50%
Russia	0.00%
Singapore	0.00%
South Africa	0.00%
Sweden	2.00%
Switzerland	0.00%
Turkey	0.00%
Other jurisdictions different to previous	0.00%

**ANNEX 1-O BIS**

**TABLE I.1  
DISCLOSURE OF INFORMATION REGARDING LEVERAGE RATIO  
STANDARDIZED DISCLOSURE FORMAT FOR LEVERAGE RATIO**

REFERENCE	ITEM	AMMOUNT
<b>Exposure inside the balance</b>		
1	Items within the balance sheet (excluding derivative financial instruments and securities lending operations-SFT for its acronym in English-but including collateral received and recorded in the balance sheet)	1,030,012
2	(amounts of assets deducted to determine level 1 capital of Basel III)	(10,843)
3	Exhibitions within the balance sheet (Net) (excluding financial derivatives and SFT, sum of lines 1 and 2)	1,019,169
<b>Exposures to derivative financial instruments</b>		
4	Current cost of replacement associated with all operations with financial derivative instruments (net of margin of variation in cash admissible)	10,150
5	amounts of additional factors for potential future exposure, associated with all operations with derivative financial instruments	8,224
7	(Deductions to the account receivables for change margin in cash contributed in operations with derivative financial instruments)	(10,842)
11	Total exposures to derivative financial instruments (sum of lines 4 to 10)	7,532
<b>Exhibitions by financing operations with values</b>		
12	Assets SFT gross (without recognition of compensation), after adjustments for accounting transactions for sales	62,241
13	(Accounts payable and for charging of compensated SFT)	(5)
14	Exposure of counterpart risk by SFT	1,375
15	Exposure by SFT acting on behalf of third parties	-
16	Total exposures for financing operations with securities (sum of lines 12 to 15)	63,610
<b>Other exposures out of balance sheet</b>		
17	Exposure out of balance (gross notional amount)	213,098
18	(Conversion adjustments to credit equivalents)	(170,234)
19	Off-balance sheet items (sum of the lines 17 and 18)	42,864
<b>Capital and total exposure</b>		
20	Equity level 1	95,323
21	Total exposures (Sum of lines 3, 11, 16 and 19)	1,133,176
<b>Leverage ratio</b>		
22	Leverage ratio of Basilea III	8.41%

**TABLE I.2**  
**Notes to standardized disclosure format for leverage ratio**

REFERENCE	EXPLANATION
1	Total assets of the institution without consolidate subsidiaries or entities of specific purpose (less the assets presented in the above mentioned balance for: 1) operations with derivative financial instruments, 2) repurchase agreements and 3) securities.
2	Amount of deductions from the core capital laid down in subparagraphs (b) to (r) of the fraction I of article 2 bis 6 of the present provisions. The amount must be registered with a negative sign.
3	Sum of lines 1 y 2
4	Current Cost of replacement (RC) of transactions with derivative financial instruments, in accordance with those laid down in annex 1-L of these provisions, minus the partial cash settlements (cash variation margin) received, provided that The following conditions are fulfilled: a) In the case of counterparts other than the clearing houses referred to in the second subparagraph of article 2 Bis 12 (a), the cash received shall be available to the institution. b) The valuation at market of the operation is carried out daily and the received cash is exchanged with the same frequency. c) The cash received as well as the operation with the derivative instrument, are denominated in the same currency. d) The amount exchanged from the cash variation margin is at least the amount necessary to cover the market value considering the threshold and the minimum amount transferred agreed in the corresponding framework contract. e) The amount exchanged from the cash variation margin is at least the amount necessary to cover the market value considering the threshold and the minimum amount transferred agreed in the corresponding framework contract.  In any case, the maximum amount of cash variation margins received that may be considered will correspond to the positive value of the current replacement cost of each counterpart.
5	Additional Factor in accordance with annex 1-L of these provisions, of operations with derivative financial instruments. In addition, in the case of credit-derived financial instruments which provide credit protection, the conversion value must be included at the credit risk in accordance with article 2 Bis 22 of these provisions.  In no case may they be used the real guarantees financial that the institution has received to reduce the amount of the additional factor reported in this line.
6	Not applicable. The accounting framework does not allow the cancel of assets given as collateral.
7	Total of margins of change in cash delivered in operations with derivative financial instruments that fulfill with the conditions indicated in the line 4 to reduce the in cash received change margins. The total must register with negative sign.
9	Not applicable. The exhibition that is considered for the purposes of solvency framework in operations with financial derivative instruments of credit which provides credit protection corresponds to 100 per cent of the amount actually guaranteed in the operations concerned. This exhibition is regarded in the Line 5.
10	Not applicable. The exhibition that is considered for the purposes of solvency framework in operations with financial derivative instruments of credit which provides credit protection corresponds to 100 per cent of the amount actually guaranteed in the operations concerned. This exhibition is regarded in the Line 5.
11	Sum of lines 4 to 10
12	Amount of the assets recorded in the balance sheet (accounts receivable recorded) of operations of reported and securities lending. The amount shall not consider any compensation in accordance with the Accounting Criteria.
13	Positive amount resulting from deducting the accounts payable Accounts receivable generated by operations of reported and securities lending, by its own account, with a same counterpart, and provided that the following conditions are met: a) The corresponding operations have the same settlement date. b) The right to settle the operations at any time. c) The operations are liquidated in the same system and there is a mechanism or arrangements of liquidation (lines or guarantees) that allow the liquidation takes place at the end of the day in which it was decided to liquidate. d) Any problems related to the liquidation of collateral flows in the form of securities, do not obstruct the settlement of accounts payable and cash.  The amount must be registered with a negative sign.



**NOTES TO STANDARDIZED DISCLOSURE FORMAT FOR LEVERAGE RATIO**

14	Value of conversion to credit risk of the operations of reported and loan of securities on their own account, in accordance with Article 2 bis 22 These provisions when there is not a framework contract of compensation. And in accordance with Article 2 bis 37 when there is such an agreement. The foregoing is without considering adjustments by eligible collateral that apply to the guarantee in the framework of capitalization.
15	In the case of operations of reported and securities lending for the account of third parties, in which the institution granted warranty with their clients before the breach of the counterpart, the amount that should be register is the positive difference between the value of the title or cash that the customer has delivered and the value of the guarantee that the borrower has provided. Additionally, if the institution can have the collateral delivered by their clients, for their own account, the amount equivalent to the value of the securities and/or cash delivered by the customer of the Institution.
16	Sum of lines 12 a 15
17	Amounts of credit commitments recognized in memorandum accounts according to accounting criteria.
18	Amounts of the reductions in the value of the credit commitments recognized in memorandum accounts by applying conversion factors to credit risk set out in the first title bis of the present provisions, considering that the conversion factor to credit risk is a minimum of 10 % (for those cases in which the conversion factor is 0 %).
<b>The amount must be registered with a negative sign.</b>	
19	Sum of lines 17 y 18
20	Basic Capital calculated in accordance with article 2 Bis 6 of provisions.
21	Sum of lines 3, 11, 16 y 19
22	Reason of Leverage. Quotient of the line 20 between the line 21.

**TABLE II.1  
COMPARATIVE OF TOTAL ASSETS AND ASSETS ADJUSTED**

REFERENCE	DESCRIPTION	AMOUNT
1	Totales assets	1,055,733
2	Adjustment for investments in the capital of banks, financial, insurance or commercial entities that are consolidated for accounting purposes, but are outside the scope of regulatory consolidation	(10,843)
4	Adjustment for derivative financial instruments	(18,184)
5	Adjustment for repurchase agreements and securities lending operations <sup>[1]</sup>	63,605
6	Adjustment for items recognized in memorandum accounts	42,864
8	Leverage coefficient exposure	1,133,176

[1] In which the value of the operation is the valuation at market of operations and are generally subject to margins agreements.

**TABLE II.2  
NOTES TO THE COMPARATIVE OF TOTAL ASSETS AND ASSETS ADJUSTED**

REFERENCE	DESCRIPTION
1	Total assets of the institution without consolidate subsidiaries or entities of specific purpose
2	Total of the deductions of the basic capital contained in the interjections b), d), e), f), g), h), i), j) and l) of the fraction I, of the Article 2 bis 6 of dispositions. The amount must be registered with a negative sign.
3	Not applicable. The scope is on the institution without consolidate subsidiaries or entities of specific purpose.
4	Amount equivalent to the difference between the figure contained in line 11 of Table I.1 and the figure presented in transactions with financial derivative instruments contained in the balance sheet. The amount must be registered with the sign resulting from the difference mentioned, could be positive or negative.
5	Amount equivalent to the difference between the figure in line 16 of Table I.1 and the figure presented by repurchase agreements and lending operations of securities contained in the balance sheet. The amount must be registered with the sign resulting from the difference mentioned, could be positive or negative.
6	Amount recorded in line 19 of Table I.1. The amount must be registered with a positive sign.
7	Amount of the basic capital deductions contained in subparagraphs (c)), (k), M), N), (p), q) and R) of Fraction I, of article 2 Bis 6 of provisions. The amount must be registered with a positive sign.
8	Sum of lines 1 to 7, which must coincide with line 21 of table I.1.

**TABLE III.1  
CONCILIATION OF TOTAL ASSETS AND THE EXPOSURE INSIDE BALANCE**

REFERENCE	CONCEPT	AMOUNT
1	Total assets	1,055,733
2	Operations in derivative financial instruments	(25,716)
3	Operations in repurchase agreements and lending of securities	(5)
5	Exposure inside balance	1,030,012

**TABLE III.2  
NOTES TO CONCILIATION OF TOTAL ASSETS AND THE EXPOSURE INSIDE BALANCE**

REFERENCE	DESCRIPTION
1	Total assets of without consolidate subsidiaries or entities of specific purpose.
2	The amount corresponding to the operations in financial derivative instruments presented in the asset from the last financial statements. The amount must be registered with a negative sign.
3	The amount corresponding to the operations of repurchase agreements and loan of values presented in the assets of the final financial statements. The amount must be registered with a negative sign.
5	Sum of lines 1 to 4, which must coincide with Line 1 of table I.1

**TABLE IV.1  
MAIN CAUSES OF SIGNIFICANT VARIANCES OF THE ELEMENTS (NUMERATOR AND DENOMINATOR)  
OF THE LEVERAGE RATIO COVENANT**

CONCEPT/TRIMESTRE	SEPTEMBER '17	DECEMBRE '17	VARIATION (%)
Basic capital	98,044	95,323	(2.776%)
Adjusted assets	1,114,376	1,133,176	1.687%
Razón de Apalancamiento	8.80%	8.41%	(4.389%)

### Institution of Local Systemic Importance

During 2017, 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 10.95% at the end of 2017, corresponding to the regulatory minimum of 10.5% plus the capital supplement constituted

### Management

Pursuant to the regulations in effect and the requirements of the CNBV, 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 of the various areas of business operation in order to determine their consumption.

Additionally, with the purpose of managing the capital, weekly is carried out an analysis of follow-up to the requirements of the risk positions, in addition to supporting in simulations of operations or strategies to the different business areas in order to know their consumption.

## 31 - FOREIGN CURRENCY POSITION

As of December 31, 2017 and 2016, 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. 19.6629 and Ps. 20.6194 per USD 1.00, respectively, as shown below:

	Thousands of US dollars	
	2017	2016
Assets	7,941,734	7,378,443
Liabilities	8,072,404	7,306,379
Net asset position in US dollars	(130,670)	72,064
Net asset position in Mexican pesos	\$ (2,569)	Ps. 1,486

### 32 - POSITION IN UDIS

As of December 31, 2017 and 2016, the Financial Group holds certain assets and liabilities denominated in UDIS, converted to Mexican pesos based on the current conversion factor of Ps. 5.934551 and Ps. 5.562883, per UDI, respectively, as shown below:

	Thousands of UDIS	
	2017	2016
Assets	889,528	230,900
Liabilities	457,368	455,638
Net asset position in UDIS	(432,160)	(224,738)
<b>Net asset position in Mexican pesos</b>	<b>Ps. (2,565)</b>	<b>Ps. (1,250)</b>

### 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, 2017 and 2016 are shown below:

	2017		2016	
	Net Income	Weighted share average	Earnings per share	Earnings per share
Net income per share	Ps. 23,819	2,750,448,219	Ps. 8.6600	Ps. 6.9225
Net income per share	89	2,750,448,219	0.0324	0.0882
<b>Net income per share consolidated</b>	<b>23,908</b>	<b>2,750,448,219</b>	<b>Ps. 8.6924</b>	<b>Ps. 7.0107</b>

Net earnings per share diluted for the years ended December 31, 2017 and 2016 are shown below:

	2017		2016	
	Net Income	Weighted share average	Earnings per share	Earnings per share
Net income per share	Ps. 23,908	2,773,729,563	Ps. 8.6194	Ps. 6.9610

### 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 Financial Group 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.
- Update and follow up on the Contingency Plan to restore the level of capital and liquidity in case of adverse events.

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 Financial Group.

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 counterparties. 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 counterparty, 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, 2017 the total amount of the exposure subject to the Standard Method to calculate the Capital Ratio is the following:

<b>Gross Exposures subject to Standard Method</b>	<b>Banorte</b>		<b>Arrendadora y Factor</b>		<b>Sólida</b>		<b>Total portfolio</b>	
Commercial	Ps.	162,071	Ps.	23,141	Ps.	531	Ps.	185,743
Revenues or Annual sales < 14 MM UDIS		60,942		982		430		62,355
Revenues or Annual sales >= 14 MM UDIS		101,128		22,159		100		123,388
Federal States or Municipalities		83,176		163		-		83,339
Decentralized Government Agencies and State-controlled companies		49,640		1,788		-		51,428
Projects with their Own Source of Payment		54,929		-		-		54,929
Financial institutions		22,875		646		-		23,521
Mortgage		136,728		-		-		136,728
Consumer		106,324		6		3,680		110,010
Credit card		36,093		-		-		36,093
Non-revolving		70,231		6		3,680		73,916
<b>Total Portfolio subject to Standard Method</b>	<b>Ps.</b>	<b>615,744</b>	<b>Ps.</b>	<b>25,744</b>	<b>Ps.</b>	<b>4,211</b>	<b>Ps.</b>	<b>645,698</b>
Eliminations								(17,618)
<b>Total portfolio</b>							<b>Ps.</b>	<b>628,080</b>

For transactions subject to Credit Risk, the Financial Group 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. 628,080, growing Ps. 50,963 in the year (+8.8%).

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

Product / Segment	Total portfolio			Var. vs 3Q17		Var. vs 4Q16	
	4T16	3T17	4T17	\$	%	\$	%
Government	134,798	131,460	134,905	3,445	2.6%	107	0.1%
Commercial	128,799	133,774	140,740	6,967	5.2%	11,941	9.3%
Corporate	115,856	131,318	136,728	5,410	4.1%	20,872	18.0%
Mortgage	106,085	108,794	105,700	(3,094)	(2.8%)	(385)	(0.4%)
Payroll	46,281	53,937	54,490	553	1.0%	8,209	17.7%
Credit card	30,068	35,216	36,093	878	2.5%	6,025	20.0%
Automobile	15,229	18,157	19,423	1,266	7.0%	4,193	27.5%
<b>Cartera Total</b>	<b>577,117</b>	<b>612,656</b>	<b>628,080</b>	<b>15,425</b>	<b>2.5%</b>	<b>50,963</b>	<b>8.8%</b>

Subsidiary	Portfolio		Distressed		Total portfolio	Total Reserves
	Performing	Past-due	Performing	Past-due		
Banorte*	Ps.584,454	Ps. 7,318	Ps. 1,481	Ps. 4,874	Ps. 598,126	Ps. 15,359
Arrendadora y Factoraje	25,576	3	14	151	25,744	290
Sólida	4,074	111	-	25	4,211	268
Accounting records						206
<b>Total portfolio</b>	<b>Ps.614,103</b>	<b>Ps. 7,432</b>	<b>Ps. 1,495</b>	<b>Ps. 5,050</b>	<b>Ps.628,080</b>	<b>Ps. 16,122</b>

\* Banorte's total portfolio includes eliminations for (Ps. 17,618).

Total reserves Ps. 16,122 include rating reserves for Ps. 15,917 and accounting records (to reserve 100% overdue interests, valuation, negative debts in the credit bureau and registered in recoveries) for Ps. 206.

The Financial Group's performing, past due and distressed portfolios in 4Q2017, grouped by sector and subsidiary are detailed in the two following tables:

Sector	Portfolio		Distressed		Total portfolio	Reserves			Days overdue**
	Performing	Past-due	Performing	Past-due		4Q17	Var vs 3Q17	Write-offs 4Q17	
Government	134,905	-	-	-	134,905	702	26	-	-
Services*	53,868	18	190	519	54,595	764	(59)	80	232
Commerce	43,949	41	290	1,414	45,695	1,065	(14)	142	344
Construction	39,682	1,567	178	376	41,803	540	9	58	101
Manufacturing	37,082	21	197	2,459	39,759	1,402	(243)	47	1,319
<b>5 Major Sectors</b>	<b>309,486</b>	<b>1,646</b>	<b>855</b>	<b>4,769</b>	<b>316,756</b>	<b>4,473</b>	<b>(281)</b>	<b>326</b>	
Other sectors	63,645	23	640	282	64,590	924	16	28	
Mortgage	135,405	1,323	-	-	136,728	933	(3)	303	
Consumer	105,567	4,440	-	-	110,007	9,587	167	2,760	
Accounting records						206			
<b>Total portfolio</b>	<b>614,103</b>	<b>7,432</b>	<b>1,495</b>	<b>5,050</b>	<b>628,080</b>	<b>16,122</b>	<b>(102)</b>	<b>3,417</b>	

\* Includes financial, real estate and other services.

\*\* Days past due from Non-Performing Loans.

Sector / Subsidiary	Banorte*		AyF		Sólida	Total portfolio
Government	Ps. 132,816	Ps. 2,088	Ps. -	Ps. -	Ps. -	Ps. 134,905
Services**	50,822	3,772	-	-	-	54,595
Commerce	40,998	4,267	430	-	-	45,695
Construction	33,173	8,630	-	-	-	41,803
Manufacturing	35,403	4,255	100	-	-	39,759
<b>5 Major Sectors</b>	<b>Ps. 293,912</b>	<b>Ps. 23,013</b>	<b>Ps. 530</b>	<b>Ps. -</b>	<b>Ps. -</b>	<b>Ps. 316,756</b>
Rest	304,914	2,731	3,680	-	-	311,325
<b>Total portfolio</b>	<b>Ps. 598,126</b>	<b>Ps. 25,744</b>	<b>Ps. 4,211</b>	<b>Ps. -</b>	<b>Ps. -</b>	<b>Ps. 628,080</b>

\* Banorte's total loans include eliminations for (Ps. 17,618).

\*\* Includes Financial and Real estate Services.

As of 2017, 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	Reserves Total
	Performing	Past-due	Performing	Past-due		
1 Federal District	Ps. 178,125	Ps. 1,397	Ps. 869	Ps. 3,011	Ps. 183,462	Ps. 5,106
2 Nuevo León	94,274	2,300	78	283	96,935	2,029
3 Estado de México	51,169	701	91	274	52,234	1,459
4 Jalisco	36,561	385	46	177	37,170	867
5 Tamaulipas	18,797	180	20	188	19,186	515
6 Sinaloa	16,650	121	17	115	16,904	350
7 Coahuila	15,697	237	58	165	16,157	494
8 Veracruz	15,946	131	33	40	16,150	324
9 San Luis Potosí	15,453	165	27	74	15,718	376
10 Sonora	14,969	85	13	21	15,088	286
<b>Top 10</b>	<b>Ps. 457,701</b>	<b>Ps. 5,702</b>	<b>Ps. 1,253</b>	<b>Ps. 4,348</b>	<b>Ps. 469,003</b>	<b>Ps. 11,807</b>
Other Federal Entities	156,403	1,730	242	703	159,077	4,110
Accounting records						206
<b>Total Loans</b>	<b>Ps. 614,103</b>	<b>Ps. 7,432</b>	<b>Ps. 1,495</b>	<b>Ps. 5,050</b>	<b>Ps. 628,080</b>	<b>Ps. 16,122</b>

\* Banorte's total loans include eliminations for (Ps. 17,618).

As of 2017, the Financial Group's performing, past due and distressed portfolios grouped by remaining term are detailed below:

Remaining Term	Portfolio		Distressed		Total Loans	Reserves Total
	Performing	Past-due	Performing	Past-due		
0 - 1 year	Ps. 78,319	Ps. 3,825	Ps. 171	Ps. 3,378	Ps. 85,692	Ps. 6,804
1 - 5 years	109,435	599	633	1,182	111,848	2,490
5 - 10 years	103,137	160	101	315	103,714	743
> 10 years	293,563	2,734	575	-	296,872	5,321
<b>Banorte*</b>	<b>Ps. 584,454</b>	<b>Ps. 7,318</b>	<b>Ps. 1,481</b>	<b>Ps. 4,874</b>	<b>Ps. 598,126</b>	<b>Ps. 15,359</b>
Factoraje	12,971	2	10	68	13,051	129
Arrendadora	12,604	2	4	83	12,693	160
Sólida	4,074	111	-	25	4,211	268
Accounting records						206
<b>Total portfolio</b>	<b>Ps. 614,103</b>	<b>Ps. 7,432</b>	<b>Ps. 1,495</b>	<b>Ps. 5,050</b>	<b>Ps. 628,080</b>	<b>Ps. 16,122</b>

\* Banorte's total portfolio include eliminations for (Ps. 17,618).

The total distressed portfolio is Ps. 6,545, below is the 4Q17 balance of loan loss provisions for this book:

Loan Loss Reserves for Impaired Loan Credit Risks	4T17			
	Banorte	Arrendadora y Factor	Sólida	Total
Initial Loan Loss Reserves	Ps. 3,089	Ps. 76	Ps. 15	Ps. 3,180
Charged to earnings	197	Ps. 10	-	206
For written off loans	123	-	-	123
For foreign exchange variations	2	-	-	2
For credit risk adjustments	71	10	-	81
Payment in kind	(137)	-	-	(138)
Write-offs, Cancellations, and Debt forgiveness	(353)	-	-	(353)
<b>Final Loan Loss Reserves</b>	<b>Ps. 2,795</b>	<b>Ps. 86</b>	<b>Ps. 15</b>	<b>Ps. 2,896</b>
Loan recoveries	Ps. 55	Ps. -	Ps. -	Ps. 55

### 2.2.2. Exposure with financial instruments

As of December 31, 2017, the credit risk exposure of the investments in securities was Ps. 280,139, of which 99.2% has a rating greater than or equal to A+(mex) on the local scale. This places them in investment grade; the three main issuers other than the Federal Government, Semi-Private agencies and Domestic Financial Institutions represent 9% of the basic capital as of September 2017. Additionally, the investment exposure with the same issuer other than the Federal Government that represents a concentration greater than or equal to 5% of the Net Capital as of September 2017 has a rating of A(mex) and is comprised of (*term in weighted average, amount in million pesos and interest rate*): stock certificates and Pemex bonds at 6 years and 1 months for Ps. 15,382 at a rate of 3.9%; and stock certificates of Banco Interacciones at 2 months for Ps. 5,670 at a rate of 7.6%.

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 2017.

As for Casa de Bolsa Banorte Ixe, the exposure to the Credit Risk of Investments in Securities is Ps. 114,401 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, state-owned companies and National Financial Institutions represent 28% of Stockholders' Equity to September 2017. 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 2017 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 1 years and 7 months for Ps. 2,025 at 7.9%; 1-year and 11-month PEMEX stock certificates for Ps. 1,116 at 7.9%; HSBC Mexico securities certificates at 11 months for Ps. 1,116 at 7.9%; Scotiabank Inverlat stock certificates at 3 months for Ps. 727 at 7.7%; Bancomer securities certificates at 3 months for Ps. 611 to 7.7%; Deutsche Bank bonds at 5 years and 5 months for Ps. 542 at 11.3%; Banco Inbursa securities certificates at 11 months for Ps. 389 at 7.7%; Banco Interacciones 2-year and 1-month securities certificates for Ps. 386 to 8.6%; 1-year CABEL bonds for Ps. 160 to 7.6%; And Banco Monex stock certificates at 7 months for Ps. 144 to 8.4%. In the case of Derivatives, there are no operations.

For Arrendadora and Factor Banorte the exposure of Investments in Securities is Ps. 85 thousand pesos, the totality corresponds to shares. In the case of derivatives transactions, we have an exposure of Ps. 38 thousand pesos with private counterparties.

In Solid Portfolio Manager, the investment exposure in Securities is Ps.325 million pesos, all of which corresponds to shares. The exposure with derivatives is Ps.9 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:

<b>Position (at year's end)</b>	<b>2017</b>	<b>Average 2017</b>
Forwards	Ps. 17	Ps. 125
Options	24	7
Swap Interest Rate (IRS)	3,895	3,755
Cross Currency Swap (CCIRS)	(13,617)	(11,527)
<b>Total</b>	<b>Ps. (9,682)</b>	<b>Ps. (7,639)</b>
Positive Fair Value (Positive Market Value)	10,584	8,775
Netting effect*	20,265	16,415
Guaranties Given (-) / Received (+)		
Cash	(6,580)	(6,155)
Securities	-	-
<b>Total</b>	<b>Ps. (6,580)</b>	<b>Ps. (6,155)</b>

\* 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.

<b>Contrapartes Financieras</b>	<b>4Q17</b>	<b>Avarage 4Q17</b>	<b>4Q17</b>	<b>Avarage 4Q17</b>
FWD	116	310	7	125
OPCIONES	1,117	935	711	560
SWAP TASA	15,621	13,202	5,921	4,602
CCS	865	932	(13,589)	(11,494)
<b>Total</b>	<b>4,142</b>	<b>4,283</b>	<b>(6,950)</b>	<b>(6,206)</b>

  

<b>Cientes (No Financieras)</b>	<b>4T17</b>	<b>Promedio 4T17</b>	<b>4T17</b>	<b>Promedio 4T17</b>
FWD	45	38	10	0
OPCIONES	25	29	(687)	(553)
SWAP TASA	813	1,170	(2,026)	(847)
CCS	26	24	(28)	(33)
<b>Total</b>	<b>895</b>	<b>1,245</b>	<b>(2,731)</b>	<b>(1,433)</b>

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:

<b>Net Cash Outlays</b>	<b>2017</b>
<b>(at year's end)</b>	
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:

<b>Rating</b>	<b>2017</b>	<b>Average 2017</b>
AAA/AA-	Ps. -	Ps. -
A+/A-	(5,401)	(5,025)
BBB+/BBB-	(1,540)	(1,144)
BB+/BB-	(1,348)	(793)
B+/B-	-	(32)
CCC/C	(4)	(4)
SC	(1,389)	(640)
<b>Total</b>	<b>Ps. (9,682)</b>	<b>Ps. (7,639)</b>

### 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 2017 is as follows:

Guarantee Type	<b>2017</b>			
	Banorte	Arrendadora y Factor	Sólida	Total*
Total Loan portfolio	Ps. 615,744	Ps. 25,744	Ps. 4,211	Ps. 628,080
Guarantee				
Real Financial Guarantees	17,580	-	-	17,580
Real Non-Financial Guarantees	333,134	5,627	25	338,786
Pari Passu	21,683	-	-	21,683
First Losses	33,321	-	-	33,321
Personal Guarantees	14,991	5,876	-	20,867
<b>Total Covered Portfolio</b>	<b>Ps. 420,709</b>	<b>Ps. 11,503</b>	<b>Ps. 25</b>	<b>Ps. 432,237</b>

\* Includes eliminations for (Ps. 17,618).

\*\* AyF portfolio does not include pure leasing.

### 2.4. Expected losses

As of December 31, 2017, the total portfolio of Banco Mercantil del Norte is Ps.615,744 million pesos. The expected loss represents 2.2% and the unexpected loss is 4.1% both with respect to the total portfolio. The average of the expected loss represents 2.3% of the period October - December 2017.

Regarding Casa de Bolsa Banorte-Ixe, the credit exposure of investments is Ps 114.401 billion and the expected loss represents 0.02% of the exposure. The average expected loss is 0.03% between October-December 2017.

The total portfolio of Arrendadora and Factor, including pure leasing is Ps 29.807 billion. The expected loss represents 0.8% and the unexpected loss is 3.8% of the total portfolio. The average expected loss represents 0.8% during the October-December 2017 period.

The total portfolio of Sólida Administradora de Portafolios was Ps 4.211 billion. The expected loss of the portfolio represents 10.3% and the unexpected loss 11.2%, both with respect to the total portfolio. The average expected loss for the period of October-December 2017 was 10.5%.

## 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):

<b>Tier 1 as of September 30, 2017</b>	<b>Ps. 98,044</b>
<b>I. Financing whose individual amount represents more than 10% of basic capital:</b>	
Loan Operations	
Number of financings	-
Total amount of financings	-
% in relation to Tier 1	-
Overnight Operations	
Number of financings	-
Total amount of financings	-
% in relation to Tier 1	-
<b>II. Maximum amount of financing with the three largest debtors and common risk groups</b>	<b>Ps. 41,187</b>

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):

<b>Equity as of September 30, 2017</b>	<b>Ps. 4,926</b>
<b>I. Financing whose individual amount represents more than 10% of equity:</b>	
Loan Operations	
Number of financings	4
Total amount of financings	4,548
% in relation to Equity	92%
<b>II. Maximum amount of financing with the three largest debtors and common risk groups</b>	<b>Ps. 6,446</b>

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):

<b>Equity as of September 30, 2016</b>	<b>Ps. 3,999</b>
<b>I. Financing whose individual amount represents more than 10% of equity (group level):</b>	
Money market /derivatives operations	
Number of financings	1
Total amount of financings	430
% in relation to Equity	11%
Overnight operations	
Number of financings	-
Total amount of financings	-
% in relation to Equity	-
<b>II. Maximum amount of financing with the three largest debtors and common risk groups</b>	<b>Ps. 672</b>

### 3. MARKET RISK

The objectives of Market Risk in Financial Group 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 Financial Group 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. Market risk Methodologies

The management of market risk is managed through a series of fundamental pillars, among which the use of models and methodologies such as the value at risk (VaR), the Retrospective Analysis (BackTesting), the analysis of sensitivity and tests under Extreme conditions (stress Testing), all are used to measure the risk of the products and portfolios of instruments that are quoted in the financial markets.

In addition, risk management is supported by a framework of policies and manuals, in which it sets the implementation and monitoring of risk limits Market, the revelation of the metrics of risk in question and its follow-up with regard to the limits.

Key risk indicators are reported by monthly reports to the CPR and by a daily report to the principal executives at the institution related to the taking of market risk positions.

#### 3.2. 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 4Q17 was Ps. 37.1 million (Ps. 20.2 million less than the average VaR for 3Q17).



The result shows that the Bank's potential loss will be above Ps 37.1 million in one out of a hundred days.

<b>VAR</b>	<b>Average 4Q17</b>
VaR Total	37.1
Capital Neto	108,609
<b>VaR/Capital Neto</b>	<b>0.03%</b>

Also, the average of the VaR per risk factor for the Institution's portfolio of securities behaved as follows during the fourth quarter of 2017:

<b>Risk factor</b>	<b>4Q17</b>	<b>Average 4Q17</b>
Rates	28.4	32.8
FX13.5	9.0	
Variable income	8.8	8.0
Diversification effect	(17.3)	(12.7)
<b>Banorte's Total VaR</b>	<b>33.5</b>	<b>37.1</b>

The VaR at the end of 4Q17 corresponds to \$37 million pesos. The contribution to the VaR for each risk factor is:

<b>Risk factor</b>	<b>4Q17</b>	<b>Average 4Q17</b>
Domestic rates	25.7	24.1
Foreign rates	3.7	-
FX4.0	11.0	
Variable revenue	0.1	2.1
<b>Total VaR</b>	<b>33.5</b>	<b>37.1</b>

The VaR by risk factor is determined by simulating 500 historical setting and performing a grouping of instruments by its main risk factor. It is important to emphasize that took into account all the positions are classified as negotiation, excluding the position of preserved at maturity and available for sale.

The concentration per market risk factor without the diversification effect is:

<b>Risk factor</b>	<b>4Q17</b>
Rates	56%
FX	27%
Variable income	17%

### 3.2.1 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.

### 3.2.2 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.

### 3.2.3 Value of Risk for Casa de Bolsa (Brokerage House)

The average VaR of the portfolio was Ps. 12.5 million for the last quarter of 2017.(Ps. 2.2 million lower than the VaR of the previous quarter).

The result shows that potential loss will be above Ps 12.5 million in one out of a hundred days.

VaR (Millions of pesos)	Average 4Q17
VaR *	Ps. 12.5
Net capital**	2,371
<b>VaR / Net Capital</b>	<b>0.53%</b>

\* 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 2017 as follows:

Risk factor	4Q17	Average 4Q17
Rates	Ps. 19	Ps. 12.5
FX Rate	-	-
Variable Income	-	-
VaR Diversification Effect	-	-
<b>VaR Total Casa de Bolsa</b>	<b>Ps. 19</b>	<b>Ps. 12.5</b>

The VaR at the close of 4Q17 corresponds to 19.0 million pesos.

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

The concentration by Market Risk factor is found in domestic interest rates.

### 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	3Q17	4Q17	ar vs. V3Q17
Demand deposits			
Local Currency	Ps. 327,769	Ps. 345,650	5.5%
Foreign Currency	50,698	51,142	0.9%
<b>Demand deposits</b>	<b>378,467</b>	<b>396,792</b>	<b>4.8%</b>
Time Deposits - Retail			
Local Currency <sup>(1)</sup>	173,757	174,297	0.3%
Foreign currency	19,181	19,320	0.7%
<b>Core Deposits</b>	<b>571,406</b>	<b>590,410</b>	<b>3.3%</b>
Money market			
Mexican pesos <sup>(2)</sup>	51,685	55,394	7.2%
<b>Foreign currency <sup>(2)</sup></b>	<b>Ps. 623,091</b>	<b>Ps. 645,804</b>	<b>3.6%</b>

#### 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 4Q17.

LCR Components	Bank and Sofomes	
	Unweighted Amount (Average)	Weighted Amount (Average)
<b>COMPUTABLE LIQUID ASSETS</b>		
1 Total Computable Liquid Assets	NA	Ps. 105,614
<b>CASH DISBURSEMENTS</b>		
2 Unsecured retail financing	Ps. 356,803	Ps. 23,622
3 Stable financing	241,169	12,058
4 Less stable financing	115,634	11,563
5 Unsecured wholesale financing	208,509	73,595
6 Operational deposits	145,289	31,863
7 Non-Operational deposits	58,681	37,193
8 Unsecured debt	4,539	4,539
9 Secured wholesale financing	253,245	17,523
10 Additional requirements:	237,396	15,833
11 Disbursements related to derivatives and other guarantee requirements	47,222	5,237
12 Disbursements related to losses from debt financing	-	-
13 Lines of credit and liquidity	190,174	10,596
14 Other contractual financing obligations	-	-
15 Other contingent financing obligations	-	-
<b>16 TOTAL CASH DISBURSEMENTS</b>	<b>NA</b>	<b>129,931</b>
<b>CASH INFLOW</b>		
17 Cash Inflows for secured operations	Ps. 20,306	543
18 Cash Inflows for unsecured operations	52,633	40,890
19 Other cash inflows	2,962	2,962
<b>20 TOTAL CASH INFLOW</b>	<b>N/A</b>	<b>Ps. 44,395</b>
<b>Adjusted amount</b>		
<b>21 TOTAL COMPUTABLE LIQUID ASSETS</b>	<b>NA</b>	<b>Ps. 105,614</b>
<b>22 TOTAL NET CASH DISBURSEMENTS</b>	<b>NA</b>	<b>Ps. 86,177</b>
<b>23 LIQUIDITY COVERAGE RATIO</b>	<b>NA</b>	<b>123.42%</b>

During 4Q17, an average CCL for Banco and Sofomes of 123.42% was observed, with CCL at the close of 4Q17 of 108.23%, 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.

#### 4.4 Evolution of LCR Components

The evolution of the components of the Liquidity Coverage Ratio between the end of 3Q17 and the close of 4Q17 is presented in the following table.

LCR Component	3Q17	4Q17	Var vs. 3Q17
Liquid assets	Ps. 95,498	Ps. 121,972	27.7%
Cash Inflow*	39,337	30,476	(22.5%)
Cash Outflows*	123,511	143,171	15.9%

\* See main LCR results.

The Liquid Assets that compute in the LCRs for the Bank and Sofoms during 2017 are distributed as follows:

Type of Asset		3Q17	4Q17	Var vs. 3Q17
Total	Ps.	95,498	Ps. 121,972	27.7%
Level I		86,989	112,445	29.3%
Level II		8,509	9,527	12.0%
Level II A		7,091	7,762	9.5%
Level II B		1,418	1,765	24.5%

Liquid assets increased in the comparison of 3Q17 and 4Q17 closings, guided by the acquisition of federal government paper denominated in foreign currency (UMS) and Banco de México auctions.

#### 4.5 LCR Results' Main Causes

The variations in the Liquidity Coverage Ratio between 3Q17 and 4Q17 are mainly due to the increase in liquid assets position of level I, mainly in federal government instruments denominated in foreign currency (UMS) and Banco de México auctions.

#### 4.6 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.

#### 4.7 Exposure to Derivatives and possible Margin Calls

Banorte applies the regulatory methodology to determine cash outflows for derivatives. At the end of 2017, estimated outflows for derivatives were as follows:

Derivatives Cash Outflows		3Q17	4Q17	Var vs. 3Q17
Net cash outflows at market value and for potential exposure	Ps.	4,137	Ps. 4,351	5.2%
Cash outflows for a 3 notch credit rating downgrade	Ps.	-	Ps. -	-%

The former measurement shows that potential outflows for derivatives may represent a liquidity requirement up to Ps 4.351 billion.

#### 4.8 Liquidity Gaps

As part of the liquidity analysis for the Bank, 30 days liquidity gaps for the institution's assets and liabilities (obligations) are analyzed. Results for the Bank at the end of 4Q17 are presented in the following table.

Concept	3Q17	4Q17	Var vs. 3Q17
Cumulative 30 day Gap	(58,934)	(75,073)	27.4%
Liquid assets	60,297	78,540	30.3%

Mismatch among inflows and outflows (gaps) for the next 30 days are covered with liquid assets. In addition, the new methodology allows us to make a more granular breakdown of the liquidity gaps, remaining as follows for 4Q17:

Concept (Millions of pesos)	1 day	7 days	1 month	3 months	6 months	12 months
Natural Gap	(32,525)	(15,250)	(27,299)	4,934	(9,485)	9,431
Accumulated Gap	(32,525)	(47,775)	(75,073)	(70,140)	(79,624)	(70,194)

#### 4.9 Stress Testing under liquidity extreme conditions

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

#### 4.10 Contingency Funding Plan

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.

#### 4.11 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 4Q17 corresponded to 152,910 million pesos, and on average during the 4Q17 to 141,374 million pesos.

	<b>3Q17</b>	<b>4Q17</b>	<b>Var vs. 3Q17</b>
Margin Sensitivity	Ps. 870	Ps. 901	3.6%

#### 4.12 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 4Q17.

<b>Liquidity Ratio</b>	<b>Casa de Bolsa Banorte Ixe</b>	<b>Arrendadora y Factor</b>	<b>Sólida</b>
Cumulative 30 days Gap	Ps. 1,597	Ps. ( 4,124)	Ps. ( 3,694)
Liquid assets	Ps. 1,973	Ps. 17	Ps. 72

### 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.

#### 5.6 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.

## 5.7 Quantitative and qualitative measuring tools

### 5.7.1 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.

### 5.7.2 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.

### 5.6.0. 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 on 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	4	500,000	-	5,438,137	4
97_BNORCB_06-2	576,011	2	-	-	576,011	2
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		HR Ratings Local Global	Verum Local Global
	Local	Global	Local	Global	Local	Global		
91_BNTECB_07					Aa2.mx	Baa2	HR AA+	
91_BNTECB_07-2					A3.mx	Ba3	HR AA	
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, 2017, the amounts of the underlying assets of each securitization were:

Securitization	Amount Performing		Past-due		Total
	Ps.		Ps.		
91_BNTECB_07	Ps.	2,785	Ps.	-	Ps. 2,785
91_BNTECB_07-2	Ps.	73	Ps.	83	Ps. 156
97_BNORCB_06					
<b>97_BNORCB_06-2</b>	<b>Ps.</b>	<b>118</b>	<b>Ps.</b>	<b>136</b>	<b>Ps. 255</b>

There are no impaired assets in Trust 477

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

Concept	Balance	Capital requirement
Securitized with Risk Level 1 (weighted 20%)	Ps. 2,009	Ps. 32
Securitized with Risk Level 2 (weighted 50%)	21	1
Securitized with Risk Level 3 (weighted 100%)	-	-
Securitized with Risk Level 4 (weighted 350%)	-	-
Securitized 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. 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. POSITION IN SHARES

At the end of December 2017, Banco Mercantil del Norte held shares amounting to Ps 4.090 billion, with gains of Ps 185 million.

During the fourth quarter, accumulated profits from sales and settlements were Ps 19 million.

For the purpose of calculating the Capital Ratio, only Ps 44 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 52 million and for Credit Risk Ps 0.47 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. 37.5	Ps. (21)	Ps. (13)
Banorte	w/o public quote	Securities available for sale	Subject to Market and Credit Risk Requirements	-	-	(4.6)
Banorte	Public	Securities available for sale	Subject to Market and Credit Risk Requirements	3,672	101	10
Banorte	Public	Securities available for sale	Subject to Core Tier 1 Deduction	206	105	-
Banorte	Public	Securities available for sale	Subject to Credit Risk Requirement	174	32	-
<b>Total</b>				<b>Ps. 4,090</b>	<b>Ps. 185</b>	<b>Ps. (8)</b>

In December 2017, net equity instruments in Casa de Bolsa Banorte - Ixe, amounted to Ps 479 million with a positive valuation of Ps 153 million.

During the quarter, no loss was recorded for 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 3 million.

Institution	Type of Quotation	Accounting Classification	Capitalization Treatment	Market Value 4Q17	Gain / Losses 4Q17	Accum. Profit / Loss 3Q17-4Q17
Casa de Bolsa Banorte-Ixe	Cotización Pública	Títulos para Negociar	Sujeta a Requerimiento Riesgo Mercado	Ps. 479	Ps. 246	Ps. -
<b>Total</b>				<b>Ps. 479</b>	<b>Ps. 246</b>	<b>Ps. -</b>

### 36 - MEMORANDUM ACCOUNTS (not audited)

	<b>2017</b>	<b>2016</b>
<b>Operations on behalf of third parties</b>		
Banks customers (current accounts)	Ps. 33	Ps. 118
Settlement of customer transactions	(64)	(3)
Customer securities received in custody	663,995	609,288
Customer repurchase agreements	118,210	77,781
Collateral pledged on account of clients	118,175	77,746
Managed trusts	112,960	90,205
Investment banking transactions on account of third parties, (net)	87,333	93,306
	<b>Ps. 1,100,642</b>	<b>Ps. 948,441</b>
<b>Proprietary transactions</b>		
Contingent assets and liabilities	Ps. 100	Ps. 45
Assets in trust or under mandate	290,749	292,174
Managed assets in custody	561,016	446,626
Credit commitments	252,516	324,528
Collateral received	145,077	89,288
Collateral received and sold or given as a pledge	184,011	101,473
Deposits of assets	3,068	2,550
Interest accrued but not charged of past due loans	368	439
	<b>Ps. 1,436,905</b>	<b>Ps. 1,257,123</b>

### 37 - COMMITMENTS

As of December 31, 2017 and 2016, the Financial Group had the following contingent obligations and commitments:

- Other contingent obligations and opening of credits totaling Ps. 252,616 (Ps. 324,573 in 2016), which are recorded in memorandum accounts.
- Certain operating equipment is leased. Total property lease payments for the years ended December 31, 2017 and 2016, were Ps. 87 and Ps. 130, respectively.

### 38 - CONTINGENCIES

As of December 31, 2017, 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. 782 (Ps. 873 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 2017 and 2016, the amount of contributions to the IPAB payable by Banorte for fees amounted to Ps 2,634 and Ps 2,325, respectively.

## 40 - NEW ACCOUNTING GUIDELINES

As of December 31, 2017, CINIF has issued the following NIF and improvements to current NIF which could generate accounting changes.

### a. New NIF

In relation to the NIF issued by the CINIF, in accordance with the fourth article of the resolution amending the general provisions applicable to credit institutions published on December 27, 2017, will be applicable to credit institutions as of January 1, 2019.

The Institution is waiting for the CNBV to publish the final version of the criterion A-2 "Application of particular Rules" which currently has as a project in review, same that could include some clarification in the application of the NIF, derived from the recommendations and comments that credit institutions did through the Association of Banks of Mexico to the CNBV, considering that credit institutions perform specialized operations.

To date we are in the process of analysis of the impacts that these NIF may have in the financial statements, same that we will inform in due time considering the final version of the project once it is published in the Official Gazette of the Federation and according to the requirements of the NIF B-1 "accounting changes and corrections of errors".

The NIFs issued and which will be applicable to credit institutions from 1 January 2019 are:

- NIF B-17 "Determination of fair value".
- NIF C-2 "Investments in securities".
- NIF C-3 "Accounts Receivable".
- NIF C-9 "Provisions, contingencies and commitments".
- NIF C-10 "Derivatives Financial Instruments and hedging".
- NIF 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".

### b. Improvements to NIF 2018

The following improvements were issued with effect from January 1, 2018, 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-10, effects of inflation- in a non-inflationary environment, it is established to disclose the percentages of inflation accumulated by the three previous annual exercises and which served as the basis for qualifying the economic environment in which the entity operated in the financial year. Current, as non-inflationary; The accumulated that includes the two previous annual exercises and the period to which the financial statements relate.

NIF C-6, Properties, plant and equipment- indicates that the recognition of the change to this NIF valid from January 2018 must be made in prospective form. The change establishes that the depreciation method should be made in a method that reflects the pattern based on which the entity is expected to consume the future economic benefits of the component rather than revenues, as such income amount may be affected by factors other than the profit consumption pattern.

NIF C-8, intangible assets- indicates that the recognition of the change to this NIF valid from January 2018 must be made in prospective form. The change establishes that the method of depreciation should be made in a method that reflects the pattern based on which the entity is expected to consume the future economic benefits of the asset rather than revenue, since such an income amount may be affected by factors other than the pattern of consumption of economic benefits. However it will be allowed to use a method based on income in specific cases.

NIF C-14, transfer and lowering of financial assets-it is indicated that the recognition of the change to this NIF valid from January 2018 must be made retrospectively for all the financial statements that are presented in comparative form with those of the period Current. The change establishes that an entity must continue to recognize an asset transferred to the extent that it has continuous involvement, also that the subsequent recognition of such asset should be carried out on the basis of applicable rules, the recognition must be made depending on the type of asset in question and the classification of the same by the entity.

The following improvements were issued that do not generate accounting changes:

NIF B-7, business acquisitions- a contingent liabilities of the acquired business must be recognized on the date of purchase as a provision, if in the process of valuation of the net assets acquired, that item represents is a present obligation to the business acquired that arises from past events, and it can reliably determine its fair value, and there is likely to be an outflow of resources in the future to liquidate that obligation. It was previously required that all contingent liabilities were recognized, which contradicts the requirements of NIF C-9.

NIF B-15, conversion of foreign currencies - Due to the functional currency is the basis of the economy of an entity, it must carry out the valuation of its assets, liabilities, equity, income, costs and expenses on the information specified in its functional currency. On these values should be the testing of impairment that may be required.

NIF D-5, leases - establishes a single model for recognition of leases by the lessee and requires it to recognize the assets and liabilities of all leases with a duration of more than 12 months, unless the underlying asset is of low value, eliminating the classification of leases as operational and financial. For lessors are maintained almost without changing the current requirements.

In addition, in the resolution published on December 27, 2017 referred to in subparagraph (a) of this note, amendments to criterion B-6 were included, which require that the following concepts be recorded by decreasing the Item of "Provisions for loan losses" instead of registering for "other operating income (expenses)":

- excess of loan losses,
- Recoveries of loans write-off

These amendments come into force from January 1, 2019, establishing the option that credit institutions will be able to apply them in advance as of the day following their publication. GFNorte has decided to adopt them in advance.