Annual Report 2017

GRUPO FINANCIERO BANORTE, S.A.B. DE C.V.
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This Annual Report was prepared in accordance with regulations applicable to companies issuing securities as well as other participants in the market with information for the fiscal year ending December 31, 2017.

The 2,773,729,563 “O” series shares of Grupo Financiero Banorte, S.A.B. de C.V. in circulation as of December 31, 2017 are traded in the Bolsa Mexicana de Valores (Mexican Stock Exchange) under the symbol "GFNORTEO" and are registered in the National Securities Registry ("RNV").

The second to last paragraph of Article 86 of the Stock Market Law states that:

Issuing companies with registered securities, must display in the prospectus, supplement or informative brochure, a legend that explicitly states that such registration does not imply a certification of the attractiveness of those securities, solvency of the issuer or the accuracy or truthfulness of the information contained in the prospectus, nor does it authenticate acts that, if the case, have been conducted in breach of these laws.

This report is available to the public at www.banorte.com/ri, in the route “Financial Information / Annual Reports / Circular Unica CNBV 2017 Annual Report”.

San Pedro Garza García, N.L. April 27, 2018.

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1. GENERAL INFORMATION

a) GLOSSARY OF TERMS AND DEFINITIONS

Unless the context suggests otherwise, for purposes of this Annual Report, the following terms have the meanings ascribed to them below and can be used interchangeably in singular or plural.

TERM	DEFINITION
ADR's:	American Depositary Receipts
Afores:	Retirement Saving Fund s Managers.
Afore Bancomer:	Administradora de Fondos para el Retiro Bancomer, S.A. de C.V.
Afore Banorte:	Banorte Generali, S. A. de C. V., AFORE (prior its merger with Afore XXI).
Afore XXI Banorte:	Afore XXI Banorte, S.A. de C.V. (corporate identity after the Afore Banorte and Afore XXI merger).
Almacenadora Banorte	Almacenadora Banorte, Organizacion Auxiliar del Credito, Grupo Financiero Banorte
Arrendadora y Factor Banorte:	Arrendadora y Factor Banorte, S.A. de C.V., Sociedad Financiera de Objeto Multiple, Entidad Regulada, Grupo Financiero Banorte.
ATM's:	Automated Teller Machine.
Bancen:	Banco del Centro, S. A.
Bancrecer:	Bancrecer, S. A.
Banking Subsidiaries:	Banorte and subsidiaries and Ixe Banco, S.A.
Banorte:	Banco Mercantil del Norte, S. A., Institucion de Banca Multiple, Grupo Financiero Banorte.
Banorte Ahorro y Prevision	Banorte Ahorro y Prevision, S.A. de C.V.
Banorte Futuro	Banorte Futuro, S.A. de C.V.,
Banorte-Ixe Tarjetas:	Banorte-Ixe Tarjetas, S.A. de C.V., Sociedad Financiera de Objeto Multiple, Entidad Regulada (Formerly Ixe Tarjetas). Subsidiary of Banorte.
Banorte USA:	Banorte USA Corp., subsidiary of Banco Mercantil del Norte, S. A.
Banxico:	Bank of Mexico (Mexican Central Bank).
BIVA	Bolsa Institucional de Valores (Mexican Stock Exchange)
BMV:	Bolsa Mexicana de Valores, S.A.B. de C.V. (Mexican Stock Exchange).
bp	Basis points
Capitalization requeriments:	Capital requirements for credit institutions established in the LIC and Circular Unica de Bancos
Casa de Bolsa Banorte:	Casa de Bolsa Banorte, S.A. de C.V., Grupo Financiero Banorte (merged entity with Ixe Casa de Bolsa).
Casa de Bolsa Banorte Ixe:	Casa de Bolsa Banorte Ixe, S.A. de C.V., Grupo Financiero Banorte.
CAPS:	Comite de Auditoria y Practicas Societarias (Audit & Corporate Practices Committe).
CC:	Credit letters.
CDP:	Not-for-profit organization which provides the major environmental divulgation system in the world.
CEBUR:	Certificado Bursatil (Stock Certificate).
CEDES:	Certificados de Deposito a Plazo Fijo (Fixed term Certificate of Deposit).
CETES:	Certificados de la Tesoreria de la Federacion (Mexican Federal Treasury Certificates).
Circular Unica de Bancos	General provisions applicable to credit institutions, published in the Official Gazette on

TERM	DEFINITION
(CUB):	December 2, 2005, as they have been modified.
Circular Unica de Emisoras (CUE):	General provisions applicable to issuers and other market participants, published in the Official Gazette on March 19, 2003, as they have been modified.
CMPC	Codigo de Mejores Practicas Coporativas (Best Corporate Practices Code).
CNBV:	Comision Nacional Bancaria y de Valores (National Banking and Securities Commission).
CNSF:	Comision Nacional de Seguros y Fianzas (National Insurance and Bonding Commission).
COFECO/ COFECE:	Comision Federal de Competencia Economica (Federal Commission of Economic Competion).
CONDUSEF:	Comision Nacional para la Proteccion y Defensa de los Usuarios de Servicios Financieros (National Comission for the Protection and Defense of Financial Services users).
CONSAR:	Comision Nacional del Sistema de Ahorro para el Retiro (National Comission of the Retirement Saving Funds System).
CPO's:	Certificados de Participacion Ordinarios (Ordinary Participation Certificates).
CPR	Comite de Politicas de Riesgo (Risk Policies Committee).
CR:	Capitalization ratio.
Creditos Pronegocio:	Creditos Pronegocio, S.A. de C.V., Sociedad Financiera de Objeto Limitado, Grupo Financiero Banorte
CUSF:	General provisions applicable to Insurance and Bonding Insitutions. .
D:	Director.
DMD:	Deputy Managing Director.
DOF:	Diario Oficial de la Federacion (Official Gazette).
ED	Executive Director
EMISNET:	Electronic Communications System with Securities Issuers.
EPS:	Employee Profit Sharing Agreement.
Fincasa Hipotecaria:	Fincasa Hipotecaria, S.A. de C.V. Sociedad Financiera de Objeto Multiple, Entidad Regulada, Grupo Financiero Banorte (merged in Banco Mercantil del Norte).
Forward:	Non-standardized private contract to buy or sell a specific asset at a certain price level whose liquidation will be carried out at a future date.
Generali:	Assicurazioni Generali, S.P.A. Italian company and strategic partner of GFNorte until 2013.
GFInter	Grupo Financiero Interacciones, S.A.B. de C.V
GFNorte, the Company, the Issuer:	Grupo Financiero Banorte, S. A. B. de C. V.
GEO:	Corporación GEO, S.A.B. de C.V.
Holding:	Holding company.
Homex:	Desarrolladora Homex, S.A.B. de C.V.
IFC:	International Finance Corporation.
IMPAC:	Ley del Impuesto al Activo (Asset Tax Law).
IMSS:	Instituto Mexicano del Seguro Social. (Mexican Social Security Institute)
INB:	Inter National Bank.
Indeval:	S. D. Indeval, Institucion para el Deposito de Valores, S. A. de C. V. (Institute for Deposit of Securities).
IPAB:	Instituto para la Proteccion al Ahorro Bancario (Institute for the Protection of Bank Savings).

TERM	DEFINITION
ISR:	Income Tax.
Ixe Automotriz:	Ixe Automotriz, S.A. de C.V., Sociedad Financiera de Objeto Multiple, Entidad Regulada, Grupo Financiero Banorte (merged in Arrendadora y Factor Banorte).
Ixe Banco:	Ixe Banco, S. A., Institucion de Banca Multiple, Grupo Financiero Banorte (merged in Banco Mercantil del Norte).
Ixe Casa de Bolsa:	Ixe Casa de Bolsa, S.A. de C.V., Grupo Financiero Banorte (changed its corporate identity to Casa de Bolsa Banorte Ixe)
Ixe Fondos:	Ixe Fondos, S.A. de C.V., Sociedad Operadora de Sociedades de Inversion, Grupo Financiero Banorte (changed its corporate identity to Operadora de Fondos Banorte Ixe).
Ixe GF:	Ixe Grupo Financiero, S.A.B. de C.V. (merged in GFNorte).
Ixe Servicios	Ixe Servicios, S.A. de C.V.
Ixe Soluciones:	Ixe Soluciones, S.A. de C.V., Sociedad Financiera de Objeto Multiple, Entidad Regulada, Grupo Financiero Banorte (merged in May 2013 with Solida which changed its name to Solida Administradora de Portafolios)
Ixe Tarjetas:	Ixe Tarjetas, S.A. de C.V., Sociedad Financiera de Objeto Multiple, Entidad Regulada (changed its corporate identity to Banorte-Ixe Tarjetas).
LFI:	Ley de Fondos de Inversión (Mutual Funds Law)
LIC:	Ley de Instituciones de Credito (Credit Institutions Law).
LISF:	Ley de Instituciones de Seguros y de Fianzas (Insurance and Bonding Institutions Law)
LGOAAC:	Ley General de Organizaciones y Actividades Auxiliares del Credito.
LGSM:	Ley General de Sociedades Mercantiles (General Corporate's Law)
LMV:	Ley del Mercado de Valores (Securities' Market Law).
LRAF:	Ley para Regular las Agrupaciones Financieras (Law Regulating Financial Groups)
LSAR:	Ley del Sistema de Ahorro para el Retiro (Retirement Savings System Law)
MD:	Managing Director
M. E.:	Moneda extranjera (Foreign currency).
M. N.:	Moneda nacional (Local currency, Mexican pesos).
Motran:	Motran Services Incorporated (remittance company based in Los Angeles, California acquired by Banorte and merged with Uniteller in 2014).
Nafin, Nacional Financiera:	Nacional Financiera, S.N.C., Institucion de Banca de Desarrollo.
NII:	Net Interest Income.
NIM:	Net Interest Margin.
OTC:	Over The Counter.
Operadora de Fondos Banorte Ixe	Operadora de Fondos Banorte Ixe, S.A. de C.V., Sociedad Operadora de Fondos de Inversion, Grupo Financiero Banorte
Participaciones federales	Federal Contributions
PDL:	Past due loan ratio
Pensiones Banorte	Pensiones Banorte, S.A. de C.V., Grupo Financiero Banorte
Pensiones Banorte Generali	Pensiones Banorte Generali, S.A. de C.V., Grupo Financiero Banorte (changed its corporate identity to Pensiones Banorte)
pp:	Percentage points.
PRLV:	Pagares Bancarios con Rendimiento Liquidable al Vencimiento (Bank notes with yield settlement at maturity).
RNV:	Registro Nacional de Valores (National Securities Registry).
ROA:	Return on Assets.
ROE:	Return on Equity.
ROTE	Return on Tangible Equity
RRWA	Return on Risk Weighted Assets

TERM	DEFINITION
SAT:	Servicio de Administracion Tributaria (Tax Administration Service).
SCI/ICS:	Sistema de Control Interno (Internal Control System).
Seguros Banorte	Seguros Banorte, S.A. de C.V., Grupo Financiero Banorte
Seguros Banorte Generali	Seguros Banorte Generali, S.A. de C.V., Grupo Financiero Banorte (changed its corporate identity to Seguros Banorte)
Shares	Common, nominative shares, with a face value of Ps. 3.50, corresponding to Series "O" Class II shares, which represent the variable portion of equity
SHCP:	Secretaria de Hacienda y Credito Publico (Ministry of Finance and Public Credit).
SIEFORE:	Sociedad de Inversion Especializada en Fondos para el Retiro (Specialized Retirement Savings Fund).
SMEs:	Small and Medium Sized Businesses
SOFOL:	Sociedad Financiera de Objeto Limitado (Restricted Non-Banking Financial Institution).
SOFOM:	Sociedad Financiera de Objeto Multiple (Multi-purpose Non-Banking Financial Institution).
Solida Administradora de Portafolios:	Solida Administradora de Portafolios, S. A. de C. V. which was spun-off from Banco Mercantil del Norte to later merge with Ixe Soluciones in May 2013. Once merged into Ixe Soluciones, Solida change its coporate identity to Solida Administradora de Portafolios.
Swap:	Private contract establishing the bilateral obligation to exchange one stream of cash flow for another for a set period of time on pre-established dates.
Tier 1:	Basic capital.
Tier 2:	Complementary capital.
TIIE:	Tasa de Interes Interbancaria de Equilibrio (Inter-bank Equilibrium Interest Rate).
TPV's/ POS:	Point of Sale.
UAIR:	Unidad para la Administracion Integral de Riesgos
UDIS:	Unidades de inversion (Units of investment indexed to inflation).
UMS:	Bonos Soberanos Mexicanos (Sovereign Bonds).
Uniteller:	Uniteller Financial Services, Inc. (remittance company based in New Jersey).
Urbi	Urbi Desarrollos Urbanos, S.A.B. de C.V.
USA:	United States of America.
USD:	US dollars.
VaR:	Value at Risk.

b) EXECUTIVE SUMMARY

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

- ✓ *The financial information contained in this report is based on GFNorte's Audited Financial Statements for the years ended December 31, 2017 and 2016, published by Galaz, Yamazaki, Ruiz Urquiza, S. C., a member of Deloitte Touche Tohmatsu Limited dated February 21, 2018. For the year ended December 31, 2016, financial figures are based on GFNorte's Audited Financial Statements published by Galaz, Yamazaki, Ruiz Urquiza, S. C., a member of Deloitte Touche Tohmatsu Limited, dated February 27, 2017.*
- ✓ *In the fourth quarter of 2016 GFNorte decided to dispose of Inter National Bank ("INB") as part of the corporate restructuring program. As result of the aforementioned, Banco Mercantil del Norte ("Banorte") reclassified its investment in Inter National Bank as a long-term asset available for sale, which was registered at yearend at its estimated sale value. Moreover, INB's net income was registered as Income from Discontinued Operations. Consequently, INB's consolidated results in Banorte were reversed for 2016 and 2015. GFNorte's and Banorte's consolidated figures for 2015 reported in this document differ from those presented in the Annual Report submitted to the authority in April 2016.*
- ✓ *During the third quarter of 2016 Fees from Commercial and Government Loans were reclassified retroactively to Fees for Commercial and Mortgage Loans from Other Fees Charged in order to make figures comparable. This reclassification amounted to Ps 458 million for 2015.*
- ✓ *The financial information presented in this report has been calculated in pesos and the tables are in million pesos, thus, differences are the result of rounding effects.*

SELECTED FINANCIAL INFORMATION

Grupo Financiero Banorte

	2017	2016	2015 [1]
Net Income Grupo Financiero Banorte (GFNorte)	$23,908	$19,308	$17,108
Total Assets GFNorte	$1,354,147	$1,268,119	$1,198,476
Total Liabilities GFNorte	$1,206,563	$1,125,418	$1,061,124
Stockholders' Equity GFNorte	$147,584	$142,701	$137,352
Stockholders' Equity GFNorte excluding minority interest	$145,752	$140,746	$135,452
INFORMATION PER SHARE			
Net income per share Basic (pesos)	$8.70	$7.01	$6.20
Net income per share Diluted (pesos)	$8.62	$6.96	$6.17
Dividend approved per share (pesos) [1]	$4.05	$2.47	$1.65
Book value per share (pesos) (excluding minority interest) [2]	$52.55	$50.74	$48.83
Shares outstanding Basic (millions)	2,749.03	2,754.05	2,762.47
Shares outstanding Diluted (millions)	2,773.73	2,773.73	2,772.38
PROFITABILITY RATIOS			
NIM [3]	5.47%	4.80%	4.40%
NIM adjusted for credit risk [3]	4.16%	3.60%	3.39%
NIM adjusted w/o Insurance & Annuities [3]	5.37%	4.61%	4.19%
NIM from loan portfolio [3]	8.49%	7.88%	7.68%
Return on assets (ROA)	1.86%	1.58%	1.47%

Return on equity (ROE)	16.98%	13.91%	13.26%
OPERATIONS			
Efficiency ratio [4)]	41.94%	44.94%	47.59%
Operating efficiency ratio [5)]	2.65%	2.55%	2.53%
Average Liquidity Coverage Ratio for Banorte and SOFOM - Basel III			
ASSET QUALITY INDICATORS	1.99%	1.79%	2.25%
Past due loan ratio	129.16%	139.48%	116.04%
PDL reserve coverage			
CAPITALIZATION RATIO	17.23%	15.28%	14.62%
Banco Mercantil del Norte			
INFRASTRUCTURE AND EMPLOYEES	1,148	1,175	1,191
Bank Branches [6)]	7,911	7,756	7,425
ATMs (automated teller machines)	165,441	151,948	155,893
Points of Sale	29,903	27,913	27,574
Full-time employees	29,915	27,929	27,594
Full-time employees and professional services			27,943

Million pesos.

1. Figures coming from the Income Statement were reexpressed, for comparison purposes, to reflect INB deconsolidation in 2016 due to the corporate restructure process; therefore, such figures differ from those presented in the Annual Report submitted to the authority in April 2016.
2. Dividends approved by the Shareholders' Assemblies in 2015, 2016 and 2017 were: Total dividend decreed in 2015 was Ps 1.64702 per share, paid in four installments, the first one for Ps 0.2745 per share (November 2015) and the remaining three for an amount of Ps 0.457506549 per share each (February, June and October 2016),), Total dividend decreed in 2016 was Ps 2.4671 per share, paid in two installments of Ps 1.233553556868510 per share (August 2016 and March 2017), Total dividend decreed in 2017 was PS. 4.04622299878046 payable in an outlay in June 2017, consisting of an ordinary part of Ps. 2.7843103349480 and an extraordinary part of Ps1.226338950230780 derived from the sale of Inter National Bank..
3. Considering the number of issued shares that for the three periods amount to 2,773.7 million.
4. Non Interest Expense / (Net Interest Income + Non- Interest Income).
5. Non Interest Expense / Average Total Assets.
6. Includes bank modules and excludes 1 branch in the Cayman Islands.

Grupo Financiero Banorte's Results

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

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

The Consolidated Bank's* net profits totaled **Ps 18.34 billion,** Ps 3.30 billion or +22% higher vs. 2016. **Consolidated Bank in 2015 considers Banco Mercantil del Norte, Banorte-Ixe Tarjetas, Banorte USA and Afore XXI Banorte according to its 50% ownership; whereas, in 2016 considers Banco Mercantil del Norte –merging entity of Banorte-Ixe Tarjetas since May- and Banorte USA –deconsolidated and reported in Discontinued Operations as of 4Q16- and excludes Afore XXI Banorte as it is reported within Long Term Savings since 4Q16.* Net Income for the Consolidated Bank –**according to GFNorte's holding**- amounts to **Ps 18.01 billion**, Ps 4.21 billion or +30% higher YoY, accounting for 75.3% of GFNorte's profits.

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

The Brokerage Sector (Casa de Bolsa Banorte Ixe and Operadora de Fondos Banorte Ixe) reported profits of Ps 972 million in 2017, +17% vs. 2016, driven by an 18% increase in net fees, and a (2%) decline in administrative expenses. Brokerage Net Income accounted for 4.1% of the Group´s total results.

SOFOM and Other Finance Companies comprised of Arrendadora y Factor Banorte, Almacenadora Banorte, Sólida Administradora de Portafolios and Ixe Servicios, recorded profits of **Ps (158) million** in 2017, a (337) million decrease vs. 2016. According to GFNorte's participation in this sector, accumulated profits amounted to Ps (152) million, the performance of this sector was affected by the losses recorded in Sólida related to the valuation of capital titles received as part of the commercial bankruptcy agreements of housing developers

In 2016 GFNorte reported profits of Ps 19.31 billion, 13% higher than in 2015. During 2016 net income for the **Consolidated Bank** (*Banco Mercantil del Norte, Banorte-Ixe Tarjetas, Banorte USA and Afore XXI Banorte according to its 50% ownership)* rose to Ps 14.80 billion, +11% higher YoY. Net income for the Consolidated Bank - according to GFNorte's participation in this sector and excluding Afore XXI Banorte results - was Ps 13.80 billion, +14% YoY, contributing with 71% of GFNorte's revenues. Net income for the **Long Term Savings Sector** was Ps 5.72 billion, 12% higher than in 2015. According to GFNorte's participation in this sector, accumulated profits amounted to Ps 4.43 billion, increasing 16% annually and which represented 23% of GFNorte´s earnings. The **Brokerage Sector** reported profits of Ps 832 million, +5% higher YoY, thus representing 4% of the Financial Group's profits. **SOFOM and Other Finance Companies** recorded profits of Ps 178 million, decreasing (179%) vs. 2015. According to GFNorte's participation in this sector, net profits were Ps 184 million, a (171%) YoY decline, representing 1% of the Financial Group's earnings.

The following are the profits registered accordingly to the percentage of GFNorte's participation in each business sector:

Net Income by Segment	2017	2016	2015
Consolidated Bank [1)]	$18,012	$13,804	$12,057
Brokerage	$972	$832	$790
Long-Term Savings	$4,941	$4,434	$3,832
Afore XXI Banorte [1)]	1,284	1,248	1,220
Seguros Banorte (Insurance) [2)]	2,775	2,626	2,210
Pensiones Banorte (Annuities) [2)]	882	561	402
SOFOM and Other Finance Companies	$(152)	184	$498
Arrendadora y Factor (Leasing and Factoring)	771	693	571
Almacenadora (Warehouse)	42	28	31
Solida Administradora de Portafolios [4)]	(963)	(533)	(105)
Ixe Servicios	(2)	(5)	0
Holding	$132	54	($69)
GFNorte	***Ps 23,908***	***Ps 19,308***	***Ps 17,108***

Million pesos.

1. From 1Q12 and up to 3Q16, Afore XXI Banorte's results were presented on Banco Mercantil del Norte´s results through participation method; as of 4Q16, results are reported in Seguros Banorte. For informative and comparative purposes of this segments profits, Afore XXI Banorte profits are presented in its corresponding business segment.

<u>Comparative analysis: Summary of the years ended December 31, 2017 and 2016.</u>

For comparison purposes 2015 results were adjusted to reflect the INB deconsolidation in 2016. Therefore, they will differ from those published in the Annual Report submitted to the authority in April 2015.

Net Interest Income

GFNorte´s Net Interest Income (NII) grew +19% YoY from Ps 53.06bn in 2016 to Ps 63.37 bn in 2017, mainly driven by **NII from Insurance and Annuities** which totaled **Ps 56.8bn in 2017**, up +21% vs. 2016. This increase was driven by the balance sheet re-pricing derived from the progressive increase in Banxico´s reference rates (150bp during 2017) which were implemented across the loan book mix. Therefore, Net Interest Income from loan book and deposits grew **+19%,** while NII from securities investments and repos increased **+49%** during the same period.

Accumulated **Net Interest Margin (NIM) totaled 5.5%**, up +60bp YoY, as a result of a profitable loan book mix, and the effects of balance sheet re-pricing from the high-rate cycle.

Provisions

During 2017, **Loan Loss Provisions totaled Ps 15.21bn**, up +14% YoY, maily explained by higher provision requirements from the most dynamic consumer loan books (credit cards, payroll and personal loans). Mortgage and government loans required lower provisions.

Loan Loss Provisions accounted for **24.0%** of Net Interest Income during the year, down (1.1 pp) vs. 2016.

Non-Interest Income

During 2017, Non-Interest income totaled Ps 17.8bn**, up +8% YoY, of which two thirds is explained by Service Fees growth.**

Non- Interest Expense

Non-Interest expense totaled Ps 34.06bn during 2016, up +9% YoY, as a result of an increase in:

Efficiency rate, which showed a progressive improvement during 2017, totaling 41.9%, (300bp) YoY, from positive operating leverage.

Net Income

GFNorte´s Net Income during 2017 was Ps 23.9bn, up +24% YoY, as a result of a positive trend in both, Net Interest Income and Non-Interest Income.

ROE in 2017 was 16.98%, favorably compared to the 13.91% in 2016. Shareholders Equity had a +3% YoY increase, while **ROTE was 20.86%,** up +353bp YoY. Moreover, **accumulated ROA was 1.86%** during 2017, up +26bp YoY, and **RAPR reached 3.8%,** up +66bp YoY

Performing Loan Book

Performing Loans increased +9% YoY totaling Ps 615.6bn in 2017. Despite a slight deceleration, the consumer book showed an outstanding +19% growth, well above the banking system´s growth during 2017, showing the bank´s solid origination capabilities, underpinned by its analytics and technological infrastructure. Commercial, Corporate and Government books, showed moderate growth dynamics, in line with those of the banking system.

Non-Performing Loans

Non Performing Loans totaled Ps 12.48bn at the end of 2017, up Ps 2.17bn or +21% YoY as a result of an overall deterioration in consumer loans, while commercial loans show a noticeable improvement. A Ps 1.4bn corporate exposure was registered as NPL during 4Q17; this case is under restructuring.

During 2017, NPL totaled 1.99%, up +20bp YoY, mainly reflecting the increase in consumer loans as well as the corporate case mentioned above. NPL by segment performed as follows:

Past Due Loans

During 2017, Past Due Loans were Ps 12.48 billion, up Ps 2.17 billion or +21% YoY. There is an annual deterioration of consumer loans, while commercial loans show remarkable improvement. There was a Ps 1.4 billion corporate credit was recorded in the past due loans portfolio ; this exposure is under restructuring.

In 2017, Past Due Loan Ratio reached 1.99%, improving +20bps vs. 2016, driven by deterioration in corporate and consumer books. The evolution for the segment indexes are as follows:

Deposits

At the end of 2017, Total Deposits amounted to Ps 640.82bn, a +12% increase driven by an increase in Time deposits and Money Markets throughout the year as a natural migration to interest bearing instruments during the high-rate cycle. Thus, total deposits grow +12% and Total Assets Under Management grow +11% YoY.

Monthly stock performance for the last 6 months:

Date	Maximum	Minimum	Close	Volume of Shares (Daily Average)	Total Volume Operated
31/10/2017	127.90	105	113.78	10,770,727	215,414,538
30/11/2017	113.99	106.51	109.30	9,052,324	181,046,494
31/12/2017	111.69	100.51	107.83	5,886,491	117,729,823
31/01/2018	120.00	105.05	119.58	7,971,428	159,428,547
28/02/2018	119.94	112.10	113.16	5,817,505	116,350,104
31/03/2018	120.39	109.71	111.13	6,662,841	133,256,819

In Section 2. "a) The Company - Development and History of the Company" of this Annual Report are the Material Events of 2017, as well as those which happened during the first quarter of 2018.

c) RISK FACTORS

The risks and uncertainties described below are not the only ones faced by the Company and the importance of the risk attributed to them today may increase in the future. GFNorte's operations may also face unknown risks or risks that currently are considered immaterial. If any of the risks described below occur, they could affect adversely and significantly activities, results of operations, projections and the financial situation of the Company, as well as the price or liquidity of Shares. Unless otherwise stated, when referring to Banorte, only Banorte, our main subsidiary is considered. Unless otherwise indicated, or if in the context is required, the terms "GFNorte", "us" and "our" refer to Grupo Financiero Banorte, S.A.B. de C.V. and its subsidiaries.

a. Risks Related to Our Business

a.1. Our financial results are subject to fluctuations in interest rates and other market risks.

Market and interest rate risks refers to the probability of variations in our net interest income, in the market value of our assets and liabilities, and / or securities positions, due to interest rate volatility and other risk factors such as equity markets, exchange rates, etc. Changes in the above-mentioned risk factors affect the following business items:

- net interest income;
- funding cost;
- capital gains or losses;
- volume of originated loans;
- market value of financial assets and securities;
- gains / losses from sales of loans and securities by our subsidiaries.

a.2. We may be unable to effectively control the level of non-performing or low credit quality loans in our loan portfolio, and our loan loss reserves may be insufficient to cover future loan losses.

GFNorte complies with current regulations for rating loans, and considers that loans loss provisions provide coverage for expected loan portfolios losses for the next twelve months; nevertheless, we cannot assure that we will be able to control and reduce effectively the level of the impaired loans in our loan portfolio. Particularly, the amount of our reported non-performing loans may increase in the future as a result of growth in our loan portfolio or factors beyond our control, e.g. the impact of global financial crisis, macroeconomic trends, political events in Mexico or unexpected events. Such scenarios could negatively affect our operations' results.

As of December 31, 2017 and December 31, 2016, the aggregate outstanding principal amount and accrued interest of loans for Banorte's 15 largest clients (including corporate and Mexican government loans) represented 18.2% and 20.0% ,respectively, of its total loan portfolio. If the financial stability of any of these clients were to be negatively impacted by political, economic or industry-related events or any other factor, it could lead to an increase in Banorte's non-performing loans or low credit quality loans.

In addition, current loan loss reserves may not be adequate to cover an increase in the amount of non-performing loans or any future deterioration in the overall credit quality of Banorte's or any other subsidiary's loan portfolio. As a result, if Banorte's or any other subsidiary's loan portfolio deteriorates it may be required to increase their loan loss reserves, which may adversely affect our financial position and results of operations. Moreover, there is no precise method for predicting credit losses, and we cannot assure that Banorte's or any other subsidiary's loan loss reserves are sufficient to cover effectively incurred losses. If Banorte or any other subsidiary is unable to control or reduce the level of its non-performing or poor credit quality loans, their financial position and results of operations could be adversely affected.

a.3. The rules applicable to loan loss provisions have been modified throughout time.

The Mexican government, in an effort to adapt its resolutions to Basel Comitee´s recommendations, has implemented new regulations regarding the way in which Mexican banks should classify loans and determine the required loan loss reserves. These regulations from an incurred loss perspective to an expected loss perspective.

In 2009, the credit card loan book methodology was implemented, in 2010 the one for consumer loan book and mortgages, in 2011 for the government book, in 2013 for commercial loans, and in 2014 for the financial institutions's book. For further information regarding preventive loan loss reserves, please refer to section 8 "Annex, section c)Audited Financial Statements – Note 11 Preventive Loan Loss Reserve Estimation" in the Annual Report.

Moreover, CNBV (The National Banking and Stock Market Commission) adjusted the rating methodology for revolving consumer loans, in place since april 2016, as well as the rating methodology for non-revolving credit and mortages, in place since june 2017, with the objective of incorporating the external credit behavior and leverage levels of our customers as reported by Credit Information Entities.

Starting in January 2018, the CNBV authorized Banorte to use its internal methodology with an advance rating focus for Loan Loss Reserve and Capital Requirements calculation by credit risk for consumer revolving loans. Such rating methodology is calibrated with the historic credit behavior of our customers with Banorte and also with other financial institutions.

In the future, CNBV could modify the accounting criteria to determine loan loss subsidies, and may continue modifying methodologies to measure credit risk and/or preventive loan loss reserves requirements for the rest of the portfolios. This could negatively affect the operating results and financial performance of GFNorte and any of its subsidiaries.

a.4. Banorte has experienced asset quality problems, including collaterals, and has reported relatively large loan losses.

As is the case with many Mexican banks, the asset quality of Banorte's loan portfolio, including collaterals, was negatively affected by the unfavorable financial and economic conditions prevailing in Mexico due to global financial crisis that commenced in September 2008. Mexican regulatory authorities and the Banking System responded to this situation in several ways, even amending Mexican Banking GAAP to include the possibility of reclassification for certain "available for sale securities" into "held to maturity securities" and broadening the types of securities available for repurchase. Other regulatory responses have included imposing more rigorous loan loss reserve requirements and capitalization standards, as well as adopting a number of programs designed to provide relief to Mexican borrowers through the granting and restructuring of performing loans. Future changes on reserve requirements could have an adverse impact on our financial results, which could affect our ability to pay dividends to our shareholders. Unfavorable financial and economic conditions in Mexico may deteriorate Banorte and cause asset quality problems, which would increase loan loss provisions, leading to potential negative impacts on its financial results.

In Mexico, foreclosure procedures may be subject to delays and administrative requirements that may result in lower levels of recovery on collateral compared to its original value, even though the financial reform aims to make these process more diligent. In addition, other factors such as defects in Banorte's collaterals fulfillment, fraudulent transfers by borrowers or a reduction in the value or liquidity of the collateral may impair its ability to recover on its collateral. Accordingly, there cannot be assurance that we will be able to realize the full value of our collateral. As a result, lower recovery rates, asset quality deterioration, decreased value of collateral and lower levels of recovery on collateral compared to its value, could have a material and adverse effect on our business, financial condition and results of operations.

a.5. We are exposed to home building development sector's performance, and the amount of non-performing loans granted to this sector, could adversely affect our results of operations and financial condition.

Through our subsidiaries Banorte and Sólida, we granted loans and participated, through specialized trust operations, on home development projects. Some companies in this sector have experienced and / or experienced financial distress.

During 2015 and 2016, three main housing developers in the country (Corporación GEO, S.A.B. de C.V., Desarrolladora Homex, S.A.B. de C.V. and Urbi Desarrollos Urbanos, S.A.B. de C.V.), concluded their bankruptcy processes which allowed them to restructure their debts with their creditors, among which are some of the subsidiaries of GFNorte. For further information, refer to section 8 *"Annexes. Subsection c) GFNorte's Audited Financial Statements – Note 2 Significant Events During The Year"* of this Annual Report.

As of December 31, 2017, we had a loan exposure to Urbi, GEO and Homex amounting to Ps 2.25 billion representing 0.4% of GFNorte's total loan portfolio. The total credit exposure had a 100% collateral coverage. The loan loss reserve coverage on the overall exposure was 35.6% at the end of 2017.

As of December 31, 2017 Sólida had Ps 5.31 billion in investment projects on those companies.

We cannot provide assurance of the level of recovery that we can achieve from the loans to this sector or that our current reserves will cover the total losses expected from loans in the home building development sector, which could adversely affect our results of operations and financial condition.

a.6. We may be unable to successfully implement and continue to improve our credit risk management system, which could substantially and adversely affect our results of operations and financial position.

One of the main risks Banorte faces as a credit institution is credit risk. Therefore, the bank is always seeking have state of the art tools and adequate models to value the impact from unfavorable scenarios for the portfolio. However, it is probable that we may not be able to develop a credit risk management system that functions effectively. For example, an important part of Banorte's credit risk management system is the usage of an internal credit rating system to assess the particular risk profile of customers. As this process involves detailed analyses of customer's credit risk, considering both quantitative and qualitative factors, it is subject to human error. In exercising their judgment, Banorte's employees may not always be able to assign an accurate credit rating or to identify a customer's credit risk, which may result in exposure to higher credit risks than those indicated by Banorte's risk rating system. In addition, Banorte has been trying to refine and strengthen its credit policies and guidelines to address potential risks associated with particular industries or customers, such as affiliated entities. However, Banorte may not be able to timely detect these risks before related losses occur, or due to limited resources or tools available, its employees may not be able to implement effectively the risk identification and management system, which may increase its credit risk. As a result, failure to implement effectively, monitor consistently or revise continuously Banorte's risk management system may result in an inappropriate measurement of risk exposure, which could materially and adversely affect our results of operations and financial position.

a.7. The credit card industry is highly competitive and entails risks.

Our credit card business, as any other, has inherent risks related to the total revolving debt level that each individual may take in the financial system and his payment behavior, resulting from his capacity and willingness to pay.

Our current growth strategy is to increase the credit card portfolio according to the desired risk appetite set by the Financial Group; this strategy leverages the relationship with the Financial Group's clients that do not have a credit card through cross-sale efforts and focuses in already known low-risk and highly profitable segments, aiming to maintain the same profile and level of risk.

However, we cannot assure that adverse or material effects may arise as a result of higher risk exposure derived from such growth as there are risks attached to the willingness and creditworthiness of our customers, for instance, credit offer in the market and economic conditions.

Furthermore, credit card products are characterized by higher consumer default than other consumer credit products, and defaults are highly correlated with macroeconomic indicators that are beyond our control. If Mexican economic growth slows or declines, or if we fail to effectively analyze the creditworthiness of our customers, we may be faced with unexpected losses that could have a material adverse effect on us, including our financial condition and results from operations.

a.8. The retail banking market is exposed to macroeconomic shocks that may negatively impact household income and a downturn in the economy could result in increased loan losses.

One of our main strategies is to focus on the retail banking sector so we can grow our loan portfolio. The recovery of these loans in particular, as well as our ability to increase the amount of performing loans and our results of operations and financial condition in general, may become increasingly vulnerable to macroeconomic shocks that could negatively impact the household income of our retail customers and result in increased loan losses, which in turn could have a material adverse effect on us.

Furthermore, because of the historically low penetration of banking loan products in the Mexican retail sector, there is little evidence on which to estimate retail sector's performance in the event of an economic crisis, such as a recession or a significant devaluation, among others. Consequently, our historical loan loss experience may not be indicative of the performance of our loan portfolio in the future.

a.9. Banorte maintains lower levels of capital or reserves in connection with loans to the Mexican Federal, State and Municipal governments.

The Mexican regulation regarding capitalization and creation of reserves for loan losses in credit institutions generally require significantly lower capitalization levels or reserves constitution regarding to loans granted to the Mexican Federal, State or Municipal governments (together, the "***Governmental Loans***").

Recently, Banorte has constituted sufficient capital and reserves pursuant to new regulations in Mexico which require provisions according to expected losses for governmental loans, and these reserves represent a lower percentage of the total portfolio of its corresponding loans compared to the percentage of reserves established in portfolios for other segments; nonetheless, this situation is inherent to the risk profile of the portfolio. As of December 31, 2017 Governmental loans amounted to Ps. 132.82 billion, or 21.6% of Banorte's total loan portfolio; whereas, in GFNorte amounted to Ps 134.91 billion or 21.5% of its total loan portfolio. As a result, if the credit quality of Governmental Loans were to deteriorate, either specifically or at a generalized level, this could result in an adverse impact on our financial position and results of operations, and this impact would be in function of the size of the exposures to these entities, the extent of the deterioration in their risk level assigned according to the methodology approved by the CNBV, and the guarantees of these loans, among other factors. As of December 31, 2017, non-performing loan balances were not registered in GFNorte's government sector nor in Banorte's.

It is important to highlight that loans are granted to a State or a Municipal government through a decree, which authorizes funding under specific conditions (amount, term, rate, etc.), and are not granted to a specific governor or municipal president, for that reason, subsequent administrations have to recognize prior operations.

a.10. Some of GFNorte's loans to Mexican States and Municipalities may be restructured.

State and Municipal governments and credit institutions, including Banorte, have, from time to time, agreed to refund or restructure Governmental Loans. In this process, modifications in terms and reductions in interest rates have been made. As of December 31, 2017, GFNorte have restructured for Ps.8.48 performing loans. There cannot be assurance that other Governmental Loans or even already restructured loans will not be similarly restructured in the future in a way that would be materially adverse to us and our subsidiaries.

In May 26, 2015 the Constitutional Reform through which provisions regarding Financial Discipline were amended and added was published, this aims to establish limits on indebtedness for States and Municipalities, as well as diverse control and transparency measures.

Derived from the aforementioned, the Law on Financial Discipline for the States and Municipalities was published on April 27, 2017; consequently, restructuring or refinancing activities as of this date shall consider measurements on financial discipline, indebtedness limits and transparency –to be published in the corresponding governmental websites- and must be registered in the SHCP's Unique Public Registry.

a.11. Many of our loans to Mexican State and Municipal governments are secured by cash flows from the Mexican Federal Government.

Most of our loans to Mexican State and Municipal governments are secured by such entities' right to receive their corresponding allocation of Federal Participations ("*Participaciones Federales".)*

Furthermore, as *Participaciones Federales* rely on the condition of the Mexican economy, the structure of our loans is affected by 2x or 3x the monthly amount of the amortization and interests we receive, this is a protective measure facing the adverse economic factor that could lead to a reduction of this source of payment

a.12. The future of lending to the government sector in Mexico is uncertain.

Our business is subject to a continuously evolving regulatory and legislative regime of financial service laws, regulations, administrative actions and policies in each jurisdiction in which we operate. Furthermore, due to certain high profile restructurings of Mexican State and Municipal debt in April 2016 the Mexican Congress approved changes on this subject. Consequently, State and Municipal governments now will have to comply with the Law on Financial Discipline for the States and Municipalities which seeks to organize and align budgetary and financial instruments of the States, Municipalities and agencies to ensure a sustainable administration of local public finance. This Law established general principles on financial discipline including among others, rules to incur and register debt –applicable to states and municipalities, as well as rules to participate in competitive processes for granting credit. Neverthless, we expect that these measures lead to sounder public finance and transparency in debt allocation, the implementation of these provisions will be gradual and the benefits of such new standards will materialize within the next one to six years; therefore, we cannot forecast the impact on our business.

Additionally, although State and Municipal public debt is regulated by Mexican regulation, there are certain provisions and limitations set forth in the Mexican Federal Constitution, in local constitutions, and other Federal and State laws (especially in connection with using *participaciones federales* as a source of payment and the use of *participaciones federales* as a public funding investment). In the past, there have been inconsistencies between State law and Federal law which have been subject to resolution by the Mexican Supreme Court. Some of these judgments have had an adverse effect on the manner in which Governmental Loans have been granted. We cannot ensure that future judicial interpretations or resolutions will not have an adverse effect on our Governmental Loans.

a.13. Exposure to Mexican Federal government debt could have a material adverse effect on us.

Like many other Mexican financial groups, we invest in debt securities of the Mexican government. As of December 31, 2016, approximately 29% of GFNorte's total assets were comprised of debt securities issued by the Mexican government.

Any failure by the Mexican government to fulfil timely payments under the terms of these securities, or a significant decrease in their market value, will have a material adverse effect on us.

a.14. Our borrowers that are Mexican Federal, State or Municipal governments or agencies may claim privileges under Mexican law, and our ability to sue and recover may be limited.

Article 9 of the Fiscal Coordination Law (*Ley de Coordinacion Fiscal*) provides that *participaciones federales* corresponding to States and Municipalities may not be subject to attachment or liens, may not be assigned for specific objectives or subject to retention or withholding, except that they may be used to satisfy payment obligations of such states and municipalities whenever, previously and according to the regulation, they comply with the following conditions:

- have the authorization of the local congress;
- be in the Registry of State Debt;
- be in the Unique Public Registry of the SHCP;
- be registered in the Management Trust used that serves as vehicle of payment;
- have a positive legal opinion by which the modifications of the *participaciones federales* be confirmed.

The risk that any of the three levels of government may claim privileges, reducing our capacity to sue or recover debts is limited to the constitutional provisions that state the non-retroactivity of laws.

In addition, it is worth noting that article 4 of the Mexican Federal Code for Civil Procedures (*Codigo Federal de Procedimientos Civiles*) does not allow attachment prior to judgment or attachment in and of execution upon a judgment by a Mexican court upon any of the assets of the Federal, State or Municipal governments or their agencies, so sentences would not be executed against such governments or agencies if tax burden or public goods be constituted as guarantee of our loans. The aforementioned, could adversely affect our financial situation or results of operations of our business; therefore, in such cases, our guarantees must always be private goods.

a.15. Loan loss reserves in Mexico differ from those applicable to banks in the United States and other countries.

GFNorte is required to classify each loan type according to a risk assessment based on criteria established by Mexican banking regulations and to constitute corresponding reserves. The criterion to establish reserves includes both qualitative and quantitative factors. Mexican banking regulations related to loan classification and determination of loan loss reserves are generally different than those applicable to banks in the United States and certain other countries.

a.16. The short-term nature of Banorte’s funding sources may imply a liquidity risk.

We anticipate that in the near future, customers in Mexico will continue to demand short-term deposits and that Banorte will maintain a core of stable deposits based on the trust of the depositors of the Institutions. Regardless that the short term nature of this source of funding may cause a liquidity problem, a statistical analysis has shown that term and demand deposits have shown a stable long term behavior that guarantees this source of funding. However, if a substantial number of customers fail to roll over their deposits at maturity or withdraw them, Banorte’s liquidity position could be affected, and more expensive funding sources may be required, affecting then our financial condition and results of operations.

As of December 31, 2017, 99.99% of GFNorte's and Banorte’s, in both cases, local and foreign currency traditional deposits had maturities of one year or less or are payable on demand (*See section 8 “Annexes. Subsection c) GFNorte’s Audited Financial Statements – Note 21 Deposits”* of this Annual Report and s*ection 8 “Annexes. Subsection c) Banorte’s Audited Financial Statements – Note 19 Deposits*” of Banorte’s Annual Report).

a.17. Liquidity and funding risks are inherent to our business.

Considering the nature of the traditional banking operations, it is acknowledged that institutions’ funding needs increase on par of the credit portfolio, then with the aim of having a sustained growth on the credit portfolio an equivalent growth of the stable funding sources is required.

For the purpose of providing an accurate measurement of the liquidity risk and funding needs, a series of metrics have been implemented such as liquidity gaps and survival horizon, both identifying liquidity and funding mismatches originated by the operational flows of the institution, thus helping to detect funding needs and the institutions capabilities to cover its short and medium term funding needs, securing then Banorte’s liquidity rate. Additionally, the institution analyses its liquidity and funding needs under adverse economic scenarios with Stress Testing and Liquidity Coverage Ratio, where the latter is a regulatory measurement that enables a consistent comparison of the liquidity positions of the institutions across the financial system.

Furthermore, and in line with the current regulation and industry best practices, Banorte has implemented a Contingency Funding Plan and a Solvency and Liquidity Contingency Plan, both of which establish recovery strategies under adverse events based on monitoring liquidity indicators and early warning alerts.

a.18. We engage in transactions with our subsidiaries and affiliates on terms that others may not consider to be on an arm’s length basis.

We have entered into certain service agreements with subsidiaries and affiliates, allowing them to offer their products and services within Banorte’s branch network in exchange of certain fees. In addition, we and our subsidiaries and affiliates have entered into a number of agreements to share revenues or expenses in connection with the performance of certain activities, including loan recovery.

Mexican law applicable to public companies and financial groups and institutions and our by-laws provide for several procedures designed to ensure that the transactions entered into with or among our financial subsidiaries do not deviate materially from prevailing market conditions for those types of transactions, including the approval by our Board of Directors and the receipt of an independent expert’s opinion.

We are likely to continue to engage in transactions with our subsidiaries and affiliates, and our subsidiaries and affiliates are likely to continue to engage in transactions among themselves, and no assurance can be given that the terms that we or our subsidiaries consider to be “substantially on market conditions” will be considered as such by third parties. In addition, future conflicts of interest between us and any of our subsidiaries or affiliates, and among these, may arise, which may or may not be resolved in our favor. (*See section 4 “Administration, subsection b)Operations with Related Parties and Conflicts of Interest” of this Annual Report.)*

a.19. We are exposed to volatility in Peso exchange rates and interest rates in Mexico.

We are exposed to currency risk any time we hold an open position in a currency other than Pesos and to domestic and foreign interest rates risk. A sustained increase in interest rates may cause losses in the assets or securities portfolio, increasing our funding costs and may reduce GFNorte’s loan demand, especially on retail banking products. Although the majority of our loan portfolio is subject to revisable rates, increases on interest rates may therefore require us to re-balance our asset portfolio and our liabilities in order to minimize the risk of potential mismatches and maintain our profitability.

a.20. We are subject to market and counterparty risks associated with derivative transactions, as well as structuring risks and the risk that documentation does not incorporate accurately the terms and conditions of derivative transactions.

Banorte performs financial derivative transactions primarily for hedging purposes, trading and, to a lesser extent, on behalf of its customers. Accordingly, we are subject to market risk by unfavorable fluctuations in risk factors and operational risks associated with these transactions, including basis risk (the risk of loss associated with variations in the spread between the asset yield and the funding and/or hedging cost) and counterparty or default risk (the risk of insolvency or other inability of the counterparty to a particular transaction to perform its obligations thereunder). Likewise, the counterparty risk associated with margin calls to our main counterparts. Market and counterparty risk monitoring is carried out using robust risk systems and on a daily basis.

a.21. Our growth strategy is in part dependent on our ability to acquire other financial institutions and we may not be successful in integrating the operations of those financial institutions.

Our ability to continue to grow by acquisitions is dependent upon, and may be limited by, the availability of suitable acquisition candidates, our ability to negotiate acceptable acquisition terms and our assessment of the characteristics of potential acquisition targets such as:

- financial condition and results of operations;
- attractiveness of products and services;
- suitability of distribution channels;
- management ability; and
- the degree to which the acquired operations can be integrated with our operations and systems.

Furthermore, the completion of these acquisitions is subject to a number of risks, including the following:

- access to capital and financing sources;
- restrictions contained in our debt instruments;
- the uncertainty of the legal environment related to mergers and acquisitions; and
- ability to integrate successfully the operations of the acquired entity with ours.

Growth through acquisitions involves risks that could have a material and adverse effect on our results of operations, including:

- difficulties in integrating the operations;
- undisclosed liabilities and other hidden asset quality problems which could significantly impact the capital requirements or applicable reserves;
- failure of the acquired entities to achieve expected results;
- non-qualified personnel of the acquired companies;
- diversion of management attention from the operation of the existing businesses;
- possible inability to achieve expected synergies and/or economies of scale; and
- the potential loss of key personnel and customers of acquired companies.

We cannot assure that we will be able to identify suitable acquisition candidates, complete the acquisitions on satisfactory terms or, if any such acquisitions are consummated, satisfactorily integrate the acquired businesses.

We acquired Bancentro in 1996, Banpais in 1997, Bancrecer in December 2001, INB (sold as of March 31, 2017) and Uniteller in 2006, Motran in 2007 (merged with Uniteller in 2014) and Ixe Afore, Afore Ahorra Ahora and Afore Argos in 2009. Furthermore, in 2011 we significantly expanded through our merger with Ixe GF, in 2012 we merged our Afore with Afore XXI. In January 2013, we acquired Afore Bancomer, thereby creating the largest pension fund management company in Mexico. Moreover, in October 2013 we acquired the stake Generali held in the Seguros Banorte Generali (Insurance) and Pensiones Banorte Generali (Annuities).

Furthermore, on November 19, 2015 the Extraordinary Shareholders' Meeting approved the merger between Banorte, as the merging and subsisting entity, and Banorte-Ixe Tarjetas, as the merged or extinguished company,This merger was effective as of May 2, 2016.

As of April 29 2016 the Subholding Previsión was constituted in terms of LRAF. On September 1, 2016, as result of the increase in the variable portion of Banorte Ahorro y Previsión equity, GFNorte transferred to the former, its holding of Pensiones Banorte and Seguros Banorte shares.

Moreover, on October 17, 2016 Banorte's spin-off became effective; thus, originating the spun-off company Banorte Futuro which received the representative shares of Afore XXI Banorte, previously held by Banorte. The same day, as result of the increase in the variable portion of Banorte Ahorro y Prevision's equity, GFNorte transferred to the former its holding of Banorte Futuro shares. Immediately after, Banorte Ahorro y Prevision transferred to Seguros Banorte its holding of Banorte Futuro shares, as result of the increase in the fixed portion of its equity.

On December 5, 2017, the Extraordinary General Shareholders' Meeting of GFNorte approved the merger of the Company as a merger or that subsists, with Grupo Financiero Interacciones, S.A.B. of C.V., as merged or that is extinguished, said agreement was subject to obtaining authorization from the SHCP, with the prior opinion of the CNBV and Banxico. The merger of the financial entities that are members of both Financial Groups is included in the transaction.

The merger with some of these companies has resulted in and may continue to result in labor termination payments, contingent liabilities and certain penalties. We cannot predict if these events will continue or, if they continue, whether they will materially and adversely affect our business and operations. Furthermore, we could face similar problems in integrating any other merger, acquisition or business combination in the future.

If we are unable to implement and manage our growth strategy, our financial results, operations and business could be materially and adversely affected.

a.22. We may need additional capital in the future, and may not be able to obtain it on acceptable terms, or at all.

In order for us to grow, remain competitive, enter into new businesses, or meet regulatory capital adequacy requirements, we may require new capital in the future. Likewise, we may need to raise additional capital in the event of large losses derived from any of our activities that result in a reduction of our stockholders' equity. Our ability to obtain additional capital in the future is subject to a variety of uncertainties, including:

- our future financial position, results of operations and cash flows;
- any government regulatory or corporate approvals;
- general market conditions for capital raising activities by commercial banks and other financial institutions;
- any reduction in our credit rating or the credit rating of our subsidiaries; and
- economic, political and other conditions in Mexico and elsewhere.

Banorte complies with the current regulation by monitoring its capital requirements on timely basis and revising its future capital need through financial projections under ordinary and stress scenarios, including in the latter category, the Capital Adequacy Assessment, indicating that capital adequacy in the institution is strong even under adverse economic conditions.

a.23. We are subject to capital adequacy requirements. Any failure by us to maintain this ratio will result in administrative actions or sanctions which may affect our ability to fulfill our obligations, including losing our banking license.

In order to sustain Banorte's operations, and with the aim of anticipating future capital needs, a Capital Plan has been implemented based on the balance growth expectations under normal and stress conditions, while including contingent events that could have an impact on the capital requirements or in the available capital during the planning period.

Our Capital Plan is related to the Capital Adequacy Assessment established in local regulation and encompasses both regulatory and internal stress scenarios, as well as the institution's Solvency and Liquidity Contingency Plan, which lays down recovery strategies based on monitoring risk measurements and an early warning system.

A new regulation issued by the CNBV establishes that our instruments of non-fundamental basic capital and complementary capital will not be able to compute over 50% of our fundamental capital in case our Fundamental Capital Coefficient is positioned below 10.0%. As of December 31, 2017, said coefficient was 11.93%.

Moreover, in 2017 Banorte was designated Level II - Domestic Systemically Important Financial Institution by the CNBV; therefore, Banorte must maintain a capital buffer of 0.90 pp, to be constituted progressively in up to four years starting on December 31, 2016. Minimum Capitalization Ratio ("CR") stood at 10.95% at the end of 2017 (corresponding to the minium regulatory of 10.5% plus supplementary capital constituted as of that period).

a.24. Reductions in our credit ratings or those of any of our subsidiaries would increase our cost of borrowing and negatively impact our ability to raise new funds, attract deposits or renew maturing debt.

Our credit ratings are an important component of our liquidity profile. Our clients, creditors and counterparties in financial derivative transactions (and those of our subsidiaries) are sensitive to the risk of a rating downgrade. Changes in our credit ratings or those of any of our subsidiaries would increase the cost of raising funds in the capital markets or of borrowing funds or could restrict our participation in certain activities. In addition, our ability to renew maturing debt may be more difficult and expensive.

The ability of Banorte, our banking subsidiary, to compete successfully in the marketplace for funding depends on various factors, including its financial stability reflected by its credit ratings. A downgrade in Banorte's credit ratings may adversely affect perception of GFNorte's or any other subsidiaries' financial stability, which could significantly affect our business, financial conditions and results of operations.

a.25. We are exposed to risks faced by other financial institutions.

We routinely transact with counterparties in the financial services industry, including brokers, dealers, commercial banks, investment banks, mutual funds, hedge funds and other institutional clients. Defaults by, and even rumors or questions about the solvency of, certain financial institutions and the financial services industry generally have led to market-wide liquidity problems and could lead to losses or defaults by other institutions. Many of the routine transactions we engaged, expose us to significant credit risk in the event of default by one of our counterparties. Concerns relating to the financial soundness of a number of European governments, the European sovereign debt crisis, the deceleration of economic growth in major economies and emerging markets, oscillation in oil prices and commodities. the uncertainty regarding the new economic, political and commercial environment derived from the actual government in the United States, and new trends in trade protectionism have, contributed to volatility of the equity and credit markets, and the risk of contagion throughout the European financial system (in which some of our most important competitors' headquarters operate) and beyond Eurozone remains, as a significant number of financial institutions throughout Europe have substantial exposures to sovereign debt issued by nations which are under considerable financial pressure. These liquidity concerns have had, and may continue to have, an adverse effect on interbank financial transactions in general. Should any of these nations default on their debt, or experience a significant widening of credit spreads, major financial institutions and banking systems throughout Europe could be destabilized. A default by a significant financial counterparty, or liquidity problems in the financial services industry generally, could have a material adverse effect on our business, financial position and results of operation.

a.26. We are subject to significant competition from other financial groups in providing financial services.

We face strong competition in all sectors of our business, including our banking business. The competition comes principally from Mexican and foreign banks, mortgage banking companies, consumer finance companies, insurance companies, other credit institutions, brokerage houses and financial advisory institutions. We anticipate that we will encounter greater competition as we continue expanding our operations in Mexico. A number of institutions with which we compete have significantly greater assets and capital, name recognition and other resources. Besides traditional banking services, specialized entities exist such as non-regulated multiple purpose financial companies (*Sociedades Financieras de Objeto Multiple*), which if not part of a financial group, are not subject to the extensive Mexican banking regulations to which Banorte and its subsidiaries are subject, including for example, maintaining certain levels of capital and reserves for loan losses. As a result, certain of our competitors may have advantages in conducting certain businesses and providing loans and other financial services.

Competition is also likely to increase as a result of the entry of new participants into the financial services sector derived from the financial reform, which aims to strengthen development banks in order to complement services offered by commercial banks, as well modify legal framework of the later and promote more and cheaper loans offered by credit institutions. Mexican financial authorities continue granting licenses for the establishment and operation of several new financial institutions.

In addition, legal and regulatory reforms in the Mexican banking industry have also increased competition among banks and among other financial institutions. Various reforms to the Mexican Banking Law allow the incorporation of limited purpose banks (bancos de nicho), which can only engage in those activities expressly authorized by the CNBV and set forth in their by-laws, and are subject to fewer regulatory requirements (including a lower capital requirement) depending on such authorized activities. Therefore, Banorte could experience higher competition in certain sectors of its business should the CNBV grant many limited purpose banking licenses. We believe that the Mexican government's commitments to adopt accelerated regulatory reforms in, and the liberalization of, the Mexican financial industry have resulted in increased competition among financial institutions in Mexico. As the reform of the financial sector continues, foreign financial institutions, many with greater resources than us, will continue to enter the Mexican market either by themselves or in partnership with existing Mexican financial institutions and compete with us. There cannot be assurance that we will be able to compete successfully with such domestic or foreign financial institutions or that increased competition will not have a material adverse effect on our financial position or operating results.

As a result of Banorte's entry into the U.S. banking sector through the acquisition of INB (in sale process) and Uniteller in 2006 and Motran in 2007 (merged with Uniteller in 2014), GFNorte has faced strong competition from U.S. based financial groups, commercial banks and other financial institutions. In particular, Banorte's banking operations in the U.S. face competition from domestic and international banks, as they have a significant presence in the regions covered by INB. Furthermore, we face strong competition from regional and local banks in the U.S. regions in which we operate.

An increase in competition or a more aggressive competition strategy by our competitors may force GFNorte to decrease certain active rates or pay higher interest rates on deposits and operating creditors, to avoid losing clients preferring more attractive rates offered by other banks, which would increase our interest expenses and reduce our net interest income and, consequently, adversely impact our financial position or operating results.

In addition, if our customer service levels were perceived by the market to be materially below those of our competitor financial institutions, we could lose existing and potential business. If we are not successful in retaining and strengthening customer relationships, we may lose market share, incur losses on some or all of our activities or fail to attract new deposits or retain existing deposits, which could have a material adverse effect on us.

a.27. Our ability to maintain our competitive position depends, in part, on the success of new products and services we offer our clients and to our ability to continue offering products and services from third parties.

The success of our operations and our profitability depends, in part, on the success of new products and services we offer our clients and to our ability to continue offering products and services from third parties. However, we cannot guarantee that our new products and services will be successfully responsive to clients' demands, or that they will be successful in the future or that we will have the information systems, personnel or innovative capacity sufficient to offer our clients the products and services they demand. In addition, our clients' needs or desires may change over time, and such changes may render our products and services obsolete, outdated or unattractive and we may not be able to develop new products that meet our clients' changing needs. If we cannot respond in a timely fashion to the changing needs of our clients, we may lose them, which could in turn materially and adversely affect our business, financial position and results of operation.

As we expand the range of our products and services, some of which may be at an early stage of development in the Mexican market, we will be exposed to new and potentially increasingly complex risks and development expenses, with respect to which our experience and our partners' may not be helpful. Our employees and our risk management systems may not be adequate to handle such risks. In addition, the cost of developing products that have not been launched is likely to affect our results of operations. Any or all of these factors, individually or collectively, could have a material adverse effect on our business, financial position and results of operation.

a.28. Banorte's increasing focus on individuals and SMEs could lead to higher levels of non-performing loans and subsequent charge-offs.

Part of Banorte's business strategy, seeks to increase lending and other services to individuals and SMEs. Individuals and SMEs are, however, more likely to be adversely affected by downturns in the Mexican economy than large corporations and high income individuals are. Consequently, GFNorte may experience higher levels of non-performing loans, which could result in higher provisions for loan losses. Non-performing loans related to individuals (consumer and mortgage loans) and SMEs represented 2.3% and 5.3%, respectively, as of December 31, 2017, compared to 2.1% and 6.3% as of December 31, 2016. During 2016 lending to SMEs reactivated, I increasing 7.8% in 2017 coupled with an improvement in asset quality, as NPL ratio decreased 94 basis points. We cannot provide assurance that the levels of non-performing loans and subsequent charge offs will not be materially higher in the future and affect our financial condition and results of operations.

a.29. We are subject to extensive Mexican governmental regulation, which is subject to frequent revisions and changes.

We are subject to extensive regulation by Mexican governmental authorities regarding our organization, operations, capitalization, corporate governance, transactions with related parties and other matters. These laws and regulations impose numerous requirements on us and our subsidiaries, including the maintenance of minimum risk based capital levels and loan loss reserves, regulation of our business practices, diversification of our investments, maintenance of liquidity ratios, regulation of loan granting policies and interest rates charged, other terms contained within loan agreements, as well as application of required accounting regulations. Amendments to financial laws could result in additional capital requirements and give financial authorities discretion to impose capital requirements or modify the usage of our net income.

Many of the applicable laws and regulations have been subject to extensive changes in recent years, some of which have had a material effect on our and our subsidiaries' financial and capitalization position and results of operations. For example, several laws were enacted during 2008 and 2009 by the Mexican Congress requiring the elimination of certain fees for credit cards, deposit accounts, and the use of ATMs, as well as granting the Mexican Central Bank the authority to approve, reject or limit account management and general fees that banks, including Banorte, charge to their customers and also granting the ability to impose penalties if in its judgment banking institutions are limiting competition among themselves. Moreover, Mexican financial regulatory authorities possess significant powers to enforce applicable regulatory requirements in the event of our or our subsidiaries' failure to comply with such regulatory requirements, including imposing fines, requiring that new capital be contributed, prohibiting the payment of dividends to shareholders or the payment of bonuses to employees, imposing sanctions or revoking our licenses and permits to operate our businesses; moreover, the 2014 financial reform aims to further strengthen these powers and grant greater discretion to authorities. In case we or our subsidiaries face significant financial problems or become insolvent or in danger of so, Mexican financial regulatory authorities have the power to take over our management and operations.

Given the current environment of frequent changes to laws and regulations affecting the financial services sector, there may be future changes in the regulatory system or in the enforcement of the laws and regulations that could adversely affect us and our subsidiaries. (See Section 2 "The Company, subsection b) Business Description – Applicable Legislation and Tax Situation – Applicable Law and Supervision" in this Annual Report.)

In particular, on July 26, 2010, the Group of Governors and Supervision Chiefs, the supervision body of the Basel Committee on Banking Supervision, reached broad agreement on the overall design of a capital and liquidity reform package for internationally active banking organizations around the world (known as Basel III), which includes, among others, the definition of capital, the treatment of counterparty credit risk, the leverage ratio and the global liquidity standard. On September 12, 2010, the Basel Committee announced a substantial strengthening of existing capital requirements in connection with Basel III. The full text of the Basel III rules and the results of a quantitative impact study to determine the effects of the reforms on banking organizations were published on December 16, 2010. These rules include, among others, the gradual elimination of securities that count as basic capital (Tier 1) and complementary capital (Tier 2) with prepayment provisions, based on incentives or the implementation of leverage ratios applicable to institutions, in addition to the capital requirements in effect based on risk over assets.

In order to strengthen the net capital of the banking sector, in accordance with the guidelines established by the Capital Accord issued by the Basel Committee (which primary goal is for banking institutions worldwide to increase their ability to deal with financial or economic turmoil through the integration of greater and higher-quality capital), the SHCP published on November 28, 2012 an amendment to the Mexican Banking Regulations that aims to, among others: (i) strengthen the composition of the net capital of banking institutions under Basel III guidelines, and (ii) allow certain securities issued by commercial banks to absorb losses incurred by these institutions when submitting a detriment in their capital, either through a conversion into their shares or by the loss of the agreed value at the time of issuance in order to be recognized as part of the net capital of such institutions. The regulations from this amendment were implemented on January 1, 2013 and are in force. (See Section 2 “The Company, subsection b) Applicable Legislation and Tax Situation – Applicable Law and Supervision - Adoption of New Rules in Mexico in accordance with Basel III” in this Annual Report.)

The application of provisions changing the methodology, calculation or compliance of Capital Ratios of banking institutions or the adoption of changes to the minimum requirements for Tier 1 and Tier 2 capital of banking institutions, overviewed by Mexican authorities, may have a material adverse effect on our business and results of operations.

On December 31, 2014 the CNBV published on the *Circular Única de Bancos* official document for Credit Institutions) guidelines to calculate the Liquidity Coverage Ratio (LCR) aiming to prevent banks from keeping free disposal liquid assets with high credit quality, as defined by the applicable general provisions, in order to fulfill their obligations and meet their liquidity needs for 30 days. These regulations became effective in January 2015.

We cannot provide assurance whether the reform packages regarding terms and conditions of government lending or the financial reform enacted on January 9, 2014, will not have a materially adverse effect on our business, financial condition or results of operations.

On December 31, 2014, the SHCP published the General Rules for Financial Groups, which stipulate March 31, 2016 as the deadline to adequate the Bylaws of the Holding Company on the resolution of conflicts of interest among the financial institutions integrating the Financial Group. Consequently, on November 19, 2015 GFNorte held an Extraordinary General Shareholders' Assembly, in which it was agreed to amend its Bylaws in order to adapt them to the regulations, subject to the authorization of competent authorities.

On November 26, 2013, the Mexican Congress approved a financial reform package that granted broader authority to financial authorities and ordered the Mexican competition authorities to initiate an investigation into the fairness of trade practices in the Mexican financial system.

One of the main aspects of the changes in recent years in the Mexican Banking Law approved by Congress consists of the authority granted to the SHCP to conduct evaluations of Mexican banks. The guidelines for such evaluations were published in the Official Gazette on December 31, 2014, and the final results of the first evaluation for 2015 were published on July 31, 2016, in which we received a positive evaluation, and no corrective measures were ordered. Negative or deficient results of evaluations may result in corrective measures being ordered, including a requirement that the bank present a plan to correct such deficiencies. In the event that we receive a negative or deficient evaluation in the future, it is uncertain what corrective measures may be ordered by the SHCP and whether the imposition of such measures may have a material adverse effect on our business.

In June 2014, the Mexican Supreme Court of Justice decided that federal judges have discretion to determine whether or not an interest rate agreed in a promissory note is evidently excessive, violating an individual's human rights, and consequently establishing a reduced rate. The elements the judge should take into account to determine if a rate is evidently excessive are:

- the type of relationship between the parties;
- the qualification of the persons intervening in the subscription of the note and if the activity of the creditor is regulated;
- the purpose of the credit;
- the amount of the loan;
- the term of the loan;
- the existence of guaranties for the payment of the loan;
- the interest rates applied by financial institutions in transactions similar to the one under analysis, as a mere reference;
- the variation of the national inflation index during the term of the loan;
- market conditions; and
- other issues that may be considered relevant by the judge.

The mandatory and partly discretionary application of such criteria in the lawsuits affecting our portfolio could have a material adverse effect on the interest rates we charge and on our operating results.

Changes in regulations may also cause us to face increased compliance costs and limitations on our ability to pursue certain business opportunities and provide certain products and services. As some of the banking laws and regulations have been recently adopted, such as the regulations implementing Basel III in Mexico (described below), the manner in which those laws and related regulations are applied to the operations of financial institutions is still evolving. No assurance can be given generally that laws or regulations will be adopted, enforced or interpreted in a manner that will not have a material adverse effect on our business and results of operations.

a.30. We are subject to Mexican and U.S. regulatory inspections, examinations, inquiries and audits that could result in sanctions or the imposition of corrective measures.

We are subject to comprehensive regulation and supervision by U.S. and Mexican regulatory authorities. The Mexican regulatory authorities include the Mexican Central Bank, CNBV, SHCP, CONSAR and CNSF. (See Section 2 "The Company, subsection b) Applicable Legislation and Tax Situation – The Mexican Financial System" in this Annual Report). These regulatory authorities have broad powers to adopt regulations and other requirements that affect all aspects of our capitalization, organization and operations, including changes to capital adequacy and reserve requirements, compliance with rules relating to secrecy, the imposition of anti-money laundering measures and the authority to regulate the terms of products, including the interest rates we charge and the fees we collect in exchange for services. Specifically, INB was required to take steps so that the U.S. Office of the Comptroller of the Currency, or OCC, would be in a position to assign satisfactory CAMELS (capital adequacy, asset quality, management, earnings, liquidity and sensitivity to market risk), which are ratings to the INB management.

Moreover, Mexican and U.S. financial regulatory authorities possess significant powers to enforce applicable regulatory requirements, including the imposition of fines, requiring that new capital be contributed, inhibiting us from paying dividends to shareholders or paying bonuses to employees, or the revocation of licenses to operate our business (including our banking or broker-dealer licenses).

In the event we encounter significant financial problems or become insolvent or in danger of becoming insolvent, Mexican banking authorities would have the power to take over our management and operations. (See Section 2 "The Company, subsection b) Applicable Legislation and Tax Situation – Applicable Law and Supervision" in this Annual Report).

As noted above, our business and operations are subject to increasingly significant rules and regulations that are required to conduct banking and financial services business. These affect our financial returns and include reserve and reporting requirements. The regulators seek to maintain the safety and soundness of Mexican financial institutions with the aim of strengthening the protection of customers and the financial system. The continuing supervision of financial institutions is conducted through a variety of regulatory tools, reports, visits to firms and regular meetings with management to discuss issues such as performance, risk management and strategy. In general, regulators in Mexico have a more outcome-focused approach that involves more proactive enforcement and more punitive penalties for infringement, including intervening in institutions and restricting dividends or bonuses to employees. As a result, we face significant high levels of supervisory scrutiny (resulting in increasing internal compliance costs and supervision fees) and in the event of a breach of our regulatory obligations we may face significant regulatory fines.

Some of the regulators focus primarily on consumer protection, including a focus on the design and operation of products, the behavior of customers and the operation of markets. Applicable regulations may prevent institutions such as ours from providing products to customers until changes are made to address the regulators' views on potential detriment to consumers. Regulations require us to be in compliance across all aspects of our business, including the training, authorization and supervision of personnel, systems, processes and documentation. If we fail to comply with the relevant regulations, we may face adverse impacts on our business from sanctions, fines or other actions imposed by the regulatory authorities, including the revocation of our authorization and the intervention in our operations.

Furthermore, customers of financial services institutions, including our customers, may seek redress if they have suffered loss as a result of an offered product, or through incorrect application of the terms and conditions of a particular product.

Given the inherent unpredictability of litigation and judgments by the relevant authorities, it is possible that an adverse outcome in some matters could harm our reputation or have a material adverse effect on our operating results, financial condition and prospects arising from any penalties imposed or compensation awarded, together with the costs of defending such an action, thereby reducing our profitability.

***a.31. Banorte's banking license may be revoked by the CNBV*.**

Under the Mexican Banking Law, the CNBV may revoke Banorte's banking license upon the occurrence of certain events, including - without limitation - if Banorte does not:

- comply with minimum corrective measures ordered by the CNBV, if the case;
- comply with the minimum Capitalization Ratio required under the Mexican Banking Law and the Mexican Capitalization Rules;
- pay certain of its debts or fails to comply with its obligations with one or more participants in clearing systems or with its depositors; and

- comply with restrictions on certain types of transactions prohibited by the Mexican Banking Law.

If the CNBV were to revoke Banorte's banking license, our business, results of operations and financial condition would be materially and adversely affected. (See Section 2 "The Company, subsection b) Applicable Legislation and Tax Situation – Applicable Law and Supervision - Banking Regulation" in this Annual Report).

a.32. Our success depends, in part, on our retention of certain key personnel, our ability to hire additional key personnel, and the maintenance of good labor relations.

We depend on our executive officers and key employees. Our senior management has significant experience in the banking, financial services and pension fund management businesses, therefore, the loss of any of our executive officers, key employees or senior managers could negatively affect our ability to execute our business strategy.

Our future success also depends on our continuing ability to identify, hire, train and retain other qualified sales, marketing and managerial personnel. Competition for such qualified personnel is intense and we may be unable to attract, integrate or retain qualified personnel at levels of experience or compensation that are necessary to sustain or expand our operations. Our businesses could be materially and adversely affected if we cannot attract these necessary personnel.

As of December 31, 2017, approximately 27% of GFNorte's employees were unionized, and we could incur higher ongoing labor costs and disruptions in our operations in the event of a strike or other work stoppage.

a.33. We are subject to litigation proceedings.

We are regularly party to litigation and other legal proceedings related to claims resulting from our operations in the normal course of business. Litigation is subject to inherent uncertainties, and unfavorable rulings may occur. We cannot assure that these or other legal proceedings will not materially and adversely affect our ability to conduct our business in the manner that we expect or otherwise adversely affect our results of operations and financial position should an unfavorable ruling occur.

We face various issues that may give rise to risk of loss from legal and regulatory proceedings, including tax litigation. These issues, including appropriately dealing with potential conflicts of interest, and legal and regulatory requirements, could increase the amount of damages asserted against us or subject us to regulatory enforcement actions, fines and penalties. The current regulatory environment, has resulted in an increased supervisory focus on enforcement, combined with uncertainty about the evolution of the regulatory regime, may lead to material compliance costs.

a.34. Our businesses rely heavily on data collection, processing and storage systems in order for our internal control systems and other operating to function properly.

At a time when transaction processes have become increasingly complex, with increasing volume, our principal businesses are highly dependent on the ability to timely collect and process a large amount of financial and other information across numerous and diverse markets and products at our various locations and channels. The proper functioning of financial control, accounting or other data collection and processing systems is critical to our business and to our ability to compete effectively. A partial or complete failure of any of these primary systems could materially and adversely affect our decision making process and our risk management and internal control systems, as well as our timely response to changing market conditions. If we cannot maintain an effective data collection and management system, our business operations, financial position and results of operations could be materially and adversely affected.

Furthermore, we are dependent on information systems to operate our website, process transactions, respond to customer inquiries on a timely basis and maintain cost efficient operations. We may experience operational problems with our information systems as a result of system failures, viruses, computer "hackers" or other causes. Any material disruption or slowdown of our systems could cause information, including data related to customer requests, to be lost or to be delivered to our clients with delays or errors, which could reduce demand for our services and products and could materially and adversely affect our financial position and results of operations.

a.35. We depend on our ability to effectively improve or upgrade our information technology infrastructure and management information systems in a timely manner.

Our ability to remain competitive in the markets in which we operate depends partially on our ability to upgrade our information technology infrastructure on a timely and profitable basis, through continuous investment. The opening of new offices and branches requires us to improve our information technology infrastructure, and to maintain and upgrade our software and hardware systems and back office operations.

Additionally, any failure or interruption in the improvement, development and expansion of our information systems could result in a delay in our ability to respond to the demands of our customers, our ability to manage risk, or defects in our service. This could adversely affect our customers or our reputation for reliability. Further, our strategic agreement with IBM may not achieve the expected results.

Any failure to improve effectively or upgrade our information technology infrastructure and management information systems in a timely manner or to achieve the expected results from our alliance with IBM could materially and adversely affect our competitiveness, financial position and results of operations, and result in losses for our customers, resulting in liabilities for us.

a.36. We may not be able to detect money laundering and other illegal or improper activities fully or on a timely basis, which could expose us to liability and damage our business.

We and our subsidiaries are required to comply with applicable anti-money laundering and anti-terrorism laws. These laws require us, among other things, to adopt and enforce "know your customer" policies and procedures and to report suspicious and large transactions to the applicable regulatory authorities. These laws and regulations have become increasingly complex and detailed, require improved systems and sophisticated monitoring and compliance personnel and have become the subject of enhanced government supervision. Current regulations in Mexico restricts the ability of Mexican banks to receive currencies in physical form, in exchange for foreign exchange and other similar transactions.

While our subsidiaries have adopted policies and procedures aimed at detecting and preventing the use of our banking network for money laundering activities, terrorisms financing and other illegal, inappropriate or inadequate activities, through organizations and people related to terrorism, such policies and procedures may not effectively detect all the activities related to money laundering and other illegal inappropriate or inadequate activities. To the extent we fail to fully comply with applicable laws and regulations, the relevant government agencies to which we report have the power and authority to impose fines and other penalties on us. In addition, our business and reputation could suffer if our infrastructure or our subsidiaries are used for money laundering or illegal, improper or inadequate purposes. Any of these situations could have a materially adverse effect on our business, financial position or results of operations.

In addition, while we review our relevant counterparties' internal policies and procedures with respect to such matters, we, to a large degree, rely upon our relevant counterparties to maintain and properly apply their own appropriate anti-money laundering procedures. Such measures, procedures and compliance may not be completely effective in preventing third parties from using our (and our relevant counterparties') operations as a conduit for money laundering (including illegal cash operations) without our (and our relevant counterparties') knowledge. If we are associated with, or even accused of being associated with, or become a party to, money laundering, then our reputation could suffer and/or we could become subject to fines, sanctions and/or legal enforcement (including being added to any "blacklists" that would prohibit certain parties from engaging in transactions with us), any one of which could have a material adverse effect on our reputation, business, financial condition or results of operations.

a.37. We are a holding company and depend upon dividends and other funds from subsidiaries to pay dividends, debts and other obligations.

We are a holding company and our operations are conducted through our subsidiaries. As a result, our ability to, pay dividends, pay our own debts, and have the resources to fund our operations primarily depends on the ability of our subsidiaries to generate earnings and to pay dividends to us or otherwise provide us with resources. Banorte may be restricted from paying dividends to us if it does not meet its required regulatory Capital Ratios. Additionally, distribution of profit by our subsidiaries is subject to the income effectively generated by those subsidiaries and their financial and business situations. Our right to receive any amount from any of our subsidiaries upon their liquidation or reorganization will be effectively subordinated to the claims of our subsidiaries' creditors, including trade creditors. (See Section 3 "Financial Information, subsection d) Management Analysis and Comments on Operating Results and the Company's Financial Situation" and Section 2 "The Company, subsection b) Business Description – Dividends" in this Annual Report.)

It is worth mentioning that the Extraordinary Shareholders' Meeting held on November 19, 2015 agreed to modify GFNorte's Dividend Policy to be between 16% and up to 40% of the net income of the prior year.

a.38. Under the Statutory Responsibility Agreement, we are responsible secondarily and without limitation for the performance of the obligations incurred by our subsidiaries.

Under the Statutory Responsibility Agreement that we entered into with our financial subsidiaries, pursuant to the Law Regulating Financial Groups, we are responsible secondarily and without limitation for performance of the obligations incurred by our subsidiaries as a result of the authorized activities of such subsidiaries, and we are fully responsible for certain losses of such, up to the total amount of our assets. For such purposes, a subsidiary is deemed to have losses if:

- its stockholders' equity is less than the amount the subsidiary is required to have as minimum capital under applicable law;
- its capital and reserves are less than the subsidiary is required to have under applicable law; or
- in the judgment of the regulatory authority supervising the subsidiary's activities, the subsidiary is insolvent and cannot fulfill its obligations.

Furthermore, if Banorte is deemed to have losses we will not be allowed to pay any dividends or transfer any monetary benefit to our shareholders as of the date on which IPAB determines that Banorte has losses extending to the date on which we pay those. Moreover, we would be required, among other things, to guarantee to IPAB the payment of such losses. Pursuant to the Law Regulating Financial Groups, our shares or the shares of our subsidiaries could be posted as collateral to guarantee the payment of Banorte's losses in favor of IPAB. Pursuant to Article 120 of the Law Regulating Financial Groups, our shareholders, by virtue of their holding of our shares, accept that their shares could be posted as a guarantee in favor of IPAB, and that such shares will be transferred to the Institute if we are unable to pay for any amounts due to IPAB as a result of Banorte's losses.

We cannot assure that in the future, Banorte or any of our other subsidiaries will not be deemed to have losses, and if so, that we will have sufficient assets to cover such losses. (See Section 2 "The Company, subsection b) Applicable Legislation and Tax Situation – Applicable Law and Supervision - Financial Groups' Statutory Responsibility" in this Annual Report.)

a.39. We are subject to the Federal Anticorruption Law in Public Contracting, the U.S. Foreign Corrupt Practices Act and similar worldwide anti-bribery laws.

In July 2016, as part of the historic constitutional reform which created the National Anticorruption System (*Sistema Nacional Anticorrupción*) ("SNA"), the Mexican Congress approved a group of laws that comprises the legal framework that will ensure the implementation of the public strategies and policies for fighting corruption and impunity. The objective of this reform is to achieve full coordination of efforts from the federal, state and municipal governments, and the government of Mexico City, in order to prevent, investigate and punish administrative violations and corrupt practices by public officers, companies and individuals.

For the operation of the SNA, the Mexican Congress approved the General Law on the National Anticorruption System (*Ley General del Sistema Nacional Anticorrupción*), the Federal Anticorruption Law on Public Contracts (*Ley Federal Anticorrupción en Contrataciones Públicas*), the General Law on Administrative Accountability (*Ley General de Responsabilidades Administrativas*) and the Organic Law of the Federal Tribunal of the Administrative Justice (*Ley Orgánica del Tribunal Federal de Justicia Administrativa*). In addition, it approved the Law on Auditing and Accountability of the Federation (*Ley de Fiscalización y Rendición de Cuentas de la Federación*), and amendments on internal controls of the federal executive branch to the Organic Law of the Public Administration (*Ley Orgánica de la Administración Pública Federal)*, to the Fiscal Coordination Law (*Ley de Coordinación Fiscal*) and to the General Law for Governmental Accounting (*Ley General de Contabilidad Gubernamental*).

The Federal Anticorruption Law on Public Contracts, the U.S. Foreign Corrupt Practices Act and similar worldwide anti-bribery laws generally prohibit companies and their intermediaries from making improper payments to government officials and other persons for the purpose of obtaining or retaining business. .

There can be no assurance that our internal control policies and procedures will protect us from reckless or criminal acts committed by our employees or agents. Violations of these laws, or allegations of such violations, could disrupt our business and could have a material adverse effect on our reputation, business, financial condition or results of operations.

a.40. Banorte may be required to make significant contributions to IPAB.

Under Mexican law, banks are required to make monthly contributions to support the operations to the Mexican Institute for the Protection of Banking Savings (Instituto para la Proteccion al Ahorro Bancario), or IPAB, in an amount equal to one-twelfth of 0.4% (the annual rate) multiplied by the average of certain liabilities minus the average of certain assets. IPAB was created in January 1999 to manage the bank savings protection system and regulate the financial support granted to banks in Mexico. Mexican authorities impose regular assessments on banking institutions covered by IPAB for funding.

Banorte contributed Ps 2.63 billion and Ps 2.33 billion to IPAB during 2017 and 2016 respectively. In the event that IPAB's reserves are insufficient to manage the bank savings protection system and provide the necessary financial support granted to troubled banking institutions, IPAB maintains the discretionary right to require extraordinary contributions to participants in the system. Any such requirement can be a result of a multitude circumstances, cannot be predicted and could adversely affect our business, financial condition or results of operations.

a.41. Our loan and investment portfolios are subject to prepayment risk, which could negatively affect our net interest income.

Our and our subsidiaries' loan and investment portfolios are subject to prepayment risk, which results from the ability of a borrower or issuer to pay a debt obligation prior to maturity. Generally, in a declining interest rate scenario, prepayment activity increases, reducing the weighted average lives of our interest earning assets and therefore our expected results relating to these assets. If prepayment activity were to increase, we would also be required to amortize net premiums into income over a shorter period of time, thereby reducing the corresponding asset yield and net interest income. Prepayment risk also might have a significant adverse impact on credit card portfolio and collateralized mortgage obligations, since prepayments could shorten the weighted average life of these portfolios, which would negatively impact our business, financial condition and results of operation.

a.42. Future Mexican government restrictions on interest rates, banking fees or reserves could negatively affect GFNorte's profitability.

A significant portion of our revenues and operating cash flow is generated by Banorte's consumer loans and any such limitations or additional informational requirements could materially and adversely affect our results of operations and financial position. In Mexico, the Financial Services Users Protection and Defense Act (Ley Federal de Proteccion y Defensa al Usuario de Servicios Financieros) currently does not impose any limit on the interest rate or in the banking fees, subject to certain exceptions, that a bank may charge.

However, under the Law for the Transparency and Ordering of Financial Services (Ley para la Transparencia y Ordenamiento de los Servicios Financieros), the Mexican Central Bank has broad authority to determine that reasonable competitive conditions do not exist and to issue temporary regulations in respect of credit and debit cards, checks, fund transfers and other means of payment, as a means to ensure competition, free access, no discrimination and protection of the interest of users.

Currently, the Congress and regulators have not yet proposed any specific limit on the interest rates we may charge. We cannot predict what impact the issuance of any such regulations may have on our business and results of operations,

In addition, if Mexican governmental authorities require banks and other financial institutions to increase their reserve requirements for loan losses or change the manner in which such loan reserves are calculated, it may adversely affect our results of operations and financial position.

b. Risks Related to Mexico

b.1. Economic and financial risks in Mexico.

During the last ten years, the global economy has undergone a period of slowdown and unprecedented volatility and has been adversely affected by a significant lack of liquidity, loss of confidence in the financial sector, disruptions in the credit markets, changes in the global geopolitical environment, reduced business activity. The global economic slowdown has negatively impacted the Mexican economy and our business. There cannot be assurance whether such conditions will improve. In addition, future economic conditions may deteriorate even further.

In particular, we may face, among others, the following risks related to international market and economic conditions:

- Increased regulation of the financial industry, whose compliance may increase our costs and limit our ability to pursue business opportunities. The Financial Reform has different impacts in GFNorte and its subsidiaries, as it involves adjustments to the bylaws, procedures, operations, policies and contracts. Groups of specialists in each field have been formed to identify and implement such impacts. Regarding the Financial Reform, formerly mentioned, there are many secondary provisions already effective and others pending to be issued by diverse public administration entities; therefore, short and long term effects are still uncertain.

The Financial Reform is based on 6 fundamental pillars:

- Creation of new incentives for banks to grant more loans;
- Encourage competition in the banking and financial system in order to reduce interest rates;
- Strengthening the financial and banking system to achieve sustained long-term growth;
- Establishing a new mandate for development banks to foster growth in the financial sector;
- Strengthening legal faculties of financial authorities to impose fines; and
- Additional legal faculties to authorities to assure an equitable relation between creditors and debtors.

- The global economic slowdown could result in reduced demand for financial products and services;

- The process we use to estimate losses inherent in credit exposure requires complex judgments, including forecasts of economic conditions and how these economic conditions might impair the ability of borrowers to repay their loans as well as the operational risks we face. The degree of uncertainty concerning economic conditions may adversely affect the accuracy of these estimates, which may, in turn, impact the reliability of the process;

- The derivatives markets and similar operations could impact financial systems and the solvency of its participants; and

- The value of our portfolio of investment securities may be adversely affected.

A worsening of any of the foregoing risks and conditions may delay the recovery of the financial industry as a whole, thereby negatively impacting our financial condition.

b.2. We are subject to economic and political developments in Mexico that could affect domestic economic policy and our business.

Most of our operations and assets are located in Mexico. As a result, our business, financial condition and results of operations may be affected by the general condition of the Mexican economy, the devaluation of the peso compared to the U.S. dollar, price instability, inflation, changes in oil prices, interest rates, regulation, taxation, social instability and other political, social and economic developments in or affecting Mexico over which we have no control. Decreases in the growth rate of the Mexican economy, periods of negative growth or reductions in disposable income may result in lower demand for our services and products. In 2016 Mexican government cut spending in response to a downward trend in international crude oil prices, and it may further cut spending in the future. These cuts could adversely affect the Mexican economy and, consequently, our business, financial condition, operating results and prospects.

The Mexican government has exercised, and continues to exercise, significant influence over the Mexican economy. Mexican government actions concerning the economy and regulation of certain industries, including the banking sector, could have a significant effect on Mexican private sector entities in general, and on us and our subsidiaries in particular, and on market conditions, prices and returns on Mexican securities, including ours.

The Mexican government can implement significant changes in the law, public policies and/or regulations that can affect the political and economic situation of Mexico, negatively affecting our business. *(See Section 2 "The Company, subsection b) Applicable Legislation and Tax Situation" in this Annual Report).*

In recent years, there has been an increasing amount of social instability in Mexico derived from violent crime carried out by organized cartels and others involved in drug trafficking, which has particularly affected the areas of northern Mexico that border the United States. The continuation or escalation of such crime could have negative consequences for the Mexican economy or destabilize its political system, which could adversely affect our business.

We cannot provide any assurance that future economic or political developments in Mexico, over which we have no control, will not have an unfavorable impact on our financial position or operating results.

b.3. We may be subject to adverse economic conditions in Mexico.

Most of our operations are dependent upon the performance of the Mexican economy, mainly on matters such as the peso-dollar exchange rate, volatility in financial markets, inflation, interest rates, regulation, taxation, social instability and other political, social and economic developments in or affecting Mexico, over which we have no control.

The impact of an economic slowdown could affect our operations to the extent that we are unable to reduce our costs and expenses in response to falling demand. Likewise, our subsidiaries' loan portfolio could deteriorate as a result of higher delinquency rates. These factors could result in a decrease in our subsidiaries' loan portfolio as well as in their revenues and net income, affecting negatively and materially our business, financial condition or results of operation.

b.4. We are subject to the risk of depreciation or fluctuation of the peso with respect to the dollar and other currencies, which could adversely affect our results of operations and financial situation.

A severe depreciation of the peso vs. the dollar could limit our capacity to transfer or convert pesos to dollars or other currencies, which could have an adverse effect on our financial situation, operational results and cash flows in the future, increasing the amounts of our foreign-denominated obligations in peso terms.

A severe depreciation of the peso could also result in governmental intervention Monetary Policy of increase in interest rates), as has occurred in other countries, or alterations in the international currency markets. The devaluation or depreciation of the peso vs. the dollar could also adversely affect our business, financial position or results of operation.

b.5. The increase in violence in Mexico has adversely impacted, and may continue to adversely impact, the Mexican economy.

Mexico has experienced a significant increase over the past few years in violence related to illegal drug trafficking, particularly in Mexico's northern states near the U.S. border. This increase in violence has had an adverse impact on the economic activity in Mexico, in general terms. Furthermore, social instability in Mexico and adverse social or political developments in Mexico or that affect the counntry could adversely affect us, our ability to conduct our business and offer our services, as well as our ability to obtain financing. We cannot assure that the levels of violence in Mexico, over which we have no control, will not increase or decrease and will have no further adverse effects on Mexico's economy or on our business, financial position or results of operation.

Furthermore, illegal activities have originated more detailed anti-money laundering and terrorism financing rules and increased supervision of such activities by Mexican regulators, which have impacted the way in which we conduct our foreign-currency cash business and have resulted in an enhancement of our systems and the reinforcement of our compliance measures. Our failure to detect and report anti-money laundering and terrorism financing activities may result in fines and may have an impact on our business and results of operations.

b.6. Developments in other countries may adversely affect our operations and the prices of our securities.

Economic and market conditions in other countries may, to varying degrees, affect the market value of securities of Mexican companies. Although economic conditions in other countries may differ significantly from economic conditions in Mexico, investors' reactions to developments in other countries may have an adverse effect on the market value of securities of Mexican companies.

b.7. Mexican fiscal reforms could have a negative effect in our clients, affecting negatively our business.

On January 1, 2014 various tax changes came into effect, among the approved changes was the authorization to raise the Value Added Tax from 11% to 16% at the borders, adjustments to Income and IEPS taxes and for the first time an 8% tax was imposed on foods with a high caloric content, among others. The scope of this reform and other elements, could be negative to our clients, the economy or our business. In addition, the fiscal miscellany replaced the deduction of loan reserves with the deduction of write-offs and eliminated the possibility of deducting losses from bad loans in the transfer to related parties for portfolios originated prior to 2014, which in principle limits the sale of portfolios to GFNorte affiliates. In addition, the new provisions in the Income Tax Law limit the deductibility of some benefits paid to employees including the pension plan, savings fund, employer labor contributions to IMSS, among other concepts. On the other hand, the tax reform provides that individual and corporate taxpayers who have opened an account in their name in financial system entities will be obligated to apply for registration in the Federal Registry of Taxpayers (RFC), whereas financial system entities shall be obligated to provide tax authorities with information about their accountholders and verify that they are registered in the RFC. The scope of this reform and other elements of it could be negative to our clients, the economy or our business.

b.8. Our corporate disclosures may be different or less substantial than those of issuers in other countries.

In Mexico issuers of securities are required to publicly disclose information, in terms that are different and that may be less detailed than disclosures required in countries with more developed capital markets. In addition, accounting and other reporting principles and standards applicable to credit and other financial institutions in Mexico and the financial results reported using such principles and standards may result in material differences between our results and those results that would have been obtained using other principles and standards, such as U.S. GAAP.

c. Risks Related to the Securities Markets and Ownership of Common Shares

c.1. An active and liquid market for common shares may not develop.

Despite being negotiated in the BMV (Mexican Stock Exchange), our shares could suffer changes in the traded amount and its liquidity. Until this year, the BMV was the only stock exchange available in Mexico, and starting in 2018 there is a new stock exchange that will join the market, (Bolsa Institucional de Valores (BIVA)). With this new incorporation, we will have to comply with new regulations and changes in the way we report our stock operations. As of today, there is still uncertainty regarding the potential outcome and implications of this new market's entry. In addition to this, we know that compared to other more mature international markets, the Mexican market is less liquid, more volatile and holds a lower base of institutional investors, and such characteristics could potentially affect the ability of our shareholders to buy or sell their shares within a certain period of time, thus having an effect on the price of our ordinary shares.

c.2. Non-compliance with requirements for maintaining our shares listed in the BMV or of their registration with the CNBV may have an adverse effect on the price or liquidity of our shares.

We are subject to certain requirements set forth by the CNBV and the BMV, such as those of disclosure, to maintain our registration with the CNBV and through the National Registry of Securities (RNV) and our shares listed on the BMV. If we are not able to comply with such requirements, the listing of our shares in the BMV may be suspended or cancelled. Beacause we are listed in the BMV there will be no additional requirements to those we already have.

c.3. The market price of our common shares may fluctuate significantly, and investors could lose all or part of their investment.

The market price and liquidity for our common shares may be significantly affected by numerous factors, some of which are beyond our control and may not be directly related to our operating performance. These factors include, among others:

- significant volatility in the market price and trading volume of securities of companies in our sectors or those of our subsidiaries, which are not necessarily related to the operating performance of these companies;
- performance of the banking sector in Mexico;
- changes in earnings or variations in operating results;
- future equity offerings by other financial groups, banks or financial institutions in Mexico;
- changes in the financial recommendation of the fundamental analysts that cover us and our sector;
- new laws, regulations or new interpretations of these, including tax guidelines or others applicable to our business or that of our subsidiaries; and
- economic trends in the Mexican, U.S. or global economies or financial markets, including those resulting from wars, incidents or terrorism or violence or responses to such events; and political conditions or events.

c.4. Future issues of our common shares may result in a decrease of their market price and could have a dilutive effect.

In the event we seek to raise capital by issuing shares or market's perception that we could issue new shares, could result in a reduction in the price of our common shares or create volatility in the market price of our common shares. Furthermore, future capital increases could cause a dilution of shareholders' investment in common shares, if they do not, or are not able to exercise their preemptive rights in subscribing to any such issuance.

c.5. There cannot be assurance that we will be able to pay or maintain cash dividends, and our dividend policies are subject to change.

The amount of cash available for dividends, if any, will be affected by many factors, including our future operating results, financial condition and capital requirements, legal restrictions, including capital adequacy requirements, and contractual restrictions in our current and future debt instruments, and those of our subsidiaries, as well as our ability to obtain funds from our subsidiaries, among other variables. Cash currently available for dividend payments may vary significantly from estimates. We cannot assure that we will be able to pay or maintain dividends or that they will increase over time. Our actual results may differ significantly from the assumptions used by our Board of Directors in recommending dividends to shareholders or in adjusting our dividend policy. Also, there cannot be assurance that our Board of Directors will recommend the payment of dividends to our Shareholders' Meeting or that, if recommended, our shareholders will approve disbursing such dividends. Dividend policies adopted by our Board of Directors, are subject to change at any time. It is worth mentioning that the GFNorte's Ordinary Shareholders' Meeting held on November 19, 2015 agreed to modify the Dividend Policy of the Financial Group so the dividend payment be between 16% and up to 40% of the net income of the prior year. For a description of the factors that can affect the availability and timing of cash dividends to shareholders, see section 2 *"The Company, subsection b) Business Description - Applicable Legislation and Tax Situation – Applicable Law*

c.6. Certain provisions of our by-laws and applicable law may delay or limit a change of control.

Pursuant to the LRAF, the LMV and the Bylaws no person or entity, or group thereof, may, directly or indirectly, in one or more transactions:

- acquire or transfer more than 2% of our shares without informing the SHCP (Article 26 LRAF and Article 9 of our Bylaws);
- acquire 5% or more of our shares, except with prior authorization from the SHCP, who can grant this at its discretion after hearing the Bank of Mexico's opinion and, as appropriate, the opinion of the CNBV, CNSF or CONSAR (Article 28 LRAF and Article 9 of our Bylaws);
- acquire 20% or more of our shares, except with prior authorization from the SHCP, who can grant this at its discretion after hearing the Bank of Mexico's opinion and, as appropriate,
- acquire 10% or more, but less than 30% of our shares, unless the transaction is reported, revealing individual holding in the case of a group of individuals, as well as informing the intention or not to acquire significant influence in the Institution. (Article 109 LRAF and Article 9 of our Bylaws)
- acquire 30% or more of our shares, except with prior authorization from the CNBV and undertake a public offer to purchase up to 100% of our shares (Articles 98 and 99 LMV and Article 18 of our Bylaws).

Notwithstanding the aforementioned, the public must be informed of such simultaneous or successive operations which directly or indirectly, involve people related to the Institution seeking to increase or decrease their participation by 5%, as well as inform of their intention to influence or significantly increase influence in such Institution, and inform of the intention to acquire, increase or not acquire significant influence in such Institution. (Article 110 LMV and Article 9 of our Bylaws).

Sales and acquisitions made by Board members, relevant Directors, a group of people or an individual who holds, either directly or indirectly, 10% or more of shares must inform the CNBV and the public where appropriate. (Article 111 LMV and Article 9 of our Bylaws).

Furthermore, under the Mexican Financial Groups Law, foreign entities with governmental authority and Mexican financial entities, including those that form part of a financial group, unless such entities are institutional investors as defined in the Law Regulating Financial Groups, cannot purchase our shares. Additionally, our Bylaws provide that any person or entity, or group thereof, that plans to acquire more than 5% of our shares, requires the authorization of our Board of Directors, this prior approval must be requested again when any of the following ownership percentages is reached or exceeded: 10%, 15%, 20%, 25% and up to 30% less one share, of the total outstanding shares of the capital stock. As previously mentioned, to acquire 30% or more of our shares, a public tender offer to purchase up to 100% of such shares must be made; if the public tender offer manages to acquire only a percentage equal to or less than 50% of the offered shares, the Purchaser must request the Board of Directors' approval for this acquisition. Moreover, shareholders representing the following percentages, or if the case, exceed them, must notify the company within a period of 30 business days after the date of the acquisition, when reaching or exceeding ownership of 4%, 8%, 16% and 24%, respectively. (Article 18 of our Bylaws). The

Securities Market Law also requires that any person or entity, or group thereof, that plans to acquire a controlling stake in our company, make a public tender offer for 100% of the shares at the same price.

Such provisions may delay or limit a change of control or a change in our management. The existence of such provisions may limit the price that investors would be willing to pay for the shares in the future.

c.7. The rights afforded to minority shareholders in Mexico are not as comprehensive as those in the United States and certain other jurisdictions.

Under Mexican law, the protections afforded to minority shareholders and the fiduciary duties of loyalty, diligence, and others of Board members and officers are, in some respects, distinct or less clear than those applicable in the United States and in other jurisdictions. In particular, Mexican law concerning fiduciary duties of Board members and directors is not as comprehensive as in the United States and the criteria applied in the United States to ascertain the independence of corporate directors is different from the criteria applicable under corresponding Mexican laws and regulations.

Although Mexico has enacted rules permitting class actions, there is limited experience in respect of such actions, and the requirements to proceed with and the potential outcomes of such actions are not predictable. As a result, in practice it may be more difficult for our minority shareholders to enforce their rights against us and our Board members and directors than it would be for shareholders of a U.S. or other non-Mexican company. Additionally, even when such rights are exercised, the response time and the consequences may be different than those expected in other markets.

c.8. Our bylaws restrict the ability of non-Mexican shareholders to invoke the protection of their governments with respect to their rights as shareholders.

As required by Mexican law, our bylaws provide that non Mexican shareholders are treated like Mexican shareholders with respect to their ownership interests and are deemed to have agreed not to invoke the protection of their governments. Our corporate documents also provide that any legal action relating to the execution, interpretation or performance of our bylaws is governed by Mexican law and may be brought only in Mexican courts. As a result, it could be difficult for our non-Mexican shareholders to enforce their rights as shareholders under our bylaws before courts other than Mexican courts or obtain protection from their governments regarding acts or events affecting their shares.

c.9. According to Mexican laws, shareholders' rights could be more limited, different or less clear than in other jurisdictions.

Our corporate matters are regulated by our by-laws provisions and Mexican law (including special laws applicable to Financial Groups), which differ from those legal provisions applicable if we were a company constituted in any U.S. jurisdiction or in other than Mexico.

The shareholders' rights protecting their interests from acts of our Board of Directors or any of its members or main officers that do not comply with their duties of loyalty, could be limited or less clear than those granted in other jurisdictions. Particularly, any action against our officers and Board members can be initiated by the Company, the affected financial entity or by shareholders with at least 15% stake in capital stock, and not by a single shareholder or group of shareholders, and these actions are derived in benefit of The Company and not of the affected shareholders. Furthermore, rules and guidelines related to operations with related parties and conflicts of interest could be less defined in Mexico than in the United States, therefore shareholders would be in disadvantage.

The duties of loyalty and diligence of Board members and officers are properly defined in the Securities Market Law and Law Regulating Financial Groups and have not been interpreted or defined by courts at the present moment, consequently, legal interpretation of the meaning and scope of such duties is still uncertain. Recently diverse reforms allowing collective actions have been published in Mexico; nevertheless, procedures to implement such actions have been developed recently, but experience regarding the practical implications is still inexistent. At the present moment, there are not significant and enough complaints related to the non-compliance of fiduciary duties, through *collective* or derived actions, in order to motivate judicial complaints based on the non-compliance of fiduciary duties that help to predict the possible outcome of a possible complaint.

As a result, for our minority shareholders is more difficult to enforce their rights against us or our Board members, officers or controlling shareholders, that it would be in a company constituted in the U.S.

c.10. We are not subject to the control of a principal shareholder group.

There is no principal shareholder of our capital stock. Consequently, there is no principal shareholder or group of shareholders that exercises control over us and this could delay our ability to make strategic decisions if no agreement is reached by a majority of our shareholders at a Shareholders' Meeting. In particular, our bylaws provide that certain decisions, including entering into transactions representing 20% or more of our consolidated assets, certain transactions with related parties (Material Asset Acquisition) that imply the acquisition of assets during the fiscal year equal to or above 5% of our consolidated assets (based on figures of the previous quarter) carried out by GFNorte or any of the companies it controls -directly or indirectly-, the appointment or removal of Board members, and increases or decreases in our capital, must be approved by a majority of shareholders at a Shareholders' Meeting. The inability of our shareholders to agree on a matter that could be material to our operations could result in a material adverse effect on our financial condition and results of operations.

c.11. We or other intermediaries may be subject to certain U.S. withholding tax requirements under FATCA, including a requirement to withhold U.S. tax on payments made on our shares to certain non-U.S. financial institutions after December 31, 2016.

Under certain provisions of the U.S. Internal Revenue Code and Internal Revenue Service guidance (commonly referred to as "**FATCA**"), entities may be subject to 30% U.S. withholding tax on certain payments they receive, unless they comply with certain due audit, reporting, and withholding procedures determined by the **IRS** or otherwise are eligible for an exemption, including pursuant to the intergovernmental agreement between the United States and Mexico dated November 19, 2012, or the "**Intergovernmental Agreement**", modified on December 29, 2017. Nevertheless, we and our subsidiaries subject to FATCA (Banco Mercantil del Norte, Banco Mercantil del Norte Division Fiduciaria, Casa de Bolsa Banorte Ixe, Seguros Banorte and Operadora de Fondos Banorte Ixe), are properly signed in the IRS as Foreign Participant Financial Institutions. During the registration process, each of us was assigned a GIIN (Global Intermediary Identification Number) by the IRS, with it, payments that these companies receive from the USA are not subject to the 30% deduction.

Under FATCA and the regulations issued thereunder payments on our shares after December 31, 2016 may be subject to 30% U.S. withholding tax under FATCA to the extent the payment is considered to be a "foreign pass thru payment," but only if such payment is made to a payee that does not comply or is not otherwise deemed to comply with FATCA. Holders of our shares should consult their tax advisers regarding the application of FATCA to an investment in our shares and their ability to obtain a refund of any amounts withheld under FATCA.

c.12. As from June 30, 2017, we will be required to report, as well as other intermediaries, on compliance with the Common Reporting Standards (CRS), contained in Annex 25 Bis of the Fiscal code of the federation (Código Fiscal de la Federación - CFF).

In accordance with the recommendation adopted by the Board of the Organization for Economic Cooperation and Development (OECD) on July 15, 2014 and in order to comply with the contents of Annex 25 Bis of the CFF published on January 12, 2016 and amended on July 15, 2016, corporations and legal entities - which are financial institutions and residents in Mexico - will be required to effectively implement and comply with the CRS standard.

To this purpose, they must implement procedures to identify foreign accounts and reportable accounts among new, existing, high and low value accounts, as well as implement a special register of the application of procedures for their identification.

The same fines for offences provided for in Articles 81, Section I, II and 83, Section II of the CFF will apply to whoever does not present information or presents incomplete information, or with errors or different to that indicated by the standard, as well as to those who do not provide a special register of the application of procedures to identify the aforementioned accounts.

d) OTHER SECURITIES

Banorte has the following registered and existing financial instruments:

Subordinated Preferred Tier 2 capital notes, BANOC36 (in US dollars):

Banorte's Tier 2 Subordinated Preferred Capital Notes for USD 500 million, maturing in October 2031.

Interests are paid bi-annually at a fixed rate of 5.75% on April 4 and October 4, each year.The amortization of the capital will be at the end of 14 years, with a prepayment option as of the tenth year.

At the moment of issuance, ratings granted by Moody's and Fitch were Ba1 and BB+, respectively.

Subordinated non-preferred and non-cumulative Obligation (in US dollars with a rate of 9.25%):

Subordinated non-preferred, non-cumulative obligation, maturing in 10 years with 9.25% annual interest, payable semi-annually and with partial or total call option as of October 14, 2020. Amount issued: US 120 million dollars.

Subordinated Obligations Q Banorte 08U (preferred and non-convertible, in UDIS):

Subordinated preferred non-convertible obligations of Banorte, amounting 494.5 million UDIS, issued on March 11, 2008 for a term of 20 years and maturing on February 15, 2028. The amount placed was 447.1 million UDIS.

Interest is payable every 182 days. The interest rate is real annual and fixed at 4.95%.

Place and payment method: both the principal and interest will be paid in a single exhibition in Mexico City, through Indeval where the respective securities are deposited.

In the event of liquidation or bankruptcy, payment of the obligations shall be made pro rata after covering all debts of the institution, but prior to distributing equity to shareholders.

The issuer reserves the right to prepay the obligations.

Common representative of bondholders: Banco Invex, S. A., Institucion de Banca Multiple, Invex Grupo Financiero, Fiduciario.

At the moment of issuance, this instrument was rated by Moody's de Mexico as Aaa.mx the most credit worthy and with the least probability of loss with respect to other locally issued securities.

Taxation of the instrument is in adherence to provisions of Article 160 and other applicable laws of the existing Income Tax Law for individuals and corporations in Mexico, and in adherence to the provisions of Article 195 and other applicable laws of the Income Tax Law for foreign individuals and corporations.

Subordinated, non preferred, non cummulative, perpetual, 5-year-callable Notes BANOD19

Issuance of subordinated, non-preferred, non-cummulative, perpetual, 5-year-callable capital Notes for a total amount of $350 million dollars with maturity in July 2022.

Upon issuance, these notes were rated Ba2 and BB by Moody´s and S&P respectively.

Interest is paid quarterly, on October 6, January 6, April 6 and July 6 of each year, at a fixed rate of 6.875%.

Subordinated, non-preferred, non-cumulative, perpetual 10-year-callable capital notes BANOE91

Issuance of subordinated, non-preferred, non-cumulative, perpetual, 10-year-callable capital notes for an amount of $550 million dollars with maturity in July 2022.

Interest is paid quarterly on October 6, January 6, April 6, and July 6 of every year at a fixed rate of 7.625%. Upon issuance, these notes were rated Ba2 and BB by Moody´s and S&P respectively.

Generic entries:

In addition to the securities mentioned above, as of December 31, 2017 we held generic subscriptions of promissory notes with interest payable at maturity (PRLV in Spanish), Banker Acceptances and Money Certificates of Deposit.

- Money Certificate of Deposit (with yield tied to the 28-day Interbank rate published by Banco de México): Banorte Issuance C17007 for Ps 21,737,800 (217,378 certificates with a nominal value of Ps 100.00 each) issued on June 22, 2017 with maturity on January 4, 2018.
- Money Certificate of Deposits (with yield tied to 28-day TIIE (Interbank Equilibrium Rate) published by Banco de Mexico: Banorte Issuance C17009 for Ps 7,446,000 (74,460 certificates with a nominal value of Ps 100.00 each), issued on July 27, 2017 with maturity on February 8 2018. Range by period: 7.00%-7.75%.
- Money Certificate of Deposits (with yield tied to the USD/MXP WMCO Exchange rate): Banorte Issuance C17012 for Ps 2,700,000 (27,000 certificates with a nominal value of Ps 100 each) issued on September 12, 2017 with maturity on January 10, 2018 with a yield linked to USD/MXN Exchange rate. Upper limit at: MXN/USD 18.45.
- Money Certificate of Deposits (with yield tied to 28-day TIIE (Interbank Equilibrium Rate) published by Banco de Mexico): Banorte Issuance C17014 for Ps 11,650bn (116,500 certificates with a nominal value of Ps 100.00 each), issued on October 20,2017,with maturity on July 17, 2018. Ranges by period: 7.25%-7.50%; 7.00%-7.50% and 6.75%-7.50%.
- Money Certificate of Deposits (with yield tied to the USD/MXP WMCO Exchange rate): Banorte Issuance C17015 for Ps 1,100,000 (11,000 certificates with a nominal value of Ps 100 each) issued on November 14, 2017 with maturity on August 13, 2018 with a yield linked to USD/MXN Exchange rate. Upper limit at: MXN/USD 21.21.
- Money Certificate of Deposits (with yield tied to 28-day TIIE (Interbank Equilibrium Rate) published by Banco de Mexico): Banorte Issuance C17016 for Ps 21,370bn (2,137,000 certificates with a nominal value of Ps 100.00 each), issued on November 24,2017,with maturity on August 3, 2018. Ranges by period: 7.25%-7.50%, 7.25%-7.50%, 7.25%-7.50%, 7.00%-7.75%, 7.00%-7.75%, 7.00%-7.75%, 6.75%-8.00%, 6.75%-8.00% y 6.75%-8.00%.

In compliance with Securities Market Law and the Circular Unica de Emisoras, corresponding quarterly and annual information was presented on timely and in due form to the CNBV and BMV, as well as information regarding material events affecting us. Moreover, during the last three years we have completely and timely presented reports that Mexican and foreign laws require.

Furthermore, we have completely and timely presented Banorte's reports required by foreign law, as well as public reports submitted to regulatory authorities and corresponding stock exchanges. This information includes the same annual and quarterly information that must be presented to the CNBV and BMV in English and that is submitted in the next 15 days that these reports are presented to the CNBV.

GFNorte and its subsidiaries have fulfilled their obligations in reporting material events through the Emisnet system of the Mexican Stock Exchange (BMV) and STIV-1 of the CNBV, as well as with the financial and legal information that it areobligated to present periodically in accordance with the law.

e) SIGNIFICANT CHANGES TO REGISTERED SECURITIES' RIGHTS

Settlement of Banorte's subordinated obligations with maturity in 2018

On January 3, 2017, Banorte pre-paid Tier 1 obligations, subordinanted, non-preferred and non-convertible into shares in local currency for Ps 3.00bn; these were issued on March 11, 2008 with maturity on February 27, 2018 (10NC5).

Settlement of Banorte's subordinated obligations with maturity in 2022

On June 30, 2017 Banorte pre-paid Tier 2 obligations, subordinated, preferred and non-convertible into shares in local currency for Ps 3.20bn; these were issued on June 8,2012 with maturity on May 27, 2022 (10NC5).

Issuance of Tier 1 Basic Capital Notes

On July 6, 2017, Banorte issued Basic Capital Notes (Tier 1), Perpetual, Subordinated, Non-Preferred and Non-Cummulative (NC5), in international markets for a total amount of $350 million USD, with maturity on July 6, 2022 and a rate of 6.88%

On July 6, 2017, Banorte issued Basic Capital Notes (Tier 1), Perpetual, Subordinated, Non-Preferred and Non-Cummulative (NC10), in international markets for a total amount of $550 million USD, with maturity on January 10, 2028 and a rate of 7.63%

These notes comply with Basel III regulations.

f) USE OF PROCEEDS

The funds raised by the Issuance of Subordinated Perpetual, Non-Preferential and Non-cumulative Obligations for USD $ 900 million Tier1 on July 6, 2017 were used to strengthen our regulatory capital and for general corporate purposes.

g) PUBLIC DOCUMENTS

The Investor Relations and Financial Intelligence Executive Direction, in charge of Ursula Wilhelm Nieto, is the department responsible for assisting analysts and investors. It is located at:

Av. Prolongacion Reforma 1230, 14th Floor
Col. Cruz Manca Santa Fe, Delegacion Cuajimalpa, Ciudad de Mexico, 05349
Telephone: (5255) 1670-2256
E-mail: ursula.wilhelm@banorte.com or investor@banorte.com

This Annual report is available for the general public in our web page: www.banorte.com/ri in the route "Financial Information / Annual Reports / Circular Unica CNBV 2017 Annual Report".

2. THE COMPANY

a) DEVELOPMENT AND HISTORY OF THE COMPANY

Grupo Financiero Banorte, S.A.B. de C.V. operates under the commercial name of "Banorte" and was constituted on July 21, 1992 in Mexico City for an indefinite period of time.

The main offices are located in:

MEXICO CITY
Ave. Prolongacion Reforma 1,230, Col. Cruz Manca Santa Fe, Delegacion Cuajimalpa
Zip Code 05349, Mexico, D. F. (0155) 1103-4000

MONTERREY, N. L.
Ave. Revolucion 3,000, Col. Primavera
Zip Code 64830 Monterrey, Nuevo León., Mexico (0181) 8319-6500

SAN PEDRO GARZA GARCÍA, N.L.
David Alfaro Siqueiros 106, Col.Valle Oriente
Zip Code 66278, San Pedro Garza García, Nuevo León, México

GFNorte's most important historical events

GFNorte's origins date back to the founding of Banco Mercantil de Monterrey in 1899 and Banco Regional del Norte in 1947, both with headquarters in Monterrey, Nuevo Leon, Mexico. These banks merged in January 1986 under the name of Banco Mercantil del Norte, Sociedad Nacional de Credito. In 1987, under a Mexican government privatization initiative, the government sold to the public approximately 34% of Banorte's capital stock. In 1990, the Mexican Constitution was amended to permit the re-privatization of Mexican commercial banks; afterwards, the government enacted the LIC which permitted private ownership of Mexican commercial banks. Additionally, in the same year, leasing services were offered, and in 1991 factoring and warehousing services were also available.

The re-privatization of Mexican commercial banks began in 1991. Derived from this process, in July 1992 Afin Grupo Financiero, S.A. de C.V. was incorporated and later on, in September of the same year, the SHCP authorized the operations of the Holding company as a financial services provider under the LRAF, thus originating Grupo Financiero Banorte.

The 1995 Mexican peso crisis and the penetration of foreign institutions in Mexico prompted the consolidation of the Mexican Banking System which resulted in the absorption of many smaller Mexican banks. With the objective of becoming a national financial institution and taking advantage of Banorte's relative strength in the Mexican banking system, GFNorte completed the acquisition and integrated Bancen in March 1997 in order to gain additional market share, specifically in the central and western regions of Mexico. Additionally in August 1997, 81% of Banpais' shares were acquired, enabling further expansion of the client base, geographical position and national coverage. Aiming to consolidate banking activities and strengthen Banorte's capitalization levels, Banpais was merged into Banorte in January 2000, the later one subsisting.

Subsequently, in December 2001, Banorte acquired Bancrecer and on March 31, 2002, Banorte took over its management, initiating its integration. The SHCP authorized the merger, being Bancrecer the merging entity and Banorte the merged institution, changing the name of the merging entity to "Banco Mercantil del Norte, S.A., Institucion de Banca Multiple, Grupo Financiero Banorte."

On August 28, 2006, Bancen merged with Banorte through the resolutions of their respective Extraordinary General Shareholders' Meetings held on August 16 and 17, 2006, thereby concluding the last phase of integration of this bank, as of that date, Bancen extinguished (being the merged company.)

As part of the development strategy in the U.S., in November 2006, Banorte acquired 70% of INB shares, a regional bank based in Texas with its headquarters in McAllen. Banorte finalized the 100% acquisition of Uniteller, a New Jersey-based remittances company, and in the same year acquired 100% of Motran Services, Inc., another remittances company based in California (the latter merged with Uniteller in 2014). Later on, on April 1, 2009, Banorte purchased the remaining 30% of INB Financial Corp. shares.

On March 30, 2007, the Bonding Company was divested from the Financial Group, and as of January 31, 2008, the Leasing and Factoring companies were merged.

Regarding the Long-Term Savings sector, on September 30, 1997, a joint-investment contract was signed with Assicurazioni Generali S.P.A., entitling the Italian institution to 49% of Afore Banorte (until December 2011), Seguros Banorte and Pensiones Banorte, officially integrating the Long-Term Savings sector. In 2009, Afore Banorte Generali (former Afore *joint venture*) acquired Ixe Afore, Afore Ahorra Ahora and Afore Argos pension funds in order to further increase its market share in the Mexican pension fund management sector . On August 16, 2011, GFNorte and the Instituto Mexicano del Seguro Social (IMSS) signed an a agreement to merge their respective Afores. On January 16, 2012, the merger of Afore Banorte and Afore XXI, and their respective Siefores (Retirement Savings Funds) became effective after receiving the authorizations from their Shareholders' Assemblies, SHCP and Mexican National Commission for the Retirement Savings System (CONSAR), thereby creating Afore XXI Banorte, Banorte and the IMSS each owning 50% of the entity. In January 2013, Afore XXI Banorte finalized the acquisition of 100% of Afore Bancomer, previously approved by the corresponding authorities, including CONSAR and COFECO, thus becoming the largest retirement savings manager in Mexico. On October 4, 2013, GFNorte finalized the acquisition of the 49% stake in the Seguros Banorte and Pensiones Banorte held by Assicurazioni Generali S.p.A.'s, after receiving the corresponding governmental authorizations from COFECO and SHCP.

Furthermore, as part of the efforts to consolidate as one of the most important financial groups in Mexico, on November 17, 2010, GFNorte and Ixe GF reached a binding merger agreement through a stock-for-stock transaction valued at approximately Ps.16.2 billion (approximately U.S. 1.3 billion). At the beginning of 2011, authorizations to carry out the merger were obtained from CNBV, the Shareholders' Meetings, SHCP and COFECO. The merger came into effect on April 15, 2011 after registering the authorization and merger agreement in the Public Registry of Commerce in Monterrey, Nuevo Leon. Derived from this merger, Banorte became the third largest financial group in Mexico in terms of total assets, distribution network, deposits and loans.

The merger of these Financial Groups derived in a corporate restructuring process that has continued until recent days, accordingly with corresponding authorizations:

i. On January 1, 2012, Casa de Bolsa Banorte (merged and extinguished company) merged into Ixe Casa de Bolsa (merging and surviving entity); thus, originating Casa de Bolsa Banorte Ixe.
ii. On May 7, 2013 came into effect the merger of Ixe Automotriz - as merged entity - into Arrendadora y Factor Banorte, which survived as merging company.
iii. On May 24, 2013 came into effect the merger of Ixe Banco and Fincasa Hipotecaria into Banco Mercantil del Norte – as merging company –, as well as the divestment of Banorte's interest in Solida through a spin-off and the merger of Solida into Ixe Soluciones, the latter as merging entity, which changed its name to Solida Administradora de Portafolios, S.A. de C.V. SOFOM, Entidad Regulada. As a result of this merger Ixe Banco, Fincasa Hipotecaria and Solida ceased to exist.

On November 12, 2009 International Financial Corporation (IFC) invested US 150 million dollars in Banco Mercantil del Norte, which represented 4.48% of the bank's equity. During March, 2013, GFNorte signed an agreement with the IFC in order to finalize the capital investment made in November 2009, which contemplated a 5 year term to cover with a cash payment the investment plus capital gains, or convert Banorte's shares held by the IFC into shares of GFNorte, in order to then sell them through an orderly process.. In this sense, and given that the exchange period ended in November 2014, GFNorte made an initial cash payment of Ps 2.14 billion, which was funded through dividends paid by its subsidiaries. Subsequently, on December 6, 2013 the IFC received the payment in order to finalize its participation in GFNorte, equivalent to 54,364,887 shares of the Group. With this payment, the IFC does not longer have any patrimonial interest on GFNorte or its subsidiaries.

During 2016 GFNorte launched a series of efforts to consolidate as a leading institution in Mexico. One of these initiatives is related to improve the Group's and its subsidiaries' corporate structure, aiming to:

- provide greater flexibility to foster the Group's growth;
- align business units and subsidiaries to GFNorte's diversification strategy;
- improve the capital allocation of the entities comprising it.

In May, Banorte merged (merging and existing company) with Banorte-Ixe Tarjetas (merged and extinguished company) and later in October was spun-off creating Banorte Futuro, to which the shares representing Afore XXI Banorte were transferred (previously held by Banorte).

Furthermore, in April the subholding Banorte Ahorro y Previsión was constituted, GFNorte transferred to the former, the shares of Seguros Banorte and Pensiones Banorte. Moreover, in October, the Financial Group transferred to Banorte Ahorro y Previsión the shares of Banorte Futuro, which later were transferred to Seguros Banorte.
On December 5, 2017, the Ordinary and Extraordinary General Shareholders' Meetings approved the merger by acquisition of GFNorte, as a merging company, with Grupo Financiero Interacciones, S.A.B. of C.V. ("GFInter"), as a merged company.

It should be reiterated that as of the date of this document, the merger is still subject to the obtaining of the applicable regulatory authorizations and to the conclusion of comprehensive audits (due diligence). The merger will take effect once the respective authorizations are obtained, the rest of the conditions to which the merger was subjected are complied with or dispensed and the resolutions adopted by the Shareholders' Meetings of GFNorte and GFInter are registered in the Public Registries of Commerce. of the registered office of each one of them, in terms of the provisions of article 19 of the Law to Regulate Financial Groups, which in due course, if applicable, will be made known to the investing public by publishing a relevant event . The financial subsidiaries that are part of GFInter will be merged with the corresponding financial subsidiaries of GFNorte.

Below it is presented a summary of the main investments that GFNorte or its subsidiaries have conducted in the past 4 years:

Date	Concept	Company
April 29, 2016	Constitution	Constitution of the subholding Banorte Ahorro y Previsión, to which on September 1, 2016, GFNorte transferred the shares of Seguros Banorte and Pensiones Banorte.
May 2, 2016	Merger	Merger of Banorte-Ixe Tarjetas (merged and extinguished company) into Banco Mercantil del Norte (merging and existing company).
October 17, 2016	Spin-off	Banorte spun-off, creating Banorte Futuro, to which the shares of Afore XXI Banorte were transferred.
October 17, 2016	Equity increases	GFNorte transferred the shares of Banorte Futuro to Banorte Ahorro y Previsión as result of the equity increase in its variable portion. Immediately after, Banorte Ahorro y Previsión, transferred the shares of Banorte Futuro to Seguros Banorte, as result of the equity increase in its fixed portion.
December 5, 2017	Merger	Approval by the Shareholders' Meeting of the merger by acquisition of GFNorte, as a merging company, with GFInter, as a merged company. The merger will take effect once the respective authorizations are obtained.

Material Events in 2017 and First Quarter 2018.

Recent Events. First Quarter 2018.

1. FITCH RATINGS AFFIRMS "AAA" RATING WITH NEGATIVE WATCH FOR SEGUROS BANORTE AND PENSIONES BANORTE.

In March 2018, Fitch Ratings affirmed the financial strength of Seguros Banorte, and considered it as one of the most important subsidiaries of Grupo Financiero Banorte (GFNORTE). The agency highlighted that the strong support provided by the group is an important factor for the rating, together with the company's adequate leverage levels, positive profitability trend, and reasonable liquidity levels.

The rating agency mentioned that the IT implementation during the integration with GF Interacciones (GFINTER) could add some pressure to the business, keeping its negative watch for the company.

Regarding Pensiones Banorte, the agency equally affirmed its AAA rating with negative watch, as it values the group's support behind the company, and regards the annuities business as a strategic subsidiary for the group.

There are no expected changes to the financial profile of the company derived from the merger with GFINTER. The agency highlights the company's strong market positioning, its positive earnings trend, and its conservative asset management strategy, consistent with Mexican regulation. On the other hand, the agency considered that the company's leverage ratio has some room for improvement.

2. GFNORTE JOINS BLOOMBERG's 2018 GENDER EQUALITY INDEX

In January 2018, GFNorte was added to the recently created Bloomberg Gender Equality Index (GEI), constituted by 104 companies in the communications, consumer products, energy, finance, materials, and techynology sectors across 24 countries.

This Index measures gender equality from internally generated statistics from all rated companies. It also evaluates employee policies, support and participation of external communities, and focus on gender-specific product offerings.

It is noteworthy that companies within the GEI index scored at or above the global limit set by Bloomberg to publish the accomplishment or adoption of the best policies and statistics. Banorte was the only Mexican company in the financial sector that reached an international standard for its internal policies, and product offering focused in empowering women.

3. INDEXAMERICAS RECOGNIZES GFNORTE AS SUSTAINABILITY LEADER

IndexAmericas sustainability index, part of the Inter-American Development Bank (BID), and the Inter-American Investment Corporation (CII), recognized several publicly traded companies across Latin America and the Caribean for their outstanding performance in four main areas: environmental, society, corporate governance and development (ESGD).

IndexAmericas evaluated more than 400 metrics of over 6,000 companies included in Thomson Reuter's' ESG database, from which only 30 companies were selected, including Banorte, to join the Multilatin Index.

4. BANORTE RECOGNIZED IN THE BRAND FINANCE BANKING 500 REPORT

In February 2018, Brand Finance consulting published its annual report of the 500 most valuable brands in the global banking sector. This ranking considers long term macroeconomic perspectives, historic performance, financial projections, as well as overall brand strength relative to its direct competitors.

In the report's 2018 edition, Banorte escalated three notches ranking #139, being the best ranked Mexican bank and the fifth best ranked in Latin America.

5. BANORTE AND MASTERCARD LAUNCHED AMAZON RECHARGEABLE AND SOCIO 7 CARDS

In March 2018, Banorte, Mastercard and 7-Eleven launched Socio 7 debit card, in an effort to offer financial products across the broad network of more than 26,000 correspondent banking establishments in Mexico. In March 2018, also in partnership with Mastercard, Banorte and Amazon launched Amazon Rechargeable debit card. With this product, Banorte seeks to boost e-commerce and digital services subscriptions.

Material events in 2017

Events related to Corporate Governance

During 2016, several General Shareholders' Meetings were held, in which the following items were proposed, and in all cases approved:

Current Board of Directors. In the GFNorte's Annual Ordinary General Shareholder's Meeting held on April 22, 2016, it was approved that the Board of Directos be comprised of 15 Propietary Members, and if the case, by their respective alternates. Proprietary and Alternate Members of the Board can be consulted in Section 4. c) "Administration - Managers and Shareholders" of this Annual Report.

Designation of Chairman of the Audit and Corporate Practices Committee. In the Annual Ordinary General Shareholders' Meeting held in April 2015, the Chairman of the Audit and Corporate Practices Committee was appointed. The members, duties and characteristics of this Committee or others may be consulted in Section 4. c) "Administration - Managers and Shareholders" of this Annual Report.

It's noteworthy that even though the CNBV will allow a progressive fulfillment, Banorte's CR was 16.59% as of March 31, 2017, so Banorte complies with the new requirement.

Meetings' Date (decreed dividend)	Amount of Decreed Dividend (pesos per share)	Date of Payment	Comments
February 24, 2017	$1.233553556868510	March 7, 2017	Corresponding to the second and last payment to cover the 40% of the income of 2015.
June 20,2017	$2.7843	June 29, 2017	Corresponds to the necessary payment to cover the amount of 40% of the net profit for the year 2016. This amount was approved by the Board of Directors of the Company, in its session of April 27, 2017 .
June 20, 2017	$1.2618	June 29,2017	Corresponds to the payment necessary to cover the amount of $ 3,500 million derived from the sale of the share s representing the capital stock of Inter National Bank abroad,

Modification to the Company's Bylaws. In the Extraordinary General Shareholders' Meeting held in August 19, 2016 it was approved:

1. Amendment of Article Five of the Corporate Bylaws to change the corporate domicile to the Municipality of San Pedro Garza García, Nuevo León from the city of Monterrey, Nuevo León.
2. Amendment of Article Nineteen of the Corporate Bylaws so that the approval of operations related to asset acquisitions by the Company or its controlled companies be through an Ordinary General Shareholders' Meeting if: (i) the amount of the operation represents 5% or more of the Company's consolidated assets; and (ii) the counterparties are Related Parties.
3. Amendment of Article Forty-Four of the Corporate Bylaws so that the Nomination Committee be comprised of 7 members of the Board of Directors , being 4 of them Independent Members and the Chairman of the Board, who will preside the Nomination Committee.

These resolutions are subject to the suspense condition consisting of the authorization - referred to in article 20 of the Law Regulating Financial Groups (“LRAF”) – granted by the Ministry of Finance (“SHCP”), with prior opinion of the National Banking and Securities Commission (“CNBV”) and Banco de México.

Material Events related to changes in Corporate, Financial and Business Structure, as well as Accountability and Gubernamental Provisions.

1) Corporate, Financial and Business Structure

- **INTERNATIONAL BANK**

On March 31, Banco Mercantil del Norte, S.A., Institución de Banca Múltiple, Grupo Financiero Banorte (“Banorte”) finalized through INB Financial Corporation (subsidiary of Banorte) 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.

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

- **BANORTE WAS REAFFIRMED AS LEVEL II – DOMESTIC SYSTEMICALLY IMPORTANT FINANCIAL INSTITUTION**

In April Banorte was reaffirmed as Level II - Domestic Systemically Important Financial Institution by the National Banking and Securities Commission (“CNBV”), which highlights Banorte’s importance in the Mexican Financial System.

The aforementioned derives from the annual review that the Board of the CNBV carries out based on Credit Institutions' information as of December 2016. Such designation implies that Banorte must maintain a capital buffer of 0.90 pp, to be constituted progressively in up to four years –due on December 31, 2019-, additional to the regulatory Capitalization Ratio (“CR”) of 10.5%, this means that Banorte’s minimum CR will amount to 11.4% at the end of 2019.

- **ISSUANCE OF TIER 1 CAPITAL NOTES FOR USD 900 MILLION AND PREPAYMENT OF SUBORDINATED OBLIGATIONS Q BANORTE 12**

On July 6, Banco Mercantil del Norte, S.A., Institución de Banca Múltiple, Grupo Financiero Banorte (“Banorte”) successfully issued Subordinated NonPreferred Non-Cumulative Tier 1 Capital Notes for USD 900 million in the international markets.

Tier 1 Capital Notes were issued in two series:
- BANORT 6 7/8 PERP for US 350 million, callable at the fifth year, carrying a coupon rate of 6.875%.
- BANORT 7 5/8 PERP for US 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. Proceeds from the issuance will be used for general corporate purposes and to strengthen the bank’s regulatory capital.

In line with the above, on June 30, 2017 Banorte prepaid subordinated preferred & nonconvertible obligations Q Banorte 12 amounting to Ps 3.2 billion, issued on June 8, 2012 and due on May 27, 2022.

MERGER OF GFNORTE AND GFINTERACCIONES

On October 25 2017, Grupo Financiero Banorte, S.A.B. de C.V. (“GFNorte”) signed a binding merger agreement (“Merger Agreement”) by which GFInter will merge with GFNorte.
The merger and the effects of the Merger Agreement are subject to (i) the approval of the Ordinary and Extraordinary General Shareholders’ meetings of GFNorte and GFinter, (ii) the approval from financial and antitrust authorities; and (iii) the successful completion of the due diligence process.
Regarding point (i) above, on December 5, 2017, GFNorte held its General and Extraordinary Shareholders´ Meetings which granted approval for:

i) The relevant asset acquisition, compliant with paragraph i), Section I, Article Ninteen of the Corporate Bylaws of the Company, consistent with the acquisition via a merger of GFNorte, acting as merging entity, with GFInter, as merged entity, with the favorable vote of 71.57% of the total shares represented at the Ordinary General Shareholders´Meeting, with a total quorum of 81.26% of the shares of GFNorte´s Capital.

ii) The merger of GFNorte, acting as merging entity, with GFInteracciones, acting as merged entity, with the favorable vote of 71.61% of total shares represented at the Extraordinary General Shareholders´Meeting, with a quorum of 81.26% of the shares of GFNorte´s Capital.

The merger is still subject, among other conditions, to obtaining the applicable regulatory authorizations and to the completion of the comprehensive due diligence. Furthermore, the financial subsidiaries of GFInter will merge with their corresponding financial subsidiaries of GFNorte.
It is worth mentioning that GFInter shareholders will receive a combination of a cash payment of $13,700 million pesos, and 109,727,031 shares of GFNorte. Such shares represent approximately 4.0% of the current shares outstanding.

2) Accountability Provisions

BANORTE WAS REAFFIRMED AS LEVEL II - DOMESTIC SYSTEMICALLY IMPORTANT FINANCIAL INSTITUTION

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The aforementioned derives from the annual review that the Board of the CNBV carries out based on Credit Institutions' information as of December 2016. Such designation implies that Banorte must maintain a capital buffer of 0.90 pp, to be constituted progressively in up to four years –due on December 31, 2019-, additional to the regulatory Capitalization Ratio (“CR”) of 10.5%, this means that Banorte’s minimum CR will amount to 11.4% at the end of 2019.

It’s noteworthy that even though the CNBV will allow a progressive fulfillment, Banorte’s CR was 16.59% as of March 31, 2017, so Banorte complies with the new requirement.

3) Events related to Rating Agencies (listed in chronological order).

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It's noteworthy that even though the CNBV will allow a progressive fulfillment, Banorte's CR was 16.59% as of March 31, 2017, so Banorte complies with the new requirement.

FITCH ASSIGNS 'EXCELLENT (MEX)' FUND QUALITY RATING TO OPERADORA DE FONDOS BANORTE IXE AS ASSET MANAGER

On May 16, Fitch Ratings assigned 'Excellent (mex)' fund quality rating to Operadora de Fondos Banorte Ixe, S.A. de C.V., Sociedad Operadora de Fondos de Inversión, Grupo Financiero Banorte ("OBI") as asset manager. The factors to assign the highest rating are:

- superior investment process and operational framework compared to the standards applied by institutional investors in Mexico,
- broad expertise of Operadora's management team,
- adequate Corporate Governance fostering interest alignment with investors, and
- OBI's relevance as subsidiary of GFNorte.

4) <u>Recognitions</u>

GFNORTE JOINS FTSE4GOOG EMERGING INDEX

In December 2016, GFNorte was included in the Sustainability Index *FTSE4Good Emerging Index* of the London Stock Exchange, becoming the only Mexican financial institution within the top 10 of Latin American companies. In order to be considered in this index, the companies' performance is assessed comprehensively from environmental, social and corporate governance scopes. As member of the *FTSE4Good Emerging Index,* GFNorte increases its presence in global markets and consolidates as a financial actor committed to sustainability. This is one step more targeted towards the objective to attract more responsible investors interested in doing business with us.

The *FTSE4Good Emerging Index* is part of the *FTSE4Good* family of Indices, pioneers in developing indices that consider environmental, social and corporate governance factors.

PRINCIPLES FOR RESPONSIBLE INVESTMENT

In April, GFNorte became signatory of the Principles for Responsible Investment ("PRI"), independent initiative supported by the United Nations Global Compact and the United Nations Environment Programme Finance Initiative.
As signatory, the Financial Group commits to consider the impact on climate change, biodiversity and social welfare of that the financed projects.

ETHICAL BOARDROOM RECOGNIZES GFNORTE WITH CORPORATE GOVERNANCE AWARD

In July, the prestigious magazine Ethical Boardroom awarded GFNorte with "Best Corporate Governance 2017" in the Latin American Financial Services category, as result of a thorough assessment of factors and features of its corporate governance.

GFNorte was the only Mexican financial institution to receive this award on its exceptional leadership to guarantee protection and long-term value creation for its stakeholders.

INSTITUTIONAL INVESTOR MAGAZINE'S RANKINGS

In August, Institutional Investor magazine announced the "Best Latin American Executive Team 2017" rankings, which were based on a survey to 292 buy-side fund managers and sell-side analysts from 205 institutions.
This survey evaluates attributes such as accessibility to C-Suite; quality, depth and promptness of answers to inquiries; transparency .of financial reporting and disclosure; proactive communication on material and strategic matters, among others

For the eight year in a row, GFNorte's top management and Investor Relations team ranked in the top positions among Latin American banks and Mexican companies.

- José Marcos Ramírez Miguel, ranked third in Latin America for the CEO category, according to the sell-side.
- Rafael Arana de la Garza, Chief Operating Officer, was selected as the best CFO in Latam according to the buy and sell-side.
- Ursula Wilhelm Nieto, Executive Director of Investor Relations stood third overall as Best IRO in Latin America; while in the national survey ranked third according to the buy side but second by the sell-side.
- Moreover, the Investor Relations team consolidated as the second best in all the categories, both in the region and Mexico.

FOR THE FOURTH YEAR GFNORTE WAS INCLUDED IN THE DOW JONES EMERGING MARKETS SUSTAINABILITY INDEX

In September, GFNorte was chosen again to be part of the Dow Jones Sustainability Index Emerging Markets, maintaining its position as the only Mexican financial institution to be included in this international index. To determine the index, 800 leading companies of 58 different industries in 22 emerging markets were assessed. Only the top 10% was selected, out of which only four companies were Mexican. These companies were evaluated in the economic, social and environmental scopes; in specific key criteria such as: corporate governance,

GFNORTE IS AWARDED BY WORLD FINANCE IN THE BANKING GUIDE 2017

On October 9, WorldFinance published the Banking Guide 2017 document, in which GFNorte was recognized as the Best Banking Group in Mexico. This publication rewards financial institutions who stand out globally, particularly those who have gone a step ahead in consumer tendencies and who have innovated through the use of technologies which provide an added value for their customers.

BANORTE WAS RECOGNIZED AS LEADER IN SUSTAINABILITY IN MEXICO BY ALAS20

The Sustainable Leaders Agenda 2017 (ALAS20), an initiative that promotes and recognizes companies´ best practices in environmental, social and corporate governance matters, recognized GFNorte as the leading organization in sustainability in Mexico during 2017.
With just one prize for each participating country, the ALAS 2017 award is the most important one among the ALAS20 categories, and recognizes leadership, persistence and excellence in public awareness regarding investor relations best practices, as well as environmental, social and corporateCarlos Hank Gonzalez, Chairman of the Board of GFNorte, was recognized as Trustee of a Leading Institution in Responsible Investments.

The nominees were analized and qualified by Vigeo-Eiris, a specialized sutainability risk rating agency. All qualifications were received by a jury in Mexico, formed by specialists in sustainability, social responsibility, finance and communication, which gathered at the Commission of Studies of the Private Sector for Sustainable Growth (CESPEDES) in October. Banorte ranked in first place in the category of Leading Organization in Sustainability, due to the breadth and depth of publicly available information regarding the company´s environmental, social and economic practices. Banorte ranked second as a Leading Corporation in Corporate Governance, for informing with excellence to all interested parties of all decisions in favor of sustainable development.

b) BUSINESS DESCRIPTION

i. MAIN ACTIVITIES

GFNorte is authorized by the SHCP to be constituted and operated as a holding company of the companies mentioned later in this report, section 2. ix) "The Company- Corporate Structure", under the form and terms established by the LRAF, subject to the supervision and monitoring of the CNBV.

Its main activity is to acquire and manage shares issued by entities engaged in the financial services industry and participate supervising their operations according to the LRAF. GFNorte and its Subsidiaries are supervised, depending on their activities, by the CNBV, the CNSF and Banxico. Meanwhile, Afore XXI Banorte, subsidiary of Banorte, is regulated by the CONSAR.

The main activity of GFNorte's subsidiaries is to carry out financial transactions such as rendering full-banking services, brokerage activities, leasing, factoring, general warehousing services, annuities and life and damage insurance, as well as the acquisition, disposal, administration, collection and in general negotiation any form of negotiation with credit rights.

GFNorte is divided according to business segments and offers its services through:

I. **Consolidated Bank:** Its main activity is to offer universal banking services in Mexico through. These services are offered through the following segments:

- **Retail Banking:** Serves clients through the Banorte Branches that at the end of December 2017 amounted to 1,148 units, offering in 351 of these specific attention to preferred customers through the figure of the Preferred Relationship Executive -,and ATM network, alternate channels (POSs, third party correspondents, online, telephone and mobile banking) and the Contact Center. Offers services to the segments: individuals, SMEs, preferred and to states and municipalities governments (for further detail, see Government Banking in this section). Among the products and services offered are: checking and deposit accounts, credit and debit cards, mortgages, car loans, payroll and personal loans, payroll dispersion accounts, as well as car, home, life and SME insurance.

✓ **SME Banking:** Offers financial products and services for small and medium companies constituted as legal entities or as individuals with business activity, as well as those constituted under the tax incorporation regime.

As part of the comprehensive offer of products and services that Banorte provides thorugh the SME Banking, the following solutions stand out:

- financing through open market and pre-approved campaigns,
- technology ,
- saving and investment,
- business insurance and
- complementary services as POSs, payroll and SME online banking.

Products and services may be contracted in packages that adapt to the size and volume of transactions of each company, which allows to contract and activate several products and services through a unique agreement.

The central axis of our offer is to provide the best assistance and service to our customers, this commitment is backed by the experience of a great team of specialized executives who provide swift, personalized advice at our branches and 16 SME centers strategically located throughout the country.

Banorte has the wider client network in Mexico and is committed to continue supporting small and medium-sized companies with quality products and services because at Banorte we are convinced the country's are the drivin force.

Moreover, SME Banking maintains a differentiated products and services offering for Micro, Small and Medium companies, which adapt to the size and volume of transactions of each company.

- **Wholesale Banking:** It is comprised of Middle-market & Corporate Banking, Transactional Banking, Federal Government Banking and International Banking.

  ✓ **Middle-market and Corporate Banking**: This segment specializes in providing comprehensive financial solutions for middle-market and corporate clients through several forms of specialized financing, including structured loans, syndicated loans, financing for acquisitions and investment plans. Other products and services offered to clients in this segment are: cash management, collection, fiduciary, payroll payment, checking accounts and lines of credit. Middle-market & corporate clients generally consist in multi-national Mexican or foreign companies, large Mexican corporations and medium enterprises operating in a wide range of sectors.

  We will continue offering a client-centric banking model was launched, which establishes the role of the Relationship Executive as the central axis to attend all of the customers financial needs.

  ✓ **Transactional Banking**: Provides transactional services and solutions in a comprehensive model which includes promotion, implementation and post-sale support to corporate and commercial clients, as well as to financial institutions. These services include:

    - Electronic Banking
    - Payments and Collections
    - Acquiring business
    - Payroll
    - Currency exchange
    - Excess management and liquidity services
    - Financial hedging

  This business model was built with the purpose of providing a consultative process with a close relationship with our customers, seeking to provide tailor-made solutions that evolve into long-term relationships.

Government Banking: In this segment specialized financial services are offered to: federal, state and municipal governments, decentralized entities, other entities such as social security institutions, unions, public trusts, etc. Products and services offered include checking accounts, loans, cash management and payroll payment services. Furthermore, we offer comprehensive advisory on public finance in order to increase tax collection and control & manage of expenses; likewise, financial diagnosis are elaborated to design adequate profiles for debt payment through a solid financial and legal structure, aiming to strengthen their finance situation and improve our clients' credit quality.

- ✓ **International Banking:** This banking segment focuses on providing products and services to our corporate, commercial, SME and institutional clients who have international and cross-border business needs, as well as providing correspondent banking services to foreign financial institutions. Banorte's international banking services hold strategic agreements with foreign financial institutions that allow us to provide our customers with highly competitive financial services anywhere in the world.

  Among the products and services offered to our import and export clients as well as to those with international or risk mitigation needs are: import and export letters of credit, documentary collections, banking guarantees, stand-by letters of credit, letters of credit financing, cross-border financing for import and export transactions, as well as international transfer services. We also provide specialized local banking services to foreign-based companies with operations in Mexico.

  In the United States, Uniteller, our remittance and international payment company, confirms its commitment to service the immigrant market and their relatives. Uniteller continues to grow its online and mobile transfer services, and developed uLink, a digital platform for international transfers and remittances. This platform has web channels, mobile apps and company platform integration capabilities. Through uLink, our fellow Mexicans can make deposits to their retirement pension funds (AFORE) from abroad.

  Moreover, Banorte Ixe Securities, our subsidiary in New York, offers a broad range of international investment instruments mainly targeted to our Private Banking clients from our brokerage business in Mexico, and to our onshore (domestic) clients in the U.S.

II. **Long-term Savings Sector**: Offers insurance, as well as management of retirement savings accounts covering saving, protection and prevision needs through Afore XXI Banorte, Seguros Banorte and Pensiones Banorte.

- **Afore XXI Banorte:** Is the fund administrator of the largest retirement fund in Mexico which provides advantages in terms of scale with lower operating costs and potential to have robust operation, investment and service areas. The aforementioned translates into greater benefits for our customers, for example, being one of the companies with one of the lowest commissions in the industry.

- **Pensiones Banorte:** Company that manages social security pensions, positioned as the main company in the market. It implemented projects such as the survival verification through Banorte Voice Signature, a process which increases our competitive advantage, enhancing customer experience.

- **Seguros Banorte:** The ompany has a range of protection and preventive services such as life insurance, car insurance, home and health insurance, among others. Its products are offered through different distribution channels, for example the branch network and channels composed of agents and brokers.

III. **Brokerage Sector:** Companies comprising this sector are: Casa de Bolsa Banorte Ixe and Operadora de Fondos Banorte Ixe. These subsidiaries provide products and services to individuals and corporations including brokerage services, financial advisory, portfolio structuring and management, asset management, investment banking and sale of investment funds and equity & debt instruments.

IV. **SOFOM and Other Finance Companies Sector:** Companies comprising this sector are: Arrendadora y Factor Banorte (leasing and factoring), Almacenadora Banorte (warehousing) and Solida Administradora de Portafolios.

- ✓ **Leasing and Factoring:** Provides leasing and factoring services.

- ✓ **Warehousing:** Offers warehousing, inventory management, commercialization and logistics services.

- ✓ **Solida Administradora de Portafolios:** It is the asset recovery unit of the Financial Group, is in charge of management, collection and recovery of the loans originated by the bank presenting defaults on payments. Furthermore, it carries out the management and collection of loan and real estate portfolios acquired through public and private auctions.

ii. DISTRIBUTION CHANNELS

In Banorte, we work with the firm intention of becoming the best Financial Group of Mexico, our strategy is focused on increasing presence in the national market through multichannel capabilities, strengthening the entire banking infrastructure.

Banorte Branches and Preferred Ixe Centers

Banorte has formal market and population analysis processes at national level, evaluating each opportunity to further develop the branch network within the main urban and semi-urban centers of the country, thus providing all Mexicans with the opportunity to access Banorte's products and services.

Banorte's market share in terms of number of branches is 9.0% as of December 2017, according to the CNBV, raking fourth in the system, considering only Financial Groups.

Banorte Branches
Banorte ended 2017 with a network of 1,124 branches throughout 332 locations, decreasing by 32 branches vs. 2016.

Preferred Ixe Centers
Preferred Centers as of December 31, 2017, totaled 24, decreasing 59 units vs. 2016, located in 18 sites.

According to the "Master Plan of Branches" proposed by GFNorte's management, during 2017 various openings, relocations, expansions and conversions of branches for both segments will be carried out, aiming to get greater efficiencies in the network.

SME Centers

As of December 2017 there were 16 specialized offices operating for this segment, unchanged vs. previous year.

ATMs

ATM network grew 2% YoY from 7,756 branches in 2016 to 7,911 branches at the end of 2017. According to CNBV, Banorte's ATM network market share totaled 16% as of December 2017, raking third in the system.

An average of over 8.5 million clients are served monthly through our ATM network, representing a 4% YoY vs. previous year, these carried out more than 642 million transactions during 2017.

Our ATMs network works with smart cards, complying with mandatory regulations issued by the CNBV. With this implementation we aim to provide clients that use ATMs and POSs with greater reliability and security, largely mitigating fraud risk and giving them greater certainty in the transactions conducted through these means.

Banorte offers a wide variety of debit and credit cards, which can be used in all of our ATMs and, given our participation in the Visa and Plus network, they can be used globally. Furthermore, we continue offering our customers the ATM geo-location service through our website and Banorte Movil.

Some new services have been launched through this channel such as: Boost to the cross-selling of insurance, activation and increase of line of credit in credit card, payroll loans renewals and opening, contracting Banorte mobile and the possibility of carrying out transactions without a physical card. In addition, we have 719 multifunctional ATMs that have allowed us to automate operations regularly done at branches, such as cash deposits. We will continue installing cutting edge ATMs that shorten transaction times and processes for customers and promote products to take advantage of the potential contact of this channel.

Telephone Banking - Contact Center "Roberto Gonzalez Barrera"

The Contact Center serviced 81.5 million incoming calls, (+17% vs.2016), and 1.7 million outgoing calls. The main services offered are assistance and information regarding our products and services, cash transactions within our clients' accounts, assistance with any transaction, cross-selling campaigns, insurance policy hiring and credit card activation.

In 2017, strategic projects aimed at improving digital customer service were given the highest priority, some of these projects were: products and services sale through the webpage chat and social networks such as Twitter and Facebook, direct contact with customers through the mobile app, and the use of analytics tools during calls to continue improving our customer experience. Thanks to these initiatives, we continue improving our telephone service customer satisfaction levels among Banorte's Preferred customer segment.

Point of Sale Terminals (POSs)

In 2017 POS network reached 165,441, representing a (+9%) YoY increase as a result of the strategy in the selective placement of good quality customers and the inclusion of MPOS (Mobile Point of Sale) technology. As of December 2017, we had a 17% market share, ranking third according to the CNBV.

During 2017, the number of transactions reached 320.2 million, (+23% YoY), representing a 16.7% market share according to CNBV; while the amount of transactions totaled Ps 244.9 billion, (+22% YoY). The increase mentioned above was possible given to the exponential growth of our largest customers in e-commerce and aggregators (fintechs)

Digital Banking and Mobile Banking

Our Digital Banking platform provides 24x7 access to our clients wherever they may be, either through internet or through their mobile devices, from which they can send national or international fund transfers, pay services, invest in funds, and check their account statements, among many other transactions, in a safe, easy and quick fashion.

At the end of 2017, 2.3 million corporate and individual clients already use our Digital Banking platform, a 92% growth YoY. Through this channel, more than 1.38 million transactions were made, a +34% growth vs. the 1.38 million in 2016.

Banorte’s cutting edge Mobile Banking provides a global, efficient, safe and sustainable solution to our clients. It is compatible with the main smartphone and tablet manufacturers and operating systems, regardless of the mobile service provider they chose.

In 2017, more than 963 thousand customers used Banorte Movil service, a 5% growth vs. 2016. Our customers performed more than 178 million transactions through this channel, more than +57% than those in 2016. The total operated amount increased +147% YoY to Ps 89.7bn at the end of 2017.

During 2017, 527,094 cellular tokens were issued, a +56% increase vs. those in 2016.

In 2017 we implemented important improvements to our brand experience and multichannel capabilities for all our individual Digital Banking customers, enhancing our product cross-sale effectivness by launching personalized campaigns to the specific customers that use a particular cannel. During the year, we also increased the number of service options available so that customer can manage their personal finances, enabling PIN change, define credit card limits, activate credit card usage alerts, defer credit card balances, check online account statements, etc…

With Pago Móvil Banorte, we broadened our electronic banking service by enabling international purchases. We also implemented unique functionalities such as Facial Biometrics which use facial recognition as an additional security Access checkpoint to our mobile banking app. We also enhanced our communication by incorporating “Push Multimedia”, which enables image and play videos as well as capture information through forms from customers.

Third-party Correspondents

We support the penetration of banking services by offering a service that contributes to the well-being of thousands of Mexicans that cannot access financial services through third party correspondents.

Banorte's strategic alliances with different counterparts have allowed us to increase our market share and be available for our clients in more suitable schedules.

Banorte's customers doubled the intensity of use of Third-party Correspondents; today 59% of the monetary transactions that by their nature and characteristics are susceptible to be realized through this channel and that previously were operated in the branches of the bank. The channel's number of operations had a 99% increase during 2017 compared to the previous year, reaching 32.8 million transactions.

This great growth in the number of transactions is due to the positioning of OXXO and Farmacia del Ahorro throughout 2017, the inclusion of La Comer at the end of the year, as well as the offer of new services such as deposits or withdrawals to correspondents that previously did not they offered it, consolidating the continuous growth of the channel.

At the end of 2017, we had 26,131 contact points through OXXO (16,998), 7-Eleven (1,888), Telecomm-Telegrafos (1,744), Farmacias Guadalajara (1,866), Farmacias del Ahorro (1,596) Extra / Círculo K (1,192), Soriana (642), Grupo Control with “Del Sol” and “Woolworth” brands (95), Gasmart (48)and La Comer (62), representing a 7% increase vs. 24,312 in 2016.

iii. PATENTS, LICENSES, BRANDS AND OTHER CONTRACTS

The main registered trademark is *BANORTE*, since it represents the distinctive symbol of GFNorte and its subsidiaries, as well as *GRUPO FINANCIERO BANORTE*, both have a validity of 10 years from the filing date of the application for registration and may be renewed for additional periods of 10 years at the end of their terms. To date they are in use and in full legal effect.

Also, GFNorte and/or its subsidiaries own the trademarks of *SUMA, CREDITO HIPOTECARIO BANORTE, AUTOESTRENE BANORTE, BANORTE MOVIL, SOLUCION INTEGRAL PYME*, which are relevant as they cover the main financial products offered by this credit institution, being valid for 10 years from the filing date of the application for registration and may be renewed for additional 10-year periods at the end of each term. To date they are in use and in full legal effect.

Additionally, we have the trademarks for: *ENLACE TRADICIONAL; ENLACE DINAMICA; ENLACE GLOBAL; MUJER BANORTE; AGROPECUARIO BANORTE; COMO UN MEXICANO NO HAY DOS; COMO UN MEXICANO NO HAY DOS, FELICIDADES POR SER MEXICANO; 110 AÑOS BANORTE* brands which also cover important financial products offered to the public by GFNorte and/or its subsidiaries, for a period of 10 years starting from the filing date of the application for registration, and which may be renewed for additional periods of 10 years at the end of their terms. To date they are in use and in full legal effect.

On the other hand, GFNorte and/or its subsidiaries have registered commercial slogans, among others:

BANORTE, EL BANCO FUERTE DE MEXICO (BANORTE, THE STRONG BANK OF MEXICO)
MEXICO PIENSA EN GRANDE (MEXICO THINKS BIG)
MEXICO PIENSA EN GRANDE, BANORTE EL BANCO FUERTE DE MEXICO (MEXICO THINKS BIG, BANORTE THE STRONG BANK OF MEXICO)
SIEMPRE TE DA MAS (YOU ALWAYS GET MORE)
MUJER BANORTE, DETRAS DE UNA GRAN MUJER HAY UN GRAN BANCO (BANORTE WOMAN, BEHIND EVERY GREAT WOMAN THERE'S A GREAT BANK)
DOS MEXICANOS SE UNEN PARA HACER UN MEXICANO MAS FUERTE (TWO MEXICANS UNITE TO MAKE A STRONGER MEXICAN)
SOMOS MEXICANOS, SOMOS GENTE BANORTE (WE ARE MEXICAN, WE ARE BANORTE PEOPLE)
EL FUTURO ESTA EN BANORTE, ACERCATE A NOSOTROS (THE FUTURE IS IN BANORTE, GET CLOSER TO US)

These slogans are significant since they are part of an institutional campaign that promotes the solvency, stability and strength of the Financial Group and are valid for 10 years starting from the date of commencement of the registration process, renewable for additional periods of 10 years at the end of their terms. To date, they are all in use and in full legal effect.

Each one of these property rights is protected by the respective authorities.

Relevant Contracts:

Banco Mercantil del Norte (Banorte), the most relevant Financial Group's subsidiary, has celebrated diverse contracts outside of its core business, but necessary for its operation or business strategy, among the most relevant are:

- Agreements with IBM de Mexico, Comercializacion y Servicios, S. de R.L. de C.V.: (i) for the acquisition of products (equipment or software licenses) and services, and (ii) leasing of technological equipment. The first contract was signed on December 5, 2005 for an indefinite period of time.

- The agreement with Sertres del Norte, S.A. de C.V., signed on June 1, 2007 for an indefinite time, for preventive maintenance and corrective services to the infrastructure equipment of the institution, as well as other contracts for the installation of mechanisms and/or infrastructure of uninterrupted energy in order to protect Banorte from possible operational risks. These agreements are made in accordance to the needs of the institution, understanding that some contracts expire as soon as the service or commended task is concluded.

- The agreement with NCR de Mexico, S. de R.L. de C.V., for preventive maintenance and corrective services for ATMs; replacement of consumable and/or vandalized parts celebrated on June 1, 2009 and negotiated to last for an indefinite period of time.

- The agreement with Diebold de Mexico S. A. de C.V., for preventive maintenance and corrective services for ATMs, replacement of consumable and/or vandalized parts celebrated on March 1, 2008 for an indefinite period of time.

- The contract with Winston Data, S.A. de C.V., for printing services and inserting account statements into envelopes, celebrated on July 15, 2008 which is still in effect as it was negotiated for an indefinite period of time.

- The agreement with Azertia Tecnologias de la Informacion Mexico, S. A. de C. V., (contract transferred to Coltomex, S.A. de C.V. as of January 1, 2014) for printing services and inserting account statements into envelopes, celebrated on October 3, 2008 which is still in effect as it was negotiated for an indefinite period of time.

- The contract with Satelites Mexicanos S.A. de C.V., for satellite signal services celebrated on July 12, 2006, expiring on July 30, 2012, through addendum the agreement was extended until June 30, 2015. At the beginning of 2015 the renewal through addendum will be negotiated. Later on July 1, 2015 the addendum was renewed for an indefinite period of time.

- The contract with ASAE Consultores S.A. de C.V. for the maintenance of computer equipment and networks celebrated on July 1, 2009 for an indefinite period of time.

- The agreement with NET & SERVICES TRANTOR, S.A. de C.V. for preventative and corrective maintenance of equipment, cabling of nodes, structured cabling for voice and data installed in the Central Site, celebrated on August 1, 2007 for an indefinite period of time.

- The contract with Microsoft Licensing GP for the licensing of software signed on December 28, 2011 and expiring on December 27, 2014, at the end of the contract, the service was renewed with Microsoft Corporation (same provider that changed its name) from January 1, 2018 to December 31, 2020.

- The agreement with Algorithmics (UK) Limited (contract transferred to IBM de Mexico Comercializacion y Servicios, S. de R.L. de C.V. as of April 30, 2013) for the licensing, support and maintenance of software signed on June 30, 2000 expiring on June 29, 2010, through addendum it has been extended to expire on June 29, 2020.

- The agreement with Netxtor, S.A. de C.V. for equipment maintenance signed on July 1, 2015 for an indefinite period of time, as well as for Arkivio licenses from October 31, 2015 to September 1, 2020.

- Several Contracts with IGSA, S.A. de C.V. signed as of May 1, 2010 for maintenance of electronic infrastructure, all are indefinite.

- Contract signed in October 2009, for satellite connection services for an indefinite period of time to supply satellite connectivity to Banorte's private network with GSAT Comunicaciones (formerly Libros Foraneos, S.A. de C.V.).

- The agreement with ORACLE DE MEXICO, S.A. de C.V., for the technical support of Oracle Premier Support to SUN-Oracle infrastructure, signed on November 1, 2012, which expired on February 28, 2014. This contract has been renewed several times with validity dates of May 23, 2014 as of June 30, 2016, from July 1, 2016 to June 30, 2017 and after July 1, 2017 to June 30, 2018.

- The agreement with HEWLETT-PACKARD MEXICO, S. de R.L. for licensing HP products for comprehensive and performance tests, signed on June 1, 2012 for an indefinite period of time.

- The agreement with SAP MEXICO, S.A. de C.V. for SAP Netweaver license service signed on December 12, 2012 for an indefinite period of time.

- The one held with MUREX NORTH AMERICA INC for the service of integrated solutions against the risk of capital markets, application of front-office for trading and valuation of financial products, especially for derivatives, which was signed on August 3, 2007 with indefinite validity.

iv. MAIN CLIENTS

As of December 31, 2017 GFNorte had a wide and diversified client portfolio; the largest client represented 3.0% of the total loan portfolio.

Also, GFNorte's transactions are adequately diversified among the different productive sectors of the economy, there is no important concentration in any specific sector and for the same reason, there is no cyclical relevance.

v. APPLICABLE LEGISLATION AND TAX SITUATION

The Mexican Financial System

Mexico's financial system is currently comprised of commercial banks, national development banks, brokerage firms, development trust funds, limited purpose banks and other non-bank institutions, such as insurance and reinsurance companies, bonding companies, credit unions, savings and loans companies, foreign exchange houses, factoring companies, bonded warehouses, financial leasing companies, mutual fund companies, pension fund management companies and multi-purpose financial institutions. In 1990, the Mexican government adopted the Law Regulating Financial Groups (LRAF) aimed at achieving the benefits of universal banking, which permits a number of financial services companies to operate as a single financial services holding company, which was amended and restated on January 10, 2014. Most major Mexican financial institutions are members of financial groups.

The main financial authorities that regulate financial institutions are the SHCP, the Mexican Central Bank, the CNBV, the CONSAR, the CNSF, the IPAB and the CONDUSEF.

Trend toward multi-purpose banking institutions

Prior to 1978, the Mexican banking system was comprised primarily of specialized institutions, which were authorized to conduct specified financial activities pursuant to concessions granted by the Mexican Government. During the period from 1978 to the nationalization of commercial banks in 1982, the structure of the Mexican banking system evolved towards the creation of multi-purpose banking institutions, which were allowed to engage in the full range of banking activities.

Nationalization and subsequent privatization

Effective June 28, 1990, the Mexican Constitution was amended to permit Mexican individuals and financial services holding companies to own controlling interests in the then-existing 18 Mexican commercial banks owned by the Mexican Government. Subsequently, a new Banking Law was enacted to regulate the ownership and operation of Mexican commercial banks, national development banks and foreign financial institutions. Pursuant to the Banking Law, Mexico began the process of privatizing commercial banks. By the third quarter of 1992, the Mexican Government had privatized all 18 state-owned commercial banks. Since that time, new commercial banks, have been chartered and regulations regarding investment in the banking sector by foreign investors have been relaxed.

On November 26, 2013, the Senate approved the Report of the Chamber of Deputies (Cámara de Diputados) on the bill presented by President Enrique Peña Nieto amending, supplementing and repealing various provisions with respect to financial matters and issuing the new LRAF, the "Financial Reform".

Thirty-four legal statutes were amended in order to foster greater competition in the financial and banking system by creating incentives to increase lending, as well as a new mandate for development banks. Also, the Financial Reform strengthens the scheme for the stability of the financial institutions and the powers of financial authorities in regulatory, monitoring and enforcement matters.

Financial Groups

The enactment of the former LRAF in 1990 permitted the development of the universal banking model in Mexico. By July 1992, most major Mexican financial institutions had become part of financial groups controlled by a financial services holding company, such as GFNorte, and made up of a number of financial operating entities.

On January 10, 2014, the new LRAF was published, authorizing holding corporations through their companies or other financial institutions, to indirectly hold shares of financial institutions that are members of the financial group, as well as shares of financial institutions that are not members of the financial group, service providers and real estate.

The operations of financial services holding companies are generally restricted to holding shares representing the capital stock of financial services operating subsidiaries as well as those of service providers, real estate and subdholding companies that do not comprise the financial group. Financial services subsidiaries include general deposit warehouses, foreign exchange houses, bonding institutions, insurance companies, broker-dealers, banks, mutual funds managers, mutual funds distributors, retirement fund management companies, multiple purpose non-banking financial institutions and micro finance companies. Financial groups must be comprised at least by a holding company and any of the two formerly mentioned financial institutions (which may be of the same type), provided that a financial group may not be comprised solely by the holding company and two Sofomes (Multi-purpose Non-Banking Financial Institution).

The Law Regulating Financial Groups permits entities controlled by the financial services holding company: (i) to act jointly before the public, offer services that are supplemental to the services provided by the other and hold themselves out as part of the same group;(ii) use similar corporate names; and (iii) conduct their activities in the offices and branches of other entities part of the same group.

In addition, the Law Regulating Financial Groups requires that each financial services holding company enter into an agreement with each of the financial services companies integrating the financial group pursuant to which the holding company agrees to be responsible secondarily and without limitation for the satisfaction of the obligations incurred by its subsidiaries as a result of the activities that each such subsidiary is authorized to conduct under the applicable laws and regulations, and is fully responsible for certain losses of its subsidiaries, up to the total amount of the holding company's assets. In the event that the assets of the financial services holding company are insufficient to meet the losses of its subsidiaries if occurred simultaneously, the financial services holding company must first meet the liabilities of the banking institutions that are part of the group and subsequently, the liabilities of any other entities that form the group will be prorated. For such purposes, a subsidiary is deemed to have losses if its assets are insufficient to meet its payment obligations. The subsidiaries will never be held liable for the losses of their financial services holding company or for the losses of the other subsidiaries of the group.

Furthermore, on December 31, 2014 the General Provisions for Financial Groups were published, according to the faculty the SHCP holds of issuing the secondary provisions that the LRAF refers to. These General Provisions consider the terms and conditions to organize holding companies and the running of the financial groups, as well as those to avoid conflict of interest among the entities of the financial group. The General Provisions for Financial Groups were effective on March 31, 2015, 90 days after the publication in the Official Gazette. Under the Financial Reform, the Mexican Congress approved changes to the Financial Groups Law. Relevant changes include the following:

- *Shareholding Structure* - It provides for the possibility of the holding company to maintain the shareholding of the members of the group through sub-holding companies.
- *Capitalization and Corrective Measures* - A holding company shall maintain net capital that shall not be less than its permanent investments in the subsidiaries of the group. It also authorizes the SHCP to

determine corrective measures, such as the potential sale of assets, non-distribution of dividends and suspending payments of bonuses, among others.

- *Corporate Governance* - The new law provides for a new corporate governance structure, setting forth specific duties of care and fiduciary duties applicable to Board members, even if the financial services holding company is not publicly traded, similar to that provided in the Securities Market Law (Ley de Mercado de Valores) for stock-traded corporations.
- Other material changes from the previous law include shareholders' agreements, tied sales, liability agreements, the investment structure of the holding company, accounting and consolidated supervision, among others.
- *Investment Structure of the Holding Company* - In addition to its interest in the financial institutions of the group, a holding company may invest in other instruments, such as securities representing the capital stock of other financial institutions that are not group members, service providers and real estate companies, among others.

Authorities of the Mexican Financial System

The principal authorities that regulate and supervise financial institutions in Mexico are Banxico, the SHCP, the CNBV, the CONSAR, the CNSF, the IPAB and the CONDUSEF. These authorities are subject to a number of organic laws and other administrative provisions that govern their supervisory and other powers. Also, these entities continually enact administrative provisions on matters falling with their competence for the regulation of the corresponding financial entities, as further mentioned below. GFNorte, as a financial services holding company, is subject to the supervision and regulation of the Supervision Commission (the CNBV, the CNSF or the CONSAR, depending on the responsible for supervising the general functioning of the Financial Group in terms of article 102 of the LRAF). In addition, our financial subsidiaries are subject to the supervision and regulation of and keep in touch with different financial authorities, accordingly.

Banco de México

Banco de México is the Mexican Central Bank. It is an autonomous entity that is not subordinated to any other body in the Mexican federal government. The Banco de México Law, as well as Paragraphs 6 and 7 of Article 28, of the Mexican Constitution, regulate the administration and the performance of Banxico' functions. Its primary purpose is to provide the domestic economy with Mexican currency, procuring stability of acquisition power of such currency, establish reference interest rates and ensure that the banking and payments systems perform under safe and sound principles.

Monetary Policy decisions are taken by its Governing Board. The Governing Board, official body, is composed of a Governor and four Deputy Governors, who are appointed by the President and approved by the Senate or the Permanent Commission of Congress,

Among the decisions that only the Governing Board may take are the authorization of the issuance of currency and the minting of coins, the decision to extend credit to the Mexican government, the determination of policies and criteria that the Mexican Central Bank uses in its operations and in the regulations that it issues, and the approval of its rules of procedure, budget, working conditions and similar internal matters.

SHCP

The SHCP is the entity in charge of proposing, conducting and controlling the economic policy of the Mexican federal government in matters of economics, tax, customs, finance, banking, public budget, public debt and income. Together with the CNBV and Banxico, it is the primary regulator of commercial banks and national development banks. The SHCP participates in the planning, coordination, evaluation and monitoring process of the country's banking system comprised of the Central Bank, the National Development Banking and other institutions responsible for banking and credit services. Furthermore, it exercises powers provided within the laws in the areas of insurance, bonding, securities and organizations & ancillary credit activities, among others.

CNBV

The CNBV is a governmental body subordinated to the SHCP, having independent technical and executive powers. The CNBV is in charge of the supervision and regulation of entities comprising the Mexican Financial System, with the purpose of ensuring their stability and sound performance, as well as the maintenance of a safe and sound financial system. The scope of the CNBV's authority includes inspection, supervision, prevention and correction powers. The primary financial entities regulated by the CNBV are: financial groups, credit institutions, regulated multiple purpose financial institutions, brokerage firms, as well as publicly traded companies and other entities that have issued debt securities to investment public. The CNBV is also in charge of granting and revoking banking and securities brokerage licenses in Mexico.

CONSAR

The CONSAR is a governmental body subordinated to the SHCP, having independent technical and executive powers. The CONSAR was created in 1997 as part of a comprehensive reform of the retirement savings and pensions system, and is in charge of protecting the retirement savings of employees through the regulation and supervision of Afores and Siefores. The CONSAR evaluates risks borne by the participants in the retirement savings system and makes sure these participants are solvent and maintain adequate liquidity levels.

CNSF

The CNSF is a governmental body subordinated to the SHCP, having independent technical and executive powers. The CNSF is in charge of the supervision and regulation of insurance and bonding companies, promoting the safe and sound development of the insurance and guaranty bond financial sectors.

IPAB

After the 1994 financial crisis, the Mexican government created the IPAB, an independent, decentralized governmental institution with its own legal standing and assets. The IPAB's primary purpose is the protection and insurance of bank deposits, having also powers to provide solvency to banking institutions, contributing to the safe and sound development of the banking sector and the national payments system. The IPAB is also entitled to acquire assets from distressed banking institutions.

CONDUSEF

The CONDUSEF is a governmental body under the SHCP. The CONDUSEF is in charge of protecting and defending the rights of users of financial services and serves as an arbitrator between financial institutions and their customers. Among other powers, CONDUSEF has the authority to order the amendment of standardized agreements used by financial entities when it considers that such agreements contain abusive clauses, it may issue general recommendations to financial institutions, and suspend the distribution of information regarding financial services and products that it considers confusing.

History of the Banking Sector

Banking activities in Mexico have been and continue to be affected by prevailing conditions in the Mexican economy; the demand for and supply of banking services have been vulnerable to economic downturns and changes in government policies. Prior to the early 1990s, lending by Mexican banks to the private sector had fallen to very low levels. It is estimated, however, that by the end of 1994 average total indebtedness of the private sector to Mexican commercial banks had grown to represent approximately 40.7% of Mexican GDP, with mortgage loans and credit card indebtedness generally growing faster than commercial loans. The devaluation of the Mexican peso in December 1994 initiated a crisis, and the resulting high interest rates and contraction of the Mexican economy in 1995 severely impacted most borrowers' ability to both repay loans when due and meet debt service requirements. These effects, among others, caused an increase in the non-performing loan portfolio of Mexican financial institutions, particularly during 1995, which adversely affected the capitalization level of financial institutions. Also, increased domestic interest rates and the deteriorating value of the peso made it more difficult for financial institutions to renew dollar-denominated certificates of deposit and credit lines.

From 1995 through the end of 1997, the CNBV intervened in the operations of 13 banks and adopted several measures designed to protect, stabilize and strengthen the Mexican banking sector. These measures included:

- Creating a temporary capitalization program to assist banks;
- Establishing a foreign exchange credit facility with Banco de México to help banks with dollar liquidity problems;
- Increasing the level of required loan loss reserves;
- Establishing a temporary program for the reduction of interest rates on certain loans;
- Establishing various programs to absorb a portion of debt service cost for mortgage loan (including debt restructuring and conversion support programs); and
- Broadening the ability of foreign and Mexican investors to participate in Mexican financial institutions.

In addition, to address deteriorating asset quality, the Mexican government established debt restructuring and conversion support programs to face cash-flow problems. Finally, the Mexican government created a program to promote increased capitalization of Mexican banks by transferring loans and other assets to the Banking Fund for the Protection of Savings (Fondo Bancario de Proteccion al Ahorro or the FOBAPROA). Effective January 20, 1999, the FOBAPROA was replaced by the IPAB, which was created to manage the banking savings protection system and regulate financial support granted to banks.

Reforms to Mexican Banking Law

On January 10, 2014, several amendments to the Mexican Banking Law were published in the Official Gazette of the Federation, and are currently in effect, with the following purposes:

Update capital requirements according to Basel III. The amendments to the Mexican Banking Law updated the capital requirements for banking institutions by incorporating the requirements of the Basel III accords, currently included in the General Rules Applicable to Mexican Banks. The amendments specify that net capital will be comprised of capital contributions, retained profits and capital reserves. The CNBV is authorized to allow or prevent the inclusion of other items to calculate a bank's net capital, subject to the terms and conditions of the general rules to be issued by CNBV to further regulate the capital requirements for bank institutions. We currently comply with applicable capitalization requirements.

Enhancing the CNBV supervisory practices. The reforms grant ample authority to the CNBV for the supervision of the financial entities under the Mexican Banking Law. The CNBV may perform visits to banks, with the aim to review, verify, test and evaluate the operations, processes, systems of internal control and risk management among others elements that may affect the financial position of banks.

Increasing requirements for the granting of credits to customers. For the granting of credits, banks are required to analyze and evaluate the viability of payment by borrowers or counterparties, relying on an analysis based on quantitative and qualitative information that allows establishing their credit worthiness and ability of timely payment of the credit. Banks must issue guidelines and lending process manuals and credit procedures shall be performed in accordance with such policies.

Establishing new provisions on transparency and reliability. Banks are required to publicly disclose their corporate, financial, administrative, operational, economic and legal information, as determined by the CNBV. Banks must post on their website and in a national newspaper their balance sheets and other relevant information periodically.

Establishing audit powers for the supervision of external auditors. The CNBV has powers of inspection and surveillance with respect to entities that provide external audit services to banks, including those partners or employees who are part of the audit team, in order to verify the compliance with the Mexican Banking Law. The CNBV is allowed to: (i) request any information and documentation related to the services rendered; (ii) practice inspection visits; (iii) require the attendance of partners, legal representatives and other employees; and (iv) issue audit procedures to be complied by the auditors, in connection with the tax opinions and practices performed by them.

Limited purpose banks. The reform introduced limited purpose banks (bancos de nicho), which can only engage in a limited amount of banking activities which are specifically set forth in their by-laws. The minimum required capital of limited-purpose banks can vary depending on the activities carried out by such entities, from a range of 36,000,000 UDIs to 90,000,000 UDIs.

Under the Financial Reform, the Mexican Congress approved additional changes to the Mexican Banking Law. Relevant changes include the following:

Participation of Foreign Governments. It clarifies the rules that require prior approval from the CNBV for the investment of foreign governments in commercial banks, as a temporary prudential measure, in cases where foreign entities receive financial support or are rescued. Such intervention should be through official entities not exercising authority, and participation should be indirect and without control. The shareholding structure in broker-dealers, retirement fund administrators, insurance companies and mutual insurance companies, bonding companies, financial groups and credit information companies was also amended.

Capitalization Requirements. The concepts of “Minimum Basic Capital” and “Capital Supplement” have been incorporated into the law. The law also provides for capital requirements, additions and restrictions, as well as asset disposal in cases where the entities with significant influence on banks are facing liquidity or solvency problems. It also entitles development banks to support banks should they require capitalization.

Limit on Transactions with Related Parties. The limit on the aggregate number of transactions with related parties has changed, which shall not exceed 35 percent of the net capital.

Liquidity Requirements. The amendments to the Mexican Banking Law grant authority to the CNBV to order adjustments to a bank’s accounting registries. If a bank fails to meet the liquidity requirements imposed by CNBV and the Mexican Central Bank, the CNBV may order the bank to adopt actions toward restoring the corresponding liquidity requirements, including suspending or partially limiting certain lending, borrowing or service operations of the bank, and requiring the bank to present a liquidity restoration plan.

Risk Control, Banking Resolutions and New Judicial Liquidation/Bank Bankruptcy Rules. The early warning, preventive and corrective action system changed. The Financial Reform entitles the CNBV to determine the maximum number of active transactions and provides for new rules in the event that the Mexican Central Bank acts as lender of last resort so that it requires collateral on the bank’s shares. It also introduces the obligation to have a plan of stress scenarios, contingency and resolution plans as well as participation in mock resolutions. It also has amended certain articles regarding the structure of bank resolutions, including new deadlines for exercising the right of audience prior to the revocation of the authorization to operate as a bank and includes a new scheme of judicial liquidation/bank bankruptcy, replacing the provisions of the Bankruptcy Act.

Self-Correcting Programs. The Mexican Banking Law and other financial laws state that the financial institutions may submit to the CNBV self-correcting programs when they detect defaults to the provisions regulating them, taking into consideration that irregularities detected by the CNBV or serious defaults or offenses may not be part of the self-correcting programs.

Transactions with Members of the Same Group or Consortium. New rules and limitations have been established. Transactions with members of the same group shall be agreed to on market terms.

Measures to Encourage Credit and Performance Evaluations. The SHCP is authorized to assess the performance of commercial banks regarding compliance with the support of the country's productive forces and the growth of the economy; the SHCP shall issue the relevant guidelines for such assessment. It also authorizes the CNBV to encourage the channeling of more resources to the productive sector by setting parameters on the execution of transactions with securities. The financial authorities shall take into account the results of the assessments to decide on the authorizations it will grant in general.

Administrative Offenses and Penalties. It significantly increases the number and severity of the sanctions, which are to be disclosed to the general public, although none are definitive or final. It also provides for sanctions for officials involved in transactions with related parties in excess of the statutory limits. Amendments to the administrative sanction system were made consistently in all financial laws amended by the Reform.

SHCP Blacklist. With respect to the prevention of transactions with funds from illegal sources and terrorist financing, it provides for the obligation to immediately suspend transactions with the persons included in the blacklist issued by the SHCP. This obligation is also set for the other financial institutions in their respective laws.

Asymmetric Regulation. It authorizes the SHCP, the CNBV and the Mexican Central Bank to issue asymmetric regulation, *i.e.*, one that considers the regulatory burden in accordance with the size of each institution.

Exchange of Information with Foreign Financial Authorities. It regulates in more detail the procedure for the exchange of information with foreign authorities and verification visits.

Initiatives to Improve Creditors' Rights and Remedies

Mexico has enacted legislation to improve creditors' rights and remedies. These laws include collateral pledge mechanisms and a new bankruptcy law.

Collateral Mechanisms

On June 13, 2003, a congressional decree was published amending the Mexican Commerce Code (Codigo de Comercio), the General Law of Negotiable Instruments and Credit Transactions (Ley General de Titulos y Operaciones de Credito), the former Securities Market Law, the Mexican Banking Law, the Insurance Companies Law (Ley General de Instituciones y Sociedades Mutualistas de Seguros), the Bond Companies Law (Ley Federal de Instituciones de Fianzas) and the General Law of Ancillary Credit Organizations and Activities (Ley General de Organizaciones y Actividades Auxiliares del Credito). The purpose of the amendment was to provide an improved legal framework for secured lending and, as a consequence, encourage banks to increase their lending activities. Among its provisions, the decree eliminated a prior non-recourse provision applicable to non-possessory pledges (which allowed the creation of a pledge over all the assets used in the main business activity of the debtor, but limited recourse to the applicable collateral) and collateral trusts, to allow creditors further recourse against debtors in the event that proceeds derived from the sale or foreclosure of collateral are insufficient to repay secured obligations.

Foreclosure of Securities Loans

The Mexican Congress also approved changes to the Commerce Code intended to expedite proceedings relating to the foreclosure of secured loans by financial institutions. These changes grant authority to Mexican courts to issue interim measures, such as ordering persons not to leave Mexico or ordering assets to be frozen. Furthermore, on January 10, 2014, a decree was published which reforms, adds and repeals diverse regulations on financial matters and the Law Regulating Financial Groups was issued, establishing in the General Law of Titles and Loan Operations the application of values or goods given in pledge, which at the time of execution can be made without a legal ruling.

Mexican Bankruptcy Law

The Mexican Bankruptcy Law was enacted on May 12, 2000 and has been restored by virtue of the Decree of Financial Reforms published on January 10, 2014, and is used as a means to conclude complex insolvency situations affecting Mexican companies, by providing expedited and clear procedures, whereas at the same time granting creditors and other participants the certainty of an in-court solution. The Bankruptcy Law provides for a single insolvency proceeding encompassing two successive phases: (i) a conciliatory phase of mediation between creditors and debtor, (ii) and bankruptcy.

The Bankruptcy Law, impose that only a Supervisory Commission, may demand the declaration of insolvency of banking institutions; being that in which according with the applicable provisions, is responsible for the supervision and monitoring of a Financial Institution. In the case of banking institutions, such as Banorte, with the declaration of bankruptcy the judicial procedure is initiated in the bankruptcy phase and not, as in common procedures, in the conciliatory phase. The bankruptcy of a Credit Institution is viewed as an extreme measure (because it results in a liquidation and dissolution of the relevant institution), which has not been resorted to in practice, and is preceded by a number of measures that seek to avoid it, such as corrective measures taken by the CNBV, facilities made available by the IPAB and an intervention led by the CNBV. Upon filing a suit of declaration of insolvency, banking institutions must cease operations and suspend payment of all obligations.

The Bankruptcy Law establishes precise rules that determine when a debtor is in general default in its payment obligations. The principal indications are failure by a debtor to comply with its payment obligations with two or more creditors, and the existence of the following two conditions: (i) liabilities must be least 30 days past-due and represent 35.0% or more of a debtor's outstanding liabilities, and (ii) the debtor fails to have certain specifically defined liquid assets and receivables to support at least 80.0% of its obligations.

Applicable law provides for the use and training of experts in the field of insolvency and the creation of an entity to coordinate their efforts. Such experts include the intervenor (interventor), conciliator (conciliador) and receiver (síndico). The IPAB acts as the liquidator and receiver and the CONDUSEF may appoint up to three intervenors.

On the date the insolvency judgment is entered, all peso-denominated obligations are converted into UDIs, and foreign currency-denominated obligations are converted into pesos at the rate of exchange for that date and then converted into UDIs. Only creditors with a perfected security interest (i.e., mortgage, pledge or security trust) continue to accrue interest on their loans. The Bankruptcy Law mandates the netting of derivative transactions upon the declaration of insolvency.

The Bankruptcy Law provides for general rules as to the period when transactions may be scrutinized by the judge to determine if they were entered into for fraudulent purposes, which is 270 calendar days prior to the judgment declaring insolvency. This period is referred to as the retroactivity period. Nevertheless, upon the reasoned request of the conciliator, the inspectors, who may be appointed by the creditors to oversee the process, or any creditor, the judge may set a longer period.

In December 2007, the Bankruptcy Law was amended to incorporate provisions relating to pre-agreed insolvency proceedings, frequently used in jurisdictions different from Mexico, that permit debtors and creditors to agree upon the terms of a restructuring and thereafter file, as a means to obtain the judicial recognition of a restructuring reached on an out-of-court basis. This also provides protection against dissident minority creditors.

The Mexican Congress also approved changes to Mexico's Bankruptcy Law, intended to improve the application of such law. Relevant changes include:

- the consolidation of bankruptcy proceedings affecting parent and subsidiary companies;
- the application of liquid assets provided as collateral, in connection with the netting and close out of derivative and similar contracts;
- setting forth an outside limit to bankruptcy restructuring (three years);
- permitting trustees and other creditor representatives, to submit claims on behalf of groups of creditors;
- expressly recognizing subordinated creditors, and deeming related party creditors as subordinated creditors; and
- making members of the Board of Directors liable to the bankrupt debtor if such member acted when affected by a conflict of interest, self-dealing and otherwise against the interests of the bankrupt debtor.

As of the date of this offering memorandum, we are continuing to evaluate the effects that these reforms may have on us.

Deregulation of Lending Entities and Activities

In July 2006, the Mexican Congress enacted reforms to the General Law of Auxiliary Credit Organizations and Credit Activities (Ley General de Organizaciones y Actividades Auxiliares del Credito), the Mexican Banking Law and the Foreign Investment Law (Ley de Inversion Extranjera), with the objective of creating a new type of financial entity called Multi-purpose Non-Banking Financial Institution (Sociedad Financiera de Objeto Multiple, or Sofom) (the "Sofom Amendments"). The Sofom Amendments were published in the Official Gazette on July 18, 2006.

The main purpose of the Sofomes Amendments is to deregulate lending activities, including financial leasing and factoring activities. Sofomes are Mexican corporations (sociedades anonimas) that expressly include as their main corporate purpose in their by-laws, engaging in lending and/or financial leasing and/or factoring services. Pursuant to the Sofomes Amendments, the SHCP has ceased to authorize the creation of new Sofoles, and all existing Sofol authorizations automatically terminate on July 19, 2013. On or prior to that date, existing Sofoles ceased operating as a Sofol. Failure to comply with this would result in dissolution or liquidation of the Sofol. Existing Sofoles also have the option of converting to Sofomes or otherwise extending their corporate purposes to include activities carried out by Sofomes.

Among others, Sofomes that are affiliates of Mexican credit institutions (i.e., private or public banks) or the holding companies of financial groups that hold a credit institution will be regulated and supervised by the CNBV, and will be required to comply with a number of provisions and requirements applicable to credit institutions such as capital adequacy requirements, risk allocation requirements, related party transactions rules, write-offs and assignment provisions, as well as reporting obligations. Regulated Sofomes are required to include in their denomination the words "Entidad Regulada" (regulated entity) or the abbreviation thereof, "E.R." All other entities whose main purpose is engaging in lending, financial leasing and factoring activities are non-regulated Sofomes and must so indicate in their corporate denomination by including the words “Entidad No Regulada” (non-regulated entity) or the abbreviation thereof, “E.N.R.” Non-regulated Sofomes are not subject to the supervision of the CNBV.

Sofomes (regulated or non-regulated) will be subject to the supervision of the CONDUSEF as is the case with any other financial entity.

The Sofomes Amendments also eliminated the restrictions on foreign equity investment applicable to Sofoles, financial leasing and factoring companies, which until the Sofomes Amendments became effective, was limited to 49.0%. Accordingly, the Sofom Amendments may result in an increase in competition in the financial services industry, from foreign financial institutions.

The Mexican Securities Market Law

On December 30, 2005, a new Mexican Securities Market Law was enacted and published in the Official Gazette. The new Mexican Securities Market Law became effective on June 28, 2006, however, in some cases an additional period of 180 days (until late December 2006) was available for issuers to incorporate the new corporate governance and other requirements derived from the new law into their bylaws. The Mexican Securities Market Law sets standards for authorizing companies to operate as brokerage firms, which authorization is granted by the CNBV with the approval of its Governing Board. In addition to setting standards for brokerage firms, the Mexican Securities Market Law authorizes the CNBV, among other things, to regulate the public offering and trading of securities, corporate governance, disclosure and reporting standards and to impose sanctions for the illegal use of insider information and other violations of the Mexican Securities Market Law.

The new Mexican Securities Market Law changed the Mexican securities regulation in various material respects. The reforms were intended to update the Mexican regulatory framework applicable to the securities market and publicly traded companies in accordance with international standards.

Reforms to the Mexican Securities Market Law.

Under the Financial Reform, the Mexican Congress approved additional changes to the Mexican Banking Law. Relevant changes include the following:

Offerings of Securities Abroad. The CNBV must be notified of any type of offerings made abroad, in the case of securities issued in Mexico or by Mexican corporations, even if the offerings are private.

Various Modifications to the Obligations Related to the Information of an Issuer. The CEO of the issuer shall be responsible for the content of the disclosed information, the material events and other information that must be disclosed to the public.

It also provides for tighter controls on persons having access to material information, the publication of which is deferred.

The persons related to the underwriter, persons providing independent or subordinated personal services to the issuer and third parties that have had contact with those who have access to privileged information must be included in the list of persons who are considered to have access to privileged information, unless proven otherwise.
Finally, with respect to misleading information, disclosure of information that is prohibited by applicable law has been excluded as an omission of disclosure.

Rules applicable to Development Trust Certificates, Real Estate Notes and Indexed Notes. The Law introduces special regulation for these instruments. Also, it considers the operating companies of investment companies within the institutions that can act as trustees for the issuance of trust certificates. Finally, administrators of issuing trusts of indexed certificates will be prohibited from having ties with those determining those indices.

Homologation of Broker-Dealers' Capitalization Rules. The capitalization of broker-dealers is homologated to that of the banking institutions.

Stress Scenarios. It introduces the obligation to have a plan for stress scenarios for broker-dealers and commercial banks.

Liability of Underwriters. The liability structure of broker-dealers, who may be liable for damages and losses caused by breach of their obligations, has been extended.

Stock Pledge. It provides for rules for the application of payments of the securities pledged, without any judicial proceeding.

Insurance System

The Mexican insurance system is governed by a number of statutes, the most important of which include the General Insurance Companies Law (Ley General de Instituciones y Sociedades Mutualistas de Seguros) – which was repealed on April 4, 2015 and substituted as of this date by the Insurance and Bonding Law -, the Insurance Contract Law (Ley Sobre el Contrato de Seguro) and other regulatory provisions enacted by the SHCP and the CNSF.

Insurance companies require the authorization of the SHCP for their incorporation. The authorization may include the specific insurance sector in which the insurance company will conduct business, including life, health care, damages, civil and professional liability, among others. The SHCP may also grant authorization to perform reinsurance and co-insurance activities. Insurance companies are subject to stringent capital adequacy and investment rules, compliance of which is supervised by the CNSF. These rules determine the type of assets into which insurance companies may invest, as well as the minimum amount of capital required to be maintained by such entities. Also, insurance companies are required to maintain technical reserves that function as a cushion against risks and help these entities to maintain adequate levels of liquidity.

The regulation and surveillance powers of the CNSF grant this entity the authority to verify compliance with the various financial and technical actuarial regulations, as well as with other corporate governance principles.

Retirement Savings System

The Retirement Savings Systems Law (Ley de los Sistemas de Ahorro para el Retiro) established the Afore pension system. Among other economic benefits and services to be provided to participants in the retirement savings system, the Retirement Savings Systems Law provides that each worker may establish an independent retirement account, which is to be managed by an approved Afore. Under this system, employees, employers and the government are required to make contributions to the independent retirement accounts maintained by each worker. In addition to the mandatory contributions, employees are allowed to make voluntary contributions to their independent retirement accounts. Pursuant to the Retirement Savings Systems Law, the main functions of an Afore include, among others, (i) managing pension funds, (ii) creating and managing individual pension accounts for each worker, (iii) creating, managing and operating Siefores, (iv) distributing and purchasing Siefores' stock, (v) contracting pension insurance, and (vi) distributing, in certain cases, the individual funds directly to the pensioned worker.

Afores and Siefores are subject to the supervision of the CONSAR, which is in charge of the coordination and regulation of the pension system. Under the Retirement Savings Systems Law, no Afore may serve more than 20.0% of the total market, unless CONSAR authorizes a higher limit of market concentration, provided that this is not to the detriment of the interests of workers.

Federal Law for Protection of Personal Data Held by Private Persons

The Federal Law for Protection of Personal Data Held by Private Persons (Ley Federal de Proteccion de Datos Personales en Posesion de Particulares) that protects personal data collected, became effective on July 5, 2010. Under such law, we are required to ensure the confidentiality of information received from clients. No assurances may be given as to how such law will be interpreted. However, if strictly interpreted and enforced, we may be subject to fines and penalties in the event of violations to the provisions of such law.

Amendments to Financial Regulations Impacting Banks

The Mexican financial system has continued to advance in recent years, consistent with demands from regulators and market participants, developments in other jurisdictions and to address systemic issues resulting from the global financial crisis. In particular, in June 2007, a new Law for the Transparency and Ordering of Financial Services (Ley para la Transparencia y Ordenamiento de los Servicios Financieros) was approved, which granted the Mexican Central Bank authority to regulate interest rates and fees and the terms of disclosure of fees charged by banks to their customers.

Even though the global financial crisis did not affect Mexican banks directly, many Mexican corporations were affected, primarily by having engaged in foreign-currency linked derivative transactions, which increased exposures substantially as a result of the devaluation of the peso, triggering a new regulation issued by the CNBV that sought to improve disclosure standards as they relate to derivative transactions.

On October 31, 2013, the Mexican Congress approved the tax reform that went into effect in January 2014, including several changes to tax regulations that, although they did not have direct impact on GFNorte, they did affect it indirectly through its subsidiaries. Because of labor costs such as payrolls and benefits to officers and employees, as well as the change in writing off global allowances for loan losses, bad debts for now, the most affected subsidiary was Banorte. Some of the main changes in the Tax Reform were: Business Flat Tax (IETU) and Tax on Cash Deposits (IDE) were repealed, uniform Value Added Tax nationwide at 16%, and the new Income Tax Law that had important implication for Banorte. Some of these are:

<u>30% Income Tax Rate:</u> The temporary rates stated in the repealed law, which set a tax rate of 29% for 2014 and 28% as of 2015, no longer is in effect. The definitive rate for income tax is 30%.

<u>10% Income Tax on Dividends:</u> A new 10% tax was applied on the distribution of dividends to individuals and foreigners. This tax will be paid by means of withholding and will be deemed as definite payment. The tax will be applied to the profits generated as of 2014.

<u>Overall Allowance for loan losses:</u> According to the repealed Income Tax Law, Banorte could deduct from taxes the loan reserves in an amount equivalent to 2.5% of the average balance of the loan portfolio. According to the tax reform, this deduction of loan reserves will be replaced by the deduction of write-offs (art. 27 section XV of the ISR Law), and even though the new law set a "tax ceiling" to prevent the deduction of write-offs that used to be part of the previously deducted 2.5% of the reserves, the non-deducted part of the loans originated in 2013 or earlier are not subject to said ceiling. The addendum for 2017 published in the Official Gazette on December 23, 2016 in the rule I.3.22.5 states that losses from bad debts, generated after January 1 2014, could be deducted for tax purposes

so long as the amount of loss –together with: discounts and write-offs over the loan portfolio, losses from portfolio sales and losses from payments in kind originated after January 1 2014 (in accordance with Article 9, fraction XIV, last paragraph of transitional provisions of the Income Tax Law)- equals the balance of overall allowance for loans losses on December 31 2013. Losses before this time will not be deductible for tax purposes.

The amount of losses from bad debts and other items to which the previous paragraph refers that can be implemented in each fiscal year against the balance on December 31 2013, cannot exceed 2.5% of the yearly average balance of the loan portfolio of the corresponding fiscal year, determined in accordance with the penultimate paragraph of Article 53 of the Income Tax Law in force until December 31 2013. When the amount of losses from bad debts and the aforementioned items exceeds that percentage, the surplus can be applied to subsequent fiscal years until it runs out, so long as the sum of the aforementioned losses and other items applied during the fiscal year do not exceed 2.5%.

Deductibility of ISR-exempt employee benefits: The new ISR Law provisions limit the deductibility of some of the benefits paid to employees, including the pension plan, savings fund, IMSS contributions, among other concepts. Now only 53% of these benefits may be deducted, and if the benefit is lower than last year's, only 47% may be deducted. In GFNorte's case, these provisions affect mainly the deductions associated with the savings fund, food coupons and pension plans, among others. So although it is not considered a substantial amount, it does involve a larger taxable base.

SAT Teller (Tax Administration Service): The tax reform states that the taxpaying individuals and business entities who opened an account in their name in the banking system or in savings & loan companies, will be obligated to request their registration in the Federal Taxpayers Register (RFC). Furthermore, members of the financial system are obliged to report to the authorities about their accountholders and verify that they are registered in the RFC. This way the tax authorities will be able to request information directly to said entities without having to go through the CNBV.

On January 9, 2015, the General Rules Applicable to Financial Entities and Other Entities that Provide Investment Services (*Disposiciones de Carácter General Aplicables a las Entidades Financieras y Demás Personas que Proporcionen Servicios de Inversión*) (the "Investment Services Rules") were published in the Official Gazette. The purpose of the Investment Services Rules, among others, was to have a single body of rules applicable to brokerage firms, credit institutions and investment advisors, companies that operate mutual funds and companies or entities that distribute shares of mutual funds.

In accordance with the Investment Services Rules, banks and brokerage firms rendering advisory services in connection with investments shall ensure that any advice, recommendation or suggestion is reasonable for the client, and consistent with the client's investment profile and additional must comply with the maximum limits established by the committee responsible for the analysis of financial products.

The Investment Services Rules establish an obligation for banks and brokerage firms to create a committee which shall be responsible for the analysis of financial products offered by such entities, and whose members shall be independent from the structuring area of the relevant entity.

The Analysis Committee shall maintain minutes for each committee meeting held together with the relevant presentations analisys and attachments, which documentation shall be kept by the entity and made available to the CNBV for at least five years.

The Analysis Committee shall approve each financial product offered, compensation of investment portfolios, guidelines in respect of the provision of services, and prior to its delivery, all information given to any client regarding any investment recommendation, which information shall include at least the prospectus or memorandum describing the relevant securities or offering.

The Investment Services Rules also provide that the board of directors of the relevant bank or brokerage firm shall approve the policies and guidelines required for each entity to:

- approve the terms and policies for such financial institutions to make the assessment of the client profile;
- carry out the analysis of the financial products to be offered to the clients;
- comply with the evaluation of the "reasonableness" of recommendations, required to render advisory investment services; and

Such policies and guidelines must be submitted to the CNBV within 10 days from its approval date, and the CNBV may order the relevant entity to incorporate corrections in order to make them consistent with the Investment Services Rules.

The Investment Services Rules provide that each bank and brokerage firm must appoint an officer to verify compliance of each firm with the Investment Services Rules.

Applicable Law and Supervision

The following is a summary of provisions, laws and regulations applicable to financial institutions in Mexico.

GFNorte has SHCP authorization to incorporate and operate as a financial group under the terms provided in the LRAF, being under inspection and supervision of CNBV. Its transactions consist in the acquisition, disposal and managing of voting shares issued by Group entities, as well as by those companies providing complementary services to one or more of the financial entities of the Group or to the Company, and to other companies authorized by the SHCP through general regulations.

Our operation as financial group is primarily regulated by the LRAF and the general provisions issued by the SHCP. The operations of our subsidiaries are primarily regulated by the LIC, the LMV, the LGOAAC, the LISF, the LSAR, the LFI, the LGSM and the rules issued thereunder by the SHCP, the CNBV, the CNSF and the CONSAR, as well as rules issued by Banxico and IPAB, the Civil Code for Mexico City and the Mexican Federal Tax Code.

Company's Bylaws, the Statutory Responsibility Agreement, as well as any other amend to such documents, will be submitted for the SHCP approval, which shall grant or deny it hearing Banxico and CNBV opinion. Any conflict arising from interpretation of the compliance or breach of the Company's Bylaws shall be submitted before the competent Mexico City's Courts.

Incorporation of a Financial Group and Subsidiaries

In terms of the LRAF, the incorporation and functioning of the financial groups are permitted prior authorization of the SHCP, including the opinion of Banxico and the CNBV, the CNSF or the CONSAR, as the case may be. Approval of the SHCP is also required prior to the opening, closing or relocating of offices, including branches, of any kind outside of Mexico or transfer of assets or liabilities between branches. Likewise, a notice to the SHCP is required for the opening of branches in Mexico.

The corporate purpose of a financial group's holding company shall be to acquire and manage the shares issued by the subsidiaries of the financial group. In no case shall the financial services holding company perform or execute any of the financial activities authorized to the entities that comprise the financial group.

Financial services holding companies shall at all-time direct or indirectly own more than 50% of the representative shares of the paid-in capital of each of the entities that comprise the financial group. Additionally, financial services holding companies may appoint the majority of the members of the Board of Directors of each of its controlled subsidiaries.

The financial services holding company's by-laws, the Statutory Responsibility Agreement, and any other amendment to such documents, shall be submitted to the approval of the SHCP, which may grant or deny such authorization, taking into consideration the opinion of Banco de México and, as the case may be, the opinion of the CNBV, the CNSF or the CONSAR.

Financial Groups are integrated by a holding company and at least two financial institutions (which may be of the same type), provided that a financial group may not be comprised solely by the holding company and two Multi-purpose Non-Banking Financial Institutions. Such institutions may include Multi-purpose Non-Banking Financial Institutions, foreign exchange houses, bonding institutions, insurance companies, broker-dealers, banks, mutual funds managers, mutual funds distributors, retirement fund management companies, multiple purpose non-banking financial institutions and micro finance companies.

Entities of the same financial group are allowed to (i) act jointly before the public, offer complementary services and publicly act as part of the same financial group; (ii) use similar corporate names; and (iii) conduct their activities in the offices and branches of members of the same financial group.

Limitations on Investments in Other Entities

Under the Financial Groups Law, subsidiaries of a financial services holding company may not directly or indirectly own capital stock of their own financial services holding company, unless they hold such stock as institutional investors under the Financial Groups Law. Institutional investors under the Financial Groups Law are insurance and bond companies that invest their technical reserves, investment funds and pension funds.
Institutions belonging to a financial group may not extend credits in connection with the acquisition of their capital stock, the capital stock of their financial services holding company or the capital stock of other subsidiaries of their financial services holding company. Without the prior approval of the SHCP (which shall take into consideration the opinions of Banco de México and the primary Mexican regulatory commission supervising the relevant financial entity), members of a financial group may not accept as collateral shares of capital stock of Mexican financial institutions. Mexican banks, such as Banorte's subsidiaries, may not acquire or receive as collateral certain securities issued by other Mexican banks. The approval of the SHCP is required prior to acquisition of shares of capital stock of non-Mexican financial entities.

The Mexican Banking Law imposes certain restrictions on investments by Mexican banks, such as our subsidiary Banorte, in equity securities of companies engaged in non-financial activities. Mexican banks may own equity capital in such companies in accordance with the following guidelines:

- up to 5.0% of the capital of such companies at any time, without any approval;
- more than 5.0% and up to 15.0% of the capital of such companies, for a period not to exceed three years, upon prior authorization of a majority of the members of the bank's Board of Directors; and
- higher percentages and for longer periods, or in companies engaged in new long-term projects or carrying out development related activities, whether directly or indirectly, with prior authorization of the CNBV.

  The total of all such investments (divided considering investments in listed and in non-listed companies) made by a bank may not exceed 30.0% of such bank's Mexican Tier 1 capital.

A Mexican bank, such as our subsidiary Banorte, requires the prior approval of the CNBV to invest in the capital stock of companies that render auxiliary services to such bank and of companies that hold real estate where the offices of the applicable bank may be located.

In accordance with the LRAF, in order to merge two or more Holding or Sub holding companies, or any other financial company with a Holding or Sub holding company, as well as to merge two or more financial entities comprising the same Financial Group or an entity of the Financial Group with other financial company or any other company it is required the SHCP authorization, listening to the opinion of Banxico and, as appropriate, the CNBV, the CNSF, or the CONSAR.

Financial Groups' Statutory Responsibility

The Law Regulating Financial Groups requires that each financial services holding company, such as GFNorte, enter into an agreement with each of its financial services subsidiaries (the "Statutory Responsibility Agreement"). Pursuant to such agreement, the financial group holding company is responsible secondarily and without limitation for performance of the obligations that the financial institutions comprising the Financial Group have, corresponding to the activities which, in accordance with the applicable provisions, each is responsible for, even respect to those incurred by such financial institutions prior to their integration into the Financial Group and is unlimited responsible for losses of each and every one of these financial institutions. In the event that the assets of the Holding company are not sufficient to simultaneously face the responsibilities, with respect to the subsidiaries of the Financial Group, such liabilities will be covered firstly, with regard to the credit institution belonging to this financial group and, subsequently, on a proportional basis with respect to the other companies integrating the Financial Group, until the patrimony of the Holding company is used up. In accordance with the provisions of Article 119 of the LRAF, is considered that a financial entity has losses when its assets are not sufficient to cover its payment obligations. Furthermore, the definition for losses is according to that set forth in the general provisions issued by the SHCP for this purpose.

The financial services holding company has to inform the CNBV of the existence or potential existence of any such obligation or loss. The financial services holding company would only be liable for the obligations of its financial services subsidiaries 15 business days after the CNBV (or any other principal regulator) delivers notice of its approval of the enforceability of such obligations. The financial services holding company responds to the losses of its subsidiaries by making capital contributions to such subsidiaries (no later than 30 days counted from the date the applicable losses shall arise).

In the event of a financial services holding company's statutory responsibility with respect to a bank, IPAB must determine the amount of the preliminary losses of such bank. The financial services holding company is required to create a capital reserve for the amount of such losses. The financial services holding company is also required to guarantee the payment of the bank's losses that are paid by IPAB pursuant to its law. Such guarantee may be created over the financial services holding company's assets or over such company's shares or those of its subsidiaries. Pursuant to Article 120 of the Law Regulating Financial Groups, any shareholder of the financial services holding company, due to its holding of the shares, accepts that its shares could be posted as guarantee in favor of IPAB, and that such shares will be transferred to IPAB if the financial services holding company is unable to pay any amounts due to IPAB as a result of the bank's losses.

A financial services holding company is not allowed to pay any dividends or transfer any monetary benefit to its shareholders as of the date on which IPAB determines the bank's losses up to the date on which the financial services holding company has paid for the bank's losses.

No subsidiary is responsible for the losses of the financial services holding company or of the financial services holding company's subsidiaries. GFNorte has entered into such an agreement with its financial services subsidiaries and such agreement is in effect.

Liabilities

A financial services holding company may only engage on direct or contingent liabilities, or post its assets as guarantee, in the following cases: (i) with respect to its obligations under the Statutory Responsibility Agreement; (ii) transactions with IPAB or with the protection and security fund provided for in the Mexican Securities Market Law; and (iii) with the authorization of Banco de México for the case of subordinated debentures of mandatory conversion to securities representing its capital and the obtainment of short-term loans.

Supervision and Intervention

A financial services holding company is subject to the supervision of the commission that supervises the most important entity of the financial group, as determined by the SHCP. GFNorte is overseen by the Supervision Commission (the CNBV, the CNSF or the CONSAR, depending on the responsible for supervising the general functioning of the Financial Group in terms of article 102 of the LRAF) which in turn supervise the financial entities according to their activities. The financial services holding company's accounting will be subject to the rules authorized by the CNBV.

If, as part of its supervision activities, the corresponding commission determines that a financial services holding company has engaged in irregular activities against the applicable financial regulations, the chairman of such commission may impose the corrective measures it deems necessary. If such measures are not complied with in the period set for such purposes, the relevant commission may declare the administrative intervention (*intervencion administrativa*) of the financial services holding company.

If, in the opinion of the relevant commission, the irregularities of a financial services holding company affect its stability and solvency, and endanger the interests of the public or its creditors, a managerial intervention (*intervencion gerencial*) can be declared by the chairman of the relevant commission, prior resolution of the governing board. The chairman will appoint a peremptory manager (*interventor-gerente*). The peremptory manager will assume the authority of the Board of Directors. The peremptory manager will have the authority to represent and manage us with the broadest powers under Mexican law and will not be subject to the Board of Directors or the shareholders' meeting. The appointment of the peremptory manager must be registered in the Public Registry of Commerce of the corresponding domicile.

Ownership Restrictions; Foreign Financial Affiliates

Ownership of a financial services holding company's capital stock is no longer limited to specified persons and entities under the Law Regulating Financial Groups. The ordinary stockholders' equity of holding companies shall be comprised of shares Series "O". Additional equity shall be represented by shares Series "L", which shall be issed uop to the amount equivalent to 40% od the ordinary Stockholders' equity, prior SHCP authorization. Shares Series "O" , and if the case, Series "L" can be subscribed by both Mexican and non-Mexican investors.

Notwithstanding the above, under the Law Regulating Financial Groups, foreign Governments may not participate, directly or indirectly, in the holding's capital stock, except in the following cases:

- When done with prudential measures of a temporary nature such as for support or bailouts.
- When the corresponding participation implies that it has control of the holding company, and is carried out by official corporations, such as funds and governmental promotional entities among others, with prior discretionary authorization of the SHCP, whenever in its opinion such corporations prove that:
    - They do not exert authority, and

- Their decision-making bodies operate independently of the foreign government involved.

- When the corresponding participation is indirect and does not imply control of the holding company.

Mexican financial entities, including those that form part of the respective financial group, cannot purchase a financial services holding company's capital stock, unless such entities are institutional investors as defined in the Law Regulating Financial Groups.

- any transfer of shares representing more than 2% of the outstanding capital stock of a Mexican bank is required to be reported to the CNBV;
- the CNBV has been granted broader discretion to authorize the acquisition of more than 5% of the outstanding shares of a Mexican bank; and
- the composition of the boards of directors of Mexican banks has been limited to a total of 15 members and their alternates (as opposed to the former rule of 11 members or multiples thereof), 25% or more of whom must qualify as independent.

In addition, the LRAF, the LMV and our by-laws set forth restrictions to acquire shares of the Financial Group, pursuant to item 4. Administration, subsection d) Corporate By-Laws and other Agreements of this Annual Report.

A holder that acquires shares in violation of the foregoing restrictions, or in violation of the percentage ownership restrictions, will have none of the rights of a shareholder with respect to such shares and will be required to forfeit such shares in accordance with procedures set forth in the Law Regulating Financial Groups and the Securities Market Law, in addition to any penalties that may be applicable.

Banking Regulation

The SHCP, either directly or through the CNBV, possesses broad regulatory powers over the banking system. Banks are required to report regularly to the financial regulatory authorities, principally the CNBV and Banco de México. Reports to bank regulators are often supplemented by periodic meetings between senior management of the banks and senior officials of the CNBV. Banks must submit their unaudited monthly and quarterly and audited annual financial statements to the CNBV for review, and must publish on their website and in a national newspaper their unaudited quarterly balance sheets and audited annual balance sheets. The CNBV may order a bank to modify and republish such balance sheets.

Additionally, each credit institution must publish on their website, among other things:

- its basic consolidated and audited annual financial statements, together with a report containing the management's discussion and analysis of the financial statements and the bank's financial position, including any important changes thereto and a description of the bank's internal control systems;
- a description of the bank's Board of Directors, identifying independent and non-independent directors and including their resumes;
- a description and the total compensation and benefits paid to the members of the Board of Directors and senior officers during the past year;
- unaudited quarterly financial statements for the periods ending March, June and September of each year, together with any comments thereon;
- any information requested by the CNBV to approve the accounting criteria and special registries;
- a detailed explanation regarding the main differences in the accounting used to prepare the financial statements;
- the credit rating of their portfolio;

- the capitalization level of the bank, its classification (as determined by the CNBV) and any modifications thereto;
- financial ratios;
- a brief summary of the resolutions adopted by any shareholders' meeting, debenture holders' meeting, or by holders of other securities or instruments; and
- the bank's by-laws.

The CNBV has authority to impose fines for failing to comply with the provisions of the Mexican Banking Law, or regulations promulgated thereunder. In addition, Banco de México has authority to impose certain fines and administrative sanctions for failure to comply with the provisions of the Law of Banco de México (Ley del Banco de México) and regulations that it promulgates and the Law for the Transparency and Ordering of Financial Services (Ley para la Transparencia y Ordenamiento de los Servicios Financieros), particularly as violations relate to interest rates, fees and the terms of disclosure of fees charged by banks to clients. Violations of specified provisions of the Mexican Banking Law are subject to administrative sanctions and criminal penalties.

The Mexican Banking Law permits foreign governments to acquire equity securities of Mexican banks, on a temporary basis in connection with rescue or similar packages, which was not possible in the past, and to acquire control of Mexican banks, with the prior approval of the CNBV.

Mexican banks are now required to expense carefully, through their boards of directors, compensation payable to officers and, for that purpose, will be required to observe general rules to be issued by the CNBV and to establish and maintain a compensation committee.

Changes approved by the Congress clarify capitalization requirements, causes for revocation of a license and terms pursuant to which the Mexican government may provide assistance to troubled Mexican banks.

The amended Mexican Banking Law includes a provision for self-correcting irregularities detected by Mexican banks, arising from non-compliance with applicable law. Programs for self-correction are required to be approved by the board of directors of the applicable Mexican bank and must be supervised by the bank's audit committee. General rules implementing the provisions are expected to be issued by the CNBV.

New provisions have been added to the Mexican Banking Law, in connection with the dissolutions and liquidation of Mexican banks facing liquidity or solvency problems. A Mexican bank may only be dissolved and liquidated, if the CNBV has issued a determination to that effect. Prior to such dissolution and liquidation, the IPAB may provide temporary financial assistance to Mexican banks having liquidity problems.

Non-viable Mexican banks will be liquidated pursuant to a procedure set forth in the Mexican Banking Law, under which the IPAB will act as liquidator, will conduct the procedures necessary to collect fees and pay creditors (respective parties specified under the Mexican Banking Law) and will take all measures conducive to the bank's liquidations. The Mexican Banking Law now reflects provisions that were regulated by the Mexican Bankruptcy Law, as they relate to the dissolutions and liquidation of Mexican banks. Liquidation proceedings may be conducted in-court or out of court, depending upon the circumstances affecting the relevant Mexican bank. In addition to liquidation proceedings, Mexican banks may be declared in bankruptcy pursuant to a specialized proceeding set forth in the Mexican Bankruptcy Law.

Licensing of Banks

Authorization of the Mexican government is required to conduct banking activities. The CNBV, with the approval of its Governing Board and subject to the prior favorable opinion of Banco de México, has the power to authorize the establishment of new banks, subject to minimum capital standards, among other things. Approval of the CNBV is also required prior to opening, closing or relocating offices, including branches outside of Mexico or transfer of assets or liabilities between branches.

Intervention

The CNBV, with the approval of its Governing Board, may declare the managerial intervention (*intervencion gerencial*) of a banking institution pursuant to Articles 129 through 141 of the Mexican Banking Law (the "CNBV Intervention"). In addition, the Governing Board of IPAB will also appoint a peremptory manager (*administrador cautelar*) if the IPAB provides liquidity, in accordance with applicable law.

A CNBV Intervention pursuant to Articles 129 through 141 of the Mexican Banking Law will only occur when:

- during a calendar month, any of the Capital Ratios of a bank is reduced from a level equal to or above the minimum Capital Ratios required under the Mexican Capitalization Requirements, to 50% or less than such minimum Capital Ratios;
- the banking institution does not comply with the minimum Capital Ratios required under the Mexican Banking Law and it does not submit itself to the conditional operation regime under Article 29 Bis 2 of the Mexican Banking Law; or
- the banking institution defaults with respect to any of the following payment obligations:
  - in the case of obligations in an amount greater than 20,000,000 UDIs or its equivalent: (1) loans granted by other banking institutions, foreign financial institutions or Mexican Central Bank, or (2) payments of principal or interest on securities issued, that have been deposited with a clearing system; and
  - in the case of obligations in an amount greater than 2,000,000 UDIs or its equivalent, if during two business days or more, (1) it does not pay its obligations with one or more participants in clearing systems or central counterparts, or (2) it does not pay in two or more of its branches, banking deposits claimed by 100 or more of its customers, could occur.

In addition, a CNBV Intervention may occur when the CNBV, in its sole discretion, determines the existence of irregularities that affect the stability or solvency of the bank or the public interest or the bank's creditors.

The peremptory manager will be appointed by the IPAB, if the IPAB has granted extraordinary financial support to a bank in accordance with the Mexican Banking Law. The peremptory manager will have the authority to represent and manage the bank with the broadest powers under Mexican law, will prepare and submit to the IPAB, the bank's budget (for approval), will be authorized to contract liabilities, make investments, undertake acquisitions or dispositions and incur expenses, to hire and fire personnel and may suspend operations. The appointment of the peremptory manager must be registered in the Public Registry of Commerce of the corresponding domicile.

Revocation of a Banking License and Payment of Guaranteed Obligations

Revocation of a Banking License. In the case that the CNBV revokes a license to be organized and operate as a banking institution, IPAB's Governing Board will determine the manner under which the corresponding banking institution shall be dissolved and liquidated in accordance with Articles 165 through 274 of the Mexican Banking Law. In such a case, IPAB's Governing Board may determine to carry out the liquidation through any or a combination of the following transactions:

- transfer the liabilities and assets of the banking institution in liquidation to another banking institution directly or indirectly through a trust incorporated for such purposes;
- the constitution, organization and managing of a new banking institution owned and operated directly by IPAB with the exclusive purpose of transferring the liabilities and assets of the banking institution in liquidation; or
- any other alternative that may be determined within the limits and conditions provided by the Mexican Banking Law that IPAB considers as the best and least expensive option to protect the interest of bank depositors.

Causes to Revoke a Banking License. The above mentioned amendments significantly expand the events upon which the CNBV may revoke a banking license. The following are among the most relevant causes:

- if the bank does not starts operations within the term of thirty days as from the notification of such authorization;
- that the shareholders' meeting decide to request the revocation;
- if the banking institution is dissolved or initiates liquidation or bankruptcy procedures (*concurso mercantil or quiebra*);
- if the banking institution
    - does not comply with any minimum corrective measures ordered by the CNBV pursuant to Article 122 of the Mexican Banking Law;
    - does not comply with any special corrective measure ordered by the CNBV pursuant to such Article 122; or
    - consistently does not comply with an additional special corrective measure ordered by the CNBV;
- if the banking institution does not comply with the minimum Capital Ratio required under the Mexican Banking Law and the Mexican Capitalization Rules;
- if the banking institution defaults with respect to any of the following payment obligations:
    - in the case of obligations in an amount greater than 20,000,000 UDIs or its equivalent: (1) loans granted by other banking institutions, foreign financial institutions or Banco de México, or (2) payments of principal or interest on securities issued, that have been deposited with a clearing system, and
    - in the case of obligations in an amount greater than 2,000,000 UDIs or its equivalent, if during two business days or more, (1) it does not pay its obligations with one or more participants in clearing systems or central counterparts, or (2) it does not pay, in two or more of its branches, banking deposits claimed by 100 or more of its clients; or
- if the assets of the banking institution are insufficient to meet its liabilities.

Upon publication of the resolution of the CNBV revoking a banking license in the Official Gazette and in two newspapers of wide distribution in Mexico and registration with the corresponding Public Registry of Commerce, the relevant banking institution will be dissolved and liquidation will be initiated. Upon liquidation of a banking institution, the IPAB shall proceed to make payment of all "guaranteed obligations" of the relevant banking institution in compliance with the terms and conditions set forth by the Mexican Banking Law, other than those "guaranteed obligations" that have been actually transferred pursuant to article 186 of the Mexican Banking Law.

Obligations of a banking institution in liquidation that are not considered "guaranteed obligations" pursuant to the IPAB Law, and that are not effectively transferred out of the insolvent banking institution, will be treated as follows:

- term obligations will become due (including interest accrued);
- unpaid principal amounts, interest and other amounts due in respect of unsecured obligations denominated in pesos or UDIs will cease to accrue interest;

- unpaid principal amounts, interest and other amounts due in respect of unsecured obligations denominated in foreign currencies, regardless of their place of payment, will cease to accrue interest and will be converted into pesos at the prevailing exchange rate determined by Banco de México;
- secured liabilities, regardless of their place of payment will continue to be denominated in the agreed currency, and will continue to accrue ordinary interest, up to an amount of principal and interest equal to the value of the assets securing such obligations;
- obligations subject to a condition precedent, shall be deemed unconditional;
- obligations subject to a condition subsequent, shall be deemed as if the condition had occurred, and the relevant parties will have no obligation to return the benefits received during the period in which the obligation subsisted; and
- derivatives, repos and securities loans will be early terminated and netted after two business days following the publication of the resolution of the CNBV revoking a banking license in the Official Gazette and in two newspapers of wide distribution in Mexico.

Liabilities owed by the banking institution in liquidation will be paid in the following order of preference:

- liquid and enforceable labor liabilities,
- secured loans,
- tax liabilities,
- liabilities to IPAB, as a result of the partial payment of obligations of the banking institution supported by IPAB in accordance with the Mexican Banking Law,
- bank deposits, loans and other liabilities as provided by Article 46, Sections I and II of the Mexican Banking Law, to the extent not transferred to another banking institution, as well as any other liabilities in favor of IPAB different from those referred formerly,
- any other liabilities (other than those referred to below),
- preferred subordinated debentures,
- non-preferred subordinated debentures, and
- the remaining amounts, if any, shall be distributed to stockholders.

Financial Support

Determination by the Financial Stability Committee. The Financial Stability Committee ("*FSC*") includes representatives of the SHCP, Banco de México, the CNBV and IPAB. In the case that the FSC determines that if a bank were to default on its payment obligations and such default may (i) generate direct or indirectly serious negative effects in one or more commercial banks or other financial entities, endangering their financial stability or solvency, and such circumstance may affect the stability or solvency of the financial system, or (ii) put in risk the operation of the payments' systems required for the development of the economic activity, then the FSC may determine, on a case-by-case basis, that a general percentage of all of the outstanding obligations of the troubled bank that are not considered "guaranteed obligations" under the IPAB Law and guaranteed obligations in amounts equal to or higher than the amount set forth under Article 11 of the IPAB Law (400,000 UDIs per person per entity), be paid as a means to avoid the occurrence of any of such circumstances. Notwithstanding the foregoing, under no circumstance may the transactions referred to in Sections II, IV and V of Article 10 of the IPAB Law (which include transactions such as liabilities or deposits in favor of shareholders, members of the Board of Directors and certain senior officers, and certain illegal transactions) or the liabilities derived from the issuance of subordinated debentures, be covered or paid by IPAB or any other Mexican governmental agency.

Types of Financial Support. In the case that the FSC makes the determination referred to in the prior paragraph, then IPAB's Governing Board will determine the manner according to which the troubled commercial bank will receive financial support, which may be through either of the following options:

- If the FSC determines that the full amount of all of the outstanding liabilities of the relevant troubled commercial bank (guaranteed and non-guaranteed) must be paid, then the financial support may be implemented through (i) capital contributions granted by IPAB in accordance with Articles 151 to 155 of the Mexican Banking Law, or (ii) credit support granted by IPAB in accordance with Articles 156 through 164 of the Mexican Banking Law, and in either case the CNBV shall refrain from revoking the banking license granted to such commercial bank.

- If the FSC determines that less than the full amount of all the outstanding liabilities of the troubled commercial bank (guaranteed and non-guaranteed) must be paid, then the support will consist of the payment of the general percentage of outstanding obligations of the relevant troubled banking institution in determined by the BSC, in terms of article 198 of the Mexican Banking Law,transferring the assets and liabilities of such commercial bank to a third party, as set forth in Articles 194 to 197 of the Mexican Banking Law.

Conditional Management Regime. As an alternative to revoking the banking license, the relevant bank may request, with the prior approval of its shareholders, the application of a conditional management regime. The conditional management regime may be requested when any of the Capital Ratios of the relevant bank is below the minimum required pursuant to the Mexican Capitalization Requirements. In order to qualify for such regime, the relevant commercial bank should (*i*) deliver to the CNBV a plan for the reconstitution of its capital, and (*ii*) transfer at least 75% of its shares to an irrevocable trust. Banking institutions that fail to meet the minimum core capital required by the Mexican Capitalization Requirements may not adopt the conditional management regime.

Bank Liquidation Process

According to the latest amendments to the Mexican Banking Law, enacted on January 10, 2014, upon publication of the resolution of the CNBV revoking a banking license, in the Official Gazette and two newspapers of wide distribution in Mexico and registration of such resolution with the corresponding Public Registry of Commerce, the relevant banking institution will be dissolved and liquidation will be initiated, in terms of the procedure set forth in the Mexican Banking Law. The IPAB will be appointed liquidator of the banking institution.

In the event that the banking license is revoked because the assets of the relevant bank are insufficient to meet its liabilities, the IPAB shall undertake the liquidation procedure before a competent Federal court, according to the terms and conditions provided for a court liquidation (*liquidación judicial*) procedure under the Mexican Banking Law, in substitution of the *concurso mercantil* under the Mexican Bankruptcy Law. Moreover, the IPAB will be appointed as receiver (*liquidador judicial*) for purposes of the court liquidation procedure.

The IPAB will carry out the creditors' identification process. The IPAB must also comply with the following preference for the payment of the banking institution´s debts: first, secured creditors; second, labor obligations; third, debts with a special privilege provided by statute; fourth, the unpaid balance in respect to the of the deposits insured by the IPAB and thereafter, payments shall be made in the preference provided in article 241 of the Mexican Banking Law, noting that the last debts to be paid are subordinated preferred and non-preferred obligations.

Capitalization

On November 28, 2012, the CNBV published new banking regulations, anticipating the adoption of Basel III guidelines. Most aspects of the new set of rules became effective on January 1, 2013, while others will be phased until the year 2022. (See section 2. "Issuer. Subsection b) Business Description – Applicable Laws and Tax Position – Applicable Law and Supervision – Adoption of New Rules in Mexico in accordance with Basel III").

The new regulation aims to, among others: (i) strengthen the composition of the net capital of banking institutions under Basel III guidelines, and (ii) allow certain securities issued by commercial banks to have the ability to absorb losses incurred by these institutions when submitting a detriment in their capital, either through a conversion into their shares or by the loss of the agreed value at the time of issuance in order to be recognized as part of the net capital of such institutions.

Among other changes, the amendments to the General Rules Applicable to Mexican Banks implementing the Basel III rules include the following:

Quality and level of capital. Greater focus on common equity and Fundamental Capital. The minimum Fundamental Capital was raised to 4.5% of risk-weighted assets, after deductions.

Capital loss absorption at the point of non-viability. Contractual terms of capital instruments include a clause that allows – at the discretion of the relevant authority – write-off or conversion to common shares if the bank is judged to be non-viable. This principle increases the contribution of the private sector to resolving future banking crises.

Capital conservation buffer. Banks shall constitute a Capital Supplement of 2.5% of the risk-weighted assets, bringing the total minimum Fundamental Capital standard to 7%. Constraint on a bank's discretionary distributions will be imposed when banks fall into the buffer range.

Countercyclical buffer. This buffer is imposed within a range of 0-2% comprising Fundamental Capital, when the CNBV judges that a credit growth is resulting from an unacceptable build-up of systematic risk, and is based on the credit activities carried by the financial institution in foreign markets.

Pursuant to the General Rules Applicable to Mexican Banks, this capital supplement is calculated taking into consideration the financing activities performed by banks in different jurisdictions.

Systematically Important Domestic Banks. D-SIBs must have higher loss absorbency capacity to reflect the greater risks that they pose to the domestic financial system. The additional loss absorbency requirements are to be met with a progressive Fundamental Capital requirement ranging from 0.60% to 2.25%, depending on a bank's systemic importance.

Under the Mexican Capitalization Rules, Mexican banks are required to maintain a minimum capital ratio of 8.0%, including a supplementary capital of 2.5% of Tier 1 Capital with respect to risk weighted assets subject to total risks. Aggregate net capital consists of Tier 1 Capital and Tier 2 Capital.

The General Rules Applicable to Mexican Banks, currently specify that Mexican banks may be classified in several categories based on their Net Capital Ratio, Tier 1 Capital and Fundamental Capital. The relevant corrective measures applicable to us are determined based on the following classifications.

The Capital Adequacy rules that apply to Banorte have included 2 additional capital buffers: (1) a capital buffer for an important systemic financial institution, and (2) a counter cyclical capital buffer. The first is a supplementary capital for institutions that have been identified as of systemically importance, where the institutions must comply in a 4 year period starting on December 2016, while the second buffer represents additional capital that the institutions must cover based on the exposition with the private sectors of jurisdictions that have a higher growth rate on credits than the economic growth. It is important to notice, that Banorte has been identified as a Level IV systemically important institutions based on the current regulation, therefore complying with a capital buffer of 0.225% starting on December 2016, 0.45% starting on December 2017, 0.675% starting on December 2018 and 0.90% starting on December 2019.

The General Rules Applicable to Mexican Banks classify Mexican banks in several categories based on the following classifications:

		ICAP >≥ 10.5% + SCCS+SCCI	10.5% + SCCS+SCCI > ICAP >≥ 8%	8% > ICAP >≥ 7% + SCCS+SCCI	7% + SCCS+SCCI > ICAP >≥ 4.5%	4.5% > ICAP
CCF >≥ 7% + SCCS+SCCI	CCB >≥ 8.5% + SCCS+SCCI	I	II			
	8.5% + SCCS+SCCI > CCB >≥ 7% + SCCS + SCCI	II	II	III		
7% + SCCS+SCCI > CCF >≥ 4.5%	CCB >≥ 8.5% + SCCS+SCCI	II	II			
	8.5% + SCCS+SCCI > CCB >≥ 6%	II	II	III	IV	
	6% > CCB >≥ 4.5%	III	III	IV	IV	
4.5% > CCF						V

Where,

TRWA = Total Risk Weighted Assets

CAPR = Capital Ratio

CT1 = $$\left[\frac{\frac{\text{Tier 1 Capital}}{\text{TRWA}}}{\text{CAPR}_M}\right]$$

CT = $$\left[\frac{\frac{\text{Tier 1 Capital + Tier 2 Capital}}{\text{TRWA}}}{\text{CAPR}_M}\right]$$

$CAPR_M$ = Minimum Capital Ratio, 8.0%.

CCCB = Countercyclical Capital Buffer calculated based on current regulation.

SICB = Capital Buffer for a Systemically Important Financial Institutions. Banorte has to apply a capital buffer of 0.225% starting on December 2016, 0.45% starting on December 2017, 0.675% starting on December 2018 and 0.90% starting on December 2019.

This table is based upon the tables set forth in Article 220 of the General Rules Applicable to Mexican Banks, which should be consulted for a complete understanding of the applicable requirements, including in relation to the applicable Capital Supplements to be constituted by the Bank.

Furthermore, the General Rules Applicable to Mexican Banks provide that:

- The Net Capital will include a Tier 1 Capital (*capital básico*) and a Tier 2 Capital (*capital complementario*). The minimum Net Capital ratio required for each bank shall be equal to 8%;
- The Tier 1 Capital shall include:
  - a Tier 1 Capital coefficient of at least 6%;
  - a Fundamental Capital coefficient of at least 4.5%; and
  - a Capital Conservation Supplement equivalent to (a) 2.5% of the Weighted Assets Subject to Risk, (b) in case of D-SIBs, the D-SIBs Capital Supplement, and (c) the Countercyclical Capital Supplement.
- The Tier 1 Capital of the Net Capital will be divided into a Fundamental Capital (*capital fundamental*) and a Non-Core Tier 1 Capital (*capital básico no fundamental*).

The General Rules Applicable to Mexican Banks require banks to maintain a Net Capital Ratio of at least 10.5% to avoid the imposition of corrective measures notwithstanding that the minimum required Net Capital Ratio is 8%.

Total Net Capital consists of Tier 1 Capital (which, in turn, consists of Fundamental Capital and Non-Fundamental Capital) and Tier 2 Capital. The Mexican Capitalization Requirements include among the Core Tier 1 Capital, mainly, paid-in capital, which represents the most subordinated right to collect in case of liquidation of a credit institution, which are not due and do not grant reimbursement rights, profits (mainly including retained profits), and capital reserves, and subtract from such Fundamental Capital, among other things, certain subordinated debt instruments, issued by financial and non-financial entities, securities representing residual parts of portfolio securitization, investments in the equity of venture-capital funds and investments in or credits to related companies, reserves pending creation, loans and other transactions that contravene applicable law, and intangibles (including goodwill). Non-Fundamental Capital is comprised of preferential shares, regarding which the issuer has the right to cancel the dividend payments, and subordinated debt instruments, which are not subject to a due date or forced conversion, regarding which it is possible to cancel the interest payments and which may become shares of a credit institution or a controlling entity or are subject to cancellation (when capitalization problems arise).

Tier 2 Capital comprises capitalization instruments, as long as such capitalization instruments are registered with the RNV, are subordinated to deposits and any other debt of the credit institution, do not have any specific guarantee, have a term of at least five years and may be convertible into shares at their maturity date or are subject of write-down procedures. These instruments shall be included as capital based on their maturity date: 100% if the due date exceeds five years, 80% if the due date exceeds four years but is less than five years, 60% if the due date exceeds three years but is less than four years, 40% if the due date exceeds two years but is less than three years, 20% if the due date exceeds one year but is less than two years, and 0% if the due date is less than one year.

Every Mexican bank must create certain legal reserves (*fondo de reserva de capital*), that are considered to be part of Tier 1 Capital. Banks must separate and allocate 10.0% of their net income to such reserve each year until the legal reserve equals 100.0% of their paid-in capital (without adjustment for inflation). The remainder of net income, to the extent not distributed to shareholders as dividends, is added to the retained earnings account. Under Mexican law, dividends may not be paid out against the legal reserve.

During 2017, a new regulation was introduced for non-fundamental basic capital and complementary capital instruments, which establishes that these capital instruments can not compute more than 50% of the fundamental capital in case the Fundamental Capital Coefficient is below of 10.0%.

In April 2017, the bank was ratified as a Multi-Bank Institution of Local Systemic Importance of Grade II, requiring it to constitute a capital supplement of 0.90%. Also, an initial counter-cyclical capital charge of 0.0003% was imposed. These capital supplements are required to be implemented by the bank in a period of four years, starting on December 31, 2016.

Corrective Measures

The Mexican Banking Law and the General Rules Applicable to Mexican Banks establish the minimum corrective and special additional measures that banks must fulfill according to the category in which they were classified. These corrective measures are designed to prevent and, when necessary, correct the operations of the banks that could negatively affect their solvency or financial stability. The CNBV is required to notify the relevant bank in writing of the corrective measures that it must observe, within five business days after Mexican Central Bank has notified the CNBV the capitalization ratio of the bank, as well as verify its compliance with the corrective measures imposed.

Regardeless the regulatory CAPR, the CNBV may order the application of additional special corrective mesures,

Banking institutions classified under Category I pursuant to the table above, shall not be subject to any corrective measures. Nevertheless, corrective measure for all the other categories include:

For Class II:

- requiring the bank to:
  - inform the Board of Directors about the bank's classification, as well as the causes for the CNBV to make such classification, and submit a detailed report containing a comprehensive evaluation of the bank's financial situation, its level of compliance with the regulatory framework and the main indicators that reflect the degree of stability and solvency of the bank, within 20 business days after the bank has received the CNBV notification of the corrective measure;
  - include in such report the causes of the weakening of their Capitalization Ratio and the Tier 1 Capital and Tier 2 Capital;
  - include in such report any observations mandated, in accordance with their respective scope of authority, by each of the CNBV and the Mexican Central Bank;
  - report in writing the financial situation to the chief executive officer and chairman of the board of directors of the bank or the board of directors of the bank's holding company, in the event the bank is part of a financial group;
  - abstain from entering transactions that will cause its Capitalization Ratio to be lower than required under the Capitalization Requirements;
  - abstain from increasing the current amounts of the financings granted to relevant related parties; and
  - submit for approval to the CNBV, a plan for capital restoration which has as a result an increase of its Capitalization Ratio in order for the institution to be placed in Class I.

Such plan shall be presented to the CNBV no later than 20 business days after the date the bank receives the CNBV notification of the corrective measure.

For Class III and above:

- requiring the bank's Board of Directors to:
  - within 15 business days as of the notice of its classification, submit to the CNBV, for its approval, a plan for capital restoration that will result in an increase in its Capitalization Ratio, which may contemplate a program for improvement in operational efficiency, streamlining costs and increasing profitability, the carrying out of contributions to the capital and limits to the operations that the banks may carry out in compliance with their bylaws, or to the risks derived from such operations. The capital restoration plan shall be approved by such bank's board of directors before being presented to the CNBV. The bank shall determine in the capital restoration plan that, in accordance with this subsection, it must submit, periodic targets, as well as the date in which the capital of such bank will

get the capitalization level required in accordance with the applicable provisions. The CNBV, through its governing board, must resolve all that corresponds to the capital restoration plan that has been presented to them, in a maximum of 60 calendar days from the date the plan was submitted; and
    - comply with the plan within the period specified by the CNBV, which in no case may exceed 270 calendar days starting the day after the bank was notified of the respective approval. To determine the period for the completion of the restoration plan, the CNBV shall take into consideration the bank's category, its financial situation, as well as the general conditions prevailing in the financial market. The CNBV, by agreement of its governing board, may extend the deadline once by a period that will not exceed 90 calendar days. The CNBV will monitor and verify compliance with the capital restoration plan, without prejudice of the provenance of other corrective measures depending on the category in which the corresponding bank is classified;

- requiring the bank to:
    - suspend any payment of dividends to its shareholders, as well as any mechanism or act that involves the transfer of any economic benefits to the shareholders. If the bank belongs to the holding company, the measure provided in this subsection will apply to the holding company to which the bank belongs, as well as the financial entities or companies that are part of such holding company. This restriction on the payment of dividends for entities that are part of the same financial group will not apply in the event the dividend is being applied to the capitalization of the bank;
    - requiring the bank to suspend any capital stock repurchase programs of the bank and, in the event that the bank belongs to a financial group, also the programs of the holding company of such group;
    - requiring the bank to defer or cancel the interest payments on outstanding subordinated debt and, when applicable, defer the payment of the principal or exchange the debt into shares of the bank in the amount necessary to cover the capital deficiency, in advance and proportionately, according to the nature of such obligations. This corrective measure will be applicable to those obligations that are identified as subordinated debt in their indenture or issuance document;
    - requiring the bank to suspend payment of any extraordinary benefits and bonuses that are not a component of the ordinary salary of the chief executive officer or any officer within the next two levels, as well as not granting any new benefits in the future for the chief executive officer and the officers until the bank complies with the minimum levels of capitalization required by the CNBV;
    - requiring the bank to refrain from increasing outstanding amounts of any credit granted to any individual who is a related party; and

For Class IV and above:

- refraining from making new investments on non-financial assets, opening branches or performing activities other than those made in the ordinary course of business.

In addition to the minimum corrective measures, the CNBV may order the implementation of additional and special corrective measures for banks with a classification from II to V. The additional and special corrective measures that, if applicable, the banks must comply with are:

- define the concrete actions that it will carry out in order not to deteriorate its Capitalization Ratio;
- inform the chief executive officer of the foreign holding company about the bank's classification, as well as the causes that caused the CNBV to make such classification, and submit a detailed report containing a comprehensive evaluation of the bank's financial situation, its level of compliance with the regulatory framework and the main indicators that reflect the degree of stability and solvency of the bank, within 20 business days after the bank has received the CNBV notification of the corrective measure, only in case of banks owned by foreign financial groups;

- hire the services of external auditors or any other specialized third party for special audits on specific issues;
- refrain from agreeing to increases in the salaries and benefits of the officers and employees in general, except for agreed salary revisions and in compliance with labor rights;
- substitute officers, members of the board or external auditors with appointed persons occupying the respective positions;
- undergo other actions or be subject to other limitations as determined by the CNBV, based on the result of its functions of monitoring and inspection, as well as with sound banking and financial practices; or
- refrain from entering into new agreements that may cause an increase on the Weighted Assets Subject to Risk or may cause a higher deterioration on the Capitalization Ratio.

Reserve and Compulsory Deposit Requirements

The compulsory reserve requirement is one of the monetary policy instruments used as a mechanism to control the liquidity of the Mexican economy to reduce inflation. The objective of Banco de México's monetary policy is to maintain the stability of the purchasing power of the Mexican peso and in this context, to maintain a low inflation level. Given the historic inflation levels in Mexico, the efforts of Banco de México have been directed towards a restrictive monetary policy.

Under this policy, Banco de México has elected to maintain a short-term financial creditor stance with respect to the Mexican financial money markets, where every day.

As of January 2015, the Liquidity Coverage Ratio came into effect, which is a measurement of liquidity implemented by authorities that reflects current liquidity of the Bank and foresees liquid, free-disposal and good quality assets in order to face liabilities and liquidity needs for a 30 day period under a stress scenario. Later, in January 2018, the minimum LCR was modified to 80% from 90%, with daily monitoring measured in accordance with deviations above the minimum of 90%, Banorte currently remains above this regulatory minimum (Circular Banxico 3/2012 in Art. 195-Bis 1 and the General Provisions on the Liquidity Requirements for the Multiple Banking Institutions issued by the CNBV in Art. 12 and Fourth Transitory Fraction Id).

To manage its maturity exposures to the Mexican financial markets, Banco de México has been extending the maturities of its liabilities for longer terms to avoid the need for continuing refinancing of its liabilities. Those liabilities have been restructured into voluntary and compulsory deposits (Depositos de Regulacion Monetaria), and into investment securities such as longer-term government bonds (Bondes) and compulsory monetary regulatory bonds (Brems). At the same time, Banco de México has elected to hold short-term assets, thus allowing it the ability readily to refinance its positions of assets and reduce its maturity exposure to the financial markets.

Banco de México imposes reserve and compulsory deposit requirements on Mexican commercial banks. Bulletin 36/2008 published on August 1, 2008, stated that the total compulsory reserve deposit required of Mexican commercial banks was Ps 280.0 billion, which had to be deposited in eight installments by eight deposits of Ps 35.0 billion each on August 21 and 28; September 4, 11, 18 and 25; and October 2 and 9, 2008. The amount of the deposit that each bank had to make was determined based on each bank's pro rata share of total Mexican financial institution time deposits allocated as of May 31, 2008. Likewise, in addition to the compulsory reserve abovementioned, the Mexican Central Bank imposed an addition for the monetary regulation l reserve and compulsory deposit requirement on Mexican commercial banks. Circular 11/2014 published on June 27, 2014, stated an additional compulsory reserve deposit of Ps.41.5 billion, which had to be deposited in four installments by four deposits of Ps.10.4 billion each on August 14; September 11, October 9 and November 6, 2014. The amount of the deposit that each bank had to make was determined based on each bank's pro rata share of total Mexican financial institution time deposits allocated as of May 31, 2014.

The compulsory deposit reserves required under the terms of the Bulletins 36/2008 and 11/2014 have an indefinite term. During the time these reserves are maintained on deposit with Banco de México, each banking institution receives interest on such deposits every 28 days. Banco de México will provide advance notice of the date and the procedure to withdraw the balance of these compulsory deposits at such time, if any, that the compulsory deposit reserves are suspended or terminated.

Portfolio rating and allowance for loan loss reserves

The loan portfolio is classified according to the rules issued by the SHCP and by the methodology established by the CNBV.

Such regulations establish general methodologies for rating and estimating the allowance for each type of loan

The commercial loan portfolio rating procedure requires that credit institutions apply the established methodology based on quarterly information for the periods ending in March, June, September and December of each year, whereas also recording in their financial statements the allowances determined at the end of each month. Furthermore, during the months following each quarter, financial institutions must apply the respective rating to any loan used at the end 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 CNBV

The rules for rating the consumer, mortgage and commercial loans (excluding loans intended for investment projects having their own source of payment) establish that their allowance for loan loss should be determined based on the estimated loan's expected loss over the next twelve month period.

Such methodologies stipulate that the estimate of such loss evaluates the probability of default, the loss given default and the exposure at default. 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 of default, loss given default and exposure at default are determined considering the following:

Probability of Default

- Non-revolving consumer loan – takes into account delinquency, the level of indebtedness, willingness to pay, seniority of the borrower with the institution, and credit behavior in the Credit Information Societies, among others.
- Revolving consumer loan – considers the current performance 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 use for the authorized line of credit. Additionally, the delinquency and the level of payment of the reports of Credit Information Companies are considered.
- Mortgage loan – considers the current past-due, maximum number of past-due over the last four periods, willingness to pay and loan to value of the updated housing with respect to the credit balance, and the credit behavior in the Credit Information Companies, among others.
- Commercial loan.- depending on the type of debtor, payment experience, INFONAVIT's payment experience, rating agencies' evaluation, financial risk, social-economical risk, financial soundness, country and industry risk, market share, transparency, standards and corporate governance.

Loss Given Default

- Non-revolving consumer loan – depends on the number of outstanding payments.
- Non-revolving consumer loan – depends on the number of outstanding payments.
- Mortgage loan –considers the remaining amount of the housing account, unemployment insurance, life insurance, and moratility rate according age and gender also the federative entity of the guarantee, and the value of the updated housing with respect to the credit balance.
- Commercial loans – considers financial and non-financial guarantees as well as personal guarantees.

Exposure at Default

- Non-revolving consumer loan – considers loan balance at the rating date.
- Revolving consumer loan – considers current use of credit line to estimate how much its usage would increase in the event of default.
- Mortgage loans – considers 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 credit line to estimate how much its usage would increase in the event that default is considered.

The CNBV'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 estimated by analyzing the risk of projects at construction and operation stages, evaluating the project's over-cost and cash flows.

Liquidity Requirements for Foreign Currency-Denominated Liabilities

Pursuant to regulations of Banco de México, the total amount of maturity-adjusted (by applying a factor, depending upon the actual maturity of the relevant liability), net liabilities denominated or indexed to foreign currencies that Mexican banks, their subsidiaries or their foreign agencies or branches may maintain (calculated daily), are limited to 1.83 times the amount of their Tier 1 Capital. (Cirular 3/2012 Art. 226 and 232) To calculate such limit, maturity-adjusted foreign currency-denominated or indexed assets (including liquid assets, assets with a maturity of less than one year, short term derivatives and spot foreign exchange transactions) are subtracted from maturity-adjusted foreign currency-denominated or indexed liabilities, and the aforementioned factor is applied to the resulting amount.

The maturity-adjusted net liabilities of Mexican banks denominated or indexed to foreign currencies (including dollars) are subject to a liquidity coefficient (i.e., to maintaining sufficient foreign currency-denominated or indexed liquid assets). These permitted liquid assets include, among others:

- U.S. dollar-denominated cash or cash denominated in any other currency freely convertible;
- deposits with Banco de México;
- treasury bills, treasury bonds and treasury notes issued by the United States of America government or debt certificates issued by agencies of the United States of America government, which have the unconditional guarantee of the United States of America government;
- demand deposits or one-day deposits or one- to seven-day deposits in foreign financial institutions rated at least P-2 by Moody's, or A-2 by S&P;
- investments in mutual funds or similar or in funds complying with certain requirements authorized by Banco de México, and;
- unused lines of credit granted by foreign financial institutions rated at least P-2 by Moody's or A-2 by S&P, subject to certain requirements.

Such liquid assets may not be posted as collateral, lent or be subject to repurchase transactions or any other similar transactions that may limit their transferability.

Banorte and Casa de Bolsa Banorte Ixe are in compliance with the applicable reserve requirement and liquidity coefficients in all material aspects.

Loan approval limits

In compliance with an official document from the banking regulator (Circular Única de Bancos), the limits to loans provided by credit institutions as it relates to the diversification of its operations must be determined according to the Capitalization Rules criteria.

- With a capitalization level above 8.0% and up to 9.0%, the maximum exposure to a single individual or group of individuals which represent a common risk for the bank, is set to 12.0% of the bank's basic capital.

- With a capitalization level above 9.0% and up to 10.0%, the maximum exposure to a single individual or group of individuals which represent a common risk for the bank, is set to 15.0% of the bank's basic capital.

- With a capitalization level above 10.0% and up to 12.0%, the maximum exposure to a single individual or group of individuals which represent a common risk for the bank, is set to 25.0% of the bank's basic capital.

- With a capitalization level above 12.0% and up to 15.0%, the maximum exposure to a single individual or group of individuals which represent a common risk for the bank, is set to 30.0% of the bank's basic capital, and

- With a capitalization level above 15.0%, the maximum exposure to a single individual or group of individuals which represent a common risk for the bank, is set to 40.0% of the bank's basic capital.

These loan limits must be measured on a quarterly basis. The banking regulator (CNBV) may lower the abovementioned limits at its own discretion if the internal control systems or the risk management of the institution is not strong enough.

The following types of financing are exempt from the abovementioned limits:

- Loans with unconditional or irrevocable guarantees, that may be immediately and extrajudicialy executed, granted by a Mexican or foreign financial institution with Investment Grade rating or above, established in countries that belong to the OECD or to the European Union (whose guarantees must be accompanied by a legal opinion regarding their ease of execution).
- Securities issued by the Mexican Government and loans to federal and local governments (subject to those loans guaranteed by the right to receive federal funds), Banco de México, IPAB (Bank Savings Protection Institute), and development banks guaranteed by the Mexican Government.
- Cash (transferred to the loan-issuing bank as a deposit that can be used freely by the issuing bank)

These cases however, cannot exceed 100% of the financial institution's basic capital.

Likewise, loans granted to SOFOMES in which the credit institution owns at least 99% of its equity, may exceed the abovementioned requirements, but such loans cannot exceed 100% of the institution's basic capital. However, if such SOFOMES (regardless of the origin of its funding) grant loans to an individual or group of individuals which represent a common risk, then such loan must be subject to the abovementioned rulings, considering its total equity as a reference).

The total amount of loans granted to the three largest debtors cannot exceed 100% of the institution´s basic capital. The abovementioned limits are not applicable to those loans granted to other financial institutions or to entities controlled by the Mexican government or decentralized entities, but may not exceed 100% of the institution's basic capital.

Financial institutions are not mandated to observe the abovementioned limits for loans granted to the federal government, to local governments (subject to those loans being guaranteed by the right to receive certain federal tax funds), Bank of Mexico, IPAB (Bank Savings Protection Institute), and other development Banks guaranteed by the Mexican government.

Regarding SOFOMES whose loan book is exclusively composed of finance leases or factoring or both, as an exception to the above, must be subject to the following:

- With a capitalization level above 8.0% and up to 9.0%, the maximum exposure to a single individual or group of individuals which represent a common risk for the bank, is set to 30.0% of the bank's basic capital.

- With a capitalization level above 9.0% and up to 10.0%, the maximum exposure to a single individual or group of individuals which represent a common risk for the bank, is set to 38.0% of the bank's basic capital.

- With a capitalization level above 10.0% and up to 12.0%, the maximum exposure to a single individual or group of individuals which represent a common risk for the bank, is set to 63.0% of the bank's basic capital.

- With a capitalization level above 12.0% and up to 15.0%, the maximum exposure to a single individual or group of individuals which represent a common risk for the bank, is set to 75.0% of the bank's basic capital, and

- With a capitalization level above 15.0%, the maximum exposure to a single individual or group of individuals which represent a common risk for the bank, is set to 100.0% of the bank's basic capital.

In addition to this, the sum of the loans granted to the 3 largest debtors, cannot exceed 200% of the SOFOM´s total equity. The rest of the limits must be met by the SOFOM according to the terms mentioned above.

Funding Limits

In accordance with the General Rules Applicable to Mexican Banks, Mexican banks are required to raise funds from the public to diversify their risks. In particular, a Mexican bank is required to notify the CNBV, on the business day following the occurrence of the event, in the event it receives funds from a person or a group of persons acting in concert, that represent in one or more funding transactions, more than 100% of such bank's Tier 1 Capital. None of our liabilities to a person or group of persons exceeds the 100% threshold.

Related Party Loans

Pursuant to the Mexican Banking Law, the total amount of the transactions with related parties may not exceed 35% of the bank's Tier 1 Capital. For revocable credits or irrevocable, only the disposed amount is considered. In credit letters operations the contingent risk is considered.

The General Rules Applicable to Mexican Banks establish that the aggregate amount of operations subject to credit risk relating to relevant related parties shall not exceed 25% of the bank's Tier 1 Capital. If the amount exceeds 25%, then the excess must be subtracted in order to determine Tier 1 Capital.

Foreign Currency Transactions

Banco de México regulations govern transactions by banks, denominated in foreign currencies. Mexican banks may, without any specific additional approval, engage in spot, foreign exchange transactions (i.e., transactions having a maturity not exceeding four business days). Other foreign currency transactions are deemed derivative transactions and require approvals as discussed below. At the end of each trading day, banks are generally obligated to maintain a balanced foreign currency position (both in the aggregate and by currency). However, short and long positions are permitted me in the aggregate, so long as such positions do not exceed 15% of a bank's Tier 1 capital. (Circular 3/2012 Art 220) In addition, Mexican banks must maintain minimum liquidity, prescribed by regulations issued by Banco de México, in connection with maturities of obligations denominated in foreign currencies.

Derivative Transactions

Certain Banco de México rules apply to derivative transactions entered into by Mexican banks. Mexican banks are permitted to enter into swaps, credit derivatives, futures, forwards and options with respect to the following underlying assets:

- specific shares, groups of shares or securities referenced to shares that are listed in a securities exchange,
- stock exchange indexes,
- Mexican currency, foreign currencies and UDIs,
- inflation indexes,
- gold or silver,
- pork bellies, pork and cattle;
- wheat, corn, soybean and sugar,
- rice, sorghum, cotton, oats, coffee, orange juice, cocoa, barley, cattle, swine, milk, canola, soybean oil, and soybean paste, lean value hog carcasses, natural gas, heating oil, gasoline, gas oil, crude oil, aluminum, copper, nickel, platinum, lead and zinc,
- nominal or real interest rates with respect to any debt instrument,
- loans or other advances; and
- futures, forwards, options and swaps with respect to the underlying assets mentioned above.

Mexican banks require an express general approval, issued in writing by Banco de México, to enter into, as so-called intermediaries, derivative transactions, with respect to each class or type of derivative. Mexican banks that have not received the relevant general approval, would require a specific approval from Banco de México to enter into such derivative transactions (or even if in possession of such general approval, to enter into derivative transactions with underlying assets different from the assets specified above). Mexican banks may, however, enter into derivatives without the authorization of Banco de México, if the exclusive purpose of such derivatives is to hedge the relevant bank's existing risks. Authorizations may be revoked if, among other things, the applicable

Mexican bank fails to comply with Mexican Capitalization Rules, does not timely comply with reporting requirements, or enters into transactions that contravene applicable law or sound market practices.

Banks that execute derivative transactions with related parties or with respect to underlying assets of which the issuer or debtor are related parties, shall comply with the corresponding provisions established in the Mexican Banking Law regarding transactions with third parties.

Institutions may guarantee the compliance of the derivative transactions through cash deposits, receivables and/or securities of its portfolio. In the case of derivative transactions that take place in OTC markets, the above guarantees may be granted only when the counterparties are credit institutions, brokerage firms, foreign financial institutions, mutual funds, mutual funds manager of pension funds, Sofomes, and any other counterparty authorized by Banco de México. Mexican banks are required to periodically inform their Board of Directors with respect to the derivatives transactions entered into, and whether or not the Mexican bank is in compliance with limits imposed by the Board of Directors and any applicable committee. Mexican banks must also inform Banco de México periodically of derivative transactions entered into and whether any such transaction was entered into with a related party. The counterparties in respect of hedging derivatives transactions entered into by Mexican banks must be other Mexican banks, Mexican financial entities authorized to enter into such derivatives by Banco de México or foreign financial institutions. Derivatives must be entered into pursuant to master agreements that must include international terms and guidelines, such as ISDA master agreements and master agreements approved for the domestic market. As an exception to applicable rules, Mexican banks may pledge cash, receivables and securities to secure obligations resulting from their derivative transactions.

Our subsidiaries operating in the financial sector have received approval from Banco de México to engage in stocks, indices, currencies and interest rates.

Repo Operations and Securities Lending

According to regulations issued by Banco de México, credit institutions can act as the party who owns the traded security with any person and my act as the counterparty only with Banco de México, with other credit institutions and brokerage institutions, and with foreign financial institutions. Repo operations can be traded with any securities except with securities for international arbitrage operations. The abovementioned regulation sets some resrictions regarding term and repayment of repo operations. Regarding the operation, parties must execute master agreements in writing before engaging in any repo operation, which must be approved by the Mexican Bank Association (ABM), and by the Mexican Association of Brokerage Intermediaries (AMIB).

Regarding securities lending operations, Banco de México authorizes credit institutions and brokerage institutions to engage in such types transactions. In this regard, Banco de México’s regulation sets certain rulings regarding the types of securities that can be subject to be lent, terms, transfer times, interest rates, operation and confirmation, among other matters.

Restrictions on Liens and Guarantees

Under the Mexican Banking Law, banks are specifically prohibited from, among others: (i) pledging their properties as collateral (except when pledging collection rights or securities in transactions with the Mexican Central Bank, development banks, public federal trust and IPAP or if the CNBV so authorizes or as described above with respect to derivative transactions, securities, lending and repurchase transactions) and (ii) guaranteeing the obligations of third parties, except, generally, in connection with letters of credit and bankers’ acceptances.

Bank Secrecy Provisions; Credit Bureaus

Pursuant to the Mexican Banking Law, a Mexican bank may not provide any information relating to the identity of its customers or specific deposits, services or any other banking transactions (including loans) to any third parties (including any purchaser, underwriter or broker, or holder of any of the bank's securities), other than:

- the depositor, debtor, accountholder or beneficiary and their legal representatives or attorneys-in-fact,
- judicial authorities in trial proceedings in which the accountholder is a party or defendant,
- the Mexican federal tax authorities for tax purposes,
- the SHCP for purposes of the implementation of measures and procedures to prevent terrorism and money laundering,
- the Federal Auditor (Auditoría Superior de la Federación), to exercise its supervisory authority (including information on accounts or agreements involving federal public resources);
- the supervisory unit of the federal electoral agency (Unidad de Fiscalización de los Recursos de los Partidos Políticos);
- the Federal Attorney General's office (Procuraduría General de la República) for purposes of criminal proceedings;
- the Treasurer of the Federation (Tesoreria de la Federación), as applicable, to request account statements and any other information regarding the personal accounts of public officers, assistants and, as the case may be, individuals related to the corresponding investigation; and
- the Secretary and undersecretaries of the Ministry of Interior (Secretaría de la Función Pública) when investigating or auditing the estates and assets of federal public officers, among others.

In most cases, the information needs to be requested through the CNBV. The CNBV is authorized to furnish foreign financial authorities with certain protected information under the Mexican bank secrecy laws, provided that an agreement must be in effect between the CNBV and such authority for the reciprocal exchange of information. The CNBV must abstain from furnishing information to foreign financial authorities if, in its sole discretion, such information may be used for purposes other than financial supervision, or by reason of public order, national security or any other cause set forth in the relevant agreement.

Banks and other financial entities are allowed to provide credit related information to duly authorized Mexican credit bureaus.

Anti-Money Laundering and Terrorism Financing Provisions

Mexico has an extensive regulatory framework regarding anti-money laundering and counter-terrorism financing. This regulation as it is applicable to financial institutions was published on April 20,2009, and was put in place the next day. As of today, there have been eleven reforms to these regulations, the most recent was performed in December 2017. Each entity within GFNorte has its own set of regulations according to its line of business, but in general, they are very similar to thos applicable to Banorte and have been updated in several dates

Under anti-money laundering and counter-terrorism financing, those entities operating in the financial sector must meet several requirements, among them are:

- The establishment and implementation of know-you-customer policies aimed at preventing, identifying and reporting actions, omissions or operations that could favor, assist or cooperate with money laundering activities or terrorism financing (as defined in the Federal Penal Code)
- Implementation of procedures to identify and report relevant operations, unusual or suspicious activities (as defined in the anti-money laundering and counter-terrorism financing regulations).

- Report to the SHCP (Tax Ministry) through the CNBV (Banking Regulator), all relevant, unusual and suspicious operations. In the specific case of Banorte, USD cash transactions, international transfers and cashier´s checks.
- The establishment of a Control and Communications Committee (which must designate a compliance officer) which will be in charge, among other matters, the supervision of proper compliance of anti-money laundering and counter-terrorism regulations. See Section 4. *"Management – Support Committees to GFNORTE's General Management" in this Annual Report.*
- Have automated systems in place in order to monitor client transactions.
- Rate clients according to their risk profile
- Identify politically exposed individuals
- Train personnel in anti-money laundering and counter terrorism financing

It is worth mentioning that credit institutions may exchange client and user operation information in order to assist other institutions to prevent and detect suspicious operations with an illegal origin. Only in these particular situations will client and user information will be exchanged. This Exchange may be among authorized financial institutions under an information Exchange agreement, and this must be informed to SHCP (Tax Ministry) through CNBV (Banking Regulator).

Those entities operating in the financial industry must also organize and keep a record of each customer before opening accounts or authorizing any operation.

Each individual's identification file must include among others: i)full name, ii)gender; iii)date of birth; iv)nationality, country and place of birth; v) profesional activities, type of work; vi)full address; vii)telephone number; viii)e-mail; ix)Federal ID (CURP), and tax ID (RFC); x)Electronic Signature number (Tax payer number), when applicable. These same requirements are applicable for co-signers and authorized third parties. Beneficiaries must provide full name, date of birth and residence address.

A company's record must be integrated by the following information: i)Full legal name; ii)Adress; iii)Type of business; iv)Nationality: v)Tax ID or fisal ID, showing the country(ies) that provided it; vi)Tax payer number, when available: vii)telephone number; viii)e-mail; ix)Date of Incorporation; x)Administrative officer´s name; members of the board of directors, General Manager and any other individual with relevant powers of attorney.

Each entity's handbook establishes the required proof of address and official picture ID.

Identificantion records will be kept on file for the duration of the contracts exectuted by the client and for a maximum period of ten years after the last contract has been terminated.

In accordance with anti-money laundering and counter-terrorism regulations, entities that operate in the financial sector must provide to the SHCP, through the CNBV: i)Quarterly reports regarding cash transactions that exceed USD 7,500; ii) reports of unusual transactions, within 63 natural days statring on the date when the unusual operation was detected by our subsidiary financial systems; iii) reports of suspicious transactions, within 63 after the suspicious transaction was detected.

In case of credit institutions, in addition to the above, they must issue monthly reports regarding international fund transfers, sent or received, for an amount equal or higher than USD $1,000, as well as a monthly report of cash transactions higher than USD $250 with users, and cash transactions higher than USD $500 with clients. An additional weekly report is sent to the CNBV regarding USD transactions for any amount, and a quarterly report of cashier's checks issued or paid for amounts of USD $10,000.00 or more.

In June 2010 the regulation appliocable to credit institutions was modified and were later reformed in September and December 2010 to include regulation for cash currency in USD that could be accepted by Banks. These regulations dictated that credit institutions can only receive dollar deposits in cash from individuals for a maximum accumulated amount of USD $4,000 per month, nationwide; for companies established in states next to the border with the U.S.A. or tourist zones, credit institutions may accept up to USD $14,000 per month.

At Banorte, our internal policy is to receive a maximum amount of USD $3,000 per month from individuals in the Northern Border States and tourist zones; in any other locations, the maximum amount is USD $2,000 per month.

Credit institutions can only purchase US Dollars in cash to national users for an amount up to USD $300 per day, without exceeding US$ 1,500 per month; for foreign users, up to $1,500 dollars per month, in one or multiple transactions during the month. At Banorte, cash deposits in US dollars were cancelled in July 2016, remaining only the purchase of US currency to foreign users in tourist zones and in the Northern Border States.

On October 17 2012, the Federal Law for Prevention and Identification of Transactions with Illegal Funds was published in the official diary, and is valid since July 18, 2013. The objective of this law is to protect the financial system and the national economy through policies and procedures to prevent and detect acts and operations that involve resources from unlawful origins.

This law mandates the observation of counter money laundering measures for those who conduct vulnerable activities and if necessary, report these unusual operations to the corresponding authorities.

In April 2014 there was a modification in the Anti-Money Laundering Regulation, in particular for the requirements that must be met for customer identification purposes when executing trust agreements, establishing a differentiated treatment for i) trusts in which the bank acts as fiduciary agent, and ii) those which are formalized by another fiduciary agent but that hold an account with the Bank, in this case with Banorte.

The SHCP through the CNBV, will issue the list of blocked individuals and its updates, establishing the following obligations for the bank:

a) Immediately stop any operation or service related to the client or user identified in the blocked individual list.
b) Submit a report to the SHCP through the CNBV of the unusual operation, mentioning that it involves a person in the blocked individual list. This report must be sent within 24 hours of such information being known.
c) Inform the blocked customer or user by means of written communication that his accounts have been blocked, and that all services and transactions have been suspended. That he/she may contest this ten days after receiving this notification, by providing proof and formulating any arguments to clarify his/her situation before the corresponding authorities.

Furthermore, this same modification includes the aforementioned requirement to submit a quarterly report of cashier's checks to the SHCP through the CNBV.

Later on in September 2014, there was a new modification of these regulations, establishing that banks may receive US dollars in cash without any limit from select customers (companies only) anywhere in Mexico that meet the following requirements:

a) That they have at least 3 years since their incorporation.

b) That they justify the need to perform operations in USD in amounts higher tan the ones previously mentioned.
c) The bank must open a file for each of these customers containing among others: financial statements, tax returns, names of main shareholders, etc.

The information that justifies the need to perform cash operations in US dollars must be updated every year. Moreover, the institution must keep an updated record of these clients and report monthly to the SHCP through CNBV the list of customer which receive dollars under this framework.

This modification also includes the requirement for institutions to send the anti-money laundering training schedule for the year, as well as the list our traninning sessions completed during the previous year. This report must be sent to the SHCP through the CNBV within the first fifteen days of January of each year.

Again in September 2015, there was an additional modification to the Anti-money laundering regulation that grants an additional 30 day period to the existing 60 day period to submit unusual operations report, so long as the guidelines for customer identification and know-your-customer include the assumptions to apply such extended timeframe.

On February 24 2016 the following Anti-Money Laundering modifications were made:

- Change in the maximum amount to report relevant operations from USD $10,000 to USD $7,000.
- Starting on July 1, 2017, before opening an account or executing any contracts, clients must provide a proof of address that matches the address on file, except when the ID is the Voting ID.
- New mandatory requirements for companies: i) Shareholder composition, II) Internal organization (In case it is not a low-risk company), iii) ID from main shareholder.
- Collect and register the following information in the system regarding SPID (Interbank Dollar Transactions System) transfers or international transfers:

  For Individuals:

  - Last names (both), and full name(s)
  - Main office address.
  - Purpose of the transfers
  - Serial number of FIEL (tax payment ID number) for Mexican clients only.

  Companies:

  - Full legal name as it appears on the articles of incorporation
  - Country and date of incorporation.
  - Purpose of the transfers.
  - Full name of people with powers of attorney to perform such transactions.

Build a risk assessment matrix, with focus the risk of products, services, practices and technologies. This matrix must be updated every year, there must be a record of past revisions and must be reviewed by the CNBV. There must be an exchange of information regarding clients and users that send or receive transfers through the SPID system and international transfers using Banco de México’s platform. In addition to this, institutions must have client consent to share this information with Banco de México. Include the possibility of naming an Acting Compliance Officer in case the Compliance Officer resigns, is revoked from his/her charge or is by any reason unable to perform his/her duties. It was established that institutions must send unusual and suspicious operations reports to the SHCP, through the CNBV within 3 working days after the Communications and Control Committee audits the issue. It was established that the institution's personnel must be trained on the anti-money laundering methodology, as well as on the products, services and activities offered by the Bank. The obligation to communicate to the SHCP through the CNBV any new naming, addition or subtstitution of members of the Committee, within 15 working days after the date in which these changes were made.

Establish a risk assessment model (Risk Model), which is the methodology by which Banco Mercantil del Norte will identify, measure and classify its customers according to the risk that their operations represent for the Institution. This model should rank the different credit ratings from low to high, with as many levels in between as necessary. This same amendment, extends the term originally established on September 12, 2014 to two years (730 natural days), to complete or update customer files that are classified as Trusts which performed operations prior to the validity of this resolution.

In March 2016, Banco de México issued a regulation to control dollar-denominated fund transfers in Mexico through the SPID (Interbanking Dollar Payment System). With this regulation, institutions must keep a record of customers with accounts in Pesos and Dollars, who performed dollar transfers in the country. This file must contain a copy of the digital certificate and signature, as well as the purpose for using the SPID system, shareholder information, the transactional history of the client, and its beneficiaries. Establish an additional risk assessment model (Risk Model), which is the methodology by which those subject to the Risk Model must identify, measure and classify and mitigate the risks from the customers that operate in such system.

It is established that as of May 31, 2017, the only way to transfer dollars in Mexico is by using the SPID system. In order to enforce compliance of this regulation, there must be a SPID Compliance Officer, who must report any situation related to the SPID system's operation to the Compliance Officer in charge of Anti-money laundering and counter terrorism financing.
It is also established that ther must be a Semi-annual report sent to the Audit Committee and to the Bank of Mexico which details any risk-related findings (additional and non-additional). Moreover, there must also be an annual written report sent to Banco de Mexico, which contains the results of the additional risk model. Before sending it to Banco de Mexico, it must be sent to the Communications and Control Committee of the institution, which shall be approved by the Risk Committee and then communicated to the Board of Directors of the bank.

As an acceptance and permanence requirement for participating banks, the head of Internal Audit together with an external auditor, must prepare a compliance report detailing any findings, irregularities and non-compliant activities identified in the SPID process. This process must be reviewed annually, one year by Internal Audit, and the next by an independent (external) auditor, and must be sent to Banco de México.

Rules on Interest Rates

Banco de México regulations limit the number of reference rates that may be used by Mexican banks as a basis for determining interest rates on loans.(Circular 3/2012 Art. 36 and 50) For peso-denominated loans, banks may choose any of a fixed rate, TIIE, CETES, the rate determined by Banco de México as applied to loans funded by or discounted with NAFIN, the rate agreed to with development banks in loans funded or discounted with them, the weighted inter-bank funding rate (tasa ponderada de fondeo interbancario) and the weighted governmental funding rate (tasa ponderada de fondeo gubernamental). For foreign currency-denominated loans, banks may choose any of a fixed rate or floating market reference rates that are not unilaterally determined by a financial institution, including LIBOR or the rate agreed upon with international or national development banks or funds, for loans funded by or discounted with such banks or funds. For dollar denominated loans, banks may choose either a fixed rate or any of the rates referred to in the prior sentence or CCP-Dollars, as calculated and published in the Official Gazette by Banco de México.

The rules also provide that only one reference rate can be used for each transaction and that no alternative reference rate is permitted, unless the selected reference rate is discontinued, in which event a substitute reference rate may be established. A rate or the mechanism to determine a rate, may not be modified unilaterally by a bank. Rates must be calculated annually, based upon 360-day periods.

On November 11, 2010, Banco de México published new rules that regulate the issuance and use of credit cards (Circular 34/2010). Such rules standardize the regulations and forms that enable card holders to authorize charges for recurrent payments relating to goods and services and standardize the procedures for objecting to improper charges and cancelling such services quickly and securely. The rules also establish the way in which credit card issuers shall determine the amount of the minimum payment in each period by means of a formula that favors payment of a part of the principal at the time of each minimum payment, with the aim of achieving payment of debts within a reasonable time period. Such rules also include certain protection provisions for card users in case of theft or loss of their credit cards, the creation of incentives to credit card issuers to adopt additional measures to reduce risks derived from use of credit cards in internet transactions and the wrongful use of information contained in credit cards. These rules did not have a material impact on our operations or financial condition.

In June 2014, the Mexican Supreme Court of Justice issued jurisprudential guidance, of mandatory application, allowing federal judges to determine ex officio if an interest rate agreed on a promissory note is evidently excessive, violating an individual's human rights and, consequently, establish a reduced rate. The elements the judge should take into account to determine if a rate is evidently excessive are: (a) the type of relationship between the parties; (b) the qualification of the persons intervening in the subscription of the note and if the activity of the creditor is regulated; (c) the purpose of the extension of credit; (d) the amount of the loan; (e) the term of the loan; (f) the existence of guaranties for the payment of the loan; (g) the interest rates applied by financial institutions in transactions similar to the one under analysis, as a mere reference; (h) the variation of NCPI during the term of the loan; (i) market conditions; and (j) other issues that the judge may deem relevant.

Fees

Under Banco de México regulations, Mexican banks and Sofomes may not, in respect of loans, deposits or other forms of funding and services with their respective clients:

- charge fees that are not included in their respective, publicly disclosed, aggregate annual cost (costo anual total),
- charge alternative fees, except if the fee charged is the lower fee, and
- charge fees for the cancellation of credit cards issued.

In addition, among other things, Mexican banks may not:

- charge simultaneous fees, in respect of demand deposits, for account management and relating to not maintaining minimum amounts,
- charge fees for returned checks received for deposit in a deposit account or as payment for loans granted,
- charge fees for cancellation of deposit accounts, debit or teller cards, or the use of electronic banking services, or
- charge different fees depending upon the amount subject of a money transfer. Under the regulations, fees arising from the use of ATMs must be disclosed to users.

Mexican banks and Sofomes permitting customers the use of ATMs must choose between two options for charging fees to clients withdrawing cash or requesting balances: (i) specifying a fee for the relevant transactions, in which case, Mexican banks and Sofomes issuing credit or debit cards ("Issuers") may not charge cardholders any additional fee (Issuers are entitled to charge operators the respective fee), or (ii) permit Issuers to charge a fee to clients, in which case, banks and Sofomes may not charge additional fees to clients.

Banco de México, on its own initiative or as per request from the CONDUSEF, banks or Sofomes, may assess whether reasonable competitive conditions exist in connection with fees charged by banks or Sofomes in performing financial operations. Banco de México must obtain the opinion of the Federal Competition Commission (Comision Federal de Competencia) in carrying out this assessment. Banco de México may take measures to address these issues.

On October 3, 2014, the Mexican Central Bank published the circular 16/2014 that modified the rules on ATM user fees which limited our ability to charge fees for the use of ATMs by customers and the amount of such fees for services including:

- cash withdrawals;
- checking account balances;
- account deposits; and
- credit payments, both in bank windows and ATMs operated by the clients' bank.

The Circular also specifies that ATMs shall show a clear legend on their screens regarding costs of the transaction before authorization so the client may decide whether to proceed with the transaction.

IPAB

The IPAB Law, which became effective January 20, 1999, provides for the creation, organization and functions of IPAB, the Mexican bank savings protection agency. IPAB is a decentralized public entity that regulates the financial support granted to banks for the protection of bank guaranteed operations.

According to the IPAB Law, banks must provide the information required by the IPAB for the assessment of their financial situation and notify the IPAB about any event that could affect their financial stability. The IPAB Law expressly excludes the release of such data from bank secrecy provisions contained in the Mexican Banking Law and expressly provides that the IPAB and the CNBV can share information and databases of banks.

IPAB is authorized to manage and sell the loans, rights, shares and any other assets that it acquires to perform its activity according to the IPAB Law, to maximize their recovery value. IPAB must ensure that the sale of such assets is made through open and public procedures. The Mexican President is required to present annually a report to Congress prepared by IPAB with a detailed account of the transactions conducted by IPAB in the prior year.

IPAB has a Governing Board of seven members:

- the Minister of Finance and Public Credit,
- the Governor of Banco de México,
- the President of the CNBV, and
- four other members appointed by the President of Mexico, with the approval of two-thirds of the Senate.

The deposit insurance to be provided by the IPAB to a bank's depositors will be paid upon determination of liquidation of a bank. The IPAB will act as liquidator or receiver, or both, in the liquidation of banks, according to the Mexican Banking Law. The IPAB will guaranty obligations of banks to certain depositors and creditors (excluding, among others, financial institutions) only up to the amount of 400,000 UDIs per person per bank. The IPAB will not guarantee:

- deposits and loans constituting negotiable instruments and bearer promissory notes;
- liabilities for financial institutions or subsidiaries of the bank;
- liabilities not incurred in the ordinary course of business and related party transactions; or
- liabilities assumed in bad faith or in connection with money laundering or other illegal activities.

Banks have the obligation to pay IPAB ordinary and extraordinary contributions as determined from time to time by the Governing Board of IPAB. Under the IPAB Law, banks are required to make monthly ordinary contributions to IPAB, equal to 1/12 of 0.4% multiplied by the average of the daily outstanding liabilities of the respective bank in a specific month, less:

- holdings of term bonds issued by other commercial banks;
- financing granted to other commercial banks;
- financing granted by IPAB;
- subordinated debentures that are mandatorily convertible in shares representing the capital stock of the banking institution; and
- certain *forward* transactions.

IPAB's Governing Board also has the authority to impose extraordinary contributions in the case that, given the conditions of the Mexican financial system, IPAB does not have available sufficient funds to comply with its obligations. The determination of the extraordinary contributions is subject to the following limitations: (i) may not exceed, on an annual basis, the amount equivalent to 0.3% multiplied by the total amount of the liabilities outstanding of the banking institutions that are subject to IPAB contributions; and (ii) the aggregate amount of the ordinary and extraordinary contributions may not exceed, in any event, on an annual basis, an amount equivalent to 0.8% multiplied by the total amount of the liabilities outstanding of the applicable banking institution.

The Mexican Congress allocates funds to IPAB on a yearly basis to manage and service IPAB's liabilities. In emergency situations, IPAB is authorized to incur additional financing every three years in an amount not to exceed 6.0% of the total liabilities of Mexican banks as determined by the CNBV.

Law for the Protection and Defense of Financial Service Users

A Law for the Protection and Defense of Financial Service Users (Ley de Proteccion y Defensa al Usuario de Servicios Financieros) is in effect in Mexico. The purpose of this law is to protect and defend the rights and interests of users of financial services. To this end, the law provides for the creation of CONDUSEF, an autonomous entity that protects the interests of users of financial services and that has very wide authority to protect users of financial services (including imposing fines). CONDUSEF acts as mediator and arbitrator in disputes submitted to its jurisdiction and seeks to promote better relationships among users of financial institutions and the financial institutions. Banorte and other subsidiaries operating in the financial sector must submit to CONDUSEF's jurisdiction in all conciliation proceedings (initial steps of a dispute) and may choose to submit to CONDUSEF's jurisdiction in all arbitration proceedings that may be brought before it. The Law requires banks to maintain an internal unit designated to resolve any and all controversies submitted by clients. Our financial subsidiaries maintain such a unit.

CONDUSEF maintains a Registry of Financial Service Providers (Registro de Prestadores de Servicios Financieros), in which all financial services providers must be registered, that assists CONDUSEF in the performance of its activities. This Registry will be replaced as explained below. CONDUSEF is required to publicly disclose the products and services offered by financial service providers, including interest rates. To satisfy this duty, CONDUSEF has wide authority to request any and all necessary information from financial institutions.

Furthermore, CONDUSEF may scrutinize banking services provided by approving and supervising the use of standard accession agreements.

Banorte and other subsidiaries operating in the financial sector may be required to provide reserves against contingencies which could arise from proceedings pending before CONDUSEF. Our financial subsidiaries may also be subject to recommendations by CONDUSEF regarding our standard agreements or information used to provide our services. Our financial subsidiaries may be subject to coercive measures or sanctions imposed by CONDUSEF. Our financial subsidiaries are not the subject of any material proceedings before CONDUSEF.

As part of the financial reform being undertaken in Mexico in 2013, the Mexican Congress approved changes to the Law for the Protection and Defense of Financial Services Users pursuant to which, among other things:

- CONDUSEF is entitled to initiate class actions against Mexican financial institutions, in connection with events affecting groups of users of financial services;
- CONDUSEF shall maintain a new Bureau of Financial Entities (*Buró de Entidades Financieras*), which is to set forth any and all information deemed material for users of financial services;
- CONDUSEF is empowered to order amendments to any of the standard form commercial banking documentation (such as account and loan agreements) used by financial institutions, if it considers provisions thereof as detrimental to users;
- CONDUSEF is permitted to issue resolutions as part of arbitration proceedings, for the benefit of issuers, that would permit users to attach assets of a financial institution prior to the completion of arbitration proceedings; and
- CONDUSEF is given broader authority to fine financial institutions, if any such financial institution does not comply with an order issued by CONDUSEF.

Law for the Transparency and Ordering of Financial Services.

The Transparency and Ordering of Financial Services Law regulates:

- the fees charged to clients of financial institutions for the use and/or acceptance of means of payment, as with debit cards, credit cards, checks and orders for the transfer of funds,
- the fees that financial institutions charge to each other for the use of any payment system,
- interest rates that may be charged to clients, and
- other aspects related to financial services, all in an effort to make financial services more transparent and protect the interests of the users of such services.

This law grants Banco de México the authority to regulate interest rates and fees and establish general guidelines and requirements relating to payment devices and credit card account statements (See section 2. “The Company. Subsection b) Business Description–Applicable Laws and Tax Position– Applicable Law and Supervision – Banking Regulations – Interest Rates and Fees Rules”). Banco de México has the authority to specify the basis upon which each bank must calculate its aggregate annual cost (*costo anual total*), which comprises interest rates and fees, on an aggregate basis, charged in respect of loans and other services. The aggregate annual cost must be publicly disclosed by each bank. The law also regulates the terms that banks must include in standard accession agreements and the terms of any publicity and of information provided in account statements. Our subsidiaries operating in the financial sector must inform Banco de México of any changes in fees at least 30 calendar days before they become effective.

As part of the financial reform passed in 2013, the Mexican Congress approved changes to the Law for the Transparency and Ordering of Financial Services pursuant to which the Mexican Central Bank may issue temporary regulations applicable to interest rates and fees, if it or the Mexican Federal Economic Competitive Commission determine that no reasonable competitive conditions exist among financial institutions. Also, the Mexican Central Bank and the CNBV are given authority to issue rules regulating the means to obtain funds (i.e., credit cards, debit cards, checks and funds transfers), as a means to ensure competition, free access, no discrimination and protecting the interests of users.

Law on Transparency and Development of Competition for Secured Credit

On December 30, 2002, the Mexican Congress enacted the Law on Transparency and Development of Competition for Secured Credit (Ley de Transparencia y de Fomento a la Competencia en el Credito Garantizado, or the "Secured Credit Law"), amended on June 15, 2007 and on May 25, 2010. The Secured Credit Law provides a legal framework for financial activities and certain other services performed by private credit institutions (as opposed to governmental entities) in connection with secured loans relating to real property in general and housing in particular (i.e., purchase, construction, restoration or refinancing). In particular, the Secured Credit Law established specific rules requiring the following:

- the disclosure of certain information by credit institutions to their clients prior to the execution of the relevant loan agreement, including the disclosure of certain terms relating to interest rates, aggregate costs and expenses payable;
- the compliance by credit institutions and borrowers with certain requirements in the application process;
- the binding effect of offers made by credit institutions granting secured loans;
- the inclusion of mandatory provisions in loan agreements; and
- the assumption of certain obligations by public officers (or notaries) before whom secured loans are granted.

In addition, the Secured Credit Law seeks to foster competition among guaranteed credit grantors institutions by permitting security interests underlying a secured loan to survive any refinancing thereof, even if such loans were granted by different credit institutions. This provision of the Secured Credit Law is designed to reduce expenditures made by borrowers.

Insurance Companies

Insurance companies are regulated and subject to supervision by the CNSF, and are subject to the Insurance and Bonding Law -, the Insurance Contract Law (*Ley sobre el Contrato de Seguro*) and other regulatory provisions enacted by the SHCP and the CNSF. The CNSF enacts regulatory provisions establishing the rules and requirements pertaining to insurance companies. Mexican insurance companies are typically involved in insuring customary risks, such as life, accidents, medical, civil liability, professional liability, maritime and transportation and credit. Insurance companies are subject to capital adequacy requirements, and to certain report filing obligations to ensure compliance with legal, regulatory, capital and accounting provisions. Also, insurance companies are subject to certain regulations in connection with their investment activities. Our subsidiary, Seguros Banorte, operates its business as an insurance company, and therefore, is subject to regulation and supervision by the CNSF.

Brokerage Firms

Brokerage firms (casas de bolsa) are regulated by, and subject to the supervision of, the CNBV, and are subject to the Mexican Securities Market Law and the General Rules Applicable to Brokerage Firms (Disposiciones de Caracter General Aplicables a las Casas de Bolsa) issued by the CNBV. Their principal business includes the brokerage, underwriting and intermediation of securities, the sale and trading of securities (either on their own behalf or on behalf of third parties), and the provision of investment and portfolio management advice to their clients. The CNBV has the power to authorize the incorporation and operation of brokerage firms, and power to revoke any such authorizations. Our subsidiary, Casa de Bolsa Banorte Ixe, operates its business as a brokerage firm, and therefore, is subject to regulation and supervision by the CNBV.

Management of Broker-Dealers

Broker-dealers are managed by a Board of Directors and by a Managing Director.

The Board of Directors may have up to 15 members, 25.0% of which is required to be independent.

The broker-dealer must also maintain an audit committee. Casa de Bolsa Banorte Ixe’s audit committee is comprised of 3 members, 1 of which is independent. *See section 4 “Administration - Support Committees to GFNorte’s Management“ in this Annual Report.*

Capitalization

Broker-dealers are required to maintain a minimum capital depending upon their activities. In addition, broker-dealers must maintain minimum capital levels depending upon market risks, credit risk and operational risk.

If minimum capitalization levels are not maintained, the CNBV may take measures against the applicable broker-dealer, which include: (i) suspending the payment of dividends and other distributions to shareholders, (ii) suspending the payment of bonuses and extraordinary compensation to the general director and higher level officers, and (iii) ordering the suspension of activities that may impact the broker-dealer’s capital.

Suspension and Limitations of Activities

The CNBV may suspend or limit the activities of a broker-dealer if: (i) internal infrastructure or internal controls are not sufficient for its activities, (ii) it conducts activities different from authorized activities, (iii) it conducts activities affected by conflicts of interest, (iv) undertakes securities transactions on the BMV, and (v) transactions are omitted or incorrectly entered into the broker-dealer’s accounting.

In addition, the CNBV may intervene and commence the management of a broker-dealer, if any events affect the broker-dealer that may have an impact on the soundness, solvency or liquidity, or affect the interests of the broker-dealer’s clients.

Revocation of Authorization

The CNBV may revoke the authorization to operate as a broker-dealer if, among other things: (i) the authorization was obtained based upon false documentation or statements, (ii) its capital falls below the regulatory minimum, (iii) provides false or incomplete periodic reports, (iv) fails to duly make accounts entries, (v) fails to comply with applicable law, (vi) a process for its dissolution or liquidation is initiated, or (vii) it is declared bankrupt.

Systems for Handling Orders

Broker-dealers are required to maintain an automatic system to receive, register, assign and execute orders for transactions with securities received by clients. Such system must distinguish (i) type of client, and (ii) different orders received. Broker-dealers are required to inform clients their schedules to receive orders and time-periods during which transactions shall remain in effect.

Secrecy

Under the Mexican Securities Market Law, broker-dealers may not provide any information in respect of transactions undertaken or services offered, except to the owner or holder of the account, to beneficiaries or their legal representatives, except if required by judicial authorities as a result of an order or to tax authorities, solely for tax purposes.

Traders and Operators

Broker-dealers may only engage in transactions with the public through authorized officers, and only if such officers have passed certain required exams and have been granted sufficient authority, through powers of attorney, by the broker-dealer.

Third-Party Services

Broker-dealers may contract with third parties any of the services required for their operations, as long as such broker-dealers obtain the approval of the CNBV and (i) maintain procedures to continuously monitor the performance of the service provider, (ii) cause the service provider to always grant CNBV access in connection with its supervisory rate, (iii) ensure that third-party service providers maintain confidentiality, and (iv) report to the CNBV the criteria used for selecting the service provider, the services in effect contracted, and risks arising from services provided.

Financial Reporting

Broker-dealers are required to disclose to the public (i) internal financial statements for the quarters ending in March, June and September, within one month from the end of this applicable quarter, and (ii) audited financial statements for each full fiscal year, within sixty days following the end of the applicable fiscal year.

Afores

Afores and Siefores are regulated and subject to supervision by the CONSAR, and are subject to the Retirement Savings System Law (Ley de los Sistemas de Ahorro para el Retiro) and the regulations issued by CONSAR. Afores are pension funds organized under the Retirement Savings Systems Law, in charge of receiving and investing retirement funds, through a retirement savings system implemented by the Mexican government in 1997. Under Mexican retirement savings system, workers are entitled to choose an Afore, which will manage and invest their retirement fund as set forth under the Retirement Savings System Law. Workers are subject to mandatory and voluntary contributions to their Afore, which in principle guarantees that, upon retirement, the worker will receive a more significant amount as a retirement pension. Afores typically invest their funds through Siefores, specialized investment entities controlled by Afores. Our subsidiary, Afore XXI Banorte, operates its business as an Afore, and therefore, is subject to regulation and supervision by the CONSAR.

New Regulation Applicable to our Business

Law on Financial Discipline for States and Municipalities

Aiming to regulate and control increasing indebtedness of States and Municipalities, the President and Congress published a Constitutional Reform effective as of May 27, 2015 and the Law on Financial Discipline for States and Municipalities passed on April 27, 2016.

This law is enforceable for the executive, legislative and judicial powers, as well as de-centralized organisms, entities with major participation of the state and trusts of States and Municipalities.

The aim of this Law is to promote sustainable local public finance and responsible management of public debt, as well as to strengthen accountability and transparency based on:

- **Rules on fiscal and financial discipline**: which promote sound public finance based on fiscal responsibility principles.
- **Alerts system**: which establishes indebtedness limits and forces to comply with fiscal responsibility agreements.
- **Contract of debt and liabilities**: it is guaranteed that debt be contracted at the lowest financial cost through competitive and transparent processes.
- **Secured State Debt**: federal government will secure so States and Municipalities access to cheaper financing.
- **Unique Public Registry**: which will serve to register and provide transparency on the financing and liabilities of public entities.

Insurance and Bailment Law

The Insurance and Bailment Law (LISF) was published on the Diario Oficial (Official Journal) on April 4, 2013, establishing that it would become valid 2 years (730 days) after its publication that is on April 4, 2015. At that moment, the existing law, the "Ley General de Instituciones y Sociedades Mutualistas y de Seguros" (LGISMS) (Insurance Institutions and Mutual Societies General Law) would be abrogated.

The objective of issuing the new LISF law was top incorporate Solvency II principles, which seek to provide certainty that companies within the insurance industry keep adequate solvency, stability and financial security to face their obligations. Solvency II also seeks to implement international regulation and supervision standards to insurance institutions.

In order to achieve the above, a new monitoring process was implemented which increases the obligations of the Board of Directors, as it is now responsible of setting permanent surveilance mechanisms to ensure compliance of operating and financial aspects of the institution (Corporate Governance).

The main aspects incorporated by the LISF, among others are:

a) To determine the legal structure for regulatory development of Solvency II in Mexico. (Solvency II is a legislative program currently developed in the European Union, and has an impact over Insurance and Bailment Institutions). Solvency II is underpinned by three main pillars:

    (i) <u>Pillar I, cuantitative requirements</u>. This refers to the economic measurement of assets, liabilities and equity: the new measurement of this pillar consists of the Solvency Capital Requirement calculation, which replaces the Minimum Guarantee Capital for Insurance companies and the Basic Operating Capital for Bailment institutions.

    According to Solvency II, LISF allows insurance companies to develop and implement their own Solvency Capital Requirement model calculation which must be authorized by the National Commission of Bailment and Insurance Companies (Comisión Nacional de Seguros y Fianzas), or tu use the general formula used by the aforementioned Comission.

    The LISF establishes that all capital, including that in excess of the Investment Base or of the Solvency Capital Requirement, shall be invested according to the investment policy approved by the Board of Directors, and in compliance with the CNSF policies.

(ii) Pillar II, qualitative requirements. It focuses on Monitoring and Control: LISF increases the obligations of the Board of Directors as it is now responsible of setting permanent surveilance mechanisms to ensure compliance of operating and financial aspects of the institution (Corporate Governance).

Moreover, LISF implemented the compulsory use of an Audit Committee, instead of the Compliance Officer, thus establishing its integration and operating rules, as some institutions, such as Banorte, already had this structure implemented.

The LISF also requested the implementation of measures that will ensure that systems, terminology, balance sheet and financial statements be separated from those of their parent institutions in order to ensure free competition conditions, as in transfer pricing studies.

(iii) Pillar III, market discipline. It consists of Transparency and Information Disclosure requirements, for instance: Financial Statements published by Insurance and Bailment Institutions must include notes disclosing Own Funds that cover the Investment Base and the Solvency Capital Requirement.

It also requires that institutions obtain a credit rating from a specialized credit rating agency from those mentioned in the applicable regulations, and that it be included in the notes to their financial statements.

b) A new business line was implemented so that insurance institutions now offer Surety Insurance Premiums which would co-exist with the bailment system currently in place. LISF law explicitly requires that surety insurance be accepted as form of guarantee, in the same way that bails are accepted as guarantees in federal and local goernment transactions.
c) In the previous law (LGISMS), the Tax Ministry (SHCP) was responsible of issuing the authorizations to incorporate and operate as an Insurance Institution; however, the LISF now entrusts this duty to the CNSF. The SHCP however, keeps the power to interpret, apply and resolve administrative matters related to the LISF.

All the above is further detailed in the “Circular Única de Seguros y Fianzas”, a document published on December 19, 2014 which establishes in its first and second transitory provisions, that it will be valid as of April 4, 2015, substituting and abrogating the “Circular Única de Seguros” published on November 8, 2010 and valid since December 13, 2010.

Adoption of New Rules in Mexico in accordance with Basel III

During 2017, a new regulation was put in place for basic non-fundamental capital and complementary capital, which establishes that such capital instruments cannot add-up to more tan 50% of basic capital in case the Basic Capital Ratio is below 10%. As of December 31,2017, the Basic Capital Ratio was 11.93%.

Liquidity Coverage Ratio

The CNBV and Banxico exercising their power jointly, issued on December 31, 2014 General Provisions on Liquidity Requirements for banking institutions, which came into effect on January 1, 2015. These provisions establish the liquidity requirements that banking institutions must comply with, pursuant guidelines issued by the Banking Liquidity Regulation Committee, in congruence with standards issued by the Basel Committee on Banking Supervision in this matter. The regulation aims to increase the capacity of institutions to meet their obligations, even in extraordinary situations of liquidity.

The Regulation contains guidelines and considerations to estimate the liquidity coverage ratio, which demonstrates whether the institution has sufficient liquidity to meet its short-term liabilities, i.e., a 30-day horizon under an extreme scenario, using only its Liquid Assets.

When estimating the Liquidity Coverage Ratio, all operations shall be included individually and also those carried out by the financial subsidiaries and SOFOMES which are not subject to accounting consolidation in accordance with the accounting criteria, provided that they could generate a requirement of liquidity for these institutions under the terms established by the aforementioned Provisions.

In our case, it is also applicable to the transactions that Casa de Bolsa Banorte-Ixe carries out with securities issued by the Bank.

The rules establish guidelines to determine the Computable Liquid Assets, Total Net Cash Outflows and Total Net Cash Inflows:

- Classify the Eligible Liquid Assets at their market value in the corresponding category pursuant to the Provisions and determine the Computable Liquid Assets to estimate the Liquidity Coverage Ratio, after applying the formulas established in the aforementioned Regulation.

  In the case of Subsidiaries established abroad, their Computable Liquid Assets cannot be higher than the Total Net Cash Outflow.

- Total Cash Outflow is the result of adding all the liability transactions with a maturity equal to or less than thirty days multiplied by the corresponding output factor.

- The Total Cash Inflow shall consider all performing operations in accordance with the Accounting Criteria excluding those with due payments of principal or interest which, derived from held agreements, will generate a cash inflow in the thirty days following the date of calculation of the Liquidity Coverage Ratio, multiplied by the corresponding input factor.

Moreover, the Regulation also establishes different liquidity scenarios for credit institutions, based on the Liquidity Coverage Ratio report, which will come into effect as of January 1, 2019 and cannot be less than 100%. Nevertheless, guidelines to meet gradually these scenarios over the years 2016, 2017 and 2018 have been established and enforcement will depend on the amount of active operations and the time these have been operating. In accordance with the provisions of the current regulations on liquidity, as of January 1, 2018, the daily monitoring of the Liquidity Coverage Ratio comes into effect, with a minimum regulatory level of 90% for the indicator, as well as a based on maximum deviations about it.

The CNBV, based on the Liquidity Coverage Ratio, verified and reported by Banco de México, may order - at any time - institutions to place in the scenario corresponding to each one.

When institutions have knowledge of or forecast that their Liquidity Coverage Ratio will place them in a scenario other than that of the liquidity, actions must be taken for restituting it.

vi. HUMAN RESOURCES

GFNorte had 29,915 full-time and professional fee-based employees at the end of 2017.

Sector	2017	2016	2015
Banking, Brokerage, SOFOM and Other Finance Companies Sector	22,049	21,531	21,013
Long- term Savings Sector	7,854	6,382	6,561
Total full-time employees	**29,903**	**27,913**	**27,574**
Total full-time employees & salaries	**29,915**	**27,929**	**27,594**

73% of GFNorte's Banking Sector employees are non-unionized and the rest are union members.

Historically the relationship between Banorte's union and the Institution has been cordial and respectful. There have been no strikes, threats of work disruption or collective conflicts.

vii. ENVIRONMENTAL PERFORMANCE

At GFNorte we believe that as a financial institution we have a key role in building a prosperous Mexico; this is why we have integrated sustainability into our daily operations as a ruling principle in order to maximize growth and profitability, protecting at all times our financial, social and environmental capital.

We have a Sustainability and Responsible Investing Director, which reports to the Executive Director of Investor Relations, Sustainability and Financial Intelligence.

We strive to constantly improve GFNorte's performance, and this is why we updated our Sustainability Model in order to show a more transparent view of our strategic pillars. Through this model, we publish our commitments and actions towards meeting our Sustainable Development Objectives (SDO) proposed by the United Nations, which guide, define and implement the sustainability strategy for GFNorte, always keeping in mind our business' requirements.

Today our sustainability model is based in the following four axes:

- Sustainable Finances
  - We consider environmental, social and corporate governance (ESG) factors in our product offering in order to contribute to the environmental protection, social balance and economic development of our country.

- Transparency
  - We keep a bi-lateral relationship with our relevant groups by providing truthful and updated information regarding our practices and results, which allows us to receive constructive feedback for continiuous improvement and ensures our presence in global investment markets.

- Environmental footprint
  - We engage in innitiatives oriented towards generating a culture of environmental care within our institution, as well as measure and reduce our resouce consumption and pollution generation in order to mitigate the direct and indirect impact of our operations.

- Community Care
    - We have implemented several social programs that require participation from our own employees and from the communities where we belong, seeking to implement best practices that improve the internal and external conditions of our institution, thus generating a better quality of life.

Environmental Policy

We have put in place a public environmental policy, aligned with ISO 14000 international standards that addresses the following aspects:

- Environmental risks and impacts
- Carbon Footprint
- Waste Management
- Environmental criteria in procurement processes
- Cooperation with relevant groups
- Internal eco-efficient practices
- Commitment with external innitiatives

We support our environmental policy by using our identification, evaluation and classification of environmental impact matrix, and we review on an annual basis, business processes that have relevant actual and potential environmental risks.

Social and Environmental Risk Management System

At GFNorte we have our own Social and Environmental Risk Management System (SEMS) to analyze social and environmental risks that are generated by the activities that we finance. SEMS is structured after an identification, categorization, evaluation, and social and environmental risk management process which is based in the national legal framework, the IFC's performance metrics, and the Equator Principles.

During 2017 we engaged in a thorough review of the social and environmental risk analysis process in order to re-define procedures and operating criteria that would increase its efficiency.

• We updated the SEMS manual and its process regulated back in 2015.
• We extended the SEMS coverage to include loans under $1 million dollars with high potential impact through the so called "SEMS Evaluation".
• We updated our Sector Activity Codes (CAS) with 86 new codes for sustainable economic activities.

Loans Analyzed

Social-Environmental Risk Catergory	**Loans (#)**
A (High)	21
B (Medium)	1,646
C (Low)	2,093
Total	**3,760**

Complying with our analysis criteria, we developed 32 rigorous due-diligence processes for projects within categories A and B. All category-C projects were addressed by making recommendations for our clients, based in the IFC Health, Security and Environmental Guidelines. We issued 361 recommendations mainly for the construction, agribusiness and infrastructure industries.

Furthermore, in 2017 we coordinated 15 on-site visits together with our Credit and Business areas; this is a clear reflection of our decision-makers' genuine interest in risk management, and the increasing participation of our social and environmental risk areas in our business processes. These on-site visits were predominantly made within the construction, agribusiness and tourism industries.

2017 Project Management	
Due-dilligence processes	32
Recommendations	361
On-site visits	15

Energy and Emissions

Our branches and office buildings increase our energy efficiency though physical enhancements and through monitoring and reduction initiatives. 26% of the employees of our main subsidiary, Banorte, are concentrated in four corporate buildings with energy-efficient considerations such as double glazed window isolation, and natural light optimization; two of them hold a LEED (gold and silver) certification.

Our branch network operates under SICE (Integral Energy Control System) which consists of installing energy-efficient devices, and regulating the operation times of lighting and air-conditioning systems. Since SICE implementation in 2007, we have seen total savings of more tan 127 million KWh, equivalent to $127 million pesos; we also avoided 70,000 tons of CO2 emissions.

For all the financial group, we reduced the total electricity consumption per employee by 1.89% in 2017.

Our ATMs are constantly renewed; we substituted 561 ATMs for higher energy-efficiency models. This amounts to 7% of our total installed base at year-end.

Within our Long Term Savings Division, Afore XXI Banorte implemented a LED lightbulb installation initiative in all their most recently built offices, and in those recently remodeled. In 2017, 26 new office buildings were updated with LED lighting technology.

More tan 90% of our employees work in buldings with an energy-efficient enhancement. Regarding fuel, we have reduced our fuel usage by 6% in our daily operations: Insurance and Pension businesses by -7%, and Banorte and Afore XXI by -4%. Our banking subsidiary, Banorte, identifies vehicles that have become obsolete and renews them every four years, as per the fleet management lease agreement.

Together with the National Commission for the Efficient Use of Energy, we participated in the first energy-labeling project for office buildings in Mexico. The energy efficiency of two our our buildings received the E4 Prize and the E4 Award.

Total Energy Consumption

Indicators	**2015**	**2016**	**2017**	**Var. % 2017/2016**
Total Energy Consumption	494,147.20	501,868.99	528,040.67	5
Energy per employee	18.18	18.24	17.65	(3)
Energy / net income (GJ/million pesos)	28.88	25.99	22.09	(15)

We calculated our carbon footprint using a financial control foucus, based on methodologies such as the Corporate Accounting and Reporting Standard (Estándar Corporativo de Contabilidad y Reporte (ECCR))– the Greenhouse

Gas Protocol (GHG Protocol), and the IPCC Fifth Assessment Report on Global Warming Potential Guidelines (AR5).

Our information is validated by a third party entity that is supported by the “Entidad Mexicana de Acreditación” (Mexican Certification Entity). Our information is reported, together with our energy consumption, to the Environment Ministry through the Annual Operating Certificate (Cédula de Operación Anual), under guidance of the National Emissions Rules (Reglamento Nacional de Emisiones (RENE)), and the Climate Change General Law (Ley General de Cambio Climatico (LGCC)).

For the third consecutive year, Banorte was recognized by CDP organization, under the category of Leadership in Climate Change Program of CDP Latin America, obtaining ratting A- in the CDP Climate Change 2017 questionnaire, thus confirming our strategic commitment towards climate change as it applies to, Disclosure, Transparency, Management and Leadership.

For the fifth consecutive year, Banorte participated in the GEI Mexico Program led by the Environment Ministry (SEMARNAT) in Mexico. Our GEI2 recognition is proof our measurement, accounting and emissions reporting strategy.

Throughout 2017, Banorte’s CO2 reach 1 and 2 emissions totaled 29,940 tons (+32% YoY), considering the emissions factor update from the Mexican Electric System. At the group level, we reduced direct energy consumption by 5% YoY, and electricity consumption per employee was reduced by 1.89% YoY.

At Banorte we are committed to reducing our emissions; in line with the nationwide strategy implemented in Mexico, we established a target of a 30% reduction in the intensity of emissions per employee by 2020 vs. 2019.

We keep track of the total kilometers flown by 99% of our group’s employees during corporate trips. In 2017, our employees flew 18.7 million kilometers, 12% more than the previous year, equivalent to 1,799 tons of CO2 emissions. To compensate this impact, we are incentivizing digital collaboration among our employees. We held 92,346 videoconferences, a +4% increase vs. 2016.

We also kept track of total emissions related to refrigerant recharges at Banorte and Afore XXI premises, reaching 92% of the group’s employees. In 2017, ttCO2e emissions totaled 3,904. Today, 37% of refrigerant recharges performed at the group level do not affect the ozone layer thanks to the use of type R-410A, R-134A and R-404A recharges.

Waste Management

We encourage the efficient use of paper in all our operations through the use of digital means and cross-sale. Thanks to this, we achieved an 11% reduction in paper consumption in our banking subsidiary.

“Origina” is one of the strategies that we have implemented to reduce our paper consumption. This platform has an electronic filing system that eliminates the need to print contracts, make photocopies of proofs of address and customer IDs, and optimizes the contract printing process for Payroll loans. This initiative represented a reduction of 44 tons of paper.

One of our main areas of improvement is to promote responsible printing across our group. In order to mitigate this, we started using Papercut, a printer toner and paper management application at our corporate buildings that controls the printing output per employee. Thanks to this we avoided 1.81 tons of paper from being used, a +417% improvement YoY.

At Seguros Banorte, our insurance business, the "Ajustador Movil" ("mobile agent") app is a digital tool that allows the insurance agent to collect information regarding each accident in digital files that are shared with the people involved, and are then saved in a central digital filing system for further review, completely avoiding the use of paper throughout the entire process. In 2017 this tool saved more than 10 million tons of paper.

Paper consumption GFNorte (Tons)

Total GFNorte	2015	2016	2017	Var. % 2017/2016
Total Consumption	1,194.32	1,221.44	1,090.37	(10.73)
Per employee	0.044	0.044	0.036	(17.89)
Consumtion/Net Income (ton/mdp)	0.070	0.063	0.046	(27.91)

In 2017 we updated the sampling process for waste management estimates in our corporate buildings and Banorte's branches. Total estimates for 2017 vs. 2016 show a 2% increase in tons per employee. This estimate shows a total waste generation of 2,437tons.

At Banorte, our recycling program at the Contact Center ended its first year recovering 1.8 tons of PET, which amounts to 20% of the total PET waste generated at the building.

At our Torre Mayor offices in Mexico City, we recycled more than 15 tons of waste and we donated the proceeds to purchase computer equipment for elementary schools in our community.

In 2017, our banking subsidiary recycled more than 499 tons of paper (-0.8% YoY) thanks to programs implemented at our corporate buildings, including removal of old paper files. This program involves 6,500 employees at 14 office buildings or 30% of our banking business personnel.

We recycle 13% of the total printer toner purchased in 2017, surpassing our 2016 goal. This includes 5tons of plastic, aluminum, toner, cardboard and other metals.

During 2017, 24,431 physical tokens were converted to mobile tokens, and 502,663 new mobile tokens were originated, totaling 527,094 customers already using this technology (+55% YoY). During this period we recycled 43,492 physical tokens that were returned from customers at our branches.

Water

Estimated water consumption for 2017 was 616,431m^3 which amounts to a -1% reduction vs. 2016, including 99% of the group's facilities. In order to promote an efficient use of water, we installed water efficient faucets and toilets at our largest corporate buildings: Torre KOI, Tlalpan, Contact Center, and Santa Fe, where 30% of our total employees are located.

Water Consumption at GFNorte				
Consumption	**2015**	**2016**	**2017**	**Var. % 17/16**
Water (m^3)	617,997	623,181	616,431	-1.08
Per employee	22.74	22.65	20.61	-9.02

Green Rooftops

During 2017, more than 1,145 visitors from civil associations, new personnel and employees attended our environmental education programs at our green rooftop. Since its construction, our green rooftop has received more than 6,000 visitors, and we have given more than 20,000 hours of climate change, biodiversity and food security seminars. Among our visitors, 700 students from elementary schools and high-schools joined us thanks to an agreement between Banorte and the Education Ministry in Mexico (SEP).

viii. MARKET INFORMATION

The following presents the market share evolution of the financial institutions comprising GFNorte:

Company	Concept	2017	2016	2015
Consolidated Bank (1)	Retail Total Deposits	13.9%	13.7%	14.6%
	Performing Loans	13.0%	13.1%	13.2%
Casa de Bolsa Banorte-Ixe (2)	Equity Operations	2.8%	2.8%	2.9%
Afore XXI Banorte (3)	Affiliations	18.7%	19.6%	23.2%
Seguros Banorte (4)	Issued Premiums	4.7%	4.9%	4.6%
Pensiones Banorte (4)	Pensions	40.5%	38.8%	36.7%
Arrendadora y Factor Banorte (5)	Total Loans	7.0%	8.1%	46.8%
Almacenadora Banorte(6)	Deposits of Property	2.7%	2.6%	5.9%
Solida Administradora de Portafolios (5)	Total Loans	1.5%	0.7%	5.8%

1) Source: CNBV Banca Multiple as of December 31, 2017.
2) Source: Asociacion Mexicana de Intermediarios Bursatiles (Operations Report), A.C., as of December 31, 2017.
3) Source: CONSAR as of December 31, 2017.
4) Source: Asociacion Mexicana de Instituciones de Seguros, A.C.(AMIS) as of 2015 and 2016 for annuities and as of September 30, 2017.
5) Source: CNBV Sociedades Financieras de Objeto Multiple, Entidades Reguladas that do not consolidate with Banks as of December 31, 2017.
6) Source: CNBV Almacenes Generales de Deposito as of September 30, 2017

Regarding the Consolidated Bank, position and market share in various segments are listed below:

Concept	2017		2016	
	Position	Market Share	Position	Market Share
Total Assets	4	11.71%	4	11.90%
Performing Loans	3	13.10%	4	13.00%
Commercial	4	9.5%	4	10.40%
Consumer (1)	3	12.81%	3	11.94%
Credit Cards	4	9.27%	4	8.40%
Mortgage	2	18.66%	3	17.18%
Government	1	24.32%	2	22.81%
Retail Total Deposits	4	13.75%	4	13.67%
Demand Deposits	4	12.20%	4	13.01%
Time Deposits	1	17.08%	2	15.09%

Source: CNBV Banca Mutiple as of December 31, 2017.
1) Includes Personal, Payroll and Car.

Some of GFNorte's strengths are its soundness, service and experience, market knowledge, innovation record, organic growth, client-centric and multi-channel business platform, as well as the wide range of products and services.

As a result of the wide variety of products and services in all our business areas, we faced major competitors, which may be other Mexican financial groups, commercial banks, Mexican regional banks, insurance companies, brokerage houses, international banks and financial institutions and Afores.

As Banorte is focused on commercial and retail banking, it competes with large Mexican banks, including foreign banks subsidiaries, which as Banorte, are part of financial groups. Banorte competes strongly with certain Mexican subsidiaries of foreign banks (mainly American and Spanish). Our main competitors in Mexico are: i) *Scotiabank Inverlat, S.A., Institucion de Banca Multiple, Grupo Financiero Scotiabank Inverlat;* ii) *BBVA Bancomer, S.A., Institucion de Banca Multiple, Grupo Financiero BBVA Bancomer; iii) Banco Nacional de Mexico, S.A. Institucion de Banca Multiple, Grupo Financiero Banamex; iv) Banco Santander (Mexico), S.A. Institucion de Banca Multiple, Grupo Financiero Santander; v) HSBC Mexico, S.A., Institucion de Banca Multiple, Grupo Financiero HSBC and vi) Banco Inbursa, S.A. Institucion de Banca Multiple, Grupo Financiero Inbursa*. Some of these banks are significantly larger and have more financial resources than Banorte does. Additionally, Banorte competes with Banregio and Banco del Bajio in some regions of the country.

Stemming from the entry of new participants in the banking sector, it is likely that competition increases. Recently, the Mexican Financial System authorities have granted many licenses for the establishment and operation of new banking institutions, including among others:

- ABC Capital, S.A., Institucion de Banca Multiple.
- Banco Base, S.A., Institucion de Banca Multiple.
- Banco Finterra, S.A., Institucion de Banca Multiple.
- Banco Forjadores, S.A., Institucion de Banca Multiple.
- Banco Progreso Chihuahua, S.A., Institucion de Banca Multiple.
- Banco Sabadell, S.A., Institución de Banca Múltiple.
- Banco Shinhan de México, S.A., Institución de Banca Múltiple
- Banco S3 México, S.A., Institución de Banca Múltiple.
- Bancrea, S.A., Institución de Banca Múltiple.
- Bankaool, S.A., Institución de Banca Múltiple.
- Bank of China México, S.A., Institución de Banca Múltiple.
- Consubanco, S.A., Institucion de Banca Multiple.
- Fundacion Donde Banco, S.A., Institucion de Banca Multiple.
- Banco KEB Hana México, S.A. Institución de Banca Múltiple Filial
- Mizuho Bank México, S.A., Institución de Banca Múltiple

ix. CORPORATE STRUCTURE

Financial Entity / Service Subsidiary	Equity as of December 31, 2017
Banco Mercantil del Norte, S.A., Institucion de Banca Multiple, Grupo Financiero Banorte. • Credit Institution authorized to conduct financial operations. • Conduct banking and credit operations.	98.22%
Arrendadora y Factor Banorte, S.A. de C.V., Sociedad Financiera de Objeto Multiple, Entidad Regulada, Grupo Financiero Banorte. • Celebrate leasing and factoring contracts. • Obtain loans and financing from credit and insurance institutions to cover liquidity needs.	99.99%
Almacenadora Banorte, S.A. de C.V., Organizacion Auxiliar del Credito, Grupo Financiero Banorte. • Store, keep and maintain goods and merchandise. • Issue deposit certificates and pledged bonds. • Transform deposited merchandise in order to increase their value.	99.99%
Casa de Bolsa Banorte Ixe, S.A. de C.V., Grupo Financiero Banorte. * Act as authorized intermediary to operate in the stock market, conducting sale and purchase transactions of securities; provide advice on securities' placement and operations with securities and mutual funds.	99.99%
Operadora de Fondos Banorte Ixe, S.A. de C.V., Sociedad Operadora de Fondos de Inversion, Grupo Financiero Banorte. • Carry out asset the functions of asset management, distribution, valuation, promotion and acquisition of securities issued by mutual funds, deposit and custody of securities subject to investment and of mutual funds, accounting, and management in the issuance of securities.	99.99%
Ixe Servicios, S. A. de C. V. * Service Subsidiary.	99.99%
Solida Administradora de Portafolios, S.A. de C.V., Sociedad Financiera de Objeto Multiple, Entidad Regulada, Grupo Financiero Banorte. * * Obtain resources from: (i) placing securities previously rated by a Rating Agency, registered in the National Securities Registry, for later offering in the stock market, and (ii) acquiring liabilities with all types of national and international financial entities, in terms of applicable legal provisions, as well as granting loans to the automotive sector..	99.46%
Banorte Ahorro y Previsión, S. A. de C. V.* * Act as a Sub-holding company of Grupo Financiero Banorte, in terms of the Law Regulating Financial Groups, maintaining its share position in the financial entities comprising the Long-Term Savings Sector.	99.99%
***Seguros Banorte, S.A. de C.V., Grupo Financiero Banorte.** * Act as insurance and re-insurance institution for individuals and corporations.	99.99%
***Pensiones Banorte, S.A. de C.V., Grupo Financiero Banorte.** * Act as insurance institution whose objective is to exclusively manage annuities derived from social security laws.	99.99%

For more information on the main business relationships with subsidiaries, see Section 4, item b) "Administration- Operations with Related Parties and Conflict of Interest" of this Annual Report.

x. DESCRIPTION OF MAIN ASSETS

The following are the most important real estate properties of GFNorte and its subsidiaries:

Bulding	Location	Construction m^2	Net book value (thousands of Ps)
Tlalpan	Calzada de Tlalpan # 2,980, Ciudad de México.Col. Santa Úrsula Coapa	72,294	1,202,578
Torre Sur	Av. Revolución # 3,000, Col. Primavera, Monterrey, N.L.	72,293	662,730
Torre Koi	Calle David Alfaro Siqueiros # 106, Col. Valle Oriente, Monterrey, N.L. (terreno)	72,142	1,290,686
Santa Fe	Lateral Autopista México-Toluca, Col. Cruz Manca, Ciudad de México	49,223	670,708
Centro de Contacto	Alfonso Reyes # 3,639, Monterrey, N.L. Col. Del Norte	41,672	497,789
Oro Sena	Paseo de la Reforma # 281, esquina Río Sena 110, Ciudad de México Col. Cuahutémoc	1,182	134,080

These properties are insured against damages and are not pledged as guarantee in credit operations.

As of December 2017 there are office spaces for subsidiaries in 7 buildings, and a total of 24 properties for Preferred Ixe Centers. All these properties are leased to third parties with contracts ranging from 5 to 10 years in average duration. The following chart shows the location of our leased offices and branches.

Buildings	Offices	Branches
México City and M.A.	2	11
Chihuahua	1	-
Estado de México	-	5
Guanajuato	1	1
Jalisco	1	-
Michoacán	1	-
Morelos	-	1
Nuevo León	-	1
Puebla	-	2
Querétaro	1	1
Quintana Roo	-	1
Yucatán	-	1
Total	7	24

xi. ADMINISTRATIVE, ARBITRATION AND JUDICIAL PROCESSES

There are no relevant matters to report.

For information on Commitments and Contingencies, see Note 37 Commitments and 38 Contingencies in the Audited Financial Statements (Section 8. C) "Annexes- Audited Financial Statements" of this Annual Report.

xii. REPRESENTATIVE SHARES OF COMPANY'S EQUITY

As of December 31, 2017, the authorized equity amounted to Ps 9,708'053,470.50 - which is fully subscribed and paid - represented by 252'157,233 ordinary nominative shares, Series "O", Class I, and 2,521'572,330 ordinary, nominative shares, Series "O", Class II, all with face value of Ps 3.50.

Shares representing subscribed capital are classified as: Class I shares, (representing the fixed portion of equity) and Class II shares (representing the variable portion of equity).

The variable portion of equity cannot exceed 10 times the fixed portion, and is not subject to withdrawal according to legal and statutory regulations.

According with the Corporate By-laws, total equity will be composed of a common portion and could also include an additional portion. The total common equity will be made up of Series "O" shares. If necessary, additional equity will be represented by Series "L" shares that can be issued up to an amount equivalent to forty percent of the ordinary equity, with the previous authorization of the CNBV. Series "O" and "L" shares will be available to the general public.

In the General Extraordinary Shareholders' Meeting held on March 30, 2011, the merger of Ixe Grupo Financiero, S.A.B. de C.V., into Grupo Financiero Banorte, S.A.B. de C.V. was approved, increasing Grupo Financiero Banorte's variable portion of the total equity to Ps 1,078,035,819.00, by issuing 308,010,234 ordinary nominative shares, Series "O", with a face value of Ps 3.50 each. Previous to this merger, GFNorte's subscribed equity was represented by 2,018'347,548 ordinary nominative shares, Series "O".

In the General Extraordinary Shareholders' Meeting held on July 3, 2013, an increase in the variable portion of the total equity was approved by issuing 447'371,781 ordinary nominative shares, Series "O", Class II with face value of Ps 3.50, to be subscribed in a Public Offering, which was finalized on 22 July, 2013.

See Note 30 in Equity in the Audited Financial Statements (Section 8. c) "Annexes- Audited Financial Statements" of this report.

xiii. DIVIDENDS

GFNorte has decreed the following cash dividends for the last three fiscal years as follows:

Meetings' Date (decreed dividend)	Amount of Decreed Dividend (pesos per share)	Date of Payment	Comments
January 21, 2015	Ps 0.2435	January 30, 2015	Corresponds to the second of four payments to cover the amount of Ps 0.9740 per share, approved by the Shareholders' Assembly in January 2015.
April 24, 2015	Ps 0.4870 (in two payments of Ps 0.2435 each	April 30 and July 31, 2015	Corresponds to the third and fourth of four payments to cover the amount of Ps. 0.9740 per share, approved by the Shareholders' Meeting in April 2015.
November 19, 2015	Ps 0.2745	November 30, 2015	Corresponds to the first of four payments to cover the 20% of the net income of 2014. Such amount was approved by the Company's Board of Directors in its session of October 22 and derived from the new Dividend Policy (approved by the same Meeting) it could be increased in future resolutions by the respective Shareholders' Assembly.
February 19, 2016	Ps 0.4575	Ps 0.4575	Corresponds to the second of four payments to cover the 30% of the income of 2014. Such amount was increased as per resolution of the Shareholders' Meeting held in February 19, 2016 according to the new Dividend Policy approved by the Ordinary General Shareholders' Meeting held on November 19, 2015.
June 28, 2016	Ps. 0.4575	June 30, 2016	Corresponding to the third of four payments to cover the 30% of the income of 2014. Such amount was approved by the Company's Board od Directors in its session of February 19, 2016 accordinf to the new Dividend Policy approved by the Ordinary General Shareholders' Meeting held on November 19, 2015.
August 19, 2016	Ps. 0.4575	August 31, 2016	Corresponding to the fourth and last payment to cover the 30% of the income of 2014. Such amount was approved by the Company's Board of Directors in its session of June 28, 2016 in which had agreed to pay in October 31, 2016. The Ordinary General Shareholders' Meeting held in August 19, 2016 approved to advance the payment in August 31, 2016.
August 19, 2016	Ps. 1.2335	August 31, 2016	Corresponding to the first of two payments to cover the 40% of the income of 2015. Such amount was approved by the Company's Board od Directors in July 21, 2016.
February 24, 2017	Ps. 1.2335	March 7, 2017	Corresponding to the second and last payment to cover the 40% of the income of 2015. Such amount was approved by the Company's Board of Directors in its session of August 19, 2016 in which had agreed to pay in May, 2011. The Ordinary General Shareholders' Meeting held in February 24, 2017 approved to advance the payment in March 7, 2017.
June 20, 2017	Ps. 2.7843	June 29, 2017	It corresponds to the necessary payment to cover the amount of 40% of the net profit for the year 2016. This amount was approved by the Board of Directors of the Company, in its session of April 27, 2017.

Meetings' Date (decreed dividend)	Amount of Decreed Dividend (pesos per share)	Date of Payment	Comments
June 20, 2017	Ps. 1.2618	June 29, 2017	Corresponds to the payment necessary to cover the amount of $ 3,500 million derived from the sale of the shares representing the capital stock of Inter National Bank abroad,

According to the Resolution of the Ordinary General Shareholders' Meeting held on November 19, 2015 it was approved to modify the Dividen Policy in order that the dividend payment can be

1. Between 16% and up to 40% of the net income of the prior year.

For reference, the former Policy approved by the Ordinary General Shareholders' Meeting held on October 17, 2011 considered the following to pay dividends:

1. 16% of recurring net income in the event that profit growth is between 0% and 10% during the year.
2. 18% of recurring net income in the event that profit growth is between 11% and 20% during the year.
3. 20% of recurring net income in the event that profit growth is greater than 21%.

3. FINANCIAL INFORMATION

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

- ✓ *The financial information contained in this report is based on Grupo Financiero Banorte (GFNorte's) Audited Financial Statements for the years ended December 31, 2017 and 2016, published by Galaz, Yamazaki, Ruiz Urquiza, S. C., a member of Deloitte Touche Tohmatsu Limited dated February 21, 2018. For the year ended December 31, 2015, financial figures are based on GFNorte's Audited Financial Statements published by Galaz, Yamazaki, Ruiz Urquiza, S. C., a member of Deloitte Touche Tohmatsu Limited, dated February 23, 2017.*
- ✓ *In the fourth quarter of 2016 GFNorte decided to dispose of Inter National Bank ("INB") as part of the corporate restructuring program. As result of the aforementioned, Banco Mercantil del Norte ("Banorte") reclassified its investment in Inter National Bank as a long-term asset available for sale, which was registered at yearend at its estimated sale value. Moreover, INB's net income was registered as Income from Discontinued Operations. Consequently, INB's consolidated results in Banorte were reversed for 2016 and 2015. GFNorte's and Banorte's consolidated figures for 2015 reported in this document differ from those presented in the Annual Report submitted to the authority in April 2016.*
- ✓ *During the third quarter of 2016 Fees from Commercial and Government Loans were reclassified retroactively to Fees for Commercial and Mortgage Loans from Other Fees Charged in order to make figures comparable. This reclassification amounted to Ps 458 million for 2015.*
- ✓ *The financial information presented in this report has been calculated in pesos and the tables are in million pesos, thus, differences are the result of rounding effects.*

a) SELECTED FINANCIAL INFORMATION

Grupo Financiero Banorte

	2017	2016	2015 [1)]
Net Income Grupo Financiero Banorte (GFNorte)	$23,908	$19,308	$17,108
Total Assets GFNorte	$1,354,147	$1,268,119	$1,198,476
Total Liabilities GFNorte	$1,206,563	$1,125,418	$1,061,124
Stockholders' Equity GFNorte	$147,584	$142,701	$137,352
Stockholders' Equity GFNorte excluding minority interest	$145,752	$140,746	$135,452
INFORMATION PER SHARE			
Net income per share Basic (pesos)	$8.70	$7.01	$6.20
Net income per share Diluted (pesos)	$8.62	$6.96	$6.17
Dividend approved per share (pesos) [2)]	$4.05	$2.47	$1.65
Book value per share (pesos) (excluding minority interest) [3)]	$52.55	$50.74	$48.83
Shares outstanding Basic (millions)	2,749.03	2,754.05	2,762.47
Shares outstanding Diluted (millions)	2,773.73	2,773.73	2,772.38
PROFITABILITY RATIOS			
NIM	5.47%	4.80%	4.40%
NIM adjusted for credit risk	4.16%	3.60%	3.39%
NIM adjusted w/o Insurance & Annuities	5.37%	4.61%	4.19%
NIM from loan portfolio	8.49%	7.88%	7.68%
Return on assets (ROA)	1.86%	1.58%	1.47%
Return on equity (ROE)	16.98%	13.91%	13.26%

OPERATIONS			
Efficiency ratio [4)]	41.94%	44.94%	47.59%
Operating efficiency ratio [5)]	2.65%	2.55%	2.53%
Average Liquidity Coverage Ratio for Banorte and SOFOM - Basel III	123.42%	99.55%	107.78%
ASSET QUALITY INDICATORS			
Past due loan ratio	1.99%	1.79%	2.25%
PDL reserve coverage	129.16%	139.48%	116.04%
CAPITALIZATION RATIO			
Banco Mercantil del Norte	17.23%	15.30%	14.62%
INFRASTRUCTURE AND EMPLOYEES			
Bank Branches [6)]	1,148	1,175	1,191
ATMs (automated teller machines)	7,911	7,756	7,425
Points of Sale	165,441	151,948	155,893
Full-time employees	29,903	27,913	27,574
Full-time employees and professional services	29,915	27,929	27,594

Million pesos.

1. Figures coming from the Income Statement were reexpressed, to reflect INB deconsolidation in 2016 due to the corporate restructure process; therefore, such figures differ from those presented in the Annual Report submitted to the authority in April 2016.
2. Dividends approved by the Shareholders' Assemblies in 2015,2016 and 2017 . Total dividend decreed in 2015 was Ps 1.64702 per share, paid in four installments, the first one for Ps 0.2745 per share (November 2015) and the remaining three for an amount of Ps 0.457506549 per share each (February, June and October 2016),), the total dividend was equivalent to the 30% of the net profits of 2014. Total dividend decreed in 2016 was Ps 2.4671 per share, paid in two installments of Ps 1.233553556868510 per share (August 2016 and March 2017 Total dividend decreed in 2017 was $ 4,046,222,998,78046 payable in an outlay in June 2017, consisting of an ordinary part of $ 2,784,3103,349,680 and an extraordinary part of $ 1,226,338,950,230,780 derived from the sale of Inter National Bank2015
3. Considering the number of issued shares that for the three periods amount to 2,773.7 million.
4. Non Interest Expense / (Net Interest Income + Non- Interest Income).
5. Non Interest Expense / Average Total Assets.
6. Includes bank modules and excludes 1 branch in the Cayman Islands.

b) FINANCIAL INFORMATION PER BUSINESS LINE, GEOGRAPHICAL REGION AND EXPORT SALES

a. Total Deposits

By Business line

	2017	2016	2015 [1)]
Commercial	492,492	448,060	409,951
Business	33,057	30,923	33,517
Corporate	12,611	13,261	21,852
Government	76,038	66,022	68,206
Patrimonial	16,156	12,086	
Financial Intermediaries	10,467	4,207	5,792
Total Deposits	**$574,559**	**$574,559**	**Ps 539,318**

Million Pesos.

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

By Geographical Regions

	2017	2016	2015 [1)]
Mexico City- South	103,241	86,284	80,094
Mexico City- North	81,829	72,583	69,733
Northern	138,438	132,855	135,175
Central	87,639	80,511	72,897
Northwest	66,978	61,013	54,252
West	60,138	57,593	49,704
South	40,777	36,194	30,966
Peninsular	46,123	43,725	40,208
Central Treasury	12,655	3,801	6,290
Foreign	3,003	-	-
Total Deposits	**Ps. 640,821**	**Ps. 574,559**	**Ps 539,318**

Million Pesos.

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

b. Total Loans

By Business line

	2017	2016	2015 [1)]
Mortgages	136,728	115,856	99,511
Car Loans	19,423	15,229	12,598
Credit cards	36,093	30,068	26,316
Payroll	54,490	46,281	39,551
Consumer	246,735	207,435	177,975
Commercial	140,740	128,799	113,768
Corporate	105,700	106,085	91,885
Government [(1)]	134,905	134,798	130,119
Total Loan Portfolio	**$628,080**	**$577,117**	**$513,747**

Million pesos.

1. For comparison purposes 2015 results were adjusted to reflect the INB deconsolidation in 2016. Therefore, they will differ from those published in the Annual Report submitted to the authority in April 2015.
2. As of 1Q16, “Tarjeta Empuje Negocios” was reclassified to the SME segment from the Credit Card segment with a balance of Ps 1.04 billion. For comparison purposes, 2015’s balances was reclassified similarly, Tarjeta Empuje Negocios balance in 2015 amounted to Ps 1.03 billion.
3. Government banking includes federal, state and municipal sectors.

By Geographical Regions

	2017	2016	2015 [1)]
Northern	136,149	130,175	114,104
Mexico City- North	111,582	100,582	92,574
Mexico City- South	115,707	106,107	93,970
West	51,380	47,313	42,076
Central	62,291	56,425	50,928
Northeast	65,170	59,684	52,281
South	36,094	35,733	30,590
Peninsular	49,708	41,098	37,224
Foreign	-	-	-
Total Loan Portfolio	**$628,080**	**$577,117**	**$513,747**

Million Pesos.

1. For comparison purposes 2015 results were adjusted to reflect the INB deconsolidation in 2016. Therefore, they will differ from those published in the Annual Report submitted to the authority in April 2015.

c) REPORT OF RELEVANT LOANS

Financing obtained after December 31, 2017 are:

Banorte

a) *Subordinated Preferred & Non-convertible Obligations (in UDIS, Tier 2):*
Date Issued: March 11, 2008
Maturity date: February 15, 2028
Amount Issued: UDIS 447 million
Coupon Rate: 4.95%.

b) *Subordinated Non-cumulative & Non-preferred Obligations (in US dollars, Tier 1):*
Subordinated debt issued by Ixe Banco, given its merger into Banco Mercantil del Norte in May 2013, the latter took over the obligations derived from the merger.
Date Issued: October 14, 2010
Maturity date: October 14, 2020
Amount Issued: US $120 million
Coupon rate: 9.25%.

c) *Subordinated Non-preferred Obligations (in US dollars, Tier 2):*
Date Issued: October 04, 2016
Maturity date: October 04, 2031
Amount Issued: US $500 million
Coupon Rate: 5.75%.

d) *Subordinated Non-cumulative & Non-preferred Obligations NC5 (in US dollars, Tier 1):*
Date Issued: July 6 2017
Maturity date: January 10, 2028.
Amount Issued: US $550 million
Coupon Rate: 7.63%

e) *e) Subordinated Non-cumulative & Non-preferred Obligations NC5 (in US dollars, Tier 1):*
Date Issued: July 6, 2017
Maturity date: July 6, 2022.
Amount Issued: US $ 350 million
Coupon Rate: 6.88%

Loan or tax liabilities

The tax credits listed below are currently in litigation:

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

Million Pesos

Banorte's liabilities financed in foreign currency.

	December 2017	
CONCEPT IN FOREIGN CURRENCY	**Capital (Average)**	**Cost**
Core deposits	3,811	0.07%
Non-traditional deposits	1,520	2.69%
Total interbank loans	187.89	3.22%
Total Resources in Foreign Currency	**USD $5,518.89**	**0.90%**

Thousand US dollars.

d) MANAGEMENT ANALYSIS AND COMMENTS ON OPERATING RESULTS AND THE COMPANY'S FINANCIAL SITUATION

The following analysis should be read together with the Audited Financial Statements and with the notes that accompany them. Regarding the items in the Financial Statements that were re-expressed using ratios different than the Mexican Consumer Price Index, refer to the corresponding Note of the audited financial statements for the years ending December 31, 2017 and 2016, and the independent auditors' opinion of February 21, 2018. (Note 4: "Significant Accounting Policies- Recognition of the effects of inflation in the financial information".)

Relevant transactions not registered in the Balance Sheet or Income Statement, do not apply since there are no registered relevant transactions.

i. OPERATING RESULTS

Grupo Financiero Banorte

Consolidated Income Statement of the Group

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

Million pesos.

1. 2015 results were adjusted to reflect the INB deconsolidation in 2016. Therefore, they will differ from those published in the Annual Report submitted to the authority in April 2015.

The following are the profits registered accordingly to the percentage of GFNorte's participation in each business sector:

Net Income by Segment	2017	2016	2015
Consolidated Bank [1)]	$18,012	$13,804	$12,057
Brokerage	$972	$832	$790
Long-Term Savings	$4,941	$4,434	$3,832
Afore XXI Banorte [1)]	1,284	1,248	1,220
Seguros Banorte (Insurance) [2)]	2,775	2,626	2,210
Pensiones Banorte (Annuities) [2)]	882	561	402
SOFOM and Other Finance Companies	$(152)	184	$498
Arrendadora y Factor (Leasing and Factoring)	771	693	571
Almacenadora (Warehouse)	42	28	31
Ixe Automotriz [3)]	(963)	-	-
Solida Administradora de Portafolios [4)]	(2)	(533)	(105)
Ixe Servicios		(5)	0
	$132		
Holding		54	($69)
GFNorte	***Ps $23,908***	***Ps 19,308***	***Ps 17,108***

Million pesos.

1. From 1Q12 and up to 3Q16, Afore XXI Banorte's results were presented on Banco Mercantil del Norte´s results through participation method; as of 4Q16, results are reported in Seguros Banorte. For informative and comparative purposes of this segments profits, Afore XXI Banorte profits are presented in its corresponding business segment.

Comparative analysis: Summary of the years ended December 31, 2017 and 2016 and December 31, 2016 and 2015.

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

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

The Consolidated Bank's* net profits totaled **Ps 18.34 billion,** Ps 3.30 billion or +22% higher vs. 2016. **Consolidated Bank in 2016 considers Banco Mercantil del Norte, Banorte-Ixe Tarjetas, Banorte USA and Afore XXI Banorte according to its 50% ownership; whereas, in 2016 considers Banco Mercantil del Norte –merging entity of Banorte-Ixe Tarjetas since May- and Banorte USA –deconsolidated and reported in Discontinued Operations as of 4Q16- and excludes Afore XXI Banorte as it is reported within Long Term Savings since 4Q16.* Net Income for the Consolidated Bank –**according to GFNorte's holding**- amounts to **Ps 18.01 billion**, Ps 4.21 billion or +30% higher YoY, accounting for 75.3% of GFNorte's profits.

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

During 2016 the **Brokerage Sector** comprised of Casa de Bolsa Banorte Ixe and Operadora de Fondos Banorte-Ixe reported profits **of Ps 972 million in 2017**, +17% vs. 2016, driven by an 18% increase in net fees, and a (2%) decline in administrative expenses. Brokerage Net Income accounted for 4.1% of the Group´s total results.

SOFOM and Other Finance Companies comprised of Arrendadora y Factor Banorte, Almacenadora Banorte, Sólida Administradora de Portafolios and Ixe Servicios, recorded profits of **Ps (158) million** in 2017, a (337 million) decrease vs. 2016. According to GFNorte's participation in this sector, accumulated profits amounted to Ps (152) million.The accumulated profit of this sector represented 1% of GFNorte's earnings.

In 2016 GFNorte reported profits of Ps 19.30 billion, 13% higher than in 2014. During 2015 net income for the **Consolidated Bank** (*Banco Mercantil del Norte, Banorte-Ixe Tarjetas, Banorte USA and Afore XXI Banorte according to its 50% ownership)* rose to Ps 14.80 billion, +11% higher YoY. Net income for the Consolidated Bank - according to GFNorte's participation in this sector and excluding Afore XXI Banorte results - was Ps 13.80 billion, +14% YoY, contributing with 71% of GFNorte's revenues. Net income for the **Long Term Savings Sector** was Ps 5.72 billion, 12% higher than in 2015. According to GFNorte's participation in this sector, accumulated profits amounted to Ps 4.43 billion, increasing 16% annually and which represented 23% of GFNorte´s earnings. The **Brokerage Sector** reported profits of Ps 832 million, (+179%) higher YoY, thus representing 4% of the Financial Group's profits. **SOFOM and Other Finance Companies** recorded profits of Ps 178 million, decreasing (179%) vs. 2015. According to GFNorte's participation in this sector, net profits were Ps 184 million, a (171%) YoY decline, representing 1% of the Financial Group's earnings.

The following is a breakdown of the most important items of the Income Statement and the Balance Sheet. For comparative purposes, the analysis deconsolidating INB from 2015's figures is presented; in this context.

Net Interest Income

	2017	2016	2015 1)
Interest Income	$100,315	$73,204	$63,623
Interest Expense	43,941	26,893	23,260
Fees Charged	1,171	1,206	1,207
Fees Paid	695	490	383
Net Interest Income without Insurance and Annuities	**$56,850**	**$47,027**	**$41,187**
Premium Income (Net)	25,043	21,307	19,074
Technical reserves	12,645	8,477	7,131
Damages, Claims and Other Obligations	14,906	12,654	11,027
Technical Result	**($2,507)**	**$176**	**$916**
Net Interest Income (Expense)	9,024	5,854	4,473
Net Interest Income for Insurance and Annuities	**$6,517**	**$6,030**	**$5,389**
Net Interest Income GFNorte	**$63,366**	**$53,057**	**$46,576**
Credit Provisions	15,213	13,313	10,687
Net Interest Income Adjusted for Credit Risk	**$48,153**	**$39,744**	**$35,889**
Average Earnings Assets	$1,157,638	$1,104,742	$1,059,044
NIM 2)	**5.5%**	**4.8%**	**4.4%**
NIM adjusted for Credit Risk 3)	**4.2%**	**3.6%**	**3.4%**
NIM adjusted w/o Insurance and Annuities	**5.4%**	**4.6%**	**4.2%**
NIM from loan portfolio 4)	**8.5%**	**7.9%**	**7.7%**

Million pesos.

1. 2015 results were adjusted to reflect the INB deconsolidation in 2016. Therefore, they will differ from those published in the Annual Report submitted to the authority in April 2015.
2. NIM (Net Interest Margin) = Annualized Net Interest Income / Average Earnings Assets.
3. NIM adjusted for Credit Risk = Annualized Net Interest Income adjusted for Credit Risk / Average Earnings Assets.
4. NIM from loan portfolio = Annualized Net Interest Margin from loan portfolio / Average Performing Loans.

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

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

GFNorte's Net Interest Income (NII) grew +14% YoY amounting to Ps 53.06 billion in 2016 from Ps 46.58 billion in 2015. This result was driven mainly by the **NII excluding Insurance and Annuities** which totaled **Ps 47.03 billion** in 2016, +14% higher vs. 2015, reflecting growth in loans and deposits, as well as the interest rate hikes that Banxico carried out in December 2015 and during 2016, accumulating +275 bp. Favorable results came from a **+16% increase in NII from loans and deposits**, as well as by **+10% in NII from repos.**

The Net Interest Margin (NIM) in 2016 rose to 4.8%, a +40bp increase vs. 2015, mainly result of a better portfolio mix and control in funding cost, as well as the benefit of rising market rates.

- **Provisions**

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

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

In 2016 Loan Loss Provisions totaled Ps 13.31 billion, +25% higher annually, mainly on higher requirements in payroll, credit card and corporate loans, which could not be offset by lower requirements in the commercial portfolio. The +25% increase is not related to deterioration in credit quality (past due loans declined (13%) YoY), but relates to loan loss reserve reversals in March 2015, May 2015 and December 2015 that offset the requirements for those months, respectively. Eliminating these reversals, provisions requirement for 2016 would have been only +11% higher.

Provisions represented 25.1% of Net Interest Income in 2016 %, +2.1 pp higher compared to the same period a year ago.

Likewise, **Provisions for 2016 accounted for 2.5% of the average loan portfolio,** increasing +27bp YoY.

- **Non-Interest Income**

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

Million pesos.

1. 2015 results were adjusted to reflect the INB deconsolidation in 2016. Therefore, they will differ from those published in the Annual Report submitted to the authority in April 2015.

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

During 2016, Non-Interest Income totaled Ps 16.47 billion, increasing by +5% or +Ps 854 million vs. 2015, driven mainly by Service Fees.

Service Fees

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

Million Pesos

1. Ree For comparison purposes 2015 results were adjusted to reflect the INB deconsolidation in 2016. Therefore, they will differ from those published in the Annual Report submitted to the authority in April 2015.
2. Includes fees from letters of credit, transactions with pension funds, warehousing services, financial advisory services and securities trading among others.

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

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

Service Fees in 2016 increased by +9% annually to **Ps 10.63 billion**, mainly as a result of the **+16% growth in core banking services** (account management, fund transfers, and electronic banking services) and a +19% growth in fees related to the consumer portfolio.

Trading

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

Million pesos

1. 2015 results were adjusted to reflect the INB deconsolidation in 2016. Therefore, they will differ from those published in the Annual Report submitted to the authority in April 2015.

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

During 2016 Trading Revenues totaled Ps 2.35 billion, (21%) lower year over year; explained by a (Ps 955) million decline in trading revenue, which was not offset by the +27% growth in FX transactions with clients.

Other Operating Income (Expense)

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

Million pesos

1. For comparison purposes 2015 results were adjusted to reflect the INB deconsolidation in 2016. Therefore, they will differ from those published in the Annual Report submitted to the authority in April 2015.

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

In 2016 Other Operating Income (Expenses) totaled Ps 3.49 billion, rising +19% YoY, driven by:

i) +Ps 267 million increase in income from Loan Recoveries related to better results on loan collection;
ii) +Ps 252 million rise in Other Income from the Insurance and Annuities companies;
iii) +32% in Other Products, mainly on rising revenues from sales at Almacenadora Banorte, higher cancellations of creditors and provisions at Banorte and the increase in revenues from sales of foreclosed assets; and,
iv) (Ps 138) million reduction in Other Operating (Expenses) on lower valuation charges.

- **Non-Interest Expense**

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

Million pesos

1. 2015 results were adjusted to reflect the INB deconsolidation in 2016. Therefore, they will differ from those published in the Annual Report submitted to the authority in April 2015.

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

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

Non-Interest Expenses for 2016 totaled Ps 31.24 billion, +6% higher YoY, mainly due to the following increases:

- +Ps 879 million in Personnel Expenses mainly related to provisions for pensions funds and bonus payments;
- +Ps 617 million in Rents, Depreciations and Amortizations, mostly due to amortizations in technology projects and software rents;
- +Ps 283 million in Administration and Promotional Expenses coming from increases in: i) transaction volume in payments; ii) promotional campaigns of products and services, and iii) charges for systems maintenance; and
- +Ps 224 million in Contributions to IPAB, in line with deposits growth.

The Efficiency Ratio for 2016 stood at 44.9%, (2.6 pp) lower YoY -on positive operating leverage-, continuing the trend of historically low levels of Efficiency.

- **Net Income**

	2017	**2016**	**2015 1)**
Operating Income	$31,944	$24,965	$21,905
Subsidiaries' Net Income	1,264	1,246	1,201
Pre-tax income	**$33,208**	**26,211**	**23,107**
Taxes	9,048	(6,878)	(5,991)
Discontinued Operations	89	243	233
Minority Interest	(341)	(268)	(240)
Net Income	**$23,908**	**$19,308**	**$17,108**

Million Pesos

1. 2015 results were adjusted to reflect the INB deconsolidation in 2016. Therefore, they will differ from those published in the Annual Report submitted to the authority in April 2015.

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

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

Accumulated 2017 results show Group´s Net Income of Ps 23.91 billion, supported by solid annual growth in subsidiaries´ Net Income.

Accumulated ROE accelerated its YoY growth by +284bp **to reach 17.0% in 2017. T**he ratio benefited by the growth in earnings as well as by the equity strategies implemented throughout the year, such as the sale of a low-yield asset, an increase in the dividend yield and a faster dividend payout timeframe. **Return on Tangible Capital (ROTE) was 22.3% in 2017**, up +389bps vs. 2016.

ROA for 2017 stood at 1.9%, +26bp higher vs. 2016;. **Return on Risk-Weighted Assets was** +66bp YoY.

In 2016, recurring revenues (NII + Net Fees excluding Portfolio Recoveries - Operating Expenses - Provisions) **were Ps 19.02 billion,** +20% higher YoY, driven mainly by +14% growth in Net Interest Income.

Moreover, in 2016 **Subsidiaries' Net Income increased +4% YoY,** following the trend of the Afore which reported earnings for Ps 1.25 billion.

Taxes totaled Ps 6.88 billion during 2016, +15% higher vs. the prior year; whereas the **effective tax rate stood at 26.2%**, barely higher vs. the 25.9% reported in 2015.

GFNorte's Net Income in 2016 reached Ps 19.31 billion, up +13% from same period last year, driven by the positive trend in Net Interest Income and Non-Interest Income.

ROE for 2016 was 13.9%, +65bp higher YoY; equity increased 4% annually. **This ratio in 2015 was 13.3%**. **ROTE in 2016 stood at 17.4%,** +77bp higher versus the prior year; whereas **ROTE in 2015 was 16.6%**, +0.1 pp higher vs. 2014.

ROA for 2016 was 1.6 %, +11bp above that of 2015. This ratio in 2015 was 1.5% unchanged vs. 2014. **RWA was 3.2% in 2016,** flat vs. 2015**, this ratio in 2015** was 0.02 pp higher vs. 2014.

- **Performing Loan Portfolio**

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

Million pesos.

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

Million pesos.

1. For comparison purposes 2015 results were adjusted to reflect the INB deconsolidation in 2016. Therefore, they will differ from those published in the Annual Report submitted to the authority in April 2015.

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

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

- ✓ **Mortgages:** up +18% YoY, with an ending **balance of Ps 135.33 billion.** Banorte grew twofold versus the banking system: 18.8% vs. 9.0% respectively, according to November regulatory data. Market share gains of +152bps placed Banorte second in the banking system with an 18.4% market share.

- ✓ **Car Loans: In 2017**, the portfolio increased +28% YoY, totaling **Ps 19.19 billion**, as a result of a successful commercial strategy to offset strong competition from captive finance companies. As of November 2017, Banorte's market share was 16.1%, gaining +112bps in the year, and maintaining the best annual performance in the banking industry.

- ✓ **Credit Cards:** Outstanding performance of the book, with an **ending balance of Ps 33.90 billion,** up +19% YoY. These results derive from active portfolio management and strong push in commercial campaigns. As of November 2017, Banorte held a 9.2% market share in credit card balances, gaining +88bps in the year, ranking fourth in the banking system, with twofold growth vs. the system.

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

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

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

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

As of December 31, 2017 GFNorte's **loan exposure to home builders was Ps 2.24 billion** in Urbi Desarrollos Urbanos, S.A.B. de C.V., Corporación Geo, S.A.B. de C.V., and Desarrolladora Homex, S.A.B. de C.V. This exposure represented 0.4% of the total loan portfolio, similar to 3Q17. Total portfolio has a 100% collateral coverage, with no changes vs. 3Q17. Loan Loss Reserve coverage was 35.6% in 2017. **Sólida had a balance of Ps 5.30 billion in investment projects**.

- ✓ **Government Book: had an ending balance of Ps 134.90 billion in 2017**, very similar to 4Q16. GFNorte's government portfolio is diversified by sectors and regions, and shows adequate concentration risk. GFNorte's 20 largest government loans account for 19.3% of the group's total portfolio, The largest government loan represents 3.0% of the total portfolio and is rated A1; whereas, number 20 represents 0.3%, also rated A1. The portfolio's risk profile is adequate with 29.8% of the loans granted to Federal Government entities and 98.9% of loans to States and Municipalities have a fiduciary guarantee (consisting of Federal budget transfers and local revenues such as payroll tax), and 1.1% of the loans have short-term maturities. As of November 2017, Banorte held a 24.5% market share of the total system, ranking first.

Total Performing Loans increased +12.9% YoY for an ending balance of Ps 566.71 billion in 2016. Outstanding YoY growth was achieved in practically all portfolios, driven by good origination dynamic. Corporate loans grew (+17%), consumer (+17%), and commercial (+14%).

In 2016, portfolio growth by segments was as follows:

- ✓ **Mortgages:** up +17% YoY, with an **ending balance of Ps 114.81 billion as of 2016** on higher origination in all products comprising this segment.

- ✓ **Car Loans:** In 2016, the portfolio increased +21% YoY, **totaling Ps 15.05 billion**, on the successful commercial strategy to offset the strong competition from financial firms of car manufacturers.

- ✓ **Credit Cards:** Outstanding performance of the book, with an **ending balance of Ps 28.45 billion**, up +14% YoY -considering the adjustment to 2015 loan balance due to the reclassification of Tarjeta Empuje Negocios in 1Q16-, consolidating the strong growth pace seen in the second half of the year. Such performance on the back of active portfolio management and commercial campaigns.

- ✓ **Payroll:** good increase of +17% YoY, reaching a balance of **Ps 44.84 billion**, driven by higher credit penetration on a larger base of Banorte's payroll account holders.

- ✓ **Commercial:** continue to accelerate its growth pace increasing Ps 15.79 billion or +14% YoY, ending at **Ps 125.38 billion**. There's good increase in SME portfolio. The leasing and factoring books showed outstanding evolution, growing +18% YoY. **SME performing portfolio was Ps 30.73 billion**, +11% higher YoY –considering the adjustment to loan balance of 2015 related to the reclassification of Tarjeta Empuje Negocios into this segment in 1Q16-.

- ✓ **Corporate:** At the end of 2016 the balance was **Ps 103.49 billion**, an important increase of +17% YoY **on an excellent and diversified origination dynamics**.

  As of December 31, 2016 GFNorte's loan exposure to home builders was Ps 2.45 billion in Urbi Desarrollos Urbanos, S.A.B. de C.V., Corporación Geo, S.A.B. de C.V. and Desarrolladora Homex, S.A.B. de C.V. This exposure is lower by (Ps 1.5) billion than the prior quarter. This exposure represented 0.4% of the total loan portfolio, (29pb) lower vs. that of September 2016. The credit exposure has a 100% collateral coverage, higher than the 80% of 3Q16. The loan loss reserve coverage was 38.9% in 2016. **Sólida had a balance of Ps 5.57 billion in investment projects** to these companies, up +2.7% vs. 3Q16.

- ✓ **Government:** At the end of 2016 the balance was **Ps 134.80 billion**, growing +4% YoY. The portfolio's risk profile is adequate with 31.0% of the loans granted to Federal Government entities and 96.7% of loans to States and Municipalities have a fiduciary guarantee (Federal budget transfers and local revenues such as payroll tax), and 3.2% of the loans have short-term maturities (unsecured).

- **Past Due Loans**

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

During 2016, Past Due Loans were Ps 10.31 billion, lower in (Ps 1.59) billion or (13%) YoY, driven by lower delinquencies in practically all portfolios, but mainly by the decrease in the corporate book given Urbi's portfolio exchange.

In 2016, the credit exposure related to homebuilders classified as non-performing was Ps. 2.23 billion, declining (Ps 1.48) billion vs. September 2016, over settlements with Urbi. In October and as per the final ruling from the judges managing the bankruptcy processes, GFNorte exchanged unsecured past due loans for other assets, among them, shares and warrants to subscribe shares of this company for an amount equivalent to the past due unsecured exposure, net of reserves; therefore, the NPL balance in this company declined by (Ps 1.48) billion.

The shares received were registered as securities available for sale, net of reserves, and the warrants were registered as derivatives, both will be valued at market prices according to the applicable accounting rules. As of December 31, 2016 the valuation loss on the shares was (Ps 756) million, registered in the Equity account Surplus (Deficit) of Securities Available for Sale. Additionally, the valuation loss on the warrants was (Ps 17) million, registered in the year's income in trading results.

The evolution of NPL balances were as follows:

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

Million pesos.

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

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

In 2016, the Past Due Loan Ratio was 1.79%, ratio's historically low level, improving by (52bp) vs. 2015 derived from the decline in all segments on the quality origination strategy now on track and specially on the corporate book derives from Urbi's exchange in the last quarter of the year.

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

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

- **Deposits**

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

	2017	2016	2015 [1]
Non-Interest Bearing Demand Deposits	$239,227	$231,395	$169,611
Interest Bearing Demand Deposits	157,425	152,367	167,275
Total Demand Deposits	**$396,652**	**$383,761**	**$336,886**
Time Deposits – Retail	**193,617**	**167,652**	**149,733**
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Total Assets Under Management	**$806,370**	**$724,163**	**$702,769**

Million pesos.

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

At the end of 2016, Banorte's Total Deposits amounted to Ps 575.76 billion, a +6% annual variation, the deceleration in the growth pace **is not due to a loss in client's deposits, as these grew +13% YoY**, but to a decline in money market funds as a strategy to maintain funding costs under control given market rate hikes. **Total Assets under Management grew +7%** yearly on the strategy previously mentioned.

Consolidated Bank

Net Income during 2017 rose to Ps 18.34 billion, up +22% vs. 2016, driven by positive traction in total revenues which increased +Ps 11.06 billion. **Consolidated Bank's profits** –according to GFNorte's holding- **in 2017 were Ps 18.01 billion**, +30% higher YoY, **while in 4Q17 stood at Ps 4.76 billion, down** (3%) on a sequential basis. The bank contributed with 75.3% of the Group's accumulated results and with 73.5% of the quarterly profits. **2017 ROE for the Consolidated Bank reached 20.3%,** up +556bps vs. 2016, explained by the good level of profits and the decline in equity due to the divestment of the bank in Texas **ROA for 2017 reached 1.8%** with a+23bps increase vs. 2016, The Bank´s capita**l ending balance was** Ps 86.06 billion**, showing a** (7%) **decline vs. 2016 mainly due to a Ps 23.38 dividend payout during the year**

In 2016 The Consolidated Bank's* net profits totaled **Ps 15.04 billion,** +Ps 1.53 billion or +11% higher vs. 2015, accounting for 78% of GFNorte's profits.

ROE for 2016 of the Consolidated Bank was 14.4%, +77bp higher YoY; whereas, **ROA stood at 1.5%,** +6bp higher vs. 2015.

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

Consolidated Bank’s Financial Ratios

	2017	2016	2015
Profitability			
NIM 2)	5.8%	5.1%	4.7% 1)
ROA 3)	1.8%	1.5%	1.5% 1)
ROE 4)	20.3%	14.4%	13.7% 1)
Operation			
Efficiency Ratio 5)	43.8%	47.5%	50.9% 1)
Operating Efficiency Ratio 6)	3.1%	3.0%	3.1% 1)
Liquidity Ratio 7)	N.A.	N.A.	N.A.
Average Liquidity Coverage Ratio Banorte and SOFOM – Basel III	123.42%	99.55%	107.78%
Asset Quality			
PDL Ratio	2.0%	1.8%	2.2% 1)
Coverage Ratio	127.6%	138.6%	114.6% 1)
Growth 8)			
Performing Loan Portfolio 9)	8.4%	12.9%	9.9%
Core Deposits	7%	12.0%	16.6%
Total Deposits	12.7%	6.3%	13.0%

1. For comparison purposes 2015 results were adjusted to reflect the INB deconsolidation in 2016. Therefore, they will differ from those published in the Annual Report submitted to the authority in April 2015.
2. Annualized Net Interest Margin / Average Productive Assets.
3. Annualized earnings as a percentage of the average quarterly assets over the period (without minority interest).
4. Annualized earnings as a percentage of the average quarterly equity over the period (without minority interest).
5. Non Interest Expense / Total Income = Net Interest Income + Non-Interest Income
6. Non Interest Expense / Average Total Assets.
7. Liquid Assets / Liquid Liabilities. (Liquid Assets = Cash and due from Banks + Negotiable Instruments + Securities held for sale) / (Liquid Liabilities = Demand Deposits + Loans from banks and other organizations with immediate call option + Short term loans from banks).
8. Growth over the same period last year.
9. Excludes Fobaproa / IPAB and portfolio managed by the recovery bank.

Consolidated Bank Income Statement

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

Million pesos.

1. For comparison purposes 2015 results were adjusted to reflect the INB deconsolidation in 2016. Therefore, they will differ from those published in the Annual Report submitted to the authority in April 2015.

- **Net Interest Income**

	2017	2016	2015 [1)]
Interest Income	$94,541	$68,208	$57,770
Interest Expense	39,375	22,759	18,993
Fees Charged	1,169	1,199	1,200
Fees Paid	687	485	376
Net Interest Income	**$55,648**	**$46,163**	**$39,601**
Credit Provisions	14,983	13,070	10,370
Net Interest Income Adjusted for Credit Risk	**$40,665**	**$33,093**	**$29,231**
Average Earnings Assets	$954,973	$905,035	$851,417
NIM [2)]	**5.8%**	**5.1%**	**4.7%**
NIM adjusted for Credit Risk [3)]	**4.3%**	**3.7%**	**3.4%**

Million pesos.

1. For comparison purposes 2015 results were adjusted to reflect the INB deconsolidation in 2016. Therefore, they will differ from those published in the Annual Report submitted to the authority in April 2015.
2. NIM (Net Interest Margin) = Annualized Net Interest Income / Average Earnings Assets.
3. Annualized Net Interest Income adjusted for Credit Risk / Average Earnings Assets.

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

Accumulated Net Interest Margin (NIM) hiked to 5.8%, +63bp above 2016 improvements derived from a better loan portfolio mix and the effects of portfolio repricing as a result of the high interest rate cycle.

Additionally, **NIM adjusted for credit risk was 4.3% in 2017,+54bps higher vs. 2016**

In 2016, Net Interest Income totaled Ps 46.16 billion, +17% higher vs. 2015, driven by growth in the credit portfolio, deposits, as well as Banxico's interest rate hikes.

Net Interest Margin (NIM) for 2016 was 5.1%, +45bp YoY, benefited by better loan portfolio margin and funding cost.

Moreover, **NIM adjusted for credit risk during 2016 stood at 3.7%**, up +22bp vs. 2015.

- **Provisions**

During 2017 Provisions reached Ps 14.98 billion, up +15% YoY on higher requirements in credit card and payroll loan portfolios

Provisions for 2016 totaled Ps 13.07 billion, +26% higher YoY. This increase was mainly on higher requirements mostly in the payroll, credit card, corporate and government portfolios. Such growth was not related to deterioration in credit quality (past due loans fell by 14% YoY), but due to loan loss reserve reversals in March, May, and December of 2015.

- **Non-Interest Income**

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

Million pesos.

1. For comparison purposes 2015 results were adjusted to reflect the INB deconsolidation in 2016. Therefore, they will differ from those published in the Annual Report submitted to the authority in April 2015.

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

Moreover, **revenues from core banking services** (account management, fund transfers and electronic banking services) **grew +19% in 2017**

During 2016 Non-Interest Income totaled Ps 15.18 billion, +5% higher vs. 2015, mainly as a result of the positive performance of Net Fees.

Moreover, **revenues from core banking services** (account management, fund transfers and electronic banking services) **grew +17% YoY in 2016.**

- **Non-Interest Expense**

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

Million pesos.

1. For comparison purposes 2015 results were adjusted to reflect the INB deconsolidation in 2016. Therefore, they will differ from those published in the Annual Report submitted to the authority in April 2015.

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

Efficiency Ratio improves continuously during 2017 reaching 43.8%, a (386bps) decline vs. 2016, as a result of positive operating leverage.

Non-Interest Expenses in 2016 totaled Ps 29.16 billion, up +7% YoY; as a result of growth in all items, except for Other Non-Deductible Expenses and Taxes and Professional Fees which coupled decreased (Ps 285) million.

The Efficiency Ratio for 2016 was 47.5%, lower by (3.1 pp) YoY derived from a positive operating leverage.

- **Performing Loan Portfolio**

	2017	2016	2015 [1)]
Commercial *	$125,322	$113,936	$101,082
Consumer*	237,328	201,348	171,463
Corporate	107,983	108,057	92,051
Government	132,816	133,540	128,567
Subtotal	**$603,450**	**$556,880**	**$493,163**
Recovery Bank	72	91	129
Total performing loans	**$603,522**	**$556,971**	**$493,292**
Past due loans	$12,192	$10,060	$11,591
% NPL Ratio	**1.98%**	**1.8%**	**2.3%**

Million Pesos.

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

Million Pesos.

1. R For comparison purposes 2015 results were adjusted to reflect the INB deconsolidation in 2016. Therefore, they will differ from those published in the Annual Report submitted to the authority in April 2015.

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

Total Performing Loans in 2017 increased 8% annually, going from **$ 556,972 to $ 603,522** million pesos in 2017, driven by the dynamics of origination, consumption (+ 18%) and commercial (+ 10%).

At the end of 2017, the past due portfolio of Banco Consolidado stood at **$ 12,192 million**, increasing (+ 21%) on an annual basis, while the Past Due Loan Index stood at a level of 1.98%,

Total Performing Loans increased 13% YoY in 2016, to Ps 556.88 billion from Ps 493.16 billion. Outstanding YoY growth was achieved in all portfolios, driven by good origination dynamic. Corporate loans grew (+17%), consumer (+17%), and commercial (+13%).

In 2016, The Consolidated Bank's Past due Loans were Ps 10.06 billion, (13%) lower YoY; the **NPL Ratio was 1.8%, ratio's historically low level,** improving by (48bp) vs. 2015, derived from the decline in all segments on the quality origination strategy now on track.

- **Deposits**

	2017	**2016**	**2015 1)**
Non-Interest Bearing Demand Deposits	$239,227	$231,395	$169,611
Interest Bearing Demand Deposits	157,425	152,367	167,275
Total Demand Deposits	**$396,652**	**$383,761**	**$336,886**
Time Deposits – Retail	**193,617**	**167,652**	**149,733**
Money Market	**58,352**	**24,342**	**54,907**
Total Bank Deposits	**$648,622**	**$575,755**	**$541,526**

Million pesos.

1. For 2015 results were adjusted to reflect the INB deconsolidation in 2016. Therefore, they will differ from those published in the Annual Report submitted to the authority in April 2015.

Total customer deposits up **+13%** in the year: **demand deposits +3%** and **time deposits and money market +31%.**

At the end of 2016, Banorte's Total Deposits amounted to Ps 575.76 billion, a +6% annual variation, the deceleration in the growth pace **is not due to a loss in client's deposits, as these grew +13% YoY**, but to a decline in money market funds as a strategy to maintain funding costs under control given market rate hikes.

Brokerage

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

Million pesos.

The Brokerage Sector (Casa de Bolsa Banorte Ixe and Operadora de Fondos Banorte Ixe) reported profits of Ps 972 million in 2017, +17% vs. 2016, driven by an 18% increase in net fees, and a (2%) decline in administrative expenses. Brokerage Net Income accounted for 4.1% of the Group´s total results.

At the end of 2017 AUMs totaled Ps 824 billion, growing +9% YoY

During 2016 the Brokerage Sector (Casa de Bolsa Banorte Ixe and Operadora de Fondos Banorte Ixe) **reported profits of Ps 832 million**, +5% YoY due to higher non-interest income, on the back of the good annual performance of trading revenues and other income (expense) net, lower operating expenses and tax payment. Net Income in 2016 represented 4.3% of the Financial Group's profits.

Long-Term Savings

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

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

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

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

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

Million pesos.

1. Source: CONSAR

Seguros Banorte

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

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

Acquisition Costs in 2017 were down (Ps 34 million) vs. 2016. Non-Interest Expenses amounted to Ps 1.20 bilion in 2017, +18% above 2016, due to higher expenses linked to operation and intangible expenses at Afore derived from the consolidation in 2017.

Operating Income in 2017 amounted to Ps 3.86 billion, +7% above 2016 mainly due to lower Net Interest Income, and a Ps 120 million increase in Losses and Estimates. Net Operating Profit reflects the Ps 290 million write-off related to a reinsurance account. This was registered under Other Income (Operating Expenses). In 4Q17 the writeoff was Ps 205 million.

Seguros Banorte *(including Afore XXI Banorte)* reported net income of Ps 4.06 billion in 2017, +40% higher than 2016, e**xcluding Afore XXI Banorte, the insurer´s Net Income totaled Ps 2.77 billion in 2017,** accounting for 11.6% and 9.3% of the Group's results, respectively.

ROE for the consolidated insurance company was 16.4% in 4Q17 ,excluding Afore, this indicator totaled **39.9% YoY, (6.1pp) vs. 2016**

Regarding the disclosure requested by the General Provisions applicable to Financial Groups' holding companies, for this reporting period:

i. Risks assumed through the issuance of insurance premiums and bonds, with respect to operations and authorized branches of cancelled operations.
   - *No cancellations were registered during 4Q17 that involved any technical risk.*

ii. Damages and claims, as well as the fulfillment with reinsurers and bonding companies according to their participation.
   - *In 3Q17 damage ratios remained under control, and reinsurers complied with their obligations.*

iii. Costs derived from placement of insurance policies and bonds.
   - *There were no relevant events to disclose in 4Q17.*

iv. Transfer of risks through reinsurance and bonding contracts
   - *In the Damages and Life, books, seven important businesses: three related to government, two to the energy sector, one to commerce and one more to the services industry, were ceded to reinsurers, mainly foreign entities.*

v. Contingencies arising from non-fulfillment by reinsurers and bonding companies.
   - *In April of 2017 the Superintendency of Panama announced the forced liquidation of Istmo Panamá. Afterwards, in September of 2017 the National Insurance and Bonding Commission published the repeal of Istmo México. As of 4Q17, Seguros Banorte posted a write-off in its books for the total contingency with Istmo Méico and Panama totaling Ps 290 million.*

In 2016, net profits amounted to Ps 2.90 billion, which also considers Afore XXI Banorte's net income of the last quarter. For comparison purposes – excluding Afore – net income in 2016 increased +19% vs. 2015.

During 2016, operating income was Ps 3.62 billion, up +14%YoY, arising from: i) +13% increase in Technical Results, benefited from an additional + Ps 2.16 billion in premium income and ii) +32% increase in Other Operating

Income (Expenses); these offset higher acquisition costs – mainly on lower reinsurers revenues - and higher operating expenses and tax payments.

Seguros Banorte's profits - excluding Afore XXI Banorte - represented 13.6% of GFNorte's net income in 2016.

ROE for the insurance company was 33.9% for 2016, lower vs. the 38.1% in 2015.

Regarding the disclosure requested by the General Provisions applicable to Financial Groups' holding companies, for this reporting period:

vi. Risks assumed through the issuance of insurance premiums and bonds, with respect to operations and authorized branches of cancelled operations.
   - *No cancellations were registered during 4Q16 that involved any technical risk.*

vii. Damages and claims, as well as the fulfillment with reinsurers and bonding companies according to their participation.
   - *In 4Q16 damage ratios remained under control.*

viii. Costs derived from placement of insurance policies and bonds.
   - *There were no relevant events to disclose in 4Q16.*

ix. Transfer of risks through reinsurance and bonding contracts
   - *In the P&C book two important businesses, one related to the government, and the other one to the manufacturing industry, were ceded to reinsurers, mainly foreign entities.*

x. Contingencies arising from non-fulfillment by reinsurers and bonding companies.
   - *There were no relevant events in 4Q16.*

During 2016 accounting changes related to life policies required by the *CNSF, affected as follows:*

i) Premium income is fully accounted when originated, as opposed to the former rule in which premium income was registered following the payment calendar of the short-term life policy. This change also affected technical reserves and acquisitions costs.

ii) Changes to the calculation of technical reserves using internal methodologies authorized by the CNSF and recognizes a risk margin component related to each segment, which accelerate the premium accrual.

Afore XXI Banorte

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

ROE for the year was 11.1%, +38bps above 2016. **Tangible ROE (ROTE) would have been 38.8% in 2017,** (76bps) lower vs. 2016
Afore XXI Banorte contributed with 5.4% of the Financial Group's profits in 2017, and with 4.8% in 4Q17.

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

According to CONSAR, as of December 2017 Afore XXI Banorte had a 23.1% share in managed funds, ranking 1st in the market, with 9.62 million accounts (this number does not include 8.65 million accounts managed by Afore XXI with resources deposited in Banco de Mexico), which represent an 18.7% share of the total number of accounts in the system, ranking second in the market.

In 2016 Afore XXI Banorte posted net profits of Ps 2.54 billion, +2% YoY, on the positive performance of results on subsidiaries, valuation gains in the investment portfolios and the important decline in tax payments.

ROE for Afore XXI Banorte in 2016 stood at 11.0%, higher in +31bp yearly; excluding goodwill, **Tangible ROE would be 39.5% in 2016,** +1.8 pp above that of 2015.

Afore XXI Banorte contributed with 6.5% of the Financial Group's profits in 2016.

Assets under management as of December 2016 totaled Ps 645.21 billion, +3% higher YoY.

According to CONSAR, as of December 2016 Afore XXI Banorte had a 23.3% share in managed funds, ranking 1st in the market, with 9.67 million accounts (this number does not include 8.0 million accounts managed by Afore XXI with resources deposited in Banco de Mexico), which represent a 19.6% share of the total number of accounts in the system, ranking second in the market.

Afore XXI Banorte posted net profits of Ps 2.49 billion for 2015, +3% higher vs. 2014 due to higher revenue, lower operating expenses and unrealized valuation losses on its invested equity**. ROE for Afore XXI Banorte as of December 2015 was 10.6%,** +0.7 pp higher YoY; excluding goodwill, **ROTE is 37.7%.** Afore XXI Banorte contributed 7% of the Financial Group's profits for 2015. Assets under management as of December 2015 totaled Ps 625.82 billion, an increase of +3% YoY.

Pensiones Banorte

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

In 2017 Net Income from Pensiones Banorte represented 3.7% of the Financial Group´s profit
The inflation valuation result registered at Pensiones Banorte in 2017 was Ps 4.62 billion compared to Ps 2.20 billion in 2016.

ROE totaled 34.7% in 2017, up +9bps vs. 2016

I**n 2016, Pensiones Banorte's net profits were Ps 561 million**, +39% YoY, reflecting higher net interest income and non-interest income.

Pensiones Banorte contributed with 2.9% of the Financial Group's yearly profits. ROE for 2016 stood at 29.8%, +2.8 pp higher YoY.

SOFOM and Other Finance Companies

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

	2017	2016	2015
SOFOM and Other Finance Companies			
Net Income	($158)	$178	$496
Stockholders' Equity	9,087	9,050	9,563
Total Portfolio	34,052	29,170	25,795
Past Due Loans	291	253	269
Loan Loss Provisions	(572)	(442)	(478)
Total Assets	46,915	43,483	41,096
Leasing and Factoring			
Net Income	$771	$693	$571
Stockholders' Equity	5,149	4,482	4,297
Total Portfolio*	29,841	27,402	23,220
Past Due Loans	154	180	175
Loan Loss Provisions	302	(319)	(310)
Total Assets	30,362	27,768	23,336
Warehousing			
Net Income	$42	$28	$31
Stockholders' Equity	226	184	246
Inventories	783	438	462
Total Assets	955	586	619
Sólida Administradora de Portafolio [1)]			
Net Income	($969)	($538)	($106)
Stockholders' Equity	3,573	4,243	4,874
Total Portfolio	4,211	1,768	2,575
Past Due Loans	137	73	94
Loan Loss Provisions	270	(123)	(168)
Total Assets	15,459	14,988	16,995
Ixe Servicios			
Utilidad neta	($1.8)	($4.9)	$0.4
Capital contable	139	141	146
Activo total	139	141	146

Million pesos.
* Includes pure leasing portfolio and fixed asset amounting to registered in property, furniture and equipment (net).

Leasing and Factoring

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

At the end of 4Q17, the **Past Due Loans Ratio was 0.6%,** and the **Coverage ratio was 196%,** +18pp YoY. The **Capitalization ratio as of December was 15.9%** considering total risk-weighted assets of Ps 32.27 billion.

The leverage ratio as of December 2017 was 15.13% considering adjusted assets of Ps 33.95 billion
During 2017, Net Income from Leasing and Factoring accounted for 3.2% of the Group´s total results.

In 2016 Arrendadora y Factor Banorte reported profits of Ps 693 million, +22% higher annually as a result of greater income from the portfolio's expansion and to an outstanding performance of non-interest income. The Leasing and Factoring Company contributed 3.6% of the Financial Group's profits in 2016.

At the end of 2016, the **Past Due Loans Ratio was 0.7%,** lower vs. the 0.8% in 2015. **The Coverage ratio was 177.7%,** +0.8 pp vs. last year. **The Capitalization ratio as of December was 15.6%** considering total risk-weighted assets of Ps 28.62 billion. The leverage ratio as of December was 14.23%; considering adjusted assets of Ps 31.36 billion.

Warehousing

In 2017, Warehouse posted profits of Ps 42 million, a **+48% increases vs. 2016** on higher inventory origination, and higher income from net services and recoveries. Almacenadora Banorte accounted for 0.2% of the Financial Group's profits in 2017. **ROE for 2017 was 24.6**%, +14.4pp vs. 2016.

At the end of 2017, the Capitalization Ratio was 146% considering net capital of Ps 189 million and deposit certificates for sale issued in warehouses of Ps 2.60 billion. Almacenadora Banorte ranks third among the 14 warehouses of this sector in terms of profits generated.

In 2016, Warehouse posted profits of Ps 28 million, a (10%) decline vs. the same period of the last year driven by fewer operating income; which could not be offset by higher non-interest income and a decrease in administrative and promotional expenses. Almacenadora Banorte contributed 0.1% of the Financial Group's profits in 2016. **ROE for 2016 was 11.6%,** (1.9 pp) lower YoY. **At the end of 2016, the Capitalization Ratio was 142%** considering net capital of Ps 150 million and certificates for sale issued in warehouses of Ps 2.10 billion. Almacenadora Banorte ranks fifth among the 16 warehouses of this sector in terms of profits generated.

Solida Administradora de Portafolios

At the end of 2017 Sólida Administradora de Portafolios reported a net result of (Ps 969) million, explained by valuation losses on derivatives related to the equity securities received from the restructuring agreements with the homebuilders.

Past Due Loan Ratio was 3.2% at the end of December 2017, up +0.6 pp vs. 3Q17. **Coverage ratio was 198**%, +28 pp higher vs. 2016.
The estimated Capitalization ratio in 4Q17 was 15.9%, +2.8 pp YoY.

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

During 2016, Sólida Administradora de Portafolios reported a loss of (Ps 432) million YoY to (Ps 538) million as a result of lower NII and non-interest income, which was not offset by the (18%) reduction in administrative expenses.

The Past Due Loan Ratio was 4.1% at the end of December 2016. **The Coverage ratio was 170**%, (10 pp) lower YoY. **The estimated Capitalization ratio at the end of 2016 was 13.1%,** +0.6 pp YoY.

The leverage ratio as of December was 15.60%; considering adjusted assets of Ps 33.19 billion.

As part of the restructuring agreement instructed by the Judge in Urbi's bankruptcy process, Sólida received, among other assets, shares and warrants to subscribe shares of this company in exchange for an overdue account recognized in the bankruptcy process and which net book value amounted to Ps. 320 million. The shares were registered as securities held for sale and the valuation loss recorded at yearend was (Ps 298) million in the equity accounts. Additionally, the valuation loss on the warrants was (Ps 9) million, registered in the year's income in trading results.

ii. FINANCIAL SITUATION, LIQUIDITY AND CAPITAL RESOURCES

Liquidity

The function of liquidity administration is to ensure sufficient resources to fulfill financial obligations. These obligations arise from the withdrawal of deposits, payment of short term notes maturing, loans granted and other forms of financing and working capital needs. A significant element of liquidity administration is to fulfill Bank of Mexico's regulation requirements for reserves and liquidity coefficients.

Bank of Mexico's regulations require that we maintain certain levels of reserves in connection with liabilities denominated in pesos. On the other hand, reserves for deposits denominated in foreign currency continue to be mandatory. As of December 31, 2017 and December 31, 2016, GFNorte fulfilled all the reserve and liquidity coefficient requirements requested by the authority. Furthermore, GFNorte's management considers that the cash flow generated by operations and other sources of liquidity will be sufficient to fulfill liquidity requirements in the next 12 months.

Liquidity Risk and Balance

In order to provide a global measurement of liquidity risk, as well as follow up in a consistent manner, GFNorte (through its banking subsidiary Banorte) relies on various methodologies, among them, liquidity gaps, survival horizon, and the regulatory calculation of the Liquid Coverage Ratio. Banorte's and SOFOM's Average LCR under CNBV criterion amounted to 123.42%, this ratio at the end of the fourth quarter of 2017 was 108.23%, both ratios above the minimum regulatory and the Profile Risk approved by the Board of the Institution.

Furthermore, the "investment rules for foreign currency transactions and conditions to satisfy within the terms of operations in such currency" designed by the Mexican Central Bank for credit institutions, establishes the mechanism to determine the liquidity ratio of liabilities denominated in foreign currency. In accordance with these rules, in 2017 and 2016 GFNorte generated a monthly average liquidity requirement of USD 981,294 thousand and USD 723,353 thousand , respectively, and maintained an average investment in liquid assets of USD 1,525,564 thousand and USD 1,106,523 thousand, having an average surplus of USD 546,576 thousand and USD 383,170 thousand respectively.

Internal and external sources of liquidity

Internal sources of liquidity in local and foreign currency come from diverse deposit products that the institution offers to clients. That is to say, it receives funds through checkbook accounts and time deposits.

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

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

Detailed information related to liquidity sources is found under the different items of the bank's General Balance Sheet in this Annual Report.

Below is the GFNorte's level of consolidated debt for the last 3 years:

As of December 31:

	2017	2016	2015 1)
Short-term Debt	Ps 18,213	Ps 21,174	Ps 16,424
Long-term Debt			
Interbank Loans	15,730	17,462	14,551
Other long-term debt (subordinated debt and others)	35,448	22,002	17,129
Total Debt	Ps.69,391	Ps 60,638	Ps 48,104

Million Pesos.

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

Funding

Our main and most economic source of funding comes from client deposits. As of December 31, 2017, GFNorte's client deposits totaled Ps 634.14 billion, a +11% YoY increase vs. Ps 573.06 billion in 2016; Banorte's client deposits amounted to Ps 641.94 billion in 2016.

Repos are important securities in the Mexican Money Market, providing bank clients with short term investments, mainly instruments issued by the federal government and to a lesser extent, securities issued by banks and companies. GFNorte has used repos to achieve cost efficiencies and be more competitive. As of December 31, 2017, the balance of repos registered by GFNorte was Ps 301.67 billion, a (2%) decrease vs. 2016. Furthermore, Banorte registered a balance of Ps 190.36 at the end of 2017 a decrease of (19%) vs the Ps 234.49 billion in 2016.

Another source of long term funding is long term debt. This is used to fund long term loans and investments and to reduce liquidity risk. As of December 31, 2017, GFNorte's total long term debt maturing in more than one year was Ps 32.45 billion; a +48% increase vs. Ps 21.92 billion in 2016.

Our current funding strategy seeks to reduce funding costs by taking advantage of our extensive branch network to attract clients' deposits. Although we are constantly monitoring the needs of long term loans and opportunities for long term funding under favorable conditions, we anticipate that our clientele will continue demanding for short term deposits (especially demand deposits), and therefore we will maintain our focus on the use of clientele deposits to fund loan activity.

Federal government UDI denominated deposits continue to fund the assets we maintain in the UDI off balance sheet trust funds. In return for these deposits, we have acquired Special CETES from the federal government that pay an interest rate indexed to the rate of CETES, with maturities and face values similar to the loans in the UDI trusts. These Special CETES pay cash interest as the trusts' loans expire. Government UDI denominated deposits have a real fixed interest rate that varies depending on the type of loan in the UDI trusts.

Our assets denominated in foreign currency, mainly denominated in US dollars, are funded through different sources, mainly clients' deposits and medium and large exporting companies, inter-bank deposits and fixed-rate instruments. In the case of financing operations for external trade, facilities of the Mexican development banks and other foreign banks focused on financing exports, are used. The interest rate for this type of funding is usually indexed to LIBOR.

POLICIES GOVERNING TREASURY ACTIVITIES OF THE BANK

Regulatory Framework

All operations carried out by the Treasury will be executed in strict accordance with regulations established by Banking Institution regulatory authorities, such as Banxico, CNBV, as well as those set forth in the Law of Credit Institutions.

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

Market Risk:

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

Liquidity Risk:

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

Credit Risk:

- Lines with Counterparties.

Capital Management:

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

Treasury Management

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

1. Diversification of funding sources in national and international markets.

2. Structure liabilities in such a way as to avoid the accumulation of maturities that significantly influence the administration and control of the Treasury's resources.

3. Ensure liquidity by tapping mid and long-term liabilities.

4. Manage and maintain liquid assets to total assets considering its effects on profitability and liquidity needs.

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

Treasury's Funding sources

Sources of financing for the Treasury must be classified indicating by the following way

1. Public:
    - Deposits
    - Term Deposits

2. Market:
    - Commercial paper.
    - Cross Currency Swaps
    - Syndicated Loans.
    - Securitizations
    - Deposit Certificate.
    - Issuance Programs

3. National Banks and Development Funds:
    - National Banks.
    - Funds.

4. Correspondent Banks:
    - Foreign Banks

5. Available credit lines: (not available)
    - Commercial paper.
    - Correspondent banks.

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

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

Loan or tax liabilities

See this information in section “c) Report of Relevant Loans” of this Annual Report.

GFNorte's Equity

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

Million pesos.

GFNorte's equity increased +3% from Ps 142.70 billion by the end of 2016, to Ps 147.58 billion in 2017, driven mainly by the following factors:

1) Increase in the balance of retained earnings from prior years.
2) The increase in the capital reserve
3) Higher profits generated during the last 12 months.

Increase in Capital Reserve

These factors were slightly underpinned by lower results from valuation of instruments for cash flow hedging, a decrease in the the cumulative effect by conversion, and by the decrease in the Share Subscription Premiums.

Banco Mercantil del Norte's Capitalization Ratio.

See Note 30 of GFNorte's 2017 Audited Financial Statements

	Dec-17	Dec-16	Dec-15
Tier 1 Capital	95,323	81,348	72,817
Tier 2 Capital	13,286	16,643	7,692
Net Capital	**Ps108,609**	**Ps 97,991**	**Ps 80,509**
Credit Risk Assets	507,721	477,880	398,684
Market & Operational Risk Assets	119,254	163,422	151,970
Total Risk Assets [1)]	**Ps 626,976**	**Ps 641,302**	**Ps 550,654**
Net Capital / Credit Risk Assets	**21.39%**	**20.51%**	**20.19%**
Capitalization Ratio			
Tier 1	15.20%	12.68%	13.22%
Tier 2	2.12%	2.60%	1.40%
Total Capitalization Ratio	**17.32%**	**15.28%**	**14.62%**

Million pesos.

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

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

At the end of 2017 the estimated Capitalization Ratio (CR) for Banorte was 17.32% considering credit, market and operational risk; and, 21.39% if only credit risks are considered.

The Capitalization Ratio increased + 2.03 pp vs. 2016, as follows:

1.	Profit growth for the period	+2.91 pp
2.	Dividens for the period	- 3.71 pp
3.	Subordinate Obligations	+ 2.05 pp
4.	Valuation of Financial Instruments	+ 0.12 pp
5.	Investment in Subsidiaries and Intangibles	+ 0.64 pp
6.	Other Capital effects	- 0.33 pp
7.	Growth in risk assets	+ 0.34 pp

At the end of 2017 the estimated ICAP for Banorte was 17.32% considering credit, market and operational risk; and, 21.39% if only Credit Risks are considered. The Fundamental Capital Index was 12.00%, the Basic Capital was 15.20% and the Complementary Capital was 2.12%.

CASH FLOW STATEMENT

The cash flow statement reveals cash available to the institution at a certain point in time in order to meet its obligations with creditors. The structure of the cash flow statement provides details of the cash generated by the operation, and uses of resources for net financing and the investment program. As of December 2017, available cash amounted to Ps 76.27 billion, (+16%) higher vs. the Ps 65.89 billion registered in December 2016.

GFNorte's Cash Flow Statement

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

Million pesos.

iii. INTERNAL CONTROL

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

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

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

A. The Board of Directors with the support of: the Advisory Board, Risk Policies Committee (CPR), Audit and Corporate Practices Committee (CAPS), and the Human Resources Committee.

B. The CEO and the departments which support him: Unit Risk Management (UAIR), Legal Department and the Comptroller, responsible for ensuring that adequate control levels, operational risks and compliance with regulation are maintained.

C. Internal Audit, External Audit and the Commissary ,which applies only to GFNorte's subsidiaries, as additional support structures to check how the Internal Control System functions and provide reasonable assurance regarding the reliability of the generated data. The Internal Audit Department reports to the Audit and Corporate Practices Committee (CAPS) and maintains full independence from the administrative areas.

D. The Executive Group as main responsible persons for SCI assurance according to the functions and responsibilities assigned to them. In addition to promoting the enforcement of the regulations established for the Institution and the strategies set forth by the GFNorte's CEO.

E. Documents that establish the general control criteria that should be followed in the operation and reporting of transactions; in optimizing human, material and technological resources; in the use, security, timeliness and reliability of the information; and in the due compliance with the external and internal regulations. The Code of Conduct that regulates the behavior that each Board member, officer or employee of the Group should assume while performing their activities stress out.

F. Policy and procedure manuals that regulate documentation, recording and liquidation of operations that the Group carries out and establish the control points that should be observed, assuring the separation of functions, clear assigning of responsibilities, safekeeping of information and prevention of unlawful acts.

During 2017, activities related to strengthening control, risk evaluation and management, establishment and monitoring of controls, and assurance of quality information continued to be developed; highlighting the following:

A. The Board of Directors analyzed and, at the request of CAPS, authorized the update to the basic documents of Corporate Governance related to the SCI: Code of Conduct, Objectives and Guidelines of Internal Control and General Policies for the usage of Human and Material Resources.

B. The various Corporate Governance Committees have had the required financial, economic, accounting and/or legal information for proper decision-making.

C. The policies and procedure manuals have been updated as per changes in external regulations, new products, and changes in the Institution's processes or improvements to internal controls.

D. There has been continuous follow-up of the improvement actions regarding the observations made by the different members of the SCI.

E. The Supervisory Authorities' requirements have been addressed, the ordinary inspection visits were attended and the information required by the external regulations has been submitted.

F. Through Process and Management Controllers, various business and support processes that make up the operation in GFNorte are monitored, to report periodically on compliance and identifying where areas of opportunity for timely remediation.

G. According to the work plan developed at the beginning of the year, various activities in terms of accounting internal control were carried out.

H. We comply with the annual effectiveness testing program of the Business Continuity Plan, as well as with the procedure's changes review and the update of the Continuity Plan itself

I. Requests regarding internal control subjects from diverse internal departments were handled, to the development of new institutional projects, as well as those derived from changes in the Regulation.

e) CRITICAL ACCOUNTING ESTIMATES, PROVISIONS OR RESERVES

GFNorte's key accounting policies are in accordance with the accounting criteria required by the CNBV through the issuance of accounting provisions and other applicable laws, which require Management to make certain estimates and use certain assumptions to determine the valuation of some of the items included in the consolidated financial statements and to make the disclosure required. Even though they can differ from their final effect, Management believes that the estimates and assumptions used were appropriate under the circumstances.

According to the CNBV's Accounting Criteria A-1 "Basic framework of the set of accounting standards applicable to credit institutions", accounts of institutions shall be subject to financial reporting standards (NIF), defined by the Consejo Mexicano para la Investigacion y Desarrollo de Normas de Informacion Financiera, A.C. (formerly, Mexican Board for Research and Development of Financial Reporting Standards), except when in the opinion of the CNBV, it is necessary to implement a regulatory framework or a specific accounting criteria taking into account the specialized operations Credit Institutions need to perform.

For more information regarding our policies and critical accounting estimates, see Note 4 of the Audited Consolidated Financial Statements to December 31, 2017. (Section 8 c - "Annexes-Financial Statements" of this Annual Report).

GFNorte has identified the main critical accounting estimates described in this section as follows:

1. Investment in Securities

Investments in debt or capital securities are classified based on the intention for use at the time of acquisition and fair value is determined according to the type of financial instrument concerned, in accordance with the following:

(i) Trading Securities

Trading securities are securities owned by GFNorte, acquired with the intention of selling them for a profit derived from the price differences in short-term purchase and sale operations made by GFNorte 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 are stated at fair value, which is determined by the price vendor. The valuation includes both capital and accrued interest. The trading securities valuation result is recorded in the results of the period.

(ii) Securities available for sale

Securities available for sale are debt or equity securities; acquired with no intention of obtaining earnings from short term trading operations and, in the case of debt securities, neither with the intention nor capacity of holding them to maturity. Therefore, they represent a residual category, that is to say, they are acquired with an intention different than that of trading or holding them to maturity.

They are valued in the same way as trading securities, recognizing the result from valuation in other headings of net income within stockholders' equity.

(iii) 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 by GFNorte 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.

(iv) 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 the comprehensive result 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 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 securities to available for sales securities, which can be done in extraordinary circumstances (lack of market liquidity, absence of an active market for such securities, among others), the CNBV 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 the comprehensive result within stockholders' equity.

When the debt instruments reclassification is authorized from securities available for sale to securities held to maturity, 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 of the GFNorte's audited consolidated financial statements as of December 31, 2017.

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.

GFNorte periodically verifies whether its securities available for sale and those 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.

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.

2. Repo Operations

On the repurchase agreement transaction contract date, GFNorte 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, GFNorte classifies the financial asset in the Consolidated Balance Sheets as restricted, valuing it according to the criteria described in Note 4 of the audited financial statements of GFNorte to December 31, 2017 until the repurchase agreement's maturity.

3. Operations with Derivatives

Since the derivatives products operated by GFNorte are considered as conventional (*Plain Vanilla*), the institution uses the standard valuation models contained in derivatives operations and GFNorte risk management systems.

All of the valuation methods that GFNorte uses result in fair value of the transactions and are periodically adjusted. Furthermore, they are audited by independent third parties.

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.

(A) Forward and Futures Contracts

Forward and Futures Contracts available for sale, are those through which a buy or sell of a financial asset or commodity obligation is set at a future date, with previously set amount, quality and price in the contract.
Futures contracts are recorded initially by GFNorte in the balance sheet 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.

Derivatives are presented in a specific item of assets or liabilities, depending on whether their fair value (as a consequence of established rights and/or obligations) corresponds to a debtor or creditor balance, respectively. Debtor or creditor balances in the Consolidated Balance Sheets are offset if GFNorte has the contractual right to offset the stated amount, the intention of liquidating the net amount or to realize the assets 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.

(B) *Options Contracts*

GFNorte 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

(C) *Swaps*

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.

4. Allowance for loan losses

Modification to the methodologies of qualification of the non-revolving consumer and mortgage housing portfolios.

On January 6, 2017, the CNBV published a resolution that modifies the Provisions in what corresponds to the methodologies for the qualification of non-revolving consumer and mortgage housing portfolios, which continue to have an expected loss approach and incorporate more recent information of the industry's performance in its new factors. The main change in both methodologies is that in addition to contemplating the credit experience of the borrower with the Institution that grants the credit, they also contemplate the credit behavior of said borrowers with other Institutions according to the information of the Credit Information Companies. The new methodologies entered into force on June 1, 2017.

The financial effect recognized by GFNorte at the end of June 2017 derived from the modified methodologies minus the reserves that would be held for the balance of said portfolios with the previous methodologies of $ 1,054. The accounting record of this financial effect was an increase to the preventive credit risk estimate of $ 1,054 million (liability), an increase of deferred tax of $ 316 million (asset) and a decrease to the result of previous years of $ 725 million (stockholders' equity).

Application of new portfolio rating criteria

The loan portfolio is classified according to the bases issued by the SHCP and the methodology established by the CNBV.

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

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

5. Acquired Loan Portfolios

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

(i) Cost recovery method. Recoveries 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 results.

(ii) Interest method. The result of multiplying the acquired portfolio's outstanding balance by the estimated yield is recorded in results. The difference with respect to payments actually made decrease accounts receivable.

(iii) Cash basis method. The amount resulting from multiplying the estimated yield times the amount actually collected is recognized in results, whenever it is not greater than that recognized under the interest method. The difference between the recorder amount and the collection decreases the balance of the accounts receivable; once all of the initial investment has been amortized, any recovery will be recognized in results.

For the portfolios valued using the interest method, GFNorte 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. GFNorte 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

GFNorte 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.

6. Premium Receivable

This balance represents premium receivables at the balance sheet date. In accordance with the provisions of the Insurance Companies Law (Ley General de Instituciones y Sociedades Mutualistas de Seguros) and those of the CNSF, premiums more than 45 days old must be canceled against the results of the fiscal year, including, if the case, technical reserves, acquisition cost and the relative ceded reinsurance, and should not be considered in the computation of the coverage of technical reserves.

Based on the internal policy approved by the CEO, certain issued policies older tha 45 days and whose premiums have not been fully or partially collected are excluded from the cancellation process; this is due to the fact that various negotiations are currently being carried out with insured parties, with whom our experience has indicated that these accounts are collectible.

7. Reserve for Uncollectable Accounts

GFNorte 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 investment projects’ balances represent financing to investment projects’ trusts (especially in the development of social housing). GFNorte 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, GFNorte 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 GFNorte 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.

8. 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 forcedsale 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 ayment 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.

When problems are identified regarding the realization of the value of the foreclosed property, GFNorte records additional reserves based on management’s best estimates. As of December 31, 2017 Management has not identified signs of deterioriation or problems to realice foreclosed assets, consequently, has not created reserves in addition to those created by the percentage applied based on the accounting criteria.

9. Property, furniture and equipment, Goodwill and Other Intangible Assets.

(A) *Property, furniture and equipment*

Property, furniture and equipment are recorded at acquisition cost. The balances of acquisitions made until 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.

(B) *Goodwill and Other Intangible Assets*

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.”

Intangible assets are recognized in the consolidated balance sheets provided they are identifiable and generate future economic benefits that are controlled by GFNorte. 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 both, with defined and indefinite lives, their value are subject to annual impairment tests.

GFNorte maintains criteria for identifying and, where appropriate, recording intangible losses for deterioration or decline in value for those financial and other long-term assets, including goodwill. No indicators of impairment of goodwill have been identified as of December 31, 2015.

10. Income Taxes (ISR)

The provisions for ISR and PTU are recorded in the results of the year in which they are incurred. Deferred taxes are recognized based on financial projections. Deferred 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 carry-forwards and certain tax credits. The deferred 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 taxes, net" line.

11. Technical Reserves

The CNBV stipulates that all technical reserves shall be certified on an annual basis by independent actuaries who confirm that the amount of the reserves recorded by GFNorte on December 31, 2017 are reasonably acceptable based on their obligations, within the parameters established by the actuary as of Februrary 2018, and abiding by the relevant criteria established by the competent authorities.

Technical reserves are constituted pursuant to the terms set forth by the Law, as well as to the provisions issued by the CNSF. To value the technical reserves, the Financial Group used the valuation methods found in the provisions set forth in Chapter 5 “Technical Reserves” in the Insurance Circular published in the DOF on December 19, 2014.

12. Provisions

Provisions are recognized when a current obligation that results from a past event and are likely to result in the use of economic resources and can be reasonably estimated.

13. Labor Obligations

Seniority bonuses, pensions, and medical expenses after retirement are recognized as they are accrued, and are based on third party actuarial calculations that use the projected unitary credit, using nominal interest rates. Therefore this liability consists of the present value of a future obligation that will be paid at the estimated retirement date of all GFNorte’s employees, together with liabilities derived from currently retired personnel.

As a result of the new NIF D-3 regulation, GFNorte took the option described in article 3 of this regulation, to progressively recognize in shareholders’ equity any gains or losses from the actuarial estimates described in NIF D-3; therefore, the starting balance of actuarial gains or losses is progressively recognized over a 5-year period starting in 2016 under “Other Integrated Results”, as well as the starting balance of the Retained Earnings plan.

Definite contribution plan

GFNorte has a definite contribution pension plan. Employees that are eligible for this plan are those who joined the company after January 2001, as well as all others who joined before that date, but voluntarily signed up for this plan. This pension plan is invested in a fund which is included under “Other Assets”.

Labour obligations derived from the definite contribution plan do not require an actuarial valuation as per NIF D-3 regulation, as the cost of this plan is equivalent to the individual periodic contributions made under this plan for each participating employee.

These estimations are further describen in note 25 to the Consolidated Financial statements as of December 31, 2017. This note includes the expected revenue of retirement plans, the discount rate and the growth rate used for future labour expenses. These estimates depend on economic circumstances in Mexico.

Employee Profit Sharing provisions (PTU) are recognized in the results of the year in which they are accrued as non-interest expense. GFNorte calculates PTU according to the guidelines established in the Mexican Constitution.
Banorte

4. ADMINISTRATION

a) EXTERNAL AUDITORS

External auditors are appointed with the Board of Directors' approval, which is based on the recommendations presented by the Audit and Corporate Practices Committee.

As of 2005, the firm Galaz, Yamazaki, Ruiz Urquiza, S. C. has audited GFNorte's Financial Statements. During this period, the firm of auditors has not issued a negative opinion or opinion with exception, nor have they abstained from issuing an opinion about GFNorte's Financial Statements. It is worth mentioning that the Partner responsible for signing the opinion is rotated every 6 years by internal GFNorte policy.

In 2017, GFNorte hired the firm of external auditors mentioned In the prior paragraph, for an amount of Ps. 1.3 million, corresponding to the auditing services for the financial statements.

Moreover, each of the Group's subsidiaries also make payments to the external auditor on account of the auditing services of their financial statements and provide additional services which are approved by the Board of Directors under presented recommendations by the respective Audit Committee.

b) OPERATIONS WITH RELATED PARTIES AND CONFLICTS OF INTEREST

Transactions between the issuer and related parties are explained in detail in Note 27. Transactions and balances with non-consolidated subsidiaries and associated companies of Section 8 c. "Annexes – Audited Financial Statements" of this Annual Report.

According to Article 73 bis of the LIC, loans granted to related parties of credit institutions cannot surpass the established limit of 35% of the basic part of the net capital for December 2017, 2016 and 2015.

In GFNorte as of December 31, 2017, 2016 and 2015, the amount of loans granted by GFNorte to third parties is as follows:

	2017	2016	2015
Portfolio Art. 73 –Banorte*	Ps 19.41	Ps 9.79	Ps 7.55
Portfolio Art. 73- Banorte* / Capital Básico	19.8%	11.8%	10.5%
Portfolio Art. 73- Banorte* / Tier 1 Limit	56.6%	33.7%	30.0%

Million Pesos
*Institution that grants the loan.

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

Banorte

As of **December 31 2017** related party loans as defined by article 73 of the Credit Institutions Law (Ley de Instituciones de Crédito) amount to Ps 19.41bn, (including Ps 4.99bn in letters of credit (LC) which are registered in a memorandum account) representing 3.2% of our loan book (excluding LCs). Of the total related party loans, $16.77bn were granted to clients related with members of our Board of Directors, Ps 1.56bn to clients related to our shareholders, and Ps 1.08bn to entities related to GFNorte.

As per article 73 of the Credit Institutions Law (Ley de Instituciones de Crédito), the total loan balance granted to related party individuals and companies amounts to 19.8% of our basic capital.

Related party loans have been granted at market conditions, and have been rated according to the same policies, procedures and systems that are applicable for the rest of GFNORTE's loans, which are based on the general guidelines issued in this regard by the CNBV. 87% of related party loans are rated “A” and most of these loans belong to our commercial loan book.

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

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

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

Business Relations

GFNorte maintains the practice of identifying balances and operations that it carries out with its subsidiaries. All balances and transactions with consolidated subsidiaries that are shown below have been eliminated in the consolidation process. These transactions are also set using studies of transfer pricing.

As of December 31, 2017, 2016 and 2015, GFNorte's participation in the equity of its consolidated subsidiaries is as follows:

	2017	2016	2015
Banco Mercantil del Norte, S.A. y Subsidiarias	98.22%	98.22%	98.22%
Arrendadora y Factor Banorte, S.A. de C.V. SOFOM, ER y Subsidiaria	99.99%	99.99%	99.99%
Almacenadora Banorte, S.A. de C.V. y Subsidiaria	99.99%	99.99%	99.99%
Banorte Ahorro y Previsión, S.A. de C.V. y Subsidiarias	99.99%	99.99%	-%
Seguros Banorte, S.A. de C.V. y Subsidiarias	-%	-%	99.99%
Pensiones Banorte, S.A. de C.V.	-%	-%	99.99%
Casa de Bolsa Banorte Ixe, S.A. de C.V. y Subsidiaria	99.99%	99.99%	99.99%
Operadora de Fondos Banorte Ixe S.A. de C.V.	99.99%	99.99%	99.99%
Ixe Servicios, S.A. de C. V.	99.99%	99.99%	99.99%
Sólida Administradora de Portafolios, S.A. de C.V., SOFOM ER y Subsidiarias	99.46%	99.28%	98.83%

As of April 29, 2016, the Subholding Company Banorte Ahorro y Previsión, S.A. de C.V. was constituted in terms of the Law Regulating Financial Groups. On September 1, 2016, GFNorte transferred in kind its holding of representative shares of Pensiones Banorte and Seguros Banorte equity towards BAP, given the increase in the variable portion of its equity.

	2017	2016	2015
Seguros Banorte, S.A. de C.V.	99.99%	99.99%	-%
Pensiones Banorte, S.A. de C.V.	99.99%	99.99%	-%

Moreover, on October 17, 2016, Banorte's spin-off became effective, creating Banorte Futuro, S.A. de C.V. ("Banorte Futuro"), a new company, to which Banorte transferred shares representing_Afore XXI Banorte's equity as assets. That day, GFNorte transferred in kind its holding of Banorte Futuro's shares to Banorte Ahorro y Previsión, given the increase in the variable portion of its equity. Immediately afterwards, Banorte Ahorro y Previsión transferred in kind its holding of Banorte Futuro's shares to Seguros Banorte, given the increase in the fixed portion of its equity.

Sale of portfolios among related parties (nominal values)

In February 2003, Banorte sold Ps. 1.93 billion of its own portfolio (with interest) to Solida at a price of Ps. 378 million. Of this transaction, Ps. 1.86 billion was related to past-due loans amounts and Ps. 64 million to the performing loan portfolio. The transaction was recorded based on figures as of August 2002, for which reason the final amount affecting the February 2003 balance sheet was Ps. 1.86 billion, considering the collections made since August 2002. In conjunction with the loan portfolio sold, Ps. 1.58 of the associated allowance for loan losses was transferred as well.

In official letter 601-II-323110 dated November 5, 2003; the CNBV established the accounting criteria to be applied to this transaction and issued a series of rulings whereby Banorte 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 Solida since August 2002 and for the years of 2017 and 2016:

	Mexican pesos			Foreign Currency			Total		
Type of portfolio	**Aug 02**	**Dec 16**	**Dec 17**	**Aug 02**	**Dec 15**	**Dec 17**	**Aug 02**	**Dec 15**	**Dec 17**
Performing loan portfolio									
Commercial	Ps. 5	Ps. -	Ps -	Ps. 5	Ps. -	Ps.-	Ps. 10	Ps. -	Ps. -
Mortgage	54	22	19	-	-	-	54	22	19
Total	**59**	**22**	**19**	**5**	**-**	**-**	**64**	**22**	**19**
Past-due loan portfolio									
Commercial	405	193	184	293	13	1	698	205	185
Consumer	81	71	71	-	-	-	81	71	71
Mortgage	1,112	203	205	-	-	-	1,112	203	205
Total	**1,598**	**467**	**460**	**293**	**13**	**1**	**1,891**	**480**	**461**
Total portfolio	**1,657**	**489**	**479**	**298**	**13**	**1**	**1,955**	**502**	**480**
Allowance for loan losses(1)									
Commercial	326	193	184	246	13	1	572	206	185
Consumer	77	71	71	-	-	-	77	71	71
Mortgage	669	214	205	-	-	-	669	214	205
Total allowance for loan loss	**1,072**	**478**	**460**	**246**	**-**	**1**	**1,318**	**491**	**461**
Net portfolio	**Ps. 585**	**Ps. 11**	**Ps. 19**	**Ps. 52**	**Ps. -**	**Ps. -**	**Ps. 637**	**Ps. 11**	**Ps. 19**

Million Pesos

1) Reserves constituted according to the rating methodology that is applied in the Financial Group, who during 2017 and 2016 maintained a participation percentage of 98.83% of the capital of Sólida.

As of December 31, 2017 and 2016, the composition of the Holding's loan portfolio without 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
Performing loan portfolio	**559,187**	**514,779**	**44,384**	**42,279**	**603,571**	**557,058**
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**
Total portfolio	**570,230**	**525,164**	**45,994**	**42,220**	**616,224**	**567,584**
Allowance for loan losses	15,685	14,116	327	323	16,012	14,439
Net portfolio	**Ps 554,545**	**Ps 511,048**	**Ps 45,667**	**Ps 42,097**	**Ps 600,212**	**Ps 553,146**
Allowance for loan losses					**126.55%**	**137.18%**
% of past-due portfolio					**2.05%**	**1.85%**

Million Pesos.

c) MANAGERS AND SHAREHOLDERS

Board of Directors

The Board of Directors of Grupo Financiero Banorte is made up of 15 Proprietary Members, and if the case, by their respective Alternates, of which 11 are independent. Alternate Members can only replace their respective proprietary members in the event of a temporary vacancy, with the understanding that Alternates of Independent Board Members have the same capacity.

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

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

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

Policy that promotes gender equality: GFNorte has a policy to promote equality between men and women in its social bodies. This is within the rules of operation and operation of the Nominating Committee and incorporates provisions that promote dignity, equity, inclusion and diversity (gender, race, nationality, culture, beliefs, language, marital status, ideology, political opinions or any other personal, physical or social condition, etc.), in order to foster an inclusive work environment, respect and freedom from discrimination, within the Board of Directors.

The Board of Directors was appointed by the Annual Ordinary General Shareholders' Meeting held on April 28, 2017. This Board of Directors is composed of the following members:

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

NAME	POSITION	WITH THE COMPANY SINCE	GENDER	PROFESSIONAL BACKGROUND
Carlos Hank Gonzalez	Chairman of the Board of Directors Proprietary Member	October 2014	Male	• He was Vice President of Gruma's Board of Directors. • He was CEO of Grupo Financiero Interacciones, Interacciones Casa de Bolsa and Grupo Hermes. • He was Deputy Managing Director of Grupo Financiero Banorte. • He holds a Bachelor's Degree in Business Management from Universidad Iberoamericana.
Juan Antonio Gonzalez Moreno	Proprietary Member	April 2004	Male	• He is Chairman of the Board and CEO of Gruma and Gimsa. • He has been Managing Director of Gruma Asia and Oceania, Senior Vice

NAME	POSITION	WITH THE COMPANY SINCE	GENDER	PROFESSIONAL BACKGROUND
				Chairman of Special Projects of Gruma Corporation, Chairman of the Board and CEO of CarAmigo, Vice President of Central and East Regions of MissionFoods, Chairman and Vice President of sales of Azteca Milling. • He graduated in Business Management from Universidad Regiomontana and holds an MBA from San Diego University.
David Juan Villarreal Montemayor	Proprietary Member	October 1993	Male	• CEO and major shareholder of Artefactos Laminados, S. A. de C.V. • He is Chairman of the Board of Directors and Deputy CEO of Inmobiliaria Montevi, S.A. de C.V. and Inmobiliaria Monyor S.A. de C.V. • He is a regional Advisor of Banco Nacional de Mexico, S.A. (Banamex) and Financial Advisor and Business Developer for SISMEX, Sistemas Mexicanos S.A. de C.V. • He is a Mechanical and Electrical Engineer from Instituto Tecnologico y de Estudios Superiores de Monterrey (ITESM), holds a Master's Degree in Science in Automatic Control from the same institution and participated in the Advanced Management program from Instituto Panamericano de Alta Direccion (IPADE).
Jose Marcos Ramirez Miguel	Proprietary Member	July 2011	Male	• CEO of Grupo Financiero Banorte, Banco Mercantil del Norte and Casa de Bolsa Banorte Ixe. • He held positions as Managing Director of Wholesale Banking and Chief Corporate Officer at Grupo Financiero Banorte. • He was appointed Chairman of Asociacion Mexicana de Intermediarios Bursatiles. He also worked at Nacional Financiera, S.N.C., Banque Nationale de Paris and Banque Indosuez Mexico.Founded Finventia and served as interdisciplinary consultant at Peat Marwick Mexico. • He was CFO, Managing Director of Wholesale Banking, Managing Director of Santander Brokerage and Executive Vice President of Grupo Financiero Santander. • He holds a Bachelor's Degree in Actuarial Science from Universidad Anahuac, a Post-graduate Degree in Finance from Instituto Tecnologico Autonomo de Mexico (ITAM) and an MBA from E.S.A.D.E. in Barcelona, Spain.
Everardo Elizondo Almaguer	Proprietary Independent Member	April 2010	Male	• Founder and Director of the Graduate School of the Faculty of Economics, University of Nuevo Leon. He is Professor of International Finance at EGADE, Business School, ITESM.

NAME	POSITION	WITH THE COMPANY SINCE	GENDER	PROFESSIONAL BACKGROUND
				• He was Director of Economic Studies of Grupo Industrial Alfa (Alfa Group). • He founded Consulting Agency Index, Economia Aplicada S.A. • He was Deputy Governor of the Bank of Mexico. • He graduated in Economics from the University of Nuevo Leon and holds a Master's Degree and Ph.D. in Economics, both from the University of Wisconsin-Madison..
Carmen Patricia Armendariz Guerra	Proprietary Independent Member	April 2009	Female	• She is Managing Director at Financiera Sustentable, Associated Director of the Bank for International Settlements and Partner - Director and Founder of Valores Financieros. • She was advisor to GFNorte's Chairman Emeritus, Roberto Gonzalez Barrera, and Director of Special Projects at the same Institution. • She was advisor to the Minister of Finance and Public Credit and Vice President of Supervision at the National Banking and Securities Commission. • She has been international advisor in banking crises, Economics professor at Instituto Tecnologico Autonomo de Mexico (ITAM) and author of several academic and specialized publications in Banking and Macroeconomics. • She is an Actuary from Universidad Nacional Autonoma de Mexico (UNAM), holds a Master's Degree in Economics from the same institution and a Ph.D. in Economics from Columbia University.
Hector Federico Reyes-Retana y Dahl	Proprietary Independent Member	July 2011	Male	• Independent Member of the Board of Banco del Ahorro Nacional (Bansefi). • He founded the organism "ProMexico, Inversion y Comercio". • He was the CEO of Banco Nacional de Comercio Exterior, S.N.C (Bancomext), CEO of Banca Confia and Director of International Operations of Banco de Mexico (Banxico). • He was CEO of Grupo Financiero Mifel and Banca Mifel, and was Vice President of the Mexican Banking Association. • He is an Industrial Engineer from Universidad Iberoamericana and holds an MBA from Cornell University.
Eduardo Livas Cantu	Proprietary Independent Member	April 1999	Male	• Member of the Executive Committee of Gruma. • He was Chief Operating Officer and Managing Director of Central America of Gimsa. • He was CEO of Gruma Corp. (U.S.A. division) and Chief Corporate Officer of

NAME	POSITION	WITH THE COMPANY SINCE	GENDER	PROFESSIONAL BACKGROUND
				Gimsa and Gruma. • Additionally he served as independent financial adviser. • He holds a Bachelor´s Degree in Law from the Universidad Autonoma de Nuevo Leon (UANL) and has a Ph.D. in Economics from the University of Austin, Texas.
Alfredo Elias Ayub	Proprietary Independent Member	April 2012	Male	• He is Chairman of the Board of Promociones Metropolis S.A de C.V. and is member of the Board of Iberdrola USA and Rotoplas. • He was CEO of the Comision Federal de Electricidad (Mexican Federal Electricity Commission, CFE), of Aeropuertos y Servicios Auxiliares (Airports and Auxiliary Services, ASA) and held several positions within the Ministry of Energy and Mining. • He was a member of the Alumni Council at Harvard Business School, Nacional Financiera, Multibanco Mercantil de Mexico and Banco Internacional. • He was Chairman of the Board of the Mexican Institute of Electric Research and of the Mexico Foundation at Harvard. • He is a Civil Engineer from Universidad Anahuac and holds an MBA from Harvard Business School.
Adrian Sada Cueva	Proprietary Independent Member	April 2013	Male	• He is Executive Manager Director and member of the Board of Directors of Vitro, S.A.B. de C.V. and has held several Maganer positions within the Industrial Group. • He is a Member of the Board of Directors of Comegua, Club Industrial de Monterrey, Universidad de Monterrey and Camara de la Industria de Transformacion (CAINTRA) and GFNorte's Northern Regional Board. • He graduated in Business from Instituto Tecnologico y de Estudios Superiores de Monterrey (ITESM) and holds an MBA from Stanford Business School.
Alejandro Burillo Azcarraga	Proprietary Independent Member	April 2013	Male	• He is Chairman of the Board of Directors of Grupo Pegaso. • He has participated as strategic partner in: Ixe Banco, Laredo National Bank, Telefonica Movistar, Atlante Football Club, among others. He has also been independent member of the Board of Directors of Grupo Financiero BBVA Bancomer, S.A.
Jose Antonio Chedraui Eguia	Proprietary Independent Member	April 2015	Male	• He is CEO of Grupo Comercial Chedraui. • He has held positions as Commercial Director and then as CEO of Comercial Las Galas. • He participates in the organizations

NAME	POSITION	WITH THE COMPANY SINCE	GENDER	PROFESSIONAL BACKGROUND
				Fundacion Chedraui, Young Presidents' Organization and Mexico Nuevo. • He holds a Bachelor's Degree in Accounting and Finance from Universidad Anahuac.
Alfonso de Angoitia Noriega	Proprietary Independent Member	April 2015	Male	• He is Executive Vice President and Chairman of the Finance Committee at Grupo Televisa, S.A.B. He has served on the Board and Executive Committee and has held the position of Executive Vice President of Administration and Finance at Grupo Televisa. • He is member of the Board of Directors of Cablevision, S.A. de C.V., Innova, S. de R.L. de C.V. (Sky), Cablemas Telecomunicaciones, S.A. de C.V., Operbes, S.A. de C.V. (Bestel), Television Internacional, S.A. de C.V.,Grupo Axo, S.A.P.I. de C.V. and The Americas Society. • He is Chairman of the Board of Kardias Foundation and member of the UNAM Foundation and the Mexican Health Foundation. • Co-founder of the Law firm Mijares, Angoitia, Cortes y Fuentes, S.C. • He was a member of the Board of Grupo Modelo, S.A.B. de C.V. and The American School Foundation. • He holds a Bachelor's Degree in Law from the Universidad Autonoma de Mexico (UNAM).
Olga Maria del Carmen Sanchez Cordero Davila	Proprietary Independent Member	April 2016	Female	• She is Public Notary 182 of Mexico City. • Member of the International Women's Forum, International Federation of University Women and International Association of Women Judges. • She was appointed Minister of Mexico's Supreme Court (1995-2015) and Numerary Judge of the Superior Justice Court of the Federal District (1993 to January 1995). • She holds a Bachelor's Degree in Law from Universidad Nacional Autonoma de Mexico (UNAM) with a Postgraduate Degree in Social Policy and Management from University College of Swansea in Great Britain. She was awarded Doctor Honoris Causa by Universidad Autonoma de Morelos and Universidad Autonoma de Nuevo Leon.
Thomas Stanley Heather Rodriguez	Proprietary Independent Member	April 2016	Male	• Partner at Ritch Mueller, Heather and Nicolau, S.C. and specializes in external funding, restructurings and securities offerings. • He is Legal Advisor of the Consejo Coordinador Empresarial (CCE) and is permanent member of the Committee for

NAME	POSITION	WITH THE COMPANY SINCE	GENDER	PROFESSIONAL BACKGROUND
				drafting the CCE's Code of Best Corporate Practices. • He is member of the Board of Directors and of the Audit and Corporate Practices Committee (CAPS) of Grupo Bimbo, S.A.B. de C.V.; Independent member and Chairman of the CAPS at Gruma, S.A.B. de C.V. and Grupo Industrial Maseca, S.A.B. de C.V. • He holds a Bachelor´s Degree in Law from Escuela Libre de Derecho with a Masters Degree from Texas (Austin) University - "Master o Comarative Jurispriudence- Financial Law". Moreover, he holds several specialties from Universidad Panamericana, Universidad Nacional Autónoma de México and New York University.
Graciela Gonzalez Moreno	Alternate Member	April 2013	Female	• She is private accountant, graduated from the Universidad Labastida in Monterrey, N.L. • *She was accountant at the air conditioning factory Trane-Realven in Monterrey from 1967 to 1970.* • From 1988 to 2010, she participated as founding partner and member of the Board of Directors of Asociacion Gilberto, A.C., being Vice President of it from 2007 to 2010.
Juan Antonio Gonzalez Marcos	Alternate Member	April 2014	Male	• He was Director of Marketing Projects at Mission Foods. • He holds a Bachelor's Degrees in Audio Production from SAE Institute of Melbourne and in Fine Arts from the University of North Texas. Furthermore, holds a Master in Fine Arts from University of Texas at Dallas.
Carlos de la Isla Corry	Alternate Member	April 2016	Male	• He was Director of Administration and Finance of Hermes Group from 2003 to 2014, responsible for the industrial corporate, including tourism, transportation, construction and concessions' operations. He was member of the Board of Directors of the Industrial Group. • He was member of the Board of Directors of Grupo Financiero Interacciones companies. • He also served as Chairman of the Credit Committee of Banco Interacciones and in the Financial Group as Chairman of the Risk Committee and member of the Audit, Compensations and Corporate Practices Committees. • He is an Engineer in Electronics and Digital Systems from the Universidad Nacional Autonoma de Mexico (UNAM) and holds an MBA from Texas University

NAME	POSITION	WITH THE COMPANY SINCE	GENDER	PROFESSIONAL BACKGROUND
				in Austin.
Clemente Ismael Reyes Retana Valdés	Alternate Member	April 2017	Male	• He is a Managing Partner of Reyes Retana Consultores, S.C. as of February 2008. • He was Director of Administration and Finance (1992 to 1994) and Deputy General Manager (1994 to 2008) in Invex Grupo Financiero, S.A.B. of C.V. • He holds a degree in Actuary from the National Autonomous University of Mexico.
Alberto Halabe Hamui	Alternate Independent Member	April 2014	Male	• Deputy Managing Director of Inmobiliaria IHM S.A. de C.V., Director of Comercializadora de Viviendas Albatros S.A. de C.V. and Nueva Imagen Construcciones S.A. de C.V. • Member of the Management and Operations Committee of St. Regis Mexico and Banorte's Metropolitan Regional Board; furthermore, he was Member of the Board of Directors in Microfinanciera Finsol. • He holds a Bachelor's Degree in Economics from Instituto Tecnologico Autonomo de Mexico (ITAM) and a Construction and Real Estate Management Degree from the same Institution.
Manuel Aznar Nicolin	Alternate Independent Member	March 2007	Male	• Founder partner at Kuri Breña, Sánchez Ugarte y Aznar. • He is attorney of Mexican banks in national and international funding operations. • Has participated in securities issuances from Mexican companies and domestic and international offerings. • He worked at Baker & McKenzie in Mexico and New York. Moreover, he was international partner of this firm. • He holds a Bachelor's Degree in Law from Escuela Libre de Derecho and a Master in American Legal System from Chicago-Kent College of Law.
Roberto Kelleher Vales	Alternate Independent Member	April 2014	Male	• He is Chairman and partner in Volkswagen, Seat, and Audi dealerships and a tire company in Merida. • He is shareholder and Vice President of Inmobilia Desarrollos. • He was Chairman and member of the Volkswagen National Dealers Association and member of the Mexican Association of Car Dealers. • He is Industrial and Systems Engineer from Instituto Tecnologico y de Estudios Superiores de Monterrey (ITESM) and

NAME	POSITION	WITH THE COMPANY SINCE	GENDER	PROFESSIONAL BACKGROUND
				has several financial and management specializations from the same institution, also participated in the Advanced Management program from Instituto Panamericano de Alta Direccion (IPADE).
Robert William Chandler Edwards	Alternate Independent Member	April 2015	Male	• Partner at Sanchez DeVanny Eseverri, S.C. since 1991. • He is member of the Board of Banco de Bajio, S.A. • He has been officer in various financial entitites such as Chase Manhattan Bank, Banco Mercantil Agricola de Caracas, Banco de Comercio de Bogota and Banco Mercantil del Norte. • He participated in the Board of Directors of Banco del Centro, Banpais and Cydsa. • He holds an Art, Economics and Anthropology degree from Stanford University.
Isaac Becker Kabacnik	Alternate Independent Member	April 2002	Male	• Chairman of the textile company Becktel S.A. de C.V. and the jewelry company Becker e Hijos, S.A. de C.V. • He served as member of the Board of Directors of Multibanco Mercantil de Mexico. Participated as an active partner in Seguros Atlantida Multiba S.A. and as a member of its Executive Committee. • He was member of the Board of Directors of Multifac, S.A. de C.V., advisor of Value Casa de Bolsa S.A., and member of the board of the Asociacion de Joyeros de Mexico A.C. • He is Civil Engineer graduated from Universidad Nacional Autonoma de Mexico.
Jose Maria Garza Treviño	Alternate Independent Member	April 2014	Male	• Chairman of Grupo Garza Ponce. • He was member of the Board of Directors in Grupo Financiero BITAL, Finanzas Monterrey, Banca Afirme and Banca Confia- Abaco Grupo Financiero. • He served as Vice President of the Mexican Camera of the Construction Industry and of the Mexican Association of Industrial Parks (A.M.P.I. P), as an adviser in COPARMEX and in the Owners of Real Estate Camera, and as Chairman of Civil Engineers Ex a Tec. • He is Civil Engineer from Instituto Tecnologico y de Estudios Superiores de Monterrey (ITESM) and holds an MBA from the same institution.
Javier Braun Burillo	Alternate Independent Member	April 2015	Male	• He is Director of Operations and member of the Board of Directors at Grupo Pegaso. • He was Senior Commercial Manager in Pegaso PCS and responsible for launching the first WiFi service in Mexico

NAME	POSITION	WITH THE COMPANY SINCE	GENDER	PROFESSIONAL BACKGROUND
				• He holds a Bachelor's degree in Economics from Universidad Iberoamericana and an MBA from UCLA Anderson School of Management.
Rafael Contreras Grosskelwing	Alternate Independent Member	April 2015	Male	• He is Director of Administration and Finance at Grupo Comercial Chedraui, S.A. de C.V. • He is part of the Advisory Board of Banco Nacional de Mexico, S.A. • He was Director of Administration and Finance of Grupo Domino´s Pizza de México, S.A. de C.V. • He served as member of associations as Engineering Alumni of Universidad Panamericana. Member of the Advisory Board of the Mexican Institute of Finance Executives (Instituto Mexicano de Ejecutivos en Finanzas) and the Mexican Equestrian Federation (Federacion Ecuestre Mexicana). • He is Industrial Engineer from Universidad Panamericana and participated in the Advanced Management program from Instituto Panamericano de Alta Direccion (IPADE).
Guadalupe Phillips Margain	Alternate Independent Member	April 2015	Female	• She is Restructuring Director at ICA. • She is member of the Board of Directors of Mas Fondos, S.A. de C.V., Grupo Televisa, S.A.B., Evercore Casa de Bolsa, S.A. and Innova, S. de R.L. de C.V. • She was Vice President and Director of Finance and Risk at Grupo Televisa, furthermore, she has held several positions such as Deputy Director of Foreigners Financial Intermediaries in the Minister of Finance (Secretaria de Hacienda y Crédito Público), Finance Director in Empresas Cablevision. • She holds a Bachelor's degree in Law from Instituto Tecnologico Autonomo de Mexico and a Master's degree and Ph.D. from Tufts University.
Eduardo Alejandro Francisco Garcia Villegas	Alternate Independent Member	April 2016	Male	• He is Public Notary 15 of Mexico City and Professor at the UNAM's Law faculty (Bachelor and Post Graduate studies), specializing in Notarial and Registry Law. • He was Academic Secretary of the Asociacion Nacional del Notariado Mexicano, S.A. from 2005 to 2006 and Advisor of the Notaries Association of Mexico City from 2002 to 2003. • He holds a Bachelor's degree and a Ph.D in Law from Universidad Nacional Autonoma de Mexico (UNAM).
Ricardo Maldonado Yañez	Alternate Independent Member	April 2016	Male	• He is a partner of the Law firm Mijares, Angoitia, Cortes y Fuentes, S.C. since 1999.

NAME	POSITION	WITH THE COMPANY SINCE	GENDER	PROFESSIONAL BACKGROUND
				• Member of the Board of Directors of several companies, such as: Biossman Group, Endeavor Mexico and Seadrill Couragious and Secretary of the Board of Directors of companies such as: Grupo Televisa, Consorcio Ara, Controladora Vuela Compañia de Aviacion (Volaris) and Cablevision. • He was an Associate of the Law firm, White & Case, New York Office from 1993 to 1995. • He holds a Bachelor's degree in Law from Universidad Nacional Autonoma de Mexico (UNAM) and a Master's degree in Law from the Law School of Chicago University

It is informed through this Annual Report that the Annual Ordinary General Shareholders' Meeting was held on April 27, 2018, in which was approved - among other resolutions - the Board of Directors for the fiscal year 2018 which will be comprised by 15 Proprietary and their respective Alternate members, accordingly:

NAME	POSITION	WITH THE COMPANY SINCE	GENDER	PROFESSIONAL BACKGROUND
Carlos Hank Gonzalez	Chairman of the Board of Directors Proprietary Member	October 2014	Male	• He was Vice President of Gruma's Board of Directors. • He was CEO of Grupo Financiero Interacciones, Interacciones Casa de Bolsa and Grupo Hermes. • He was Deputy Managing Director of Grupo Financiero Banorte. • He holds a Bachelor's Degree in Business Management from Universidad Iberoamericana.
Juan Antonio Gonzalez Moreno	Proprietary Member	April 2004	Male	• He is Chairman of the Board and CEO of Gruma and Gimsa. • He has been Managing Director of Gruma Asia and Oceania, Senior Vice Chairman of Special Projects of Gruma Corporation, Chairman of the Board and CEO of CarAmigo, Vice President of Central and East Regions of MissionFoods, Chairman and Vice President of sales of Azteca Milling. • He graduated in Business Management from Universidad Regiomontana and holds an MBA from San Diego University.
David Juan Villarreal Montemayor	Proprietary Member	October 1993	Male	• CEO and major shareholder of Artefactos Laminados, S. A. de C.V. • He is Chairman of the Board of Directors and Deputy CEO of Inmobiliaria Montevi, S.A. de C.V. and Inmobiliaria Monyor S.A. de C.V. • He is a regional Advisor of Banco Nacional de Mexico, S.A. (Banamex) and Financial Advisor and Business Developer

NAME	POSITION	WITH THE COMPANY SINCE	GENDER	PROFESSIONAL BACKGROUND
				for SISMEX, Sistemas Mexicanos S.A. de C.V. • He is a Mechanical and Electrical Engineer from Instituto Tecnologico y de Estudios Superiores de Monterrey (ITESM), holds a Master's Degree in Science in Automatic Control from the same institution and participated in the Advanced Management program from Instituto Panamericano de Alta Direccion (IPADE).
Jose Marcos Ramirez Miguel	Proprietary Member	July 2011	Male	• CEO of Grupo Financiero Banorte, Banco Mercantil del Norte and Casa de Bolsa Banorte Ixe. • He held positions as Managing Director of Wholesale Banking and Chief Corporate Officer at Grupo Financiero Banorte. • He was appointed Chairman of Asociacion Mexicana de Intermediarios Bursatiles. He also worked at Nacional Financiera, S.N.C., Banque Nationale de Paris and Banque Indosuez Mexico.Founded Finventia and served as interdisciplinary consultant at Peat Marwick Mexico. • He was CFO, Managing Director of Wholesale Banking, Managing Director of Santander Brokerage and Executive Vice President of Grupo Financiero Santander. • He holds a Bachelor's Degree in Actuarial Science from Universidad Anahuac, a Post-graduate Degree in Finance from Instituto Tecnologico Autonomo de Mexico (ITAM) and an MBA from E.S.A.D.E. in Barcelona, Spain.
Everardo Elizondo Almaguer	Proprietary Independent Member	April 2010	Male	• Founder and Director of the Graduate School of the Faculty of Economics, University of Nuevo Leon. He is Professor of International Finance at EGADE, Business School, ITESM. • He was Director of Economic Studies of Grupo Industrial Alfa (Alfa Group). • He founded Consulting Agency Index, Economia Aplicada S.A. • He was Deputy Governor of the Bank of Mexico. • He graduated in Economics from the University of Nuevo Leon and holds a Master's Degree and Ph.D. in Economics, both from the University of Wisconsin-Madison..
Carmen Patricia Armendariz Guerra	Proprietary Independent Member	April 2009	Female	• She is Managing Director at Financiera Sustentable, Associated Director of the Bank for International Settlements and Partner - Director and Founder of Valores Financieros. • She was advisor to GFNorte's Chairman Emeritus, Roberto Gonzalez Barrera, and

NAME	POSITION	WITH THE COMPANY SINCE	GENDER	PROFESSIONAL BACKGROUND
				Director of Special Projects at the same Institution. • She was advisor to the Minister of Finance and Public Credit and Vice President of Supervision at the National Banking and Securities Commission. • She has been international advisor in banking crises, Economics professor at Instituto Tecnologico Autonomo de Mexico (ITAM) and author of several academic and specialized publications in Banking and Macroeconomics. • She is an Actuary from Universidad Nacional Autonoma de Mexico (UNAM), holds a Master's Degree in Economics from the same institution and a Ph.D. in Economics from Columbia University.
Hector Federico Reyes-Retana y Dahl	Proprietary Independent Member	July 2011	Male	• Independent Member of the Board of Banco del Ahorro Nacional (Bansefi). • He founded the organism "ProMexico, Inversion y Comercio". • He was the CEO of Banco Nacional de Comercio Exterior, S.N.C (Bancomext), CEO of Banca Confia and Director of International Operations of Banco de Mexico (Banxico). • He was CEO of Grupo Financiero Mifel and Banca Mifel, and was Vice President of the Mexican Banking Association. • He is an Industrial Engineer from Universidad Iberoamericana and holds an MBA from Cornell University.
Eduardo Livas Cantu	Proprietary Independent Member	April 1999	Male	• Member of the Executive Committee of Gruma. • He was Chief Operating Officer and Managing Director of Central America of Gimsa. • He was CEO of Gruma Corp. (U.S.A. division) and Chief Corporate Officer of Gimsa and Gruma. • Additionally he served as independent financial adviser. • He holds a Bachelor´s Degree in Law from the Universidad Autonoma de Nuevo Leon (UANL) and has a Ph.D. in Economics from the University of Texas.
Alfredo Elias Ayub	Proprietary Independent Member	April 2012	Male	• He is Chairman of the Board of Promociones Metropolis S.A de C.V. and is member of the Board of Iberdrola USA and Rotoplas. • He was CEO of the Comision Federal de Electricidad (Mexican Federal Electricity Commission, CFE), of Aeropuertos y Servicios Auxiliares (Airports and Auxiliary Services, ASA) and held several positions within the Ministry of Energy and Mining. • He was a member of the Alumni Council

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				at Harvard Business School, Nacional Financiera, Multibanco Mercantil de Mexico and Banco Internacional. • He was Chairman of the Board of the Mexican Institute of Electric Research and of the Mexico Foundation at Harvard. • He is a Civil Engineer from Universidad Anahuac and holds an MBA from Harvard Business School.
Adrian Sada Cueva	Proprietary Independent Member	April 2013	Male	• He is Executive Manager Director and member of the Board of Directors of Vitro, S.A.B. de C.V. and has held several Maganer positions within the Industrial Group. • He is a Member of the Board of Directors of Comegua, Club Industrial de Monterrey, Universidad de Monterrey and Camara de la Industria de Transformacion (CAINTRA) and GFNorte's Northern Regional Board. • He graduated in Business from Instituto Tecnologico y de Estudios Superiores de Monterrey (ITESM) and holds an MBA from Stanford Business School.
Alejandro Burillo Azcarraga	Proprietary Independent Member	April 2013	Male	• He is Chairman of the Board of Directors of Grupo Pegaso. • He has participated as strategic partner in: Ixe Banco, Laredo National Bank, Telefonica Movistar, Atlante Football Club, among others. He has also been independent member of the Board of Directors of Grupo Financiero BBVA Bancomer, S.A.
Jose Antonio Chedraui Eguia	Proprietary Independent Member	April 2015	Male	• He is CEO of Grupo Comercial Chedraui. • He has held positions as Commercial Director and then as CEO of Comercial Las Galas. • He participates in the organizations Fundacion Chedraui, Young Presidents' Organization and Mexico Nuevo. • He holds a Bachelor's Degree in Accounting and Finance from Universidad Anahuac.
Alfonso de Angoitia Noriega	Proprietary Independent Member	April 2015	Male	• He is Executive Co-president and Chairman of the Finance Committee at Grupo Televisa, S.A.B. He has served on the Board and Executive Committee and has held the position of Executive Vice President of Administration and Finance at Grupo Televisa. • He is member of the Board of Directors of Cablevision, S.A. de C.V., Innova, S. de R.L. de C.V. (Sky), Cablemas Telecomunicaciones, S.A. de C.V., Operbes, S.A. de C.V. (Bestel), Television Internacional, S.A. de C.V.,Grupo Axo, S.A.P.I. de C.V. and The Americas

NAME	POSITION	WITH THE COMPANY SINCE	GENDER	PROFESSIONAL BACKGROUND
				Society. • He is Chairman of the Board of Kardias Foundation and member of the UNAM Foundation and the Mexican Health Foundation. • Co-founder of the Law firm Mijares, Angoitia, Cortes y Fuentes, S.C. • He was a member of the Board of Grupo Modelo, S.A.B. de C.V. and The American School Foundation. • He holds a Bachelor's Degree in Law from the Universidad Autonoma de Mexico (UNAM).
Olga Maria del Carmen Sanchez Cordero Davila	Proprietary Independent Member	April 2016	Female	• She is Public Notary 182 of Mexico City. • Member of the International Women's Forum, International Federation of University Women and International Association of Women Judges. • She was appointed Minister of Mexico's Supreme Court (1995-2015) and Numerary Judge of the Superior Justice Court of the Federal District (1993 to January 1995). • She holds a Bachelor's Degree in Law from Universidad Nacional Autonoma de Mexico (UNAM) with a Postgraduate Degree in Social Policy and Management from University College of Swansea in Great Britain. She was awarded Doctor Honoris Causa by Universidad Autonoma de Morelos and Universidad Autonoma de Nuevo Leon.
Thomas Stanley Heather Rodriguez	Proprietary Independent Member	April 2016	Male	• Partner at Ritch Mueller, Heather and Nicolau, S.C. and specializes in external funding, restructurings and securities offerings. • He is Legal Advisor of the Consejo Coordinador Empresarial (CCE) and is permanent member of the Committee for drafting the CCE's Code of Best Corporate Practices. • He is member of the Board of Directors and of the Audit and Corporate Practices Committee (CAPS) of Grupo Bimbo, S.A.B. de C.V.; Independent member and Chairman of the CAPS at Gruma, S.A.B. de C.V. and Grupo Industrial Maseca, S.A.B. de C.V. • He holds a Bachelor´s Degree in Law from Escuela Libre de Derecho with a Masters Degree from Texas (Austin) University - "Master o Comarative Jurispriudence- Financial Law". Moreover, he holds several specialties from Universidad Panamericana, Universidad Nacional Autónoma de México and New York University.

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Graciela Gonzalez Moreno	Alternate Member	April 2013	Female	• She is private accountant, graduated from the Universidad Labastida in Monterrey, N.L. • *She was accountant at the air conditioning factory Trane-Realven in Monterrey from 1967 to 1970.* • From 1988 to 2010, she participated as founding partner and member of the Board of Directors of Asociacion Gilberto, A.C., being Vice President of it from 2007 to 2010.
Juan Antonio Gonzalez Marcos	Alternate Member	April 2014	Male	• He was Director of Marketing Projects at Mission Foods. • He holds a Bachelor's Degrees in Audio Production from SAE Institute of Melbourne and in Fine Arts from the University of North Texas. Furthermore, holds a Master in Fine Arts from University of Texas at Dallas.
Carlos de la Isla Corry	Alternate Member	April 2016	Male	• He was Director of Administration and Finance of Hermes Group from 2003 to 2014, responsible for the industrial corporate, including tourism, transportation, construction and concessions' operations. He was member of the Board of Directors of the Industrial Group. • He was member of the Board of Directors of Grupo Financiero Interacciones companies. • He also served as Chairman of the Credit Committee of Banco Interacciones and in the Financial Group as Chairman of the Risk Committee and member of the Audit, Compensations and Corporate Practices Committees. • He is an Engineer in Electronics and Digital Systems from the Universidad Nacional Autonoma de Mexico (UNAM) and holds an MBA from Texas University in Austin.
Clemente Ismael Reyes Retana Valdés	Alternate Member	April 2017	Male	• He has been Partner at Reyes Retana Consultores, S.C. since February 2008. • Formerly, he was CFO (1992 through 1994) and Deputy Managing Director (1994 through 2008) at Invex Grupo Financiero, S.A.B. de C.V. • He holds a Bachelor's Degree in Actuarial Science from Universidad Nacional Autonoma de Mexico.
Alberto Halabe Hamui	Alternate Independent Member	April 2014	Male	• Deputy Managing Director of Inmobiliaria IHM S.A. de C.V., Director of Comercializadora de Viviendas Albatros S.A. de C.V. and Nueva Imagen Construcciones S.A. de C.V. • Member of the Management and Operations Committee of St. Regis

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				Mexico and Banorte's Metropolitan Regional Board; furthermore, he was Member of the Board of Directors in Microfinanciera Finsol. • He holds a Bachelor's Degree in Economics from Instituto Tecnologico Autonomo de Mexico (ITAM) and a Construction and Real Estate Management Degree from the same Institution.
Roberto Kelleher Vales	Alternate Independent Member	April 2014	Male	• He is Chairman and partner in Volkswagen, Seat, and Audi dealerships and a tire company in Merida. • He is shareholder and Vice President of Inmobilia Desarrollos. • He was Chairman and member of the Volkswagen National Dealers Association and member of the Mexican Association of Car Dealers. • He is Industrial and Systems Engineer from Instituto Tecnologico y de Estudios Superiores de Monterrey (ITESM) and has several financial and management specializations from the same institution, also participated in the Advanced Management program from Instituto Panamericano de Alta Direccion (IPADE).
Manuel Aznar Nicolin	Alternate Independent Member	March 2007	Male	• Founder partner at Kuri Breña, Sánchez Ugarte y Aznar. • He is attorney of Mexican banks in national and international funding operations. • Has participated in securities issuances from Mexican companies and domestic and international offerings. • He worked at Baker & McKenzie in Mexico and New York. Moreover, he was international partner of this firm. • He holds a Bachelor's Degree in Law from Escuela Libre de Derecho and a Master in American Legal System from Chicago-Kent College of Law.
Robert William Chandler Edwards	Alternate Independent Member	April 2015	Male	• Partner at Sanchez DeVanny Eseverri, S.C. since 1991. • He is member of the Board of Banco de Bajio, S.A. • He has been officer in various financial entitites such as Chase Manhattan Bank, Banco Mercantil Agricola de Caracas, Banco de Comercio de Bogota and Banco Mercantil del Norte. • He participated in the Board of Directors of Banco del Centro, Banpais and Cydsa. • He holds an Art, Economics and Anthropology degree from Stanford University.

NAME	POSITION	WITH THE COMPANY SINCE	GENDER	PROFESSIONAL BACKGROUND
Isaac Becker Kabacnik	Alternate Independent Member	April 2002	Male	• Chairman of the textile company Becktel S.A. de C.V. and the jewelry company Becker e Hijos, S.A. de C.V. • He served as member of the Board of Directors of Multibanco Mercantil de Mexico. Participated as an active partner in Seguros Atlantida Multiba S.A. and as a member of its Executive Committee. • He was member of the Board of Directors of Multifac, S.A. de C.V., advisor of Value Casa de Bolsa S.A., and member of the board of the Asociacion de Joyeros de Mexico A.C. • He is Civil Engineer graduated from Universidad Nacional Autonoma de Mexico.
Jose Maria Garza Treviño	Alternate Independent Member	April 2014	Male	• Chairman of Grupo Garza Ponce. • He was member of the Board of Directors in Grupo Financiero BITAL, Finanzas Monterrey, Banca Afirme and Banca Confia- Abaco Grupo Financiero. • He served as Vice President of the Mexican Camera of the Construction Industry and of the Mexican Association of Industrial Parks (A.M.P.I. P), as an adviser in COPARMEX and in the Owners of Real Estate Camera, and as Chairman of Civil Engineers Ex a Tec. • He is Civil Engineer from Instituto Tecnologico y de Estudios Superiores de Monterrey (ITESM) and holds an MBA from the same institution.
Javier Braun Burillo	Alternate Independent Member	April 2015	Male	• He is Director of Operations and member of the Board of Directors at Grupo Pegaso. • He was Senior Commercial Manager in Pegaso PCS and responsible for launching the first WiFi service in Mexico • He holds a Bachelor's degree in Economics from Universidad Iberoamericana and an MBA from UCLA Anderson School of Management.
Humberto Tafolla Nuñez	Alternate Independent Member	April 2018	Male	• He is the Director of Administration and Finance of Grupo Comercial Chedraui, S.A.B. of C.V. • Has more than 20 years of experience in financial areas. • Holds a degree in Business Administration from the Autonomous Technological Institute of Mexico (ITAM), a Diploma in Corporate Finance from the Monterrey Institute of Technology and Higher Education (ITESM) and a Postgraduate in Business Administration and Management by the Institute of Companies (IE) of Madrid.

NAME	POSITION	WITH THE COMPANY SINCE	GENDER	PROFESSIONAL BACKGROUND
				• He held the Mabe Industries Finance Directorate for 8 years.
Guadalupe Phillips Margain	Alternate Independent Member	April 2015	Female	• She is Restructuring Director at ICA. • She is member of the Board of Directors of Mas Fondos, S.A. de C.V., Grupo Televisa, S.A.B., Evercore Casa de Bolsa, S.A. and Innova, S. de R.L. de C.V. • She was Vice President and Director of Finance and Risk at Grupo Televisa, furthermore, she has held several positions such as Deputy Director of Foreigners Financial Intermediaries in the Minister of Finance (Secretaria de Hacienda y Crédito Público), Finance Director in Empresas Cablevision. • She holds a Bachelor's degree in Law from Instituto Tecnologico Autonomo de Mexico and a Master's degree and Ph.D. from Tufts University.
Eduardo Alejandro Francisco Garcia Villegas	Alternate Independent Member	April 2016	Male	• He is Public Notary 15 of Mexico City and Professor at the UNAM's Law faculty (Bachelor and Post Graduate studies), specializing in Notarial and Registry Law. • He was Academic Secretary of the Asociacion Nacional del Notariado Mexicano, S.A. from 2005 to 2006 and Advisor of the Notaries Association of Mexico City from 2002 to 2003. • He holds a Bachelor's degree and a Ph.D in Law from Universidad Nacional Autonoma de Mexico (UNAM).
Ricardo Maldonado Yañez	Alternate Independent Member	April 2016	Male	• He is a partner of the Law firm Mijares, Angoitia, Cortes y Fuentes, S.C. since 1999. • Member of the Board of Directors of several companies, such as: Biossman Group, Endeavor Mexico and Seadrill Couragious and Secretary of the Board of Directors of companies such as: Grupo Televisa, Consorcio Ara, Controladora Vuela Compañia de Aviacion (Volaris) and Cablevision. • He was an Associate of the Law firm, White & Case, New York Office from 1993 to 1995. • He holds a Bachelor's degree in Law from Universidad Nacional Autonoma de Mexico (UNAM) and a Master’s degree in Law from the Law School of Chicago University

According with Article Thirty-three of the Corporate By-laws, the functions and faculties of the Board of Directors are:

I. Establish the general strategies of the Financial Group and the general strategies for the management, direction and execution of the business of the Company, Financial Entities and, as the case may be, Subholding Companies.

II. Oversee, through the Corporate Practices Committee, the management and direction of the Company, the Financial Entities and, as the case may be, Subholding Companies of which the Company has control, considering for that purpose the importance of the latter in the financial, administrative and legal standing of the Financial Group as a whole, as well as the performance of the Relevant Senior Officers, upon the terms of Articles 56 to 58 of the Law to Regulate Financial Groups.

III. Approve, upon prior opinion of the relevant Committee:

a) The policies and guidelines for the use by related parties of the assets that comprise the wealth of the Company and Financial Entities and of all the other persons controlled by it.

b) The acts, individually, with related parties intended to be executed by the Company.

The acts stated below shall not require approval of the Board of Directors as long as they meet the policies and guidelines approved to such effect by the Board of Directors:

1. Those which, by virtue of their amount, are not important for the Financial Group as a whole, upon the terms of the rules of a general nature that regulate the terms and conditions for the incorporation of holding companies and the operation of financial groups.

2. The acts executed between the Company and Financial Entities members of the Financial Group and, as the case may be, Subholding Companies, as long as: i) They are of the ordinary or customary line of business, and ii) they are deemed to be made at market prices or supported by appraisals made by external specialist agents.

3. Those executed with employees of the Company, Financial Entities members of the Financial Group or, as the case may be, Subholding Companies, provided that they are executed upon the same conditions as with any client or as a result of labor benefits of a general nature.

c) The acts executed either simultaneously or successively, which by virtue of their characteristics may be considered as a single operation and that are intended to be executed by the Company or Financial Entities members of the Financial Group or, as the case may be, by the Subholding Companies, within one fiscal year, whenever they are unusual or non-recurring or their amount represents, based on figures corresponding to the closing of the next preceding quarter, in any of the following events:

1. The acquisition or disposal of assets with a value equal to or higher than five percent of the consolidated assets of the Financial Group.

2. The granting of guarantees or the assumption of liabilities by an aggregate amount equal to or higher than five percent of the consolidated assets of the Financial Group.

Investments in debt securities or in banking instruments are excepted from the foregoing, as long as they are made pursuant to the policies approved by the board of directors itself to such effect.

d) The appointment and, as the case may be, removal of the CEO of the Company and his integral compensation, as well as the designation and integral compensation policies of the other Relevant Senior Officers.

e) The policies for the granting of loans or any type of credits or guarantees to Related Parties.

f) The releases for a director, Relevant Senior Officer or person with a Power of Command to take advantage of business opportunities for himself or in favor of third parties corresponding to the Company, Financial Entities or, as the case may be, Subholding Companies. The releases for transactions which amount is less than that mentioned in subparagraph c) of this section may be delegated to any of the committees of the Company in charge of audit or corporate practices functions referred to in the Law to Regulate Financial Groups.

g) The guidelines concerning internal control and internal audit of the Company and of Financial Entities or, as the case may be, Subholding Companies.

h) The accounting policies of the Company in compliance with the provisions of the Law to Regulate Financial Groups.

i) The financial statements of the Company.

j) The contracting of the legal entity that provides external audit services and, as the case may be, services additional or supplementary to external audit services.

k) Whenever the determinations of the board of directors are not in line with the opinions provided by the relevant committee, such committee must instruct the CEO to disclose such circumstance to public investors through the securities exchange where the shares of the Company or credit instruments representing them are listed, in compliance with the terms and conditions established by such exchange in its internal regulations, to the general shareholders meeting held after such act, as well as the CNBV, within 10 business days following the corresponding determination.

These authorizations do not release from the compliance with the obligations vis-à-vis related parties established in special laws of each of the financial entities members of the Financial Group.

IV. Submit to the General Shareholders' Meeting held by virtue of the closing of the fiscal year:

a) The reports referred to in Article 58 of the Law to Regulate Financial Groups.

b) The report prepared by the CEO pursuant to Article 59, section X, of the Law to Regulate Financial Groups, accompanied by the opinion of the external auditor.

c) The opinion of the Board of Directors on the contents of the report of the CEO referred to in subparagraph b) above.

d) The report referred to in Article 172, subparagraph B) of the General Law of Business Corporations containing the main accounting and information policies and criteria followed in the preparation of financial information.

e) The report on the operations and activities in which it shall have participated pursuant to the provisions of the Securities Market Law and the Law to Regulate Financial Groups.

V. Monitor the main risks to which the Company and Financial Entities members of the Financial Group and, as the case may be, Subholding Companies, are exposed, identified based on the information provided by the committees, the CEO and the legal entity that provides external audit services, as well as accounting, internal control and internal audit, registration, file or information systems, of the former and the latter, which may be done through the audit committee.

VI. Approve information and communication policies with the shareholders and the market, and with the Board Members and Relevant Senior Officers, in order to comply with the provisions of the Law to Regulate Financial Groups.

VII. Determine the corresponding actions in order to remedy the known irregularities and implement the corresponding corrective measures.

VIII. Establish the terms and conditions to which the CEO shall be subject in exercise of his authorities for acts of ownership.

IX. Direct the CEO to publicly disclose the relevant events known to him. The foregoing, without prejudice of the obligation of the CEO referred to in Article 44, section V, of the Securities Market Law.

X. Represent the Company before all kinds of individuals and legal entities and before administrative, judicial or other authorities, whether municipal, state or federal, and before local or federal labor authorities, before the different Ministries of the State, the Tax Court of the Federation, the Mexican Social Security Institute, regional offices and other agencies of such Institute and before arbiters or arbitrators, with a general power-of-attorney for lawsuits and collections; therefore, the fullest general authorities referred to in Article 2554 of the Civil Code for the Federal District are deemed to be granted, and with the special authorities that require an express reference according to sections I, II, III, IV, V, VI, VII and VIII of Article 2587 of such civil code; therefore, without limitation, it may:

a) Settle and submit to arbitrators;
b) File and withdraw from all kinds of lawsuits and remedies;
c) File "amparo" proceedings and withdraw therefrom;
d) File and ratify criminal claims and complaints and meet the requirements of the latter and withdraw therefrom;
e) Become an assistant of the Federal or Local Public Prosecutor;
f) Grant pardon in criminal proceedings;
g) File or answer interrogatories in all kinds of lawsuits, including labor lawsuits, provided, however, that the authority to answer them may only be exercised through the individuals designated to such effect by the Board of Directors, upon the terms of section X of this Article; therefore, any other officers or attorneys-in-fact of the Company are absolutely excluded from the enjoyment thereof; and
h) Obtain allocations of assets, assign assets, file auction positions, challenge, and receive payments.

XI. Appear before all kinds of labor authorities, whether administrative or jurisdictional, local or federal; act within the corresponding procedural or non-procedural proceedings from the stage of conciliation to the stage of labor execution; and execute all kinds of agreements, upon the terms of Articles 11, 787 and 876 of the Federal Labor Law;

XII. Manage the business and corporate assets with the fullest general power-of-attorney of administration, upon the terms of Article 2554 of the Federal Civil Code;

XIII. Issue, subscribe, grant, accept or endorse credit instruments upon the terms of Article 9 of the General Law of Credit Instruments and Operations;

XIV. Open and cancel banking accounts in the name of the Company, and to make deposits and draw against them and designate persons to draw against them;

XV. Exercise acts of disposal and ownership with respect to the assets of the Company or their real or personal rights, upon the terms of paragraph three of Article 2554 of such Civil Code, with the special authorities provided by sections I, II and V of Article 2554 thereof;

XVI. Grant general or special powers-of-attorney, reserving at all times the exercise thereof, and to revoke the powers-of-attorney it may grant;

XVII. Establish rules on the structure, organization, makeup, functions and authorities of the Executive Commission of the Board of Directors, the Regional Boards, the Internal Committees and labor commissions that may be deemed necessary; designate their members and establish their compensations;

XVIII. Prepare its internal labor regulations;

XIX. Grant the powers-of-attorney it may deem appropriate to the officers of the Company or any other individuals, and revoke those which are granted and, pursuant to the provisions of the applicable laws, delegate their authorities to the CEO or any of them to one or several of the Board Members or the Attorneys-in-Fact designated to such effect, to be exercised in the business and upon the terms and conditions stated by the Board of Directors;

XX. Delegate, in favor of the individuals it may deem appropriate, the legal representation of the Company, grant them the use of the corporate signature and grant them a general power-of-attorney for lawsuits and collections, with the fullest general authorities referred to in the first paragraph of Article 2554 of the Federal Civil Code and the special authorities that require an express reference pursuant to sections III, IV, VI, VII and VIII of Article 2587 thereof, so that, without limitation, they may:

a) Appear as legal representatives of the Company in any administrative, labor, judicial or other proceedings or processes and, in such capacity, take all kinds of actions and, specifically, file or answer interrogatories in the name of the Company, appear, in the conciliatory term, before boards of conciliation and arbitration; participate in the respective formalities; and execute all kinds of agreements with employees;

b) Carry out all the legal acts referred to in section I of this Article;

c) Substitute the powers and authorities in question, without affecting their own, and grant and revoke powers-of-attorney;

XXI. Resolve on the acquisition, lien or transfer of shares owned by the Company, issued by other companies.

XXII. In general, it shall have all the authorities necessary to perform the management entrusted to it and, consequently, may perform all operations and legal and material acts which are directly or indirectly related to the corporate purpose defined in Article Three of these Corporate Bylaws and the supplementary activities listed in Article Four thereof, without limitation. The references made in this Article to the Articles of the Federal Civil Code are deemed to be made to the correlative Articles of the Civil Codes for the states and the Civil Code for the Federal District, according to the territory where the power-of-attorney is exercised, and all the others set forth in the Securities Market Law and the Law to Regulate Financial Groups.

The Board of Directors shall oversee the performance of the resolutions of Shareholders Meetings, which must be done through the committee that exercises the auditing authorities referred to in the Securities Market Law.

Shareholders 2017

According to the shareholder listings prepared for the Ordinary and Extraordinary General Shareholders' Meeting held on December 5, 2017, Board Members and the main officials in the Company do not hold a participation over 1%.

According to the shareholder listings prepared for the aforementioned Meetings, the names of the 10 main shareholders of GFNorte are:

BANCO INVEX S A FIDEICOMISO 1204
SSB OM01 CLIENT OMNIBUS A
STATE STREET BANK CLIENT OMNIB OU80
STATE STREET BANK WEST CLIENT
BNYM AS AGT/CLTS
JPM CHASE BANK TREATY A/C
CBHK-GIC PR LTD-C(EQ)3PSL
MONTEMAYOR GARCIA ALICIA REBECA
BBHB VANGUARD EMG MKTS STOCK IX
SSB OM79 CLIENT OMNIBUS

The following Support Committees for the Board of Directors and the CEO are updated as of December 31, 2017:

Support committees for GFNorte's Board of Directors

The established support Committees for the Board of Directors of GFNorte are the:

1. Risk Policies Committee (CPR)
2. Audit and Corporate Practices Committee (CAPS)
3. Human Resources Committee
4. Regional Boards
5. Designation Committee

The Board of Directors have the faculty to designate the members of the referred Committees.

Committees are made up of GFNorte's Board Members (mainly Independent) and, in some of them, officers of the institution. The Board is responsible for authorizing Committees' bylaws and evaluating management.

The Chairman of the Audit and Corporate Practices Committee is designated by GFNorte's General Shareholders' Meeting.

RISK POLICIES COMMITTEE (CPR)

Objective:

To manage the risks that the Institution is exposed to and oversee that its operations are adjusted to meet objectives, policies and procedures for the Comprehensive Risk Management, as well as to the global limitations of risk exposure approved by the Board.

Functions:

1. To propose for approval by the Board of Directors:
   A. Objectives, guidelines and policies for a comprehensive risk management, as well as the amendments made to them.
   B. The overall limits of risk exposure and, if the case, specific risk exposure limits considering Consolidated Risk, broken down by business unit or risk factor, cause or origin of them, taking into account, as appropriate, the provisions of Articles 79 to 86 Bis 2 of the General Provisions applicable to credit institutions as well as, where appropriate, risk tolerance levels.
   C. Mechanisms for the implementation of corrective measures.
   D. Special cases or circumstances in which specific or global limitations could be exceeded.
   E. At least once a year, the assessment of Sufficiency of Capital including the estimation of capital and, where appropriate, the capitalization plan.
   F. A contingency Plan and its amendments.

2. To approve:
   A. Specific risk exposure limits and levels of risk tolerance when the Board delegates any powers for this purpose, as well as the liquidity risk indicators referred to in Article 81, Section VIII of the General provisions applicable to credit institutions.
   B. Methodology and procedures to identify, measure, monitor, limit, control, inform and disclose the different types of risk which the institution is exposed to, as well as their modifications.

C. Models, parameters, scenarios, assumptions, including those relating to stress tests referred to in Annex 12-B of the General Provisions applicable to credit institutions, which are used to perform the assessment of Capital Sufficiency and that will be used to carry out the valuation, measurement and control of risks proposed by the unit for the comprehensive risk management which must be commensurate with the technology of the institution.
D. Methodologies for the identification, valuation, measurement and control of the risks of new operations, products and services that the institution intends to offer to the market.
E. Corrective plans proposed by the CEO under the terms established in Article 69 of the of the General Provisions applicable to credit institutions.
F. The evaluation of aspects of the comprehensive risk management referred to in Article 77 of the General Provisions Applicable to Credit Institutions, for submission to the Board and to the CNBV.
G. The manuals for Comprehensive Risk Management, in accordance with the objectives, guidelines and policies established by the Board, as referred to in the last paragraph of Article 78 of the General Provisions Applicable to Credit Institutions.
H. The designation or removal of the Responsible of the Comprehensive Risk Management Unit, which must be ratified by the Board of Directors.
I. Methodologies to estimate the cuanttative and qualitative impacts of the Operating Contingencies referred to in section XI, Article 74 of the General Provisions Applicable to Credit Institutions.

3. Inform the Board of Directors:
   A. At least quarterly, report the risk profile and the fulfillment of the capital estimate contained in the of the institution's Adequacy of Capital Assessment, as well as the negative effects that may occur in the operation of the institution. Likewise, it shall inform the Board in the session immediately following, or in a extraordinary session if necessary, on failure to comply with the desired risk profile, risk exposure limits and risk tolerance levels, as well as, if the case, the capitalization plan referred to in Article 2 Bis 117c of the General Provisions Applicable to Credit Institutions.
   B. Implemented corrective measures, including those on the Equity Forecast Plan and, if the case, capitalization plan, according to Article 69 of the General Provisions Applicable to Credit Institutions.
   C. At least once a year, on the outcome of testing the effectiveness of the Business Continuity Plan.

4. Review at least once a year:
   A. Mechanisms for the implementation of corrective measures.
   B. Specific risk exposure limits and tolerance levels when the Board delegates powers for this purpose, as well as the liquidity risk indicators referred to in Article 81, Secction VIII of the General Provisions Applicable to Credit Institutions.
   C. Methodologies and procedures to identify, measure, monitor, limit, control, inform and reveal the various types of risk to which the institution is exposed, as well as their possible modifications.
   D. Models, parameters, scenarios, assumptions, including those relating to stress tests referred to in Annex 12-B of the General Provisions applicable to credit institutions, used to assess capital adequacy and to carry out the valuation, measurement and control of risks proposed by the unit for the comprehensive risk management which must be commensurate with the technology of the institution.

5. Ensure at all times that personnel involved in risk taking is aware of the desired risk profile, desired risk exposure limits, risk tolerance levels, as well as the Capital Projections Plan and, where appropriate, the capitalization plan.

The Risk Policy Committee, with prior approval from the Board of Directors, may, in accordance with the objectives, guidelines and policies for comprehensive risk management, adjust or authorize in an exceptional manner, the exceeding of specific risk exposure limits when the conditions and environment of the institution so require. In the same terms, the Committee may request the governing body to establish or authorize, as an exception, exceeding the overall limits of risk exposure.

Frequency of the sessions: sessions must convene each month. All sessions and agreements must be recorded in the minutes and signed by each and every one of the attendees.

Structure: According to Article 70 of the General Provisions Applicable to Credit Institutions, the CPR should be comprised of at least two proprietary members of the Board of Directors (one of whom will preside); the CEO and the Responsible for the Comprehensive Risk Management Unit. Additionally, the Interal Auditor and invited persons may participate with voice but without vote.

In addition to what's required by the applicable regulation, the Board Members comprising the CPR should be independent members. Each member has the right for a vote, and resolutions must be approved by a majority vote of the attending members.

MEMBERS	
Eduardo Livas Cantu	Proprietary Independent Member (Chairman)
Everardo Elizondo Almaguer	Proprietary Independent Member
Hector Federico Reyes- Retana y Dahl	Proprietary Independent Member
Thomas Stanley Heather Rodríguez	Proprietary Independent Member
Manuel Aznar Nicolin	Alternate Independent Member
Robert William Chandler Edwards	Alternate Independent Member
Jose Marcos Ramirez Miguel	CEO - GFNorte
Guillermo Chavez Eckstein	MD Risk and Credit Management/ UAIR/ Secretary

Quorum: Two Proprietary Board Members, CEO of the corresponding entity and the Committee's Secretary.

Decisions will be adopted by the unanimous vote of those present.

AUDIT AND CORPORATE PRACTICES COMMITTEE (CAPS)

Objective: To support the Board of Directors in monitoring the management, performance and execution of the GFNorte's businesses and of the financial entities comprising it, considering the relevance that these have in the financial, administrative, operational, and legal situation of GFNorte; as well as the compliance with the General Shareholders' Meeting's resolutions.

Faculties:

The Committee as the support government body to the Board of Directors, will have the faculty to comply with duties and perform the functions defined in the following operating rules:

1. Request the opinion of independent experts in such cases where it is judged to be convenient, for the appropriate performance of their functions.
2. Have full availability of book, registers, facilities and the support of the employees' entities under its responsibility.

3. Require relevant officers and other employees of GFNorte and the financial entities comprising it, regarding the elaboration of financial and of any other type of information that it considers necessary for the execution of their duties.
4. Do research on the possible non-fulfillment of those with knowledge regarding operational policies and guidelines, the Internal Control System, internal audit and accounting registration system, either of GFNorte or the financial entities, through an examination of documentation, registrations and other proof or evidence, to the extent necessary to fulfill this supervision.
5. Receive observations expressed by shareholders, Board Members, relevant officers, employees and, by any third party in general, regarding matters referred to in the previous paragraph, as well as to carry out actions that are reasonable in their opinion in connection with such observations.
6. Request periodic meetings with the relevant officers, as well as the delivery of any type of information related to the internal control and internal audit of the Group or the financial entities that comprise it.
7. Meet with the Board of Director, relevant GFNorte's officers, internal comptroller, Internal and external auditor, authorities and investors.

The Committee, in the development of its activities, shall establish the necessary procedures for the general performance of its duties. In any case, Committee members shall take as a basis for their activities, information prepared by the Internal Comptroller, Internal and External Auditors as well as by the Management.

Structure: Comprised exclusively by independent Board Members, with at least three and no more than five board members, all designated by GFNorte's Board of Directors, and proposed by its Chairman.

Each member of the Committee has the right for one vote and resolutions must be approved by a majority vote of the attending members; in the event of a tie, the Chairman of this Committee shall have the deciding vote. In the event that a member or the secretary of this committee has a conflict of interest with any specific matter, should abstain to participate in the voting process, not affecting the required quorum for Committee.

MEMBERS		
Hector Federico Reyes-Retana y Dahl	Proprietary Independent Member	Chairman*
Carmen Patricia Armendariz Guerra	Proprietary Independent Member	Member
Thomas Stanley Heather Rodríguez	Proprietary Independent Member	Member
Robert William Chandler Edwards	Alternate Independent Member	Member
Manuel Aznar Nicolin	Alternate Independent Member	Member
Clemente Ismael Reyes Retana Valdés	Alternate Independent Member	Member
Manuel Alfonso Alvarez Lugo	Secretary	Not Member

Quorum: Sessions of the CAPS are valid with a majority participation of its members, provided that the Chairman is present or whoever has been designated as his alternate.

Internal Control System

A. Monitor the establishment of mechanisms and internal controls that enable verification that acts by GFNorte and its financial entities adhere to applicable regulations, as well as implement methodologies that make it possible to check compliance with the foregoing. (LRAF Article 57 Section II Subsection p).

B. Report the situation of the Internal Control System to the Board of Directors of GFNorte and the financial institutions it is accountable for or legal entities in which it exercises control, including irregularities detected, if the case. (LRAF Article 57 Section II Subsection d).

Accounting and Financial Information

A. Discuss and revise GFNorte's financial statements with the persons responsible for its preparation, and based on that, to recommend or not the Board's approval. (LRAF Article 57 Section II Subsection c).
B. Review significant accounting and reporting issues, including complex or unusual transactions as well as professional declarations and recent regulations, and understand its impact on the financial statements.
C. Review the verdict of the annual financial statements with Management and with the Internal and External Auditors, prior to submission to regulatory authorities.
D. Select and approve the hiring of the independent expert who will perform impairment testing of goodwill.
E. Review the results of the goodwill impairment test.

Internal Comptrollership

A. Follow-up on the Internal Comptroller's activities, keeping the Board informed of its performance. (CUB Article 144)
B. Review the report of management that the person responsible for the Internal Comptroller's functions shall deliver to the Committee and the CEO at least twice a year. (CUB Article 167)
C. Review the reports presented by the Internal Comptroller on the results of the inspection visits carried out by supervising agencies.

Internal Audit

A. Follow-up on the Internal Auditor's activities, keeping the Board informed of its performance. (CUB Article 144)
B. Monitor the independence of the Internal Audit area about the other business and administrative units. Any lack of independence must be reported to the Board. (CUB Article 156 Section IV)
C. Inform the Board of Internal Audit's situation in GFNorte, its financial or legal entities or corporations in which it exercises control, including any detected irregularities, if the case. (LRAF Article 57 Section II Subsection d)
D. Approve the Bylaws of Internal Audit's function.

   With the prior opinion of the CEO, to approve the annual work program of the Internal Audit area. (CUB Article 156 Section VIII). If the case, amendments to the referred annual program should be presented for the approval of the Committee, in the next session.

E. Review, based on reports from the Internal Audit area and the External Auditor, at least once a year or when required by the CNBV, that the Internal Audit program is carried out in accordance with appropriate quality standards in accounting matters and internal controls, and that the activities of the Internal Audit area are carried out effectively. (CUB Article 156 Section III).
F. Review the report prepared by the head of Internal Audit functions on the results of its management, at least every six months or as frequently as the Committee requires. The foregoing, notwithstanding that the head of Internal audit functions learns of, immediately, the detection of any deficiency or deviation identified in the exercise of their functions and that according to the Internal Control System is considered significant or relevant. (CUB article 161).
G. Approve the hiring of service providers for the external evaluation of the quality of Internal Audit's performance.

H. Review the results of internal and external quality assessments carried out for Internal Audit's functions and where appropriate, to follow-up on the implementation of certain recommendations.
I. Review, at least annually, the organization's structure, capabilities and the adequacy of resources allocated to the Internal Audit area for the performance of its functions and, where appropriate, approve actions required in order to ensure the greatest effectiveness in the fulfillment of its objectives and goals.
J. Meet regularly with the Internal Auditor, without the presence of management for comments and observations on the progress of its work. (CMPC Practice 23, Section IV).

External Audit

A. Follow-up on External Audit activities, keeping the Board informed of its performance. (CUB Article 144).
B. Monitor the independence of the External Auditors obtaining their statements in this regard and evaluating the nature of the additional services provided.
C. Review the External Auditor's report on elements to be considered to define the scope of their audit and develop a work plan.
D. Review External Audit's detailed work plan, including the hours assigned to each job and its cost.
E. Evaluate the performance of the legal entity providing GFNorte's external audit services, as well as analyze the verdict, opinions or reports drawn up and signed the External Auditor. For this purpose, the Committee may require the presence of the External Auditor when deemed appropriate and without prejudice must reunite with the Committee at least once a year. (LRAF Article 57 Section II Subsection b).
F. Meet periodically with the External Auditor, without the presence of management, for comments and observations on the progress of its work. (CMPC Practice 23 Section IV).

Agreements between the Shareholders' Assembly and the Board of Directors

A. Monitor that the CEO fulfills the agreements made between the Shareholders' Meetings and the Board of Directors of GFNorte, according to the instructions which, if the case, are dictated by the Meeting or the Board. (LRAF Article 57 Section II Subsection o).

Authorizations from the Board of Directors and Shareholder rights

A. Monitor that the Board approve the topics that correspond to it and respects the shareholders' rights in accordance that established in the LRAF, as well as policies derived from them to. (LRAF Article 57 Section II Subsection g, in relation to Articles 39 Section III and 65).

The other regulations established by the LRAF or in GFNorte's Bylaws, in accordance with the functions assigned by the LRAF.

Prevention of Conflicts of Interests

A. The implementation of the Conflicts of Interests' Prevention System, aiming at every moment to work according to GFNorte's financial entities' strategies and objectives, taking the preventive and corrective measures to rectify any deficiency detected in a reasonable term, complying with the features of the referred measures. (LARF, Article 14 and General Rules for Financial Groups, article 7).

COMMUNICATION

Provide opinions for approval by the Board of Directors

Give the Board an opinion to approve on the following issues:

In the area of Corporate Practices:

A. Policies and guidelines for the use of assets that make up GFNorte's patrimony, as well as financial institutions and other legal entities that exercise control, through related people.
B. Acts, each individually, with Related People, proposed to celebrate with GFNorte.
C. Policies for the granting of joint loans, loans or any type of credit or guarantee to Related People.
D. Acts that are executed, either simultaneously or successively, which by their nature may be considered as one and that are intended to be carried out by GFNorte or financial institutions comprising it, in the span of one fiscal year, when they are unusual or non-recurring, or when their amount fits into any of the cases referred to by the LRAF.
E. The appointment and, if the case, dismissal of GFNorte's CEO and this comprehensive remuneration, as well as policies for the designation and comprehensive remuneration of other relevant managers.
F. Any waivers so that a Board member, relevant officer or person with authority may take advantage of business opportunities for, or on behalf of third parties, corresponding to GFNorte or the financial entities that comprise it.

In the area of Audit:

A. Guidelines in the areas of Internal Control and Internal Audit for GFNorte and the financial institutions under its responsibility.
B. GFNorte's accounting policies, adjusted to the LRAF
C. GFNorte's financial statements.
D. Hiring the corporation that will provide the external audit services and, if the case, supplementary or complementary services to the external audit services.
E. When the Board of Directors' decisions are not consistent with the Committee's views, the CEO shall be instructed to disclose such circumstances to the General Shareholders' Meeting that takes place after this Act, as well as the CNBV, within ten working days of the corresponding determination.

Report to the Board of Directors

A. The Chairman of the Committee should draw up an annual report* on the activities that correspond to such organ and submit it to the Board of Directors.
B. Prepare an opinion of the CEO's report on the business' progress and submit it for consideration to the Board of Directors for subsequent submission to the Shareholders' Meeting, relying on, among other things, the External Auditor's opinion.
C. Support the Board of Directors in the preparation of the report on major accounting policies and criteria and information following the preparation of financial information.
D. Support the Board of Directors in the preparation of the report on intervened operations and activities in accordance with the LRAF. To prepare the report, as well as opinions, the Committee should hear from relevant officers; in the case of any difference of opinion with the latter, such differences should be incorporated into the aforementioned reports and opinions.
E. Inform the Board of important irregularities detected in the exercise of functions and, where appropriate, the corrective actions taken or proposals for action to be implemented.
F. A progress report in the review of the financial statements' External Auditor, as well as the result of the reviewed verdict of the annual financial statements.

***Annual Report on corporate practices' matters:**

a. Observations regarding the performance of relevant managers.

b. Acts with Related Persons, during the period reported, detailing the more significant characteristics.
c. Emolument or comprehensive remuneration packages for the CEO and relevant executives.
d. Any exemptions granted by the Board so that a Board Member, relevant Director or person with authority, can take advantage of business opportunities for himself or on behalf of third parties, that correspond to GFNorte or to financial institutions under its responsibility.
e. Observations made by commissioned supervisors of the financial institutions of the financial group, or the CNBV for GFNorte, as a result of supervision of the same.

***Annual Report on audit matters:**

a. The state of the Internal Control and Internal Audit systems of GFNorte, of financial institutions or companies in which it exercises control and, where appropriate, the description of its deficiencies and deviations, as well as aspects requiring improvement, taking into account the opinions, reports, press releases and the opinion of the External Auditor as well as reports issued by independent experts who rendered services during the period the report covers.
b. The mention and follow-up of implemented preventive and corrective measures based on the results of investigations related to non-compliance with guidelines and operational policies and accounting records, of either GFNorte or financial entities that it is responsible for.
c. Evaluation of the performance of the legal entity providing external audit services and the External Auditor responsible for this.
d. The description and assessment of additional or complementary services provided, and if the case, the legal entity responsible for performing the external audit, as well as those provided by independent experts.
e. The main results of revisions to financial statements of GFNorte and the financial institutions under its responsibility.
f. The description and effects of modifications to approved accounting policies during the period that the report covers.
g. Measures adopted for relevant observations made by shareholders, Board Members, relevant managers, employees and, in general, any third party, with respect to accounting, internal controls and issues related to internal or external audit or, issues arising from allegations based on facts considered to be irregular in the administration.
h. The follow-up on agreements of the Shareholders' Meeting and the Board of Directors' meetings.

OTHER AUDIT COMMITTEES

Audit Committee for Banco Mercantil del Norte, S.A. (Banorte)

Objective:

This committee is a government body constituted by Board of Directors to support it in the definition and update of the Internal Control System's (ICS) objectives and the guidelines for their implementation; as well as in its evaluation.

The Committee will also supervise that financial information and accounting are prepared in accordance with the guidelines, dispositions and applicable accounting principles, and will follow on the external and internal audit activities and internal comptrollership, informing the Board regarding the development of the aforementioned.

Faculties:

The Committee as the support government body to the Board of Directors, will have the faculty to comply with duties and perform the functions defined in the following operating rules:

A. Request the opinion of independent experts in such cases where it is judged to be convenient, for the appropriate performance of their functions.
B. Have full availability of book, registers, facilities and the support of the employees' entities under its responsibility.
C. Require involved officers of the financial entities under its responsibility, regarding the elaboration of financial and of any other type of information that it considers necessary for the execution of their duties.
D. Meet with the Board of Director, relevant GFNorte's officers, internal comptroller, Internal and external auditor, authorities and investors

The Committee, in the development of its activities, shall establish the necessary procedures for the general performance of its duties. In any case, Committee members shall take as a basis for their activities, information prepared by the Internal Comptroller, Internal and External Auditors as well as by the Management.

Integration:

A. The Committee is comprised of at least three and not more than five members of the Board of Directors, that may be proprietary or alternate, of which at least one should be independent.

MEMBERS		
Hector Federico Reyes-Retana y Dahl	Proprietary Independent Member	Chairman*
Carmen Patricia Armendariz Guerra	Proprietary Independent Member	Member
Thomas Stanley Heather Rodriguez	Proprietary Independent Member	Member
Robert William Chandler Edwards	Alternate Independent Member	Member
Manuel Aznar Nicolin	Alternate Independent Member	Member
Clemente Ismael Reyes Retana Valdes	Alternate Independent Member	Member
Manuel Alfonso Alvarez Lugo	Secretary	Non-Member

Frequency of sessions: The Audit Committee should hold at least a quarterly session, according to the annual work plan and approved schedule for sessions in stablished date, place and time in the understanding that these sessions may be held electronically, through videoconference or telephone.

Quorum: Sessions of the Audit Committee are valid with the participation of a majority of their members, only if the Chairman or his Alternates intervene.

1. Internal Control System

A. Hold a permanent and updated register of the ICS objectives, guidelines for implementation as well as manuals considered relevant for the operation, which shall be elaborated by the responsible for the Internal Control functions.
B. Review and oversee whith the support of the responsible for the Internal Control functions, that such relevant manuals comply with the ICS.
C. Review together with the Management the relevant manuals previously refered to, as well as the Code of Conduct, at least once a year or when significant changes in the operation occur.
D. Review along internal and external audit the implementation of the ICS, assessing its efficiency and effectiveness.

E. Review the report the CEO shall present at least annually to the Board of Directors and the Committee regarding the performance of his activities for the duly implementations of the ICS, as well as its operation.
F. Review the report that Internal Audit shall prepare regarding the follow-up on detected deficiencies or relevant deviation, so they can be timely restored.

2. Accounting and Financial Information

A. Assist the Board of Directors in the revision of the annual and intermediate financial information and in the release process, relying on the Internal and External Auditors' work.
B. Oversee that the financial and accounting information is formulated in accordance with the applicable guidelines and dispositions, as well as with applicable accounting principles.
C. Review significant accounting and reporting issues, including complex or unusual transactions, as well as professional opinions and recent regulations, and to understand their impact in the financial statements.
D. Review with Management and the Internal and External Auditors, the opinion of the annual financial statements, before their presentation to regulatory authorities.
E. Review with Management and the Internal and External Auditors, the opinion of the internal accounting control, which shall be released every two years, before their presentation to regulatory authorities.
F. Select and approve the hiring of the independent expert who will perform impairment testing of goodwill.
G. Review the results of the goodwill impairment test.
H. Prepare the internal policies aiming to stablish guidelines and procedures related to the management and, if the case, destruction of the books, registers documents and other information related to accounting, that have been or will be object of microfilm or recording.

3. Internal Comptroller

A. Follow-up on the Internal Comptroller's activities, keeping the Board informed of its performance.
B. Review the report of management that the person responsible for the Internal Comptroller's functions shall deliver to the Committee and the CEO at least twice a year.
C. Review the reports presented by the Internal Comptroller on the results of the inspection visits carried out by supervising agencies.

4. Sales Practices

A. Approve the appointment of the responsible person for oversee the compliance of applicable provisions on advised investment services, who shall comply with the requirements and functions stablished in the general provisions on investment services issued by SHCP.
B. Review the report that the responsible for overseing the compliance of applicable provisions on advised investment services, which will contain the main findings, and shall be presented to the Board through this Committee, as well as to the Commission at least twice a year.

5. Internal Audit

A. Follow-up on the Internal Auditor's activities, keeping the Board informed of its performance.
B. Monitor the independence of the Internal Audit area with regards to the other business and administrative units. Any lack of independence must be reported to the Board.
C. Approve the Bylaws of Internal Audit's function as well as the applicable methodology and policies to review the quality of internal control of main operations, called Models of Risk Evaluation (MER).
D. With the prior opinion of the CEO, to approve the annual work program of the Internal Audit area.

If the case, amendments to the referd annual program should be presented for the approval of the Committee, in the next session.

E. Review, based on reports from the Internal Audit area and the External Auditor, at least once a year or when required by the CNBV, that the Internal Audit program is carried out in accordance with appropriate quality standards in accounting matters and internal controls, and that the activities of the Internal Audit area are carried out effectively.
F. Review the report prepared by the head of Internal Audit functions on the results of its management, at least every six months or as frequently as the Committee requires. The foregoing, notwithstanding that the head of Internal audit functions learns of, immediately, the detection of any deficiency or deviation identified in the exercise of their functions and that according to the Internal Control System is considered significant or relevant.
G. Approve the hiring of service providers for the external evaluation of the quality of Internal Audit's performance.
H. Review the results of internal and external quality assessments carried out for Internal Audit's functions and where appropriate, to follow-up on the implementation of certain recommendations.
I. Review, at least annually, the organization's structure, capabilities and the adequacy of resources allocated to the Internal Audit area for the performance of its functions and, where appropriate, approve actions required in order to ensure the greatest effectiveness in the fulfillment of its objectives and goals.
J. Meet regularly with the Internal Auditor, without the presence of management for comments and observations on the progress of its work.

6. External Audit

A. Follow-up on External Audit activities, keeping the Board informed of its performance.
B. Monitor the independence of the External Auditors obtaining their statements in this regard and evaluating the nature of the additional services provided.
C. Review the External Auditor's report on elements to be considered to define the scope of their audit and develop a work plan.
D. Review External Audit's detailed work plan, including the hours assigned to each job and its cost.
E. Evaluate the performance of the External Auditor and the quality of his opinion and reports prepared in compliance with the applicable general provisions, including comments made by the CNBV, and inform the Board of Directors of the results.
F. Meet periodically with the External Auditor, without the presence of management, for comments and observations on the progress of its work.

7. Credit

A. Review the CEO's report which shall be prepared at least quarterly to the Board, the Risk Committee and the Audit committee regarding the detected deviations of the objectives guidelines, policies, procedures, strategies and current provisions on credit.
B. Review the report internal audit of credit prepare shall prepare at leas once a year and which will be presented to the Board, the Rsik Committe and the Audit Committe, regarding its findings.
C. Approve the anual loan review and the simple of clients to be included in each entities' review.
D. Check the results report on the loan review.

8. Comprehensive Risk Management

A. Review the Internal Audit report with the results of the audit on the Comprehensive Risk Management, which be carried out at leas once a year or at the end of the fiscal year. This report shall be presented to the Board, the Risk Committee and the CEO and be submitted to the CNBV.
B. Select and approve the hiring of the suppliers of technical assessment on Comprehensive Risk Management matters, according to internal policies for suppliers hiring.
C. Review the report of the technical assessment on Comprehensive Risk Management matters, which will be carried out at least every two fiscal years and shall be presented for approval to the Risk Committee and the Board, and be submitted to the CNBV:

9. Derivatives

A. Release a document in which the Committee expresses that it complies with the requirements set forth in the rules to carry out derivative transactions issued by Banco de Mexico, as a necessary element to manage the authorization to hold proprietary derivative transactions.
B. Select and approve the hiring of the independent expert to valid valuation and risk measurement models according to internal policies for suppliers hiring.
C. Review the results of the valuation and risk measurement models approval, which shall be made at least once a year by independent experts.

10. Comission agents

A. Approve the hiring of commission agents to carry out an operative process or data base management that may be executed partially or totally abroad or by foreign residents.
B. Review the performance report of commission agents to be delivered to the Board, the Audit Committee or CEO, as well as the compliance of provisions related to such service.
C. Review the result of the audits carried out every two years to verify the compliance with Chapter XI of the hiring of commission agents if the CUB, as well as what is set forth in Annexes 52 and 58 accordingly. .

11. Money Laundering and Financing of Terrorism

A. Approve, by proposal of the Communication and Control Committee, the policies and procedures Manual to prevent money laundering and financing of terrorism, as well as any amendment to this document.
B. Review the result of the work of Internal Audit or independent external auditors of assessing and ruling annually the compliance of Provisions set forth in articles 115 of the LIC and 87-D and 95-Bis of the LGOAAC. This revision shall be presented to the CEO and Communication and Control Committee, and be submitted to the CNBV.

12. Online Banking

A. Review the reports of incidents of Online Banking, which shall be presented to the Audit and Risks Committees in the immediate following session of the event involved, in order to adopt measures to prevent and avoid these incidents again.
B. Review the reports to be presented to the Audit and Risks Committee, each time these meet; therefore correlating to information from clients' claims with fraud event.

13. Autocorrection program

A. Provide an opinion on the autocorrection progams to be submitted for authorization of the CNBV, CONDUSEF, or IPAB, when the institution, in the development of its activities, or the Audit Committee, as a result of its functions, setect irregularities or non compliance of what is set forht in the LIC and other applicable regulations.
B. Autocorrection programs shall be signed off by the Chairman of the Committee and be presented to the Board in the immediate following session of the request for authorization presented before CNBV, CONDUSEF or IPAB, accordingly.
C. Follow up on the implementation of the authorized autocorrection programs and inform the advance, to the Board, CEO, CNBV, CONDUSEF or IPAB, accordingly.

Other duties and responsibilities necessary for the performance of its functions.

COMMUNICATION

1. Propose for the Board of Directors approval:

A. The ICS that the institution requires for its proper functioning and updates.
B. The objectives and guidelines for their implementation of the Internal Control System (ICS), which shall refer at least two:

    1. General policies refered to organizational structure.
    2. Comunication and flow information channels among different units and areas.
    3. General operation policies.
    4. Business Continuity Plan
    5. Control measures for transactions to be properly approved, processed and registered.

C. The Code of Conduct, prepared by the Management.
D. Changes to accounting policies related to the registration, rating of items in the financial statements and presentation and disclosure of information, so that it is complete, correct, precise, reliable, timely and serves in decision making prepared by the CEO according to applicable provisions. In any event, the Committee will also be able to propose changes that it considers necessary to these policies, considering the opinion of the CEO.
E. Internal Audit appointment.
F. External Audit appointment.
G. Adittional services related to audited financial statements provided by the external auditor.
H. Business Continuity Plan as well as its amendments.
I. Regulation that will determine the proper functioning of this Committee, which will subsecuently be send to the CNBV for its information.

All the matters to be approved by the Board contained in chapter VI of the Internal Control of the CUB, will be presented by the Committee by such effect.

2. Report to the Board of Directors

A. Evaluate on an annual basis, the condition of the Internal Control System and inform the Board of Directors of the results. The report shall contain at least the following:

1. Deficiencies, deviations or issues of the ICS that, if the case, require enhancement considering for such effect, reports of the Risk Management department, as well as ARSI.
2. The mention and follow-up of implemented preventive and corrective measures based on the comments of the CNBV and the results of the internal and external audit, as well as the assessment of the ICS carried out by the committee.
3. Evaluation of the performance of the Internal Comprollership and Internal Audit functions.
4. Evaluate the performance of the External Auditor and the quality of his opinion and reports prepared in compliance with the applicable general provisions, including comments made by the CNBV.
5. Significant matters of the ISC that may affect the performance of the Institution's activities.
6. Results of the opinion, reports and communication of the External Auditor.
7. Assessment of the scope and effectiveness of the Business Continuity Plan, its disclosure among the corresponding areas and identification, if the case, of the necessary adjustments for its update and strengthening.

The Committee, when preparing its report, will hear the CEO, the Internal Auditor and the responsible for the Internal Comptrollership functions. In case of different opinions with the aforementioned in the ICS, such differences shall be included in the report.

B. Report the Board of the significant irregularities detected when carring out its functions, and if the case, of the adopted corrective measures or propose those that shall be applied.
C. Report the External Auditor progress on the Audited financial statements progress as well as the result of the opinion of the annual financial statements.
D. Review the report that the responsible for overseing the compliance of applicable provisions on advised investment services, which will contain the main findings, and shall be presented to Commission at least twice a year.
E. Report the Board at least once a year on the consistency of the Compensation System application. The report shall contain at least the following:

    1. An evaluation of the compliance to the policies and procedures of compensation, and if the case, provide fundamented reason for any exception.
    2. Adjustments to the Compensation System as a result of losses when these had not been forseen by this System.
    3. Significant matters of the Compensation system that may affect bank’s liquidity, solvency and stability.
    4. Review the reports that the CEO, Internal Comproller, Internal and External Auditor will present to the Board on matters related to the committee.

Audit Committee for Casa de Bolsa Banorte Ixe, S.A. de C.V. (Casa de Bolsa)

Objective: The Audit Committee's primary objective is to support the Board of Directors in defining, updating, verifying and evaluating objectives, policies and guidelines of the Internal Control System (ICS); as well as the monitoring of processing and audit activities, both internal as well as external, at all times with a channel of communication among the Board of Directors and both internal and external Auditors.

It will also support the Board in monitoring the financial reporting processes and the verification of compliance with laws and other regulatory provisions, as well as strict adherence to GFNorte's Code of Conduct.

Authority:

The Audit Committee has the authority to conduct or authorize investigations into any issue or matter that is within the scope of its responsibilities and to investigate possible breaches of those with knowledge of operations, operational policies and guidelines, the Internal Control System, audit and accounting records.

The Committee can:

1. Require from relevant officers and other employees, reports concerning the preparation of financial information and any other information deemed necessary in order to exercise its functions.
2. Receive comments from shareholders, Board of Directors, executive officers, employees or any third party in respect of any breach in operations, guidelines and operating policies, internal control, audit and accounting records.
3. Conduct a review of documentation, records and other evidence, to the degree and extent necessary to monitor possible breaches described in the preceding point.
4. Request opinions from independent experts, when appropriate or when regulations require it.
5. Solicit regular meetings with senior officers, as well as the delivery of any information relating to internal control and internal audit of the Brokerage House.
6. Convene shareholders' meetings and request the inclusion of any resolutions it deems appropriate into the agenda of these meetings.

Responsibilities:

The Audit Committee has the responsibilities set forth below.

External Audit:

1. Propose for approval by the Board of Directors, the appointment of an external auditor, the scope of activities and conditions of its employment in compliance with regulations and internal policies established for that purpose, as well as additional services to the audit of financial statements, if any are required.
2. Monitor and confirm the independence of the External Auditor, obtain the corresponding statements as well as additional services.
3. Evaluate the external auditor's performance and assess the quality of the audit, opinions or reports prepared and signed, verifying that they are in adherence to regulations.
4. Coordinate the activities of the external Auditor with those of the Internal Auditor.
5. Meet regularly as deemed necessary and separately with the external auditors to discuss any matter it considers important and that should be dealt privately.

Internal Control:

1. Prepare for approval by the Board of Directors, upon recommendation of the CEO, objectives, guidelines and policies on internal control for the proper functioning of the Brokerage House and their update.
2. With the support of Internal Audit, approve the manual for internal control and review annually or when there are significant changes in the operation of the Brokerage House.
3. With the support of Internal Audit and Control, monitor that the policies, procedures and operations in the aforementioned manuals are consistent with regulations, as well as with the objectives, guidelines and policies approved by the Board of Directors.
4. Verify the effectiveness of the Brokerage House's Internal Control System, considering the security and control on information technology issues.
5. Evaluate on an annual basis, the condition of the Internal Control System and inform the Board of Directors of the results.
6. Develop, with prior opinion of the CEO, for approval by the Board, Conduct and Ethics Codes.
7. Propose for approval by the Board of Directors, guidelines and policies regarding the reception and assignment system.
8. Develop policies that establish guidelines and procedures for the management, conservation and where necessary, destruction of books, records, documents and other information related to accounts that have been or will be microfilmed and recorded, in strict adherence to regulations.

Financial Statements:

1. Develop accounting policies relating to the registration, valuation of financial statement items, presentation and disclosure of information to the effect that it is accurate, complete, reliable, and timely that contributes to decision-making. The Committee may propose the changes deemed necessary to these policies, taking into consideration the opinion of the Managing Director of the Brokerage House.
2. Review significant accounting and reporting issues, including complex or unusual transactions, high risk areas as well as pronouncements arising from accounting regulations, understanding its impact on the financial statements.
3. Support the Board of Directors in reviewing the annual and interim financial information and disclosure process, relying on the work of the Internal and External Auditor.
4. Review the audit results with the CEO and the External Auditor, including any difficulties encountered.
5. Review the financial statements and opinion of the Brokerage House with the External Auditor, Internal Auditor, the CEO, the Internal Comptroller and whoever deemed necessary and verify that they are complete and consistent with the information known by Committee members; that the financial and accounting information is formulated in accordance with applicable guidelines and provisions and reflect the appropriate accounting principles and based on the foregoing, issue a recommendation to the Board of Directors, for approval.

Internal Audit:

1. Propose for approval by the Board, the appointment of the person to be responsible of the Internal Audit function.
2. Monitor the independence of the internal audit department.
3. Review and approve:
   a. The by-laws of the Internal Audit functions.
   b. Upon the CEO's recommendation, the annual Internal Audit work program.
   c. The personnel and organizational structure of Internal Audit's activities.
   d. The hiring of external quality assessment services of Internal Audit's functions.
4. Verify on an annual basis, or when required by the CNBV, that the internal audit program performs in

accordance with appropriate quality standards in accounting and internal controls and the activities of this area are carried out effectively.

5. Meet regularly as deemed appropriate and separately, with the person in charge of internal audit operations for any matter requiring their judgment and consideration, that should be dealt privately.
6. Establish the frequency of internal audit written reports on the results of management, without prejudice to the Internal Auditor report, immediately upon the detection of any flaw or deviation that is deemed significant or relevant.
7. Ensure that Internal Audit follows-up on detected significant flaws or deviations, to ensure they are promptly corrected and the report containing this information is available to the Board of Directors and competent financial authorities at all times.
8. Know and review the results of internal and external evaluations of quality made on Internal Audit functions and, where appropriate, follow-up on the implementation of recommendations.

Internal Controllership:

1. Follow-up on activities for the Internal Comptroller of the Brokerage House, keeping the Board of Directors informed on the performance of these activities.
2. Know and assess the quarterly report prepared and submitted by the Internal Comptroller.

Information and Others:

1. Report to the Board of Directors any important irregularities detected and if the case, the corrective actions taken or proposed.
2. Monitor fulfillment of the resolutions approved by the Shareholders Meetings and Board of Directors, by the Managing Director of the Brokerage House.
3. Oversee the establishment of mechanisms and controls to verify that the acts and operations of the Brokerage House adhere to regulation.
4. Comment on the content of the internal control report issued by the Managing Director of the Brokerage House.
5. Monitor that the policies, procedures and operations contained in the operations manuals are consistent with the laws and other applicable regulations and administrative provisions, as well as with the guidelines of internal control approved by the Board of Directors.
6. Obtain the opinion of Internal Controllership on proper compliance with laws and other applicable regulations and administrative provisions.
7. Review the results of the inspections carried out by supervisory agencies.
8. Evaluate the performance of functions in the areas of Internal Audit, External Audit, as well as Internal Controllership.
9. Evaluate and verify annually that the by-laws is sufficient and adheres to the needs and requirements of the Brokerage House, the Board of Directors, as well as regulations and internal policies; and propose, if necessary, changes requested by the Board of Directors, or by the same Committee.
10. Evaluate and verify annually that the responsibilities described in the by-laes are fulfilled.
11. Evaluate periodically the performance of the Committee and each of its members.

Integration: The Audit Committee shall consist of at least three proprietary members of the Board of Directors, at least one must be independent, who will preside. Each and every one of the members shall be appointed and removed from office by the Board of Directors of the Brokerage House (Casa de Bolsa).

MEMBERS		
Manuel Aznar Nicolin	Proprietary Independent Member	Chairman*
Hector Federico Reyes-Retana y Dahl	Proprietary Independent Member	Member
Clemente Ismael Reyes Retana Valdés	Proprietary Independent Member	Member
Diego Gonzalez Chebaux	Secretary	Non-Member

Frequency of sessions: The Audit Committee shall hold meetings at least quarterly and may convene special meetings whenever deemed necessary, which may be held via electronic media, video conferencing or telephone.

Quorum: Sessions of the Committee shall be valid with the participation of the majority of its members, provided the Chairman intervenes. Resolutions will be passed by a majority vote of the members present.

Long-Term Savings Audit Committee (CA-SAP)

Objective:

The Committee is the body, of an advisory nature, responsible for monitoring the adherence of companies in the Long Term Savings Sector (companies) to internal norms defined by the Board, as well as compliance with applicable legal and administrative provisions.

The Committee will also oversee that the financial and accounting information is formulated in accordance with the applicable guidelines, provisions and accounting principles and will monitor the activities of Internal and External Audit and the Internal Comptrollership, keeping the Board of Directors informed of the performance of the same.

Faculties:

The Committee, as a supporting governance entity for the Board of Directors, will have sufficient authorization to carry out the duties and functions that the present rules of operation define, among which stand out:

A. Request the opinion of independent experts for cases it considers convenient, for the proper performance of its functions.

B. Have unrestricted access to books, records, facilities and support of personnel in institutions under its responsibility.

C. Require from involved officials of companies under its responsibility, reports relating to the preparation of financial information or any other type of report that it considers necessary to perform its duties.

D. Meet with the Board of Directors, senior officers of these companies, Internal Comptroller, Internal Auditor, External Auditor, authorities and investors.

The Committee, in the development of its activities, shall establish the procedures necessary for the general performance of its duties. In any case, Committee members shall take information prepared by the Internal Comptroller, Internal and External Auditors, Independent Actuary and Management as a basis for its activities.

Integration

A. The Committee will be comprised of at least three and not more than five Board members, who may be proprietary members or alternates, of which at least one must be an independent.

B. Proprietary members or alternates who are Committee members may be substituted by any other member, observing regulations of Article 72, Sections III and IV of the law.

MEMBERS		
Hector Federico Reyes-Retana y Dahl	Proprietary Independent Member	Chairman
Thomas St anley Heather Rodriguez	Proprietary Independent Member	Member
Clemente Ismael Reyes Retana Valdes	Proprietary Independent Member	Member
Carmen Patricia Armendariz Guerra	Alternate Independent Member	Member
Manuel Aznar Nicolin	Alternate Independent Member	Member
Manuel Alfonso Álvarez Lugo	Secretary	Non-Member

Quorum: Committee sessions are valid with a majority participation of its members, provided that the Chairman or his alternate is present.

The Committee, in the performance of its duties shall, at least, perform the following activities for each of the companies under its responsibility:

1. Corporate Governance System

A. Follow-up on companies' compliance with corporate governance policies and guidelines adopted by the Board.

1.1. Comprehensive Risk Management

A. To monitor companies' adherence to internal regulations defined by the Board, as well as compliance with applicable laws, regulations and administrative provisions, related to the comprehensive risk management system.
B. Review Internal Audit's reports with the results of audits carried out to verify procedures which the Risk Management area uses to follow-up on compliance with limits, objectives, policies and procedures relating to comprehensive risk management, in accordance with applicable legal, regulatory or administrative regulations, as well as with policies established by the Board in that area.

1.2. Internal Control

A. Review the reports of the Internal Comptroller's System operation and of its results that the CEO shall submit to the Committee at least every six months.
B. Review, with support from Internal Audit and the independent external auditor, the application of the Internal Comptroller's System, evaluating its efficiency and effectiveness.
C. Follow-up on the Internal Comptroller's activities for the companies, keeping the Board informed of its performance.
D. Review the management report that the head of Internal Comptroller must submit to the Committee and the CEO at least twice a year.
E. Review the code of conduct at least once a year and propose necessary modifications to the Board of Directors, if the case.

F. To establish monitoring mechanisms for the companies' areas that, by its operational characteristics or its relationship with the public or third parties, may be prone to corruption; and to propose the necessary control measures.
G. To review the Internal Audit report on the follow-up of detected relevant deficiencies or deviations in connection with the operation of the companies, so that they be remedied promptly.
H. To review the reports submitted by the Internal Comptroller on the results of the inspection visits carried out by supervising agencies.

1.3. Internal Audit's Duties

A. Follow-up on the Internal Auditor's activities, keeping the Board informed of its performance.
B. Monitor the independence of the Internal Audit area with respect to other business and administrative units. Any lack of independence, must be reported to the Board.
C. Approve the By-Laws and Internal Audit Manual, and methodologies used for the development of its activities, as well as updated versions.
D. With the prior opinion of the CEO, to approve the annual work program of the Internal Audit area.

For this purpose, Internal Audit must present its work program for the following year in the last two months of every year. The work program shall ensure that the companies' activities are audited within a reasonable period of time, considering a risk-oriented approach and adequate period to review the strategic areas.

If the case, amendments to the referred annual program should be presented for the Committee's approval in its next session.

E. Review, based on reports from the Internal Audit area and the independent External Auditor, at least once a year or when required by the CNBV, that the Internal Audit program is carried out in accordance with appropriate quality standards in accounting matters, and that the activities of the Internal Audit area are carried out in adherence to applicable internal and external regulations.
F. Review Internal Audit reports on the results of audits carried out, and the tests or evidence supporting observations and recommendations, and other elements that allow the Committee fulfill its functions.
G. Review the report prepared by the head of the Internal Audit area on the results of its management, at least every six months. The foregoing, notwithstanding that the Internal Auditor immediately informs the Committee, of the detection of any deficiency or deviation identified in the exercise of its functions and that is considered significant or relevant according to the corporate governance system. In addition, a copy of these reports must be submitted to Management and other business areas, as the Committee deems convenient, in view of the nature of the detected problem.
H. Approve the hiring of service providers for the external evaluation of the quality of Internal Audit's performance.
I. Review the results of internal and external quality assessments carried out for Internal Audit's functions and where appropriate, to follow-up on the implementation of established recommendations.
J. Review, at least annually, the organization's structure, capabilities and the adequacy of resources allocated to the Internal Audit area for the performance of its functions and where appropriate, approve actions required in order to ensure the greatest effectiveness in the fulfillment of its objectives and goals.
K. Meet regularly with the Internal Auditor, without the presence of management for comments and observations on the progress of its work.

1.4. Actuarial Duties

A. To monitor that the companies adhere to the internal policy defined by the Board, as well as fulfill applicable legal, regulatory and administrative laws related to the actuarial duties of the companies.
B. To review the Letter of Opinion and the Opinion of Technical Reserves report, which the independent actuary must submit to the Committee within ninety calendar days from the end of the fiscal year.
C. To review the reports that the independent actuary must submit to the Committee and the Commission if in the course of its revision of the situation and adequacy of the technical reserves, irregularities were found that, based on his professional judgment, may endanger the stability, liquidity or solvency of the companies.

1.5. Hiring Third Party Services

A. To monitor the adherence of the companies to internal policy defined by the Board, as well as compliance with applicable legal, regulatory and administrative regulations related to hiring third party services.
B. Review the reports to ensure that policies and procedures for hiring third-party services established by the Management are adhered to, as well as compliance with applicable legal, regulatory and administrative regulations.
C. Review Internal Audit reports on the performance of third-parties hireed to provide services necessary for its operation, as well as their compliance with applicable regulations.

2. Accounting and Financial Information

A. Assist the Board in the review of the annual and intermediate financial information and its issuance process, relying on the work of the Internal and External Auditors.
B. To monitor that financial and accounting information is formulated in accordance with guidelines and provisions, as well as applicable accounting principles.
C. To review significant accounting and reporting issues, including complex or unusual transactions, as well as professional declarations, recent regulations and to understand its impact on financial statements.
D. To assess the financial position and results of the companies in relation to the state of the Internal Control System, and submitting the corresponding recommendations to the Board.
E. To assist the Board of Directors and the CEO in the evaluation of the fulfillment of objectives and goals of the companies.
F. To develop internal policies designed to establish guidelines and procedures relating to the management and, where appropriate, destruction of books, records, documents and other information relating to its accounting, that have been or will be subject to recording or microfilming.
G. To review with management and the Internal Auditor the reports that the independent External Auditor must prepare, sign and submit to the Commission (short report of basic consolidated annual financial statements, long report and reports on supplementary information, and other reports and releases).

3. External Audit

A. To follow-up on External Audit activities, keeping the Board informed of its performance.
B. To monitor the independence of the External Auditors obtaining their statements in this regard and evaluating the nature of additional services provided.
C. To review reports that the independent External Auditor must present to the Committee and the Commission in the practice of its duties or as a result of irregularities found in the audit affecting the liquidity, stability or solvency of the agencies that provide services.
D. To review the report of the External Auditor on elements considered in defining the scope of the audit and developing a work plan.
E. To review External Audit’s detailed work plan, including the hours and cost assigned to each job.

F. To evaluate the External Auditor's performance, as well as the quality of his opinion and reports prepared, in compliance with the applicable regulations, including remarks that in this regard by the Commission, and report the results to the Board.
G. To meet periodically with the External Auditor, without the presence of management, for his comments and observations on the progress of his work.

4. Follow-up on the fulfillment of Other Policies and Standards

A. To follow-up on compliance with policies and standards in subscription issues, design of insurance and reinsurance products and other transfer mechanisms for risks and responsibilities, financial reinsurance, marketing, development and financing of the companies' operations.
B. To follow-up on compliance with standards to avoid conflicts of interest between different areas of the companies in the exercise of assigned duties.
C. To follow-up on compliance with policies for investment of the companies' assets.
One member of the Audit Committee must attend Investment Committee meetings, with voice but without vote.
D. To follow-up on the fulfillment of general policies for the provision of services and attention to service users, as well as issues relating to the disclosure of information in which companies comply with the obligations established in Article 308 of the Law, and in Title 24 of the CUSF.

5. Regularization Plans and AutoCorrect Programs

A. To approve auto-correct programs when companies or the Committee, in the exercise of their duties, detect irregularities or non-compliance to the Law and/or other applicable regulations, and submit them for consideration by the Commission through the CEO as well as present them to the Board.
B. Review, if the case, regularization plans to restore coverage of solvency parameters or to remedy irregularities detected by the Commission, which must be presented for the Board's approval, prior to its submission to the Commission for approval.
C. To follow-up on regularization plans and AutoCorrect programs authorized by the Commission, keeping the Board and CEO, as well as the Commission, informed of progress in compliance.
D. To present a report to the Commission on the instrumentation progress of regularization plans and AutoCorrect programs in effect, within the first ten working days following the close of each month, accompanied by documents that, if the case, support the reported progress.
E. Submit a report to the Commission within ten working days from the respective expiration date of the regularization plan or autocorrect program, with respect to the fulfillment of actions contained therein. In cases where irregularities or breaches subject of the regularization plan or auto-correct program were not corrected, the report must state the reasons for this.

6. Transactions using Electronic Means

A. Review the reports which must be presented whenever the Committee sessions, with the results of applying both preventive and corrective procedures, enabling the correlation of information from customers' claims with fraud events.
B. Review the reports about occurrences in the operation of the computing and telecommunications infrastructure, informing the Committee in the session immediately following verification of the event concerned, in order to adopt measures to prevent or avoid reoccurrence of such event.

7. Prudential Measures in Credit Issues

A. Review that the Credit Manual is consistent with the objectives, guidelines and policies for origination and credit management issues approved by the Board.

B. Review the report prepared by the CEO on a quarterly basis at least, for the Board, the Committee and the Risk Management area, on deviations detected with respect to the objectives, guidelines, policies, procedures, strategies and regulations in credit matters.

C. Review the report by the area responsible for Internal Audit's function, at least once a year, in terms of credit matters on observations made in their reviews, to the Board and the Committee.

8. Sales Practices

A. In the case of trusts, in which companies act as fiduciary institutions and that involve operations with the public such as consultancy, advertising, purchase and sale of securities as established in Article 140 Section III of the Law, Receiving and Assignment System manuals, as well as their modifications, shall be authorized by the CEO, based on guidelines and policies established by the Board for this purpose, on the Committee's proposal. Manuals, as well as their amendments shall be submitted for the Commission's prior approval.

B. Review reports by the officer or area responsible for monitoring transactions carried out through the Receiving and Assignment System, as frequently as established by the Committee; the above, without prejudice, to immediately inform the Committee Chairman of the detection of any deficiency or deviation considered significant or relevant in the performance of its duties. In addition, when so determined by the Committee, the officer or area shall report to the CEO and other units of the companies, including, when appropriate, to the Board.

9. Financial Reinsurance Transactions

A. To follow up, within the scope of its responsibilities, on companies' reinsurance contracts, as well as those that include financial reinsurance operations, permanently evaluating the behavior of the original estimates with respect to the significant transfer of insurance risk, as well as the impact of the Financing component's amortization scheme on the technical and financial operation of the companies.

10. Issuance of Subordinated Obligations and Other Debt Instruments

A. To issue the required opinion for authorization to issue subordinated obligations or other debt instruments, with the favorable vote of the independent Board members, regarding:

a) To prepare financial statement projections of the company, with and without the effects of the issuance of subordinated obligations or other debt instruments.

b) To calculate the impact that the financing amortization scheme planned in the issuance act may have on the company's financial situation.

11. Transactions with Related Parties

A. Review the results of the transfer pricing study to be prepared by an independent third party for the realization of significant transactions with related entities, such study must be submitted to the Committee in the session immediately following the date of its reception, in order to verify compliance with applicable legal, regulatory and administrative regulations as well as policies and procedures adopted by the Board, and take measures deemed pertinent.

When the study carried out by the independent third party determines that prices or the amounts of compensation agreed on significant transactions with related entities, do not correspond to those that had been agreed by parties in comparable acts, the Committee must report this fact to the Commission in a term no longer than five working days, as of the date of the study reception.

12. Prevention of Money Laundering and Financing of Terrorism

A. Study the results of the review by Internal Auditor and independent External Auditor that must be done on an annual basis to evaluate and asses compliance with regulations for the prevention of money laundering and financing of terrorism. Such report must be submitted to the CEO and the Communication and Control Committee to evaluate the effectiveness of implemented measures and to follow-up on applicable corrective-action programs, and which must be presented to the Commission within sixty calendar days following the close of the fiscal year of the corresponding revision.

   All other obligations arising from legal, regulatory and administrative regulations applicable to the companies, and which are necessary for the performance of its duties. (CUSF 3.8.4. Section XV)

Communication

1. Propose for approval by the Board of Directors

A. The Internal Comptroller System that the companies require to function properly, as well as its updates. The Internal Comptroller System's objectives and guidelines must relate to the aspects listed in Chapter 3.3 of the CUSF, which shall be drawn up by the CEO and submitted for consideration of the Committee.
B. The code of conduct referred to in Regulation 3.1.3 of the CUSF.
C. The appointment of the Internal Auditor for the companies.
D. The appointment of the External Auditor and any additional services as a result of the ruling of the financial statements that will be required.
E. The appointment of the Independent Actuary who will issue a ruling on the situation and adequacy of the technical reserves that companies must create, and additional services derived from this review.
F. The appointment of the Actuary who will perform the Dynamic Solvency Test for the companies.
G. Where appropriate, the designation of an independent expert to provide an opinion on whether the internal model for the calculation of the Capital Solvency Requirement of the companies complies with applicable legal, regulatory and administrative regulations.
H. The regularization plans referred to in Article 320 of the LISF.
I. Any changes to accounting policy regarding:

   1. The registration and valuation of headings in the financial statements, and

   2. The presentation and disclosure of the companies' information, so that it is correct, sufficient, reliable, consistent and timely.

   In all cases, the Committee may propose such changes when it deems them necessary for the companies.

J. A Business Continuity Plan, as well as its modifications.
K. The rules for Committee's functions.

2. Report to the Board of Directors

A. The Board must be informed at least once a year, on the situation of the companies' corporate governance system. This report must contain, as a minimum, the following:

1. Any deficiencies, deviations, or aspects of the Comprehensive Risk Management System which, if the case, requires improvement, taking into account for this purpose reports from the Risk Management Area, as well as those from ARSI.
2. Any deficiencies, deviations or aspects of the Internal Comptroller System, if the case, that require improvement, taking into account for this purpose the reports and rulings from the Internal Audit Area and the independent External Auditor as well as those responsible for Internal Comptroller duties.
3. The mention and follow-up of implemented preventive and corrective measures derived from the Commission's observations and the results of the Internal and External audits, as well as the evaluation of the Internal Comptroller System carried out by the Committee itself.
4. The performance evaluation for the Internal Comptroller and Internal Audit, including significant aspects in carrying out those functions that could affect the performance of the companies.
5. The performance evaluation for the External Auditor and the Independent Actuary who rule on the situation and the adequacy of technical reserves, as well as the quality of its opinions and prepared reports, including comments from the Commission.
6. The results of the ruling review, reports, opinions and statements from the External Auditor and the independent Actuary who rule on the situation and adequacy of the technical reserves.
7. The deficiencies, deviations or aspects of the companies' actuarial function that, if the case, require improvement
8. The deficiencies, deviations, or aspects of hiring services through third parties that, if the case, require improvement.

The Committee in the elaboration of its report will listen to THE Management, the Internal Auditor and the person responsible for the functions of Internal Comptrollerdhip. In case of a difference in opinion with the latter, with respect to the Internal Control System, such differences should be incorporated into this report.

B. Important irregularities detected with the objective of performing their duties and, if the case, corrective actions taken or proposed.
C. The Board and General Management of the companies must be notified, through the Committee, of the results and recommendations arising from the Internal Audit, to ensure the implementation of appropriate corrective measures.
D. Results of the follow-up of regularization plans and auto correction programs authorized by the Commission.
E. The progress in the External Auditor's review of the audited financial statements.
F. Report on the performance of its activities. Review in advance, reports that the CEO, Internal Comptroller, and Internal and External Auditors submit to the Board on issues falling within the purview of the Committee.

HUMAN RESOURCES COMMITEE

Objective: Compensate staff of the Institution, protecting the integrity, stability, competitiveness and financial soundness of the same, supporting GFNorte's Board of Directors in its functions relating to the Compensation System, through the approval of determinations in human resources subject and the establishment of a regulatory framework, undertaking implementation, maintenance and evaluation activities regarding the Compensation System.

Functions:

Assist the Board of Directors in the performance of its duties regarding the Compensation System in the following aspects:

1. Propose for approval of the Board of Directors:
    a. The compensation policies and procedures, consistent with reasonable risk taking, as well as any modifications made to them.

b. Employees or personnel who hold any position, mandate, commission or any other legal title, which will be subject to the paragraph of Compensation System related to risk taking.

c. The special cases or circumstances in which someone might exempt the application of approved compensation policies.

2. Implement and maintain the Compensation System related to risk taking, which must consider the differences among the different administrative, control and business units as well as the risks inherent to the activities performed by people subject to the Compensation System related to risk taking. For this purpose, the Committee shall receive and consider the reports of the Unit for Risk Management and any other area that the same Committee deems appropriate, on the implications of risk policies and procedures for compensation.
3. Inform all relevant staff, about policies and procedures of compensation, ensuring at all times the understanding by stakeholders regarding the methods for the determination, integration and delivery of their compensation, applicable risk adjustments, the deferral of extraordinary compensations and any other mechanisms applicable to their remuneration.
4. Prior to the DMD of Human Resources proceeds to deliver the percentage of Deferred Compensation that corresponds to each employee subject to deferral system, the Human Resources Committee shall report the results of the evaluation exercise to:
    a. The CEO: Results of risk analysis of Managing Directors under his charge before being presented to each of them.
    b. The Chairman of the Board: Results of the risk analysis of the CEO.
5. Hiring, when deemed necessary, external consultants on compensation schemes and risk management, who contribute to design compensation schemes, avoiding any conflict of interest.
6. Define and update the guidelines that frame the retention plan (in shares) for executives of the Institution subject to the Compensation System associated with risks, and to interpret, manage, modify and, where appropriate, propose to the Board the termination of the retention plan.
    a. Take any necessary action for the effective and timely execution of the retention plan for officers subject to the Compensation System.
    b. Report to the Board of Directors, when deemed appropriate on matters relevant to retention plan for officers subject to the Compensation System.
7. Report to the Board of Directors at least semiannually, on the operation of the Compensation System, and any time when exposure to risk assumed by the Institution, administrative, control and business units or people subject to the Compensation System, could result in an adjustment to such Compensation System.

Frequency of sessions: The Human Resources Committee meets quarterly, being free to meet more or less often, when the issues demand it.

Structure: According to Article 168 Bis 5 of the General provisions applicable to credit institutions, the Human Resources Committee must be comprised by at least two Proprietary Board Members, of which at least one must be independent (who shall preside). Furthermore, at least one of the Board Members shall be a person who has extensive experience in Risk Management or Internal Control; the Responsible of the Comprehensive Risk Management; a representative of the Human Resources area, a representative of the finance planning or budget elaboration area; and the Internal Audit, which will have voice but no vote.

In addition to what’s required by the applicable regulation, the Board Members comprising the Human Resources Committee should be independent members.

The Chairman, listening to the opinion of GFNorte’s CEO, may appoint alternate members when one member ceases to be part of this Committee. Each member has the right for a vote, and resolutions must be approved by a majority vote of the attending members; in the event of a tie, the Chairman of the Human Resources Committee shall have the deciding vote.

In the event that a member of this committee has a conflict of interest with any specific matter, should abstain to participate in the voting process.

MEMBERS		
Everardo Elizondo Almaguer	Proprietary Independent Member	Chairman
Eduardo Livas Cantu	Proprietary Independent Member	Member
Guillermo Chavez Eckstein	Responsible of the Comprehensive Risk Mgmt	Member
Javier Beltran Cantu	Human Resources Representative	Member
Rafael Arana de la Garza	Financial Planning Representative	Member
Isaias Velazquez Gonzalez	Internal Auditor	Member (Voice / w/o vote)
Rogelio Cardenas Solis	Secretary	Non-Member

Quorum: The Committee's resolutions will be constituted when the majority of the members attend the meeting, having to be always present at least one of the proprietary members of the Board of Directors as independent.

REGIONAL BOARDS

Objective and Faculties:

Regional Boards will function as consultative and advisory bodies to the Chairman of GFNORTE's Board of Directors, therefore their members' functions will be to give opinions and advice on trends and opportunities in their region, as well as those issues that the Chairman of the Board of Directors submit to their consideration. In addition, they will function as a body to reach the business community in each region.

Frequency of sessions: The Regional Boards hold sessions at least once a year or when convened by GFNORTE´s Chairman of the Board of Directors. An annually plenary session of the National Board will be held.

Integration:

Each Regional Board will be constituted by the number of members determined by GFNORTE´s Chairman of the Board of Directors, who have the technical quality, honesty and satisfactory credit history, as well as extensive knowledge and experience in the financial, legal or administrative fields, to develop their activities in the respective regions.

Likewise, the Chairman of the Board of Directors will appoint a Chairman among the members of the Regional Board, who will chair the Regional Board sessions, as well will appoint a Secretary, who will not be part of the Board. If the Chairman is not present, he will be substituted by a person appointed by the Chairman of the Board of Directors.

The Members of each Regional Board are elected, and if the case, removed by the Chairman of the Board of Directors. The members remain in office for 2 years, with the possibility of being reelected for any number of times.

Currently there are 6 Regional Boards: the Northern Regional Board, Northwest Regional Board, Metropolitan Regional Board, Western Regional Board, Peninsular Regional Board and Central Regional Board.

DESIGNATIONS COMMITEE

In the Extraordinary General Shareholders' Meeting held on October 17, 2011, it was approved to create this Committee, in order to do so, Article Thirty-seven Bis-1 was included in the Corporate Bylaws. On July 4, 2014, GFNorte's Bylaws were fully amended by resolution of the Extraordinary General Shareholders' Meeting, including changes to the numbering corresponding to the Nominations Committee to Article Forty-Fourth.

Moreover, GFNorte's Extraordinary General Shareholders' Meetings held on November 19, 2015 and August 19, 2016, approved the amendment to Article Forty-four of GFNorte's Corporate Bylaws regarding the integration and operation of the Nominations Committee.

Structure: The Nominations Committee will be designated by the Board fo Directors, and will be comprised of at least seven members, who shall be part of the Board of Directors and of whom four must be Independent Members and one, the Chairman of the Board, who will preside the Committee.

Each member has the right for a vote, and resolutions must be approved by a majority vote of the attending members. In the event of a tie, the Chairman of the Nominations Committee shall have the deciding vote. In the event that a member of this committee has a conflict of interest with any specific matter, should abstain to participate in the voting process, not affecting the required quorum for Committee.

MEMBERS	
Carlos Hank González	Chairman
Jose Marcos Ramirez Miguel	Member
Juan Antonio González Moreno	Member
Everardo Elizondo Almaguer	Independent Member
Alfonso de Angoitia Noriega	Independent Member
José Antonio Chedraui Eguía	Independent Member
Thomas Stanley Heather Rodríguez	Independent Member
Héctor Ávila Flores	Secretary Non-member

Faculties:

1. Propose for approval by the Shareholders' Meeting the appointment of the members of the Company's Board of Directors, of the Financial Groups' subsidiaries and if the case subholdings.
2. Elaborate an opinion regarding the persons who will hold the position of CEO at the Company, of the Financial Group's subsidiaries and if the case subholdings, without prejudice to the faculties assigned to the Audit and Corporate Practices Committee in terms of Article Thirty-three, paragraph III, section d) of these bylaws.
3. Propose for approval by the Shareholders' Meeting or by the Board of Directors, the compensation for the members of the Company's Board of Directors and its Committees, as well as the Boards of the Financial Groups' Subsidiaries and if the case subholdings.
4. Propose for approval by the Shareholders' Meeting or by the Board of Directors, the removal of members of the Company's Board of Directors, as well as from the Board of any of the Financial Groups' Subsidiaries and if the case subholdings.

Frequency of sessions: The Designation Committee will hold sessions at least once a year or when convened by its Chairman.

Support Committees to GFNORTE’s General Management

There are several committees which support GFNORTE’s General Management’s work, which propose and resolve within their abilities, diverse aspects related with the progress of the business. The Managing Directors of areas that report directly to the CEO sit on these Committees, as well as other officials responsible for specific areas. These Committees are detailed as follows:

1 Investment
2 Security
3 Central Credit
4 Central Credit Recovery
5 Assets and Liabilities
6 Financial Markets
7 Communications and Control
8 Fiducary Business
9 Investment Projects
10 Integrity
11 Investments in Managed Portfolios
12 Parametric Loan
13 Analysis of Financial Products
14 Recovery and Continuity

INVESTMENT COMMITTEE

Objective: To be GFNORTE’s top body in charge of approving and prioritizing the portfolios of investment projects, as well as budgetary assignments.

Functions:

1. Follow up on the projects of the annual investment program authorized by the Board of Directors.
2. Manage the investment program authorized by the Board of Directors.
3. Analyze, and if necessary authorize the initiatives and projects that have been approved by the Operations Committee, and that have been previously evaluated by the Corporate Projects Office.
4. Modify, suspend or cancel previously approved projects that present critical deviations, considering the recommendations by the Corporate Projects Office.
5. Follow up on the results and general benefits of the investment projects’ portfolio, and if the case prioritize it.
6. Assign the authorized investment budget and follow up on its implementation.

Frequency of the sessions: The Committee will hold sessions when convened by its Chairman or Secretary.

Integration:

MEMBERS		
Proprietary		**Alternate**
Jose Marcos Ramirez Miguel	GFNorte’s CEO (Chairman)	--------------------------
Rafael Arana de la Garza	COO	Javier Beltran Cantu
Carlos Eduardo Martinez Gonzalez	MD Retail Banking	Hector Abrego Perez
Fernando Solis Soberon	MD Long-Term Savings	Edgar Robledo Herrera
Manuel Antonio Romo Villafuerte	MD Product	Jose Gerardo Aguilar y Maya Verduzco
Jose Francisco Martha Gonzalez	DMD Technology	Fernando Roque Ranz
Armando Rodal Espinosa	MD Wholesale Banking	Rene Gerardo Pimentel Ibarrola
--------------------------	ED Investor Relations and Financial Intelligence	Úrsula Margarete Wilhem Nieto
Roberto Gonzalez Mejorada	ED Financial Planning (Secretary Not Member)	
INVITED		
Jorge Ruiz Cortazar	ED Material Resources	Jose Carlos Villarreal Delgado
Jorge Eduardo Vega Camargo	DMD Comptrollership	Gerardo Mejia Zacarias
Guillermo Chávez Eckstein	MD Credit & Risk Management	Jessica Maricarmen Serrano Bandala
Isaias Velazquez Gonzalez	MD Internal Audit	Francisco Garcia Dayo
Eduardo Vazquez Villegas	DMD Operations	---------------------------------------
Rodolfo Fernando Gaona Garza	DE Business Partner	Raul Leon Barrios
Hector Ávila Flores	DMD Legal	Alonso Rodriguez Quintana
Carla Juan Chelala	DMD Marketing	Jose Antonio Calatayud Vazquez

SECURITY COMMITTEE

Objective: Propose improvements and seek solutions to physical security problems that affect the institutional assets or pose risks of embezzlement by employees or third parties, considering the employees' physical integrity, through changes to processes and procedures, as well as sanction whoever is responsible for unhealthful practices in their financial function and services at the Financial Group.

Functions:

1. To analyze the origin of the damage or risk of irregular events of third parties or employees.
2. To implement preventive measures to avoid risk, through changes in the operative or management processes and send messages to alert managers, officers and employees.
3. To take corrective measures and actions in the face of irregular or illicit behavior by managers, officers and employees (Labor Sanctions) and by third parties (Legal Action). Considering provisions in the “Guidelines for the care of unlawful acts by officers”.
4. Evaluate and follow up resolutions made in the Work Group, and decide on queries or requests submitted by this group.

Frequency of sessions: The Committee will be hold regularly on a monthly basis, the third Thursday of the month. Furthermore, it can also gather extraordinarily in virtue of the risk or gravity of a particular case.

Integration:

MEMBERS		
Jorge Eduardo Vega Camargo	DMD Comptrollership	Chairman
Hector Ávila Flores	DMD Legal	
Isaias Velazquez Gonzalez	MD Internal Audit	
Javier Beltran Cantu	DMD Administration & Human Resources	
Ricardo Morales Gonzalez	ED Information Security	
Juan Pedro Meade Kuribreña	ED Institutional Control and Prevention	Secretary, Not Member

CENTRAL CREDIT COMMITTEE

Functions:

Resolving the credit applications presented by the clientele through banking areas, based on the experience and knowledge of GFNORTE's officers regarding the situation of the different sectors, regional economies and specific clients, with a focus on business profitability and measurement of institutional risk.

The Central Credit Committee is supported by various committees with different geographical coverage and amounts that can be granted using special faculties. Furthermore, a scheme of individual or joint faculties exists so GFNORTE's officers can authorize transactions to special clients occasionally.

Frequency of sessions: The Central Credit Committee convenes every fifteen days. The Credit Committees supporting it convenes with the same frequency, or if needed, on a weekly basis or more frequently as required.

Integration:

MEMBERS	
Jose Marcos Ramirez Miguel (1)	Chairman and Coordinator
Guillermo Chávez Eckstein (2)	Alternate Coordinator
José Wilfrido Lozano Merino (2)	Alternate Coordinator
Rafael Angel Hinojosa Cardenas (5)	Alternate Coordinator and Secretary
German Ballesteros Quezadas (2)	Alternate Coordinator
Jose Armando Rodal Espinosa (6)	
Victor Antonio Roldan Ferrer (6)	
Rafael Arana de la Garza	
Carlos Eduardo Martinez Gonzalez (6)	
Felipe Duarte Olvera	
Arturo Monroy Ballesteros (3) (6)	
Rene Gerardo Pimentel Ibarrola	
Carlos Alberto Vázquez Kuri	
Director Territorial (4) (6)	
Sergio Garcia Robles Gil	Alternate
Carlos Rafael Arnold Ochoa (5)	Alternate

Legal Representatives	Invited (without vote)
Audit Representatives	Invited (without vote)
Comptrollership Representative	Invited (without vote)

1. With veto power.
2. Risks Officer.
3. Regarding loan requests of groups that have authorized investment projects, have voice w/o vote.
4. The participation of the Territorial Director will be rotated according to the following Geographic logistics, Northern Mexico, Western Mexico, Eastern Mexico, North, South, Northeast, Peninsular, West, Centre.
5. Credit Officer
6. Business Offices

CENTRAL CREDIT RECOVERY COMMITTEE

Functions:

Resolve clients' recovery proposals that are under management of the Asset Recovery Business as well as Transactional Banking borrowers that propose cash settlements, restructurings and payments in kind or conversions of debt to equity, that could imply or not debt cancellations or write-offs.

Additionally, Recovery committees manage the resolutions proposal of the sale of foreclosed assets according to the following:

1. Analyze the sale value of Foreclosed Assets, based on financial rationale, considering present value and cost of money.
2. Propose to the Risk Policies Committee adjustments to the Sale of Foreclosed Assets policy.
3. Analyze, and if the case authorize, all the sale proposals of Foreclosed Assets.
4. Analyze the quarterly report of transactions of the Administration and Sale of Assets department.
5. Overview the progress and compliance of the sale of Foreclosed Assets, as well as duly coordination of the involved departments.
6. Decide on the hiring of brokers or companies specialized in real estate sale; in case of urgency, this decision shall be made by 3 members informing (and establishing in the corresponding minutes) to the Committee in the next session.
7. Manage every issue related to the sale of Foreclosed Assets not considered herein.

Integration:

PROPRIETARY MEMBERS	
Mario A. Barraza Barron	Coordinator
Sergio Garcia Robles Gil	Coordinator
Guillermo Chávez Eckstein	Coordinator
José Wilfrido Lozano Merino	Coordinator
Jose Armando Rodal Espinosa	Coordinator
Rafael Angel Hinojosa Cardenas	Coordinator
Gerardo Zamora Nañez	Coordinator
Armando Melgar Samperio	
Rodolfo Fuentes Moreno	
Antonio Fernández Montero	
Héctor Ávila Flores	Without vote
Mario Rodolfo Luna Estrada	Without vote

Carlota Hinojosa Salinas	Secretary without vote
Institutional Control and Prevention Representative	Without vote
Audit Representative	Without vote

ALTERNATE MEMBERS	
Jose Marco Ramirez Miguel	Coordinator
Rafael Arana de la Garza	Coordinator
Enrique Argüelles Illoldi	Coordinator
Carlos Rafael Arnold Ochoa	Coordinator
Carlos Eduardo Martinez Gonzalez	
Gerardo Salazar Muro	
Northeast Regional Legal Director	without vote
Rosa Martha Nuñez Escamilla	Secretary without vote
Horacio Antonio Diaz Vasquez	Secretary without vote
Blanca Deyanira Garcia Reyes	Secretary without vote

ASSETS AND LIABILITIES COMMITTEE

Objectives:

1. Set and approve management strategies for GFNorte's Balance.
2. Supervise that pricing structures are in line with current strategies*.
3. Maximize offered products' yielding*.
4. Supervise the coverage policy's execution of the Balance approved by the CPR.
5. Analyze and verify proposals related to:
    a. Return to shareholders;
    b. Equity's usage;
    c. Ensure stability and financial tenure.
6. Verify:
    a. Debt and Capital structure of the bank and of GFNorte.
    b. Investments in long-term Assets higher than Ps. 100 MM.
    c. Structural or balance investments of GFNorte's subsidiaries.
    d. Investments in new subsidiaries.
7. Verify the basis and results from stress tests for the CNBV.
8. Authorize assets transactions among GFNorte's subsidiaries.
9. Authorize new investments in compliance with the Volcker rule.

*Excludes BAP Sector.

Functions:

1. Authorize prices and rates for commercial programs*.
2. Review, verify and authorize rates and prices policies and their exceptions*.
3. Authorize the issuance of medium and long term liabilities (>1 year)
4. Authorize debt issuance in GFNorte.
5. Approve the issuance of capitalization instruments.
6. Review, verify and authorize liquidity and capitalization policies of the bank.
7. Authorize strategic investment of GFNorte's subsidiaries.

8. Approve investments in new subsidiaries.
9. Review and approve divestiture proposals in subsidiaries.
10. Review, verify and authorize the compliance with Volker Rule related to GFNorte's and subsidiaries' new investments.

*Excludes BAP Sector.

Higher court: CPR

- Decisions will be under the guidelines, policies and powers granted by the CPR.

Frequency of sessions: Meetings are held at least once a month; the Coordinator is responsible for the agenda and convene sessions.

Integration:

MEMBERS		
Jose Marcos Ramirez Miguel	CEO – GFNorte	With veto power
Carlos Alberto Arciniega Navarro	DMD Treasury	With voice and vote (coordinator)
Carlos Eduardo Martinez Gonzalez	MD Retail Banking	With voice and vote
Rafael Arana de la Garza	COO	With voice and vote
Guillermo Chavez Eckstein	MD Credit & Risk Management	With voice and vote
Jose Armando Rodal Espinosa	MD Wholesale Banking	With voice and vote
Department Directors	Guests	With voice
Carlos de la Isla Corry	Presidency	With voice
Isaias Velazquez Gonzalez	MD Internal Audit	With voice
Jorge Eduardo Vega Camargo	DMD Comptrollership	With voice
Hector Ávila Flores	DMD Legal	With voice

FINANCIAL MARKETS COMMITTEE

Objective:

To be the corresponding body to approve general strategies for investment and buy-sell of financial instruments, complying with what was approved by the CPR for GFNorte and its subsidiaries.

Functions:

1. Analysis of the national and international economic environment.
2. Approval of general investment strategies (maximum amounts, stop loss levels, profit taking, maximum terms, types of instrument, etc.) and trade of financial instruments.
3. Follow-up on the Balance Sheet and define strategies for risk in proprietary investment portfolios proposed by the business areas that manage those portfolios.
4. Review and evaluate the portfolios.
5. Supervise compliance with limits authorized by the Board of Directors or by the corresponding Risk Policies Committee.
6. Define investment strategies in abnormal situations of risk.
7. Review of parameters and definition of remedial measures of liquidity when applicable (absence of a secondary market, low liquidity, etc).
8. Comply with Volker's Rule when approving new investment strategies in the Financial Market.

Annual review on the report issued by the Comptrollership regarding the compliance with regulations from the different businesses as well as any breach to Volker's Rule regarding Financial Markets.

Frequency of sessions: Meetings shall be hold every two weeks; the Secretary is responsible for coordinating the agenda and convening sessions. In the event that the financial situation requires it, any member can summon extraordinary meetings.

Integration:

PROPRIETARY MEMBERS	
Alejandro Eric Faesi Puente	DMD Markets and Institutional Sales
Ignacio Saldaña Paz	ED Liquidity Control
Alfonso de Lara Haro	DMD Financial and Operational Risks
Abraham Mohamed Izquierdo García	ED Market and Liquidity Risks
Jorge Arturo García Pares	ED Money Market
Jacaranda Alicia Nava Villarreal	ED Derivatives
Julio Alfonso Sepúlveda Elizondo	D Risks (BAP Sector*)
Miguel Angel Arenas López	D Comptrollership (CB) Secretary non-member
ALTERNATE MEMBERS	
Dan Perkulis Zimbal	
Pavel González Villarreal	
Oscar Guadalupe Vela Hinojosa	
Efraím Pérez Abea Camarena	
Alfredo Llano Miranda	
Héctor López Morales	
Edwin Rosales Martínez	
Eric Guerrero Piña	
Adriana Yadira Flores Herrera	

*Will only vote in Long-term savings' related matters

COMMUNICATIONS AND CONTROL COMMITTEE

Each GFNORTE entity whose regulation so dictates, has a Committee engaged in the prevention of money laundering that complies with regulatory functions. Below we present the committee corresponding to Banorte as an example of the functions performed.

Functions:

1. Submit for the approval of the Audit Committee of the entity involved, Know-Your-Client policies as well as User Identification policies which the entity itself should prepare, including the criteria, measures and procedures that must be developed for proper compliance, as well as any modification in compliance with that established in the General Provisions referred to in Articles 115 of the LIC;
2. Act as the competent body for receiving outcomes from the Entity's Internal Audit department with respect to the degree of efficiency of the policies, criteria, measures and procedures indicated in the section above so as to adopt appropriate actions for correcting errors, weaknesses or omissions;
3. Have knowledge of new accounts or contracts with characteristics that imply a high risk for Banorte, or any other subsidiary based on reports from the Compliance Officer, and, if appropriate, formulate the necessary procedures;
4. Establish and disseminate criteria for classifying clients based on their risk level;
5. Ensure that the Institution's systems contain, the officially acknowledged lists issued by Mexican authorities, international organisms, intergovernmental groups or authorities of other countries, of people linked to terrorism or its financing, or with other illegal activities; as well as the lists of countries or

jurisdictions that apply fiscally preferable regimes or don't have measures to prevent, detect and combat operations with resources of illicit origin or financing of terrorism, or when the application of this measures is faulty, and the lists of Politically Exposed people, these last two provided by the SHCP;

6. Rule on operations that should be reported to the SHCP, through the CNBV, considered as unusual or worrisome, in the terms established in the General Provisions referred to in Article 115 of the LIC;
7. Approve the training programs for the personnel of Banorte or any other subsidiary, related to prevention, detection and reporting of conducts aimed at favoring, helping, aiding or abetting any kind of terrorism financing activities or transactions involving illegally sourced funds;
8. Inform the Institution's competent area about the conducts carried out by directors, officers, employees or representatives that infringe the Generally Applicable Dispositions referred in Article 115 of the Law of the LIC, or in the cases that such directors, officers, employees or representatives contravene the established policies, criteria, measures and procedures for the correct compliance with the Generally Applicable Provision referred in Article 115 of the LIC, with the objective of imposing the corresponding disciplinary measures, and
9. Resolve other matters submitted to its consideration, related to the application of these Provisions.

FIDUCARY BUSINESS COMMITTEE

Objective: Regulate promotion, recruitment, administration and control of operations processes' in which GFNorte participates as trustee, custodian or representative.

Faculties:

1. Analyze, approve or reject medium, high and limited risks trust businesses.
2. Analyze, approve or reject promotion and hiring schemes' trust businesses.
3. Determine matters that by their risk don't need to be submitted to this Committee.
4. Analyze and decide those issues whose characteristics may eventually produce a legal, financial, administrative or reputational contingency to the institution, stemming from the hiring, operation or management of the trust businesses.
5. Remission of honorary Trustees vanquished and moratorium interest, as well as reduction in trust fees agreed.

Frequency of Sessions: Meetings will be hold permanently every first and third Wednesday of the month.

Integration:

	MEMBERS	
Proprietary		**Alternate**
Hector Ávila Flores	DMD Legal (Chairman)	Diego Gonzalez Chebaux
German Ballesteros Quezadas	Credit & Risk Management Representative	Jesus Valdes Fernandez
Jorge Eduardo Vega Camargo	DMD Comptrollership	Gerardo Mejia Zacarias
Alberto Samir Abud Espinosa	Retail Banking Representative	Roberto Galarza Sacramento
Ricardo Velazquez Rodriguez	Wholesale Banking Representative	Víctor Antonio Roldan Ferrer
Eduardo Vazquez Villegas	DMD Operations	Francisco Juarez Rangel
Jesus Miguel Escudero Basurto	ED Fiduciary	Valeria Grande Ampudia
Silvia Lazaro Lazaro	D Legal Fiduciary (Secretary Not Member)	
INVITED		
Guillermo Chávez Eckstein	DG Administración de Crédito y Riesgo	
Cristina Leonor Guerrero Sarre	DE Fiduciario	Cristina Leonor Guerrero Sarre

INVESTMENT PROJECTS COMMITTEE

Objectives: Analyze the viability of every proposal related to: 1) the acquisition of loan portfolios, 2) acquisition of real estate portfolios, and 3) investment in housing, commercial real estate, and mixed usage projects, which must be authorized in adherence to GFNORTE's strategies.

Scope: The objectives, functions, members and frequency of the investment projects committee's sessions are generally applicable to GFNORTE and subsidiaries.

Functions:

1. Analyze and approve different business transactions presented to this Committee, such as:
   a. Acquisition of loan portfolios.
   b. Acquisition of real estate portfolios.
   c. Investment in housing, malls, infrastructure and tourism projects. (see provisions at the end of this section)
   d. Extensions and changes to authorizations.
2. Monitor and review advances in the business transactions being executed, through a presentation by those responsible for each business.
3. Ensure that every business transaction presented to the Committee adheres to the minimum profitability and risk criteria established in GFNORTE and/or the Board of Solida Administradora de Portafolios.
4. Recommend that additional funds be requested to the corresponding instances in order to advance in the initiatives or projects under development that require the disbursement of additional resources.
5. Respect all provisions issued by the Risk Policies Committee (RPC) that impact its areas of influence.
6. The Committee will be able to request a review of analysis presented to it by an expert in the subject, as well as by personnel of the specialized areas.

Frequency of the sessions: Upon request by the Coordinator and/or Secretary of the Committee. Advancement on the projects should be presented at least once every three months.

Integration:

	MEMBERS	
Jose Marcos Ramirez Miguel	CEO - GFNorte	Chairman / Coordinator
Jose Armando Rodal Espinosa	MD Wholesale Banking	Alternate Coordinator
Guillermo Chávez Eckstein	MD Credit &Risk Management	Alternate Coordinator
José Wilfrido Lozano Merino	MD Credit	Alternate Coordinator
Rafael Angel Hinojosa Cardenas	DMD Selective Credit Management	Coordinator / Secretary
Rafael Arana de la Garza	COO	
Arturo Monroy Ballesteros	DMD Investment Banking & Structured Financing	
	INVITED	
	Legal Representative	Invited (without vote)
	Audit Representative	Invited (without vote)
	Solida or investment vehicle Representative	Invited (without vote)

INTEGRITY COMMITTEE

Objective:

1. Align efforts for the security and control of information to establish a security program and an effective and efficient system of secure information management under the approach of prevention.
2. Evaluate and recommend strategies to prevent risks and incidents of information security, as well as support compliance with applicable laws, regulations and internal policies of GFNorte.
3. Support and ensure the establishment of plans to treat information security risks and plans to correct incidents and findings of information security of GFNorte companies.
4. Promote a culture of information security in GFNorte.
5. Follow-up on operational risks with a score higher than 9.60 (Very High), according to number 4.1.8.4 Rsik Scale of the Risks provisions.
6. Follow-up on reputational risks management.
7. Evaluate the proposal or iniciatives on new products or services with operational risk, to provide their opinion on them and if the case, approve them.

Functions:

1. Define the integral strategy for Information Security.
2. Review and approve the scope, objectives, programs, policies, procedures, reports and any other documents required in the area of information security.
3. threats, risks and vulnerabilities that are presented through the different areas, assessing impacts and proposing mitigatigation or treatment measures.
4. Monitor, measure and report information security metrics and indicators.
5. Review and monitor information security incidents, considering measure to take.
6. the effectiveness of controls established for information security.
7. Promote knowledge and application of information security policies, as well as their proper dissemination.
8. Create work groups in order to follow-up on and attend to special risk or problematic situations related to computer security issues.
9. Analize and evaluate and, if the case, approve risks with a score higher than 9.60 (Very High).
10. Follow-up risks mitigation with a score higher than 9.60 and risks approved by the same body, which shall be informed semiannually to the CPR.
11. Give periodic follow-up to ratios and incidents of reputational risk and conform the “Reputational Risk Work Group” which will implement mitigating measures.
12. Evaluate and, if the case, approve operational risks in proposals or initiatives of new products and services.

Frequency of sessions: Sessions are held quarterly, or if the case, when the Chairman or Secretary of the Committee deem convenient. Extraordinary sessions may also be convened.

Integration:

MEMBERS		
Guillermo Chavez Eckstein	MD Credit & Risk Management	Chairman
José Francisco Martha Gonzalez	DMD Technology	
Carlos Eduardo Martinez Gonzalez	MD Retail Banking	
Alfonso de Lara Haro	DMD Financial and Operative Risk	
Héctor Ávila Flores	DMD Legal	
Elba Elena Garcia Garate (Alternative of Héctor Ávila Flores)	ED Legal Middle Markets and Government	
Jorge Eduardo Vega Camargo	DMD Comptrollership	
Javier Beltran Cantu	DMD Administration & Human Resources	
Hector Abrego Perez	DMD Channels Development and Innovation	

Guillermo Güemez Sarre	DMD Innovation	
Jose Alfredo Merlos Hernandez	D Information Technology Audit	(Without vote)
Jesus Valdes Fernandez	D Operational Risk Management	Secretary
	INVITED	
Alberto Vega Balderas	DD Risk Management – Long-term savings	
Ricardo Morales Gonzalez	D IT Security and Technology Management	

INVESTMENTS IN MANAGED PORTFOLIOS COMMITTEE

Objective:

To approve investments in third party portfolios (Mutual funds, Portfolio Management, etc).

Functions:

The Managed Investment Portfolios Committee will be responsible for determining and update policies and general guidelines regarding:

1. Analysis of the national and international economic environment.
2. Definition of the general investment guidelines based on the applicable regulation and provsions, on the prospectus of mutual funds or on that established in the mandates of customers, previously formalizing acceptance of risks by the client.
3. Review of compliance with the guidelines defined by the Committee in third-party investment risk portfolios including loan, market and liquidity risk.
4. Follow-up on general investment strategies
5. Approval of exceptions to the guidelines defined by extreme market situations (a rating's downgrade, increase in the VaR, greater concentration, etc.) by defining regularization strategy (buy, sell or hold)
6. Define investment strategies in abnormal risk situations.
7. Approve temporary situations that exceed prudential investment parameters approved by the Committee, always within the limits authorized by the RPC, in particular those that exceed the maximum concentration percentages of the issuer, issuance, sector and others that may be established.
8. Approve the suspension of investment funds' shares repurchase when market conditions are not favorable and always within the authorized by the Board of Directors.

Frequency of Sessions: sessions shall be held monthly and the Secretary is responsible for coordinating the agenda and convening sessions. In the event that a financial situation requires it, any member can summon extraordinary meetings.

Integration:

	MEMBERS	
Proprietary		**Alternate**
Alejandro Aguilar Ceballos	DMD Assets Management & CEO Operadora de Fondos Banorte Ixe (Chairman)	Hector Manuel Carrasco Contreras
Rene Gerardo Pimentel Ibarrola	DMD Corporate Banking and Financial Institutions	Guillermo Abdala Brizio Cherit*
Luis Ernesto Pietrini Sheridan	DMD Private Banking and Wealth Management	Fernando Duran Garza Galindo
Ignacio Saldaña Paz	ED Financial Riks Management	
Alfonso Lara de Haro	DMD Financial and Operational Risks	Abraham Mohamed Izquierdo García
Alejandro Eric Faesi Puente	DMD Markets & Institutional Sales	Jorge Arturo Garcia Pares
Arturo Monroy Ballesteros	DMD Investment Banking & Structured	Jose Raul Carreto Diaz

	Financing	
Javier Diaz de Leon Opitz*	ED Investment	Juan Guillermo Alvarez Castillo*
Marco Tulio Chávez Godoy*	D Equity Investment	Mauricio Calva Ruiz de Chavez
Oscar Guadalupe Vela Hinojosa	D Market Risk	Efraim Perez Abea Camarena
Miguel Angel Arenas Lopez	D Comptrollership CB (Secretary Not Member)	Sandra Martinez Lopez
INVITED		
Ángel Hinojosa Garza	Audit Representative	
Martha Erandi Morales Carpio	Legal Representative	

*Officer of the MD Assets Management and Business Development.

PARAMETRIC LOAN COMMITTEE

Objective: Promote, design and establish the policies and strategies of products for individuals (payroll, car, mortgages, credit cards and personal loans) and SMEs (Crediactivo and Empuje Negocio.)("Parametric or Consumer Loan Portfolio").

Functions:

1. Ensure compliance with the risk appetite framework and limits approved by the Risk Policies Committee and notify it in case of any deviations.
2. Approve credit and risk policies for parametric loan products according with group level policies and limits established by the Risk Policies Committee.
3. Delegate faculties to GFNorte's officers for the approval of consumer credit lines.
4. Authorize strategies and collection policies for the parametric loan portfolio.
5. Portfolio's periodically monitoring: placement, past due, scorecards' performance, rating, losses, among other aspects.
6. Resolve matters related to the bank parametric loan risk.

Frequency of Sessions: The meetings will be hold on a quarterly basis or when convened by the Chairman or Secretary. Furthermore, it can meet extraordinarily.

Integration:

MEMBERS		
Proprietary		**Alternate**
Guillermo Chávez Eckstein	MD Credit & Risk Management (Chairman)	------------------------------
José Wilfrido Lozano Merino	Chief Credit Officer	Rafael Angel Hinojosa Cardenas
Carlos Eduardo Martinez Gonzalez	MD Retail Banking	Arturo Valdes Villaseñor
Manuel Antonio Romo Villafuerte	MD Payment Methods	Jose Gerardo Aguilar y Maya Verduzco
Rafael Arana de la Garza	COO	------------------------------
Carla Juan Chelala	DMD Marketing	Marcelle Guaida Haddad
Mario Alberto Barraza Barron	DMD Assets Recovery	Jorge Abiel Garza Bautista
Enrique Argüelles Illoldi	ED Consumer Credit Risk	Hector Tenorio Fenton
Marco Antonio Bustillo Gutierrez	D Planning & Comsumer Risk Policies (Secretary Not Member)	
INVITED		
Carlos de la Isla Corry	MD Presidential Advisor	
Jesus Eduardo Reyes Smith Mac Donald	DMD Mortgage and Car	
Samir Abud Espinosa	DMD Gov. States and Municipalities and SME	Rodrigo Aguilar Martinez
Jorge Eduardo Vega Camargo	DMD Comptrollership	Gerardo Mejia Zacarias

Hector Ávila Flores	DMD Legal	Elba Elena Garcia Garate
Isaias Velazquez Gonzalez	MD Internal Audit	Juan Jose Villalon Ávalos

*For those sessions where collection strategies are considered, the presence of the MD of Assets Recovery is necessary.

ANALYSIS OF FINANCIAL PRODUCTS COMMITTEE

Objective: The Analysis of Financial Products Committee is the entity authorized to comply with the obligations of the General Provisions applicable to brokerage houses and credit institutions related to investment services issued by the CNBV.

Functions:

1. The Analysis of Financial Products Committee will be responsible for developing and updating policies and guidelines regarding:
   a. Authorization of information on recommended financial products; personalized or generalized advice or suggestions, to be delivered to customers through promotional efforts.
   b. Diversification in the composition of investment portfolios based on different investment profiles of clients, establishing maximum limits to be considered on a value, instrument, issuer or counterpart at the time of the recommendation, as well as the specific circumstances in which they could not comply with the aforementioned limits.
   c. Managing accounts comprised of financial instruments transferred from another financial institution or that would not have been subject to the investment advisory service.
   d. The general performance framework on which investment management services will be delivered (agreements with limited discretion).
   e. The parameters to be considered for the establishment of fees to be charged for investment services.

2. Develop policies and specific procedures based on the policies and general guidelines approved by the Board of Directors regarding the following matters:
   a. Evaluation and determination of clients' investment profiles
   b. Determine the profile of financial products
   c. Reasonableness of recommendations directed to customers.
   d. Performance parameters to be observed by the promoters providing Investment Services.
   e. Measures to avoid conflicts of interest in providing Investment Services.
   f. Analysis and follow-up on complaints or legal actions

3. Approve the profile matrix of the financial products, which must be identified and classified according to the different investment profiles of clients.

4. Authorize a market offering or the acquisition of new financial products for clients under the umbrella of advised and unadvised investment services.

5. Analyze the prices of new products and those determined by the Committee itself, through general guidelines.

6. Follow-up periodically on the performance of financial instruments, which through general guidelines the Committee determined with respect to the risk-return relationship, in order to determine the actions to be taken in making investment decisions.

7. Approve the directory of investment services provided by the institution.

Frequency of Sessions: The meetings will be hold on a quarterly basis, or when convened by the Chairman or Secretary. Furhermore, it can meet extraordinarily.

Integration:

MEMBERS		
Proprietary		**Alternate**
Alfonso de Lara Haro	Risk Management Representative (Chairman)	Guillermo Chavez Eckstein
Gabriel Casillas Olvera	MD Economic Analysis	Delia Maria Paredes Mier
Alonso Rodriguez Quintana	ED International Businesses & Marketing	Martha Erandj Morales Carpio
Jorge Eduardo Vega Camargo	DMD Comptrollership	Gerardo Mejia Zacarias
Adan Jorge Peña Guerrero	ED Balance Sheet Management	Herminio Alfaro Arcibar
Oscar Guadalupe Vela Hinojosa	D Market Risk	
Miguel Angel Arenas Lopez	D CB Comptrollership (Secretary Not Member)	
INVITED		
Isaias Velazquez Gonzalez	Internal Audit Representative	Ángel Hinojosa Garza

PERSONAL INFORMATION PROTECTION COMMITTEE

Purpose:
To analyze, evaluate, and anticipate risks and issue resolutions regarding personal information protection at Banorte, by planning, monitoring, reviewing policies, procedures, strategies and continual improvement actions regarding personal information protection, as well as activities that promote their protection, seeking to benefit the interests of account holders and protecting the reasonable expectation of privacy, internal and external regulation.

Duties:

A. Update internally mandatory policies and privacy programs
B. Implement a training, and awareness program
C. Establish an internal surveillance system or conduct external audits.
D. Assign resources towards program implementation and privacy policies.
E. Establish a procedure to address and mitigate personal data protection risks derived from the implementation of new products,services, technologies and business models.
F. Periodic reviews of policies and security programs.
G. Establish procedures to receive and answer customer questions and complaints.
H. Implement mechanisms to enforce policy and privacy programs compliance, as well as sanctions for their non-compliance.
I. Establish measures to safeguard personal information
J. Establish measures that enable proper tracking of personal information during its use and treatment.

Frequency of committee sessions: The Personal Data Protection Committee must meet quarterly.

Quorum:

A. Committee sessions will be legally constituted with the attendance of the majority of its members.
If the minimum quorum is not met, a new session will be convened stating its new date, place and time, and must follow the same procedure as the original one.

B. In case of absence of the President, the attending members may nominate one that will take his/her place for that particular session. In case of absense of the Secretary, the President may designate a substitute Secretary among the attending members.

Integration:

MEMBERS	
Proprietary	
Jorge Eduardo Vega Camargo	DGA Contraloría (Presidente)
Jesús Ricardo Medina Cantú	D Control de Disposiciones Regulatorias (Secretario)
David Delgado Sánchez	DE Rentabilidad y Gobierno de Datos
Gerardo Mejía Zacarías	D Contraloría Normativa
Jorge Antonio Fuentes Rivera	D Especialista de Gestión de Talento
Rogelio Cárdenas Solís	DE Capital Humano
Alejandro Badillo Villeda	D Comunicación y Cultura
Elba Elena García Gárate	DE Jurídico Empresas, Corporativo y Gobierno
Alonso Rodríguez Quintana	DE Jurídico Negocios Internacionales y Mercadotecnia
Angel Varela Torres	DE Jurídico Recuperación de Activos
David Guillén Zúñiga	DE Auditoría Operaciones y Filiales
Antonio Gaona Rosete	D de Protección, Seguridad e Inteligencia
Ricardo Morales González	DE Seguridad de la Información
José Antonio Murillo Garza	DGA de Analítica
Jesús Valdés Fernández	D Riesgo Operacional

RECOVERY AND CONTINUITY COMMITTEE

Objective:

To be the body with faculties to:

A. In case of service interruption, evaluate the impact of damages, identify affected business areas, estimate the recovery time; and
B. In case of a disaster, coordinate the resume of operations and report to the Technology and Investment Committee and the CEO.

Functions:

A. Ensure that the Business Continuity Plans (BCP: Processes, Procedures, Communication, etc.) including the Disasters Recovery Plan (DRP) are documented, current and proven to respond to a contingency in an organized manner.
B. Ensure that the different components (Hardware, Software, Communications, data, etc.) of the Alternate Computer Center are installed and available for a contingency.
C. Ensure the availability and proper functioning of the facilities located in the Alternate Computer Center.
D. Monitor the execution of DRP and BCP.
E. Request the necessary resources from the Technology and Investment Committee to coordinate and execute test runs of the DRP and BCP at least once a year.
F. Coordinate the actions of the Immediate Response Team (Crisis Center) to evaluate the impact, identify the affected business areas, estimate recovery time and prioritize the actions to be executed in the event of a lingering interruption of services.

In the event of a declared disaster, to coordinate the recovery and/or continuity at an Institutional level until ensuring the total recovery of all the necessary components for operation (software, hardware, communications, human and materials resources, clients, suppliers, etc).

Frequency of sessions: The Recovery and Continuity Committee will hold sessions on the first Friday of February, May, August and November or when convened by the Committee's Chairman or Secretary. Furthermore, it can meet extraordinarily.

Quorum: Committee sessions will be valid constituted with the attendance of five of its members.

MEMBERS		
Proprietary		**Alternate**
Jorge Eduardo Vega Camargo	DMD Comptrollership (Chairman)	N/A
José Francisco Martha González	DMD Technology	Bernardo Castro Villagrana
Jorge Ruiz Cortazar	ED Material Resources	Javier Gerardo Escalera Reyna
Ricardo Morales Gonzalez	ED Information Security	Luis Antonio Bartolini Siqueiros
Jose Alfredo Merlos Hernandez	ED Information Technology Audit	Juan Martín Garza Martínez
Rafael Cordova Puon	D IT	Mario Filiberto Flores Vargas
Alfonso de Lara Haro	DMD Financial and Operative Risk	Jesús Valdés Fernández
Miguel Angel Arenas Lopez	D Comptrollership Brokerage	Sandra Martínez López
Javier Beltran Cantu	DMD Administration & Human Resources	Luis Mario Ochoa Gómez
Jose Vicente Fernandez Camargo	D Corporate Control and Compliance (Insurance and Annuities)	Homero Martínez Hernández
Hector Abrego Perez	DMD Channels Development and Innovation	Quirino Castro Flores
Rene Gerardo Pimentel Ibarrola	DMD Corporate Banking and Financial Institutions	Guillermo Abdala Brizio Cherit
Ramon Eduardo Vazquez Villegas	DMD Operations	Gabriel Guardiola Sánchez
Antonio Gaona Rosete	D Protection and Security	Epigmenio Treto Martínez
Eduardo Martinez Ham	D Technological Infrastructure Production	N/A
Luis Gerardo Moreno Santos	D Comptrollership Leasing and Factoring	Alberto Gerardo González Pérez
Gerardo Delgadillo Ramos	DD Business Continuity (Secretary)	
Fernando Solís Cámara y Jiménez Canet	DMD Corporate Comunication	Francisco Luis Rodríguez Daniel

Main Officers as of December 2017*

Name	Years in the company	Current Position	Age	Gender	Maximum Level of Education	Main executive positions at other companies
Jose Marcos Ramirez Miguel	7.1	GFNorte's CEO	55	Male	MBA	Santander Mexico
Carlos Eduardo Martinez Gonzalez	18.7	MD Retail Banking	54	Male	MBA	Grupo Financiero Serfin
Jose Armando Rodal Espinosa	24.7	MD Wholesale Banking	48	Male	MBA	ITESM
Fernando Solis Soberon	10.5	MD Long-Term Savings	56	Male	Ph.D.in Economics	Grupo Nacional Provincial, Grupo Bal, CONSAR, Comision Nacional de Seguros y Fianzas
Rafael Victorio Arana de la Garza	6.3	COO	66	Male	Master's degree in Industrial and Operational Engineering	Managing Director of HSBC's Retail Banking for Latin America and the Caribbean. Deputy CEO of HSBC Mexico.
Manuel Antonio Romo Villafuerte	6.8	MD Payment Methods	52	Male	Master's degree in Economics	Ixe GF, Banco Nacional de Mexico
Guillermo Chávez Eckstein	2.4	MD Credit & Risk Management	63	Male	MBA	HSBC
Isaias Velazquez Gonzalez	19	MD Internal Audit	56	Male	Public Accountant	CNBV
Fernando Valenzuela Bracamontes	14.5	North Territorial Director	43	Male	MBA	
Humberto Luna Gale	11.9	Mexico City Territorial Director	55	Male	Executive MBA	Santander Serfin
Alfonso Paez Martinez	19.9	Central Territorial Director	52	Male	Executive MBA	Casa de Bolsa Abaco and Casa de Bolsa Probursa
Alberto Salvador Lopez	15.6	Northern Territorial Director	54	Male	Bachelor's degree in Actuarial Science	Seguros Bancomer, S.A., Banca Promex, Banco del Atlantico
Alejandro del Valle Morales	12.1	Southern Mexico Territorial Director	47	Male	MBA	Casa de Bolsa Banorte
Francisco Jose Archivaldo Rodriguez Giacinti (1)	6.8	Southern Territorial Director	60	Male	Physicist	Santander, Bancomext, Ixe GF
Jorge Alberto Hurtado Martin	25.2	Western Territorial Director	45	Male	Bachelor's degree in External Commerce	-
Luis Alberto González Ayala	20.7	Peninsular Territorial Director	47	Male	Bachelor's degree in Business Management	ND

*Considers only officers reporting directly to the CEO and Territorial Directors.

1.Ixe GF employee, position held in Banorte since April 2011.

Compensations and Benefits

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

Compensations and Benefits are as follows:

- **Fixed Compensation:** Salary.

- **Annual Bonus Plan for 2017:**

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

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

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

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

  Stock Plans:

  > The long term scheme for incentives consists in assigning to certain Officers designated by the Assignations Committee, a stock option package through a trust having right to exercise 100% of it within a vesting period up to 4 years. Participants will be entitled to exercise a percentage of the package each year; receiving shares in its capital account.

- **Vacations:** From 10 to 30 working days depending on the number of years of service.

- **Holiday Bonus:** From 8 to 23 days of salary to be paid on each anniversary of the employee, depending on the number of years of service.

- **Legally Mandated Christmas Bonus:** Equivalent to 42 days of salary.

- **Savings Fund:** The Corporation matches the amount of the employee's contribution up to a maximum of 13% of their monthly salary in accordance with the legal limits established in the Income Tax Law.

- **Medical Service: Traditional Scheme:** Banorte provides medical services through recognized medical institutions, obtaining efficiency in cost and service. **Full Medical Insurance Scheme:** Major medical expenses insurance policy.

- **Life Insurance:** In the event of death or total incapacity, a life insurance policy provides a sum of up to 36 months' salary. In the event of accidental death, the compensation is double, prior verification by the insurance company.

- **Pension and Retirement:** The institution has two types of plans: one with defined benefits (Traditional and Special), and a second with a defined contribution (Ensure Your Future).

  Ensure Your Future: was established on January 1, 2001. This is a defined contribution plan, whereby a percentage of individual contributions by the employee and GFNorte are deposited in a fund for withdrawal by that employee upon termination of their labor relationship. This plan has an "initial individual contribution" (only for employees hired prior to January 1, 2001) corresponding to pension benefits for past services accumulated to the date the plan was created. The maximum monthly contribution is 10% of the gross nominal wage (5% employee and 5% company).The total amount accumulated by Banorte in pension, retirement or similar plans for the company's main officers amounts to Ps 89.6 billion.

d) CORPORATE BY-LAWS AND OTHER AGREEMENTS

In 2006 the bylaws were modified in order to adapt them with the dispositions of the new Stock Market Law to incorporate the articles related to the integration, organization and functioning of the social bodies. The Board of Directors' functions were redefined as the body in charge of strategy and supervision, and the CEO responsible for conduction and management of the company. Also, the commissary figure was eliminated and its functions were redistributed within the Board of Directors, the Audit and Corporate Practices Committee and the Independent External Auditor. The objective of the Audit and Corporate Practices Committee is to monitor all the accounting processes of the company, having the following general functions: evaluate the performance of the external independent auditor, elaborate an opinion regarding the financial statements prior to presenting them to the Board, inform the Board about the internal control systems and monitor that the generally accepted accounting principles and procedures are followed, among others. The objective of the Corporate Practices Committee is to reduce the potential risk that transactions are carried out in disadvantageous conditions for the company's patrimony or give privileges to a determined group of shareholders. Its general functions include: approve the policies for the use of the company's assets, authorize transactions with related parties, among others.

Also, the bylaws and the Statutory Responsibility Agreement were reformed with respect to the responsibility of the holding company for the losses of the entities that form the group, so that in case that the equity of the holding was not enough to cover the losses of the Group's members, the losses corresponding to the credit institution will be first covered, and later on a pro-rata basis with respect to the other entities until the holding's equity is depleted.

Bancen was spun-off from GFNorte due to its merger with Banorte, as well as Fianzas Banorte, S.A. de C.V., as a result of selling all the shares that represented its equity.

Additionally, Arrendadora Banorte, S.A. de C.V. merged Arrendadora y Factor Banorte, S. A. de C. V. and changed its denomination to remain as Arrendadora y Factor Banorte, S. A. de C. V., Sociedad Financiera de Objeto Multiple, Entidad Regulada, Grupo Financiero Banorte.

Creditos Pronegocio was also spun-off from GFNorte, due to its merger with Banorte, consequently modifying the second article of the corporate Bylaws, to eliminate the reference of this society as an entity of the Financial Group.

In 2011, Ixe GF, was merged into GFNorte, modifying articles: second, under the terms of Article 15 of the Law Regulating Financial Groups (LRAF), to change the Group's participation in the financial entities that conform it, including the financial subsidiaries of Ixe GF; tenth and twenty-first in reference to Article 50 of the Stock Market Law concerning the right of shareholders who either individually or jointly hold 10% of the Group's equity, to require the Board of Directors's Chairman or the Committees' that carry out the functions related to Audit and Corporate Practices, at any moment, to convene a General Shareholders' Meeting, without the effect being applicable to the percentage pointed out in Article 184 of the General Law of Mercantile Companies; Articles 25, 31, 32 and 36 in order to reflect changes in the Corporate Bylaws as a result of the appointment of a Chairman Emeritus and a Chairman of the Board of Directors; Article 25 establishing the faculties so that the Chairman Emeritus presides the Shareholders' Meetings and in his absence, the Chairman of the Board of Directors will have full authority; Article 31 in order to grant the General Assembly the faculty to designate a Chairman Emeritus and also a Chairman of the Board of Directors, both of which are part of the Board of Directors. Also, the Assembly or the Board will designate a Secretary or his/her respective alternate (Pro-Secretary) who will not be part of these corporate organisms. The Chairman Emeritus will not have an alternate. Also, in the event of death, inability, remotion or resignation of the Chairman of the Board of Directors, he/she will be substituted by the rest of the proprietary members in the order that they determine, or if there is no rule in this respect, in the order of their appointments until the Shareholders Assembly names a new Chairman of the Board. The changes also grant the faculty to the Chairman Emeritus to preside the Shareholders Assemblies and the Board Sessions of the company as stipulated in articles Twenty-Five and Thirty-Two of the Corporate Bylaws. Also, the Chairman of the Board of Directors will have the following faculties, obligations, attributions and powers unless otherwise indicated by the Assembly: i) Preside the Shareholders Assemblies and Board Sessions in the absence of the Chairman Emeritus; ii) Propose to the Board the independent board members that will integrate the Corporate Practices and Audit Committees, as well as the temporary board members whose designation corresponds to the board in accordance with article Thirty-Six of the ByLaws and iii) Execute or supervise the execution of the resolutions taken by the Shareholders Assembly and the Board of Directors, doing whatever is necessary or prudent to protect the interests of the company, without violating the faculties that the Assembly, Board of Directors and the legal framework gives to the Chief Executive Officer; Article Thirty-Two will be modified in order to make express reference to articles 27 of the Stock Market Law and 24 of the Law to Regulate Financial Institutions regarding the requirement to hold at least one Board meeting every quarter. Furthermore, the Chairman of the Board of Directors must call the necessary board meetings in accordance with article 411 of the Stock Market Law. The changes also reflect the faculty of the Chairman Emeritus to preside the Board Sessions, and in his absence, by the Chairman of the Board of Directors. In the case that both are absent, the Board of Directors' sessions will be chaired by the board member designated by those present at the meeting. Also, the Chairman Emeritus and the President of the Board of Directors will have a tie-breaking vote in case of a tie in the voting of the Board's resolutions. Article Thirty-Six will change in order to make a express reference to Article 25 of the Stock Market Law regarding the faculty of the Chairman of the Board of Directors to propose to the Board or the Shareholders Assembly, the independent members that will integrate the Audit and Corporate Practices Committee.

Also the following were incorporated to the Agreement of Shared Responsibility: Fincasa Hipotecaria, Ixe Soluciones, Ixe Fondos, Ixe Automotriz, Ixe Casa de Bolsa and Ixe Banco.

Furthermore, through agreements reached at the Extraordinary General Shareholders' Meeting held on July 21, 2011, Article Twenty Nine was modified, so that the Board of Directors is is composed of a maximum of 15 proprietary members and, if the case, by their respective alternates and also members may be appointed for defined periods of 3 years, with the possibility of reelection, seeking to have a generational balance, ensuring that at least 50% of the members are characterized as independent in accordance with best practices.

Moreover, in the Extraordinary General Shareholders' Meeting held on October 17, 2011, Article Thirty-seventh Bis 1 of the Bylaws was added, in order to establish the creation and operation of the Designations Committee, whose main objective is the to propose to the Assembly the people who will serve on the Board of Directors of the Company and the Directors of the Subsidiaries and entities that comprise the financial group.

On February 17, 2012 the Extraordinary General Shareholders' Meeting approved to modify Article Second of the Bylaws, in order to exclude Casa de Bolsa Banorte, as integrated entity of Grupo Financiero Banorte, given its merger with Ixe Casa de Bolsa.

On January 22, 2013, the Extraordinary General Shareholders' Meeting approved to modify Article Second of the Bylaws, in order to i) exclude Ixe Automotriz, as an integrated entity of Grupo Financiero Banorte, as a result of its merger with Arrendadora y Factor Banorte, and ii) modify the legal denomination of Ixe Casa de Bolsa, S.A. de C.V. to Casa de Bolsa Banorte Ixe, S.A. de C.V.

On April 26, 2013, the Extraordinary General Shareholders' Meeting approved to modify Article Second of the Bylaws, in order: i) exclude Ixe Banco and Fincasa Hipotecaria as integrated entities of GFNorte and ii) modify the legal denomination of Ixe Soluciones, S.A. de C.V., to Solida Administradora de Portafolios, S.A. de C.V. and Ixe Fondos, S.A. de C.V. to Operadora de Fondos Banorte Ixe, S.A. de C.V.,

On July 4, 2014, by the resolutions approved in the Extraordinary General Shareholders' Meeting, Article Second of the Bylaws was modified to eliminate "Generali" in the legal denomination of the companies Seguros Banorte and Pensiones Banorte. Similarly, such Assembly approved to fully modify the Corporate bylaws to comply with the new Law Regulating Financial Groups ("LRAF"), published on January 10th, 2014 in the Official Gazette, as well as the new agreement of shared responsibilities under LRAF's terms, in which Banorte-Ixe Tarjetas becomes a financial entity comprising the Financial Group.

The Extraordinary General Shareholders' Meeting held on November 19th, 2015 approved, among others, the following: i) amendment to Article 2 of the bylaws in order to eliminate Banorte-Ixe Tarjetas as an entity of Grupo Financiero Banorte because of its merger with Banorte (ii) modification to Article 44 of the bylaws so that the Nominating Committee is comprised of 4 members of the Board of Directors, being one of them an Independent member; (iii) amendment to Article 64 and the addition of Articles 64 Bis and 64 Bis 1 of the bylaws according to the General Provisions for Financial Groups published in the Official Gazette on December 31st, 2015, regarding the prevention of conflicts of interest among the Financial Group's entities; and (iv) the new agreement of shared responsibilities in order to eliminate Banorte-Ixe Tarjetas as an entity of the Financial Group because of its merger with Banorte. Such resolutions are subject to authorization by the competent authorities.

The Extraordinary General Shareholders' Meeting held on August 19, 2016 approved, among others, the following: i) the amendment of Article Five of the Corporate Bylaws aiming to change the corporate domicile to the Municipality of San Pedro Garza García, Nuevo León from the city of Monterrey, Nuevo León; ii) the amendment of Article Nineteen of the Corporate Bylaws aiming that the approval of operations implying asset acquisitions by the Company or its controlled companies be through an Ordinary General Shareholders' Meeting if: (a) the amount of the operation represents 5% or more of the Company's consolidated assets; and (b) the counterparties are Related Parties; and iii) the amendment of Article Forty-Four of the Corporate Bylaws, so that the Nomination Committee be comprised of 7 members of the Board of Directors, being 4 of them Independent Members and the Chairman of the Board, who will preside the Nomination Committee, and its organization and operations will be subject to the policies and guidelines approved by the Board.

On December 5, 2017, the Extraordinary General Shareholders' Meeting of GFNorte approved the merger of the Company as a merger or that subsists, with Grupo Financiero Interacciones, S.A.B. of C.V., as merged or that is extinguished, said agreement was subject to obtaining authorization from the SHCP, with the prior opinion of the CNBV and Banxico. The merger of the financial entities that are members of both Financial Groups is included in the transaction.

It is important to point out that both the new LRAF and the Stock Market Law establish the following requisites for the acquisition or transmission of the Company's shares:

- The individuals who acquire or transfer series "O" shares representing more than 2% of the company's equity, or who exceeds such percentage with such acts must inform the SHCP within 3 business days of such acquisition or transfer.

- No Mexican financial entities, even those which are a part of the Financial Group may participate in the capital stock of the Company, except when they act as institutional investors, upon the terms of Article 27 of the Law Regulating Financial Groups.

  Except as provided in the following paragraph, insurance and bonding institutions, acting as Institutional investors, and if the case, any other Institutional Investor integrating or controlled directly or indirectly by member of a Financial Group, may not acquire Company's shares or any other company's shares of the Financial Group.

Mutual funds controlled directly or indirectly by financial entities integrating a Financial Group, which individually or jointly invest in the Company’s shares and subordinated debt, may not in any case acquire more than 10% of these shares and obligations.

- Any individual or company can acquire through one or various simultaneous transactions, the control of series “O” shares of the Holding Company, in the understanding that such transactions must always be subject to Article 28 of the Law Regulating Financial Groups.

  When is intended to directly or indirectly acquire more than 5% of the paid capital stock, the authorization of the SHCP shall be previously obtained, which may grant it on a discretionary basis after hearing the opinion of Banco de Mexico, and w and as applicable, of the CNBV, the Insurance and Bonding Commission or the Retirement Saving Funds System. In such cases, the persons that intend to perform such acquisition must evidence that they meet the requirements established in section II of Article 14 of the Law Regulating Financial Groups and provide to the SHCP the information required by rules of a general nature to such effect.

  In the event that a person or group of persons, whether or not shareholders, intend to directly or indirectly acquire 20% or more of Series “O” shares of capital stock of the Holding Company or the control thereof, they must request authorization from the SHCP, which may grant it on a discretionary basis, for which purpose it must hear the opinion of Banco de Mexico and as applicable, of the CNBV, the Insurance and Bonding Commission or the Retirement Saving Funds System. Such request must contain the following:

  I. Relation or information of the person or persons that, if the case, intend to acquire shares, which must contain also the information proving it complies with Article 28 of the Law Regulating Financial Groups.

  II. Relation of the members of the Board of Directors and officers that would be appointed in the acquired company, including the information that proves that such persons comply with the requirements set forth in the Law Regulating Financial Groups.

  III. If the case, modifications to the strategic plans for the organization, administration and internal control; and

  IV. Further information that the SHCP requires in order to start assessing the corresponding requirement.

  When an individual or company intend to directly or indirectly acquire more than 5% of the paid capital stock of a Subholding Company, the authorization of the SHCP shall be previously obtained, which may grant it on a discretionary basis after hearing the opinion of Banco de Mexico and as applicable, of the CNBV, the Insurance and Bonding Commission or the Retirement Saving Funds System. The persons who intend to perform such acquisition must evidence that they meet the requirements established in section II of Article 14 of the Law Regulating Financial Groups

  The direct or indirect acquisition of more than 20% of the shares of the paid capital stock of a Subholding Company will be subject to the provisions for such entities set forth in Article 28 of the Law Regulating Financial Groups.

- The Company shall refrain from filing in the Share Registry referred to in Articles 128 and 129 of the General

Law of Business Corporations, in connection with Article Sixteen of these Corporate Bylaws, any transfers made in contravention of Articles 24, 26, 27, 28, 74 and 75 of the Law Regulating Financial Groups, and it shall notify such circumstance to the SHCP and the Supervisory Commission within five business days of the date it becomes aware thereof.

Likewise, when the acquisition and other legal acts through which the direct or indirect ownership of shares of capital stock of the Company is obtained are made in contravention to the provisions of the abovementioned Articles, the property and corporate rights inherent to the relevant shares of the Company shall be suspended and, therefore, they may not be exercised until the obtainment of the relevant authorization or resolution, or the compliance with the requirements contemplated by the Law Regulating Financial Groups, are evidenced.

- The person or group of persons who acquire, directly or indirectly, within or outside of the Stock Exchange, through one or various simultaneous or successive transactions of any nature, series "O" shares that result in holdings equal to or greater than 10% and lower than 30% of such shares, must inform the public of this situation the next business day at the latest, through the corresponding stock exchange, following the terms and conditions established by it. If it is a group of persons, the individual holdings of each member of the group must be disclosed.

  Also, the individual or group of persons must inform their intention or not of acquiring a significant influence in the company.

- Individuals related to the company who directly or indirectly increase or reduce their holdings of the company by 5%, through one or various simultaneous or successive transactions, must inform the public of this situation on the next business day at the latest, through the corresponding stock exchange, following the terms and conditions established by the exchange.

  Furthermore, they must express their intention or not of acquiring a significant influence or increasing it in the terms outlined in the previous paragraph.

- Any individual or group of persons who directly or indirectly own 10% or more of the shares representing the company's equity, as well as members of the Board of Directors and relevant officers of the company, must inform the CNBV and the public in the cases established by generally applicable dispositions issued by the CNBV, of the acquisition or disposal of these securities within the stated timeframe established by the CNBV.

The current Bylaws also include mechanisms to protect the interests of minority shareholders, which basically consist of:

- Board of Directors' approval to any shareholder or group of shareholders related to each other or to third parties to acquire 5% or more of GFNorte's shares. The Board can solve the mentioned requirements through a committee, which will be comprised of Proprietary members and will act under the terms that Board of Directors set. This also applies when the holdings are close to reaching or already exceed through public offering or not, the following percentages: 10%, 15%, 20%, 25% and up to 30% minus one share of the total shares outstanding representing the company's equity. Once the authorization from the Board of Directors or the Committee's is given, the authorization that according to the current provisions is necessary from the SHCP, and if the case, of any other authority should be requested. If the authorization is not given, the prior approval of the Board or Committee will be uneffective.

- To be able to acquire ownership of shares representing 30% or more of the equity, the owner, shareholder or acquirer is obligated to make a public offering to purchase 100% of the shares representing the ordinary common stock of the company. The foregoing notwithstanding authorization granted by the SHCP, the

National Banking and Securities Commission and if the case, other authorities. If in the public offering referred to in this paragraph, only manages to acquire a percentage equal to or less than 50% of the offered shares, the purchaser must request the approval of the Board on the acquisition no later than 10 calendar days subsequent to the acquisition with the understanding that if there is no request or it is not approved by the Board, the corporate rights attached to those shares may not be exercised, in accordance with Article 18, Section III of the bylaws.

In the event of a public offering, the Board reserves the right to request or receive more competitive bids, for a period of 45 working days from the date of the beginning of the tender offer. The Board of Directors will be the only body with faculties to approve or deny a potential acquirer from acquiring either through public offering or not, conducting a “Due Diligence” of the company, and in the case of approval, the potential acquirer must sign the contracts and confidentiality agreements that establish the obligations deemed convenient by the Board.

- If there’s a noncompliance with the provisions of Article 18 of the Corporate bylaws, the holder may not exercise the inherent rights of the shares acquired and will not be taken into account for the purpose of determining the quorum for Shareholders’ Assemblies; the society will abstain from registering the aforementioned holders in the Share Registry referred to in the General Corporate’s Law and making uneffective the registry madre by the securities depository institution.

- Additionally, whoever becomes holder of the shares representing (or exceeding), the following percentages must notify the company within 30 business days after purchasing, reaching or exceeding the limit in their holdings of 4%, 8%, 16% and 24% respectively.

Aiming to protect minority shareholders, the following rights are established:

- To have available in the corporation’s offices, information and documents related to each of the points contained in the agenda of the corresponding Shareholders’ Assembly, free of charge and at least fifteen days prior to the date of the Assembly.

- Prevent issues under the category of General or its equivalent to be dealt with at the General Shareholders’ Assembly.

- Be represented in Shareholders’ Assemblies by those who prove their identity through proxies prepared by the corporation and made available at least fifteen days prior to the date of each Assembly.

  The aforementioned proxies must at least contain the following requirements:

    a. To higlight the company's name as well as the respective agenda.
    b. Contain spaces for instructions indicated by the grantor for the exercise of power.

The Secretary of the Board shall be required to ensure compliance with the provisions of this section and report thereon to the Assembly, which shall be recorded in the corresponding Minutes

- Designate and remove in the General Shareholder’s Meeting a member of the board of Directors, when individually or jointly own 10% of the equity, without being applicable the percentage referred to in article 144 of the General Company’s Law. Such appointment may only be revoked by the other shareholders when the appointment of all of the others Board Members are revoked, in which case the substituted persons may not be appointed as such for the following next twelve months from the revocation date.

- Require the Chairman of the Board of Directors or of committees that carry out functions in issues of corporate practices and audit referred to in the Law, to convene at any time a general shareholders' assebly in matters which require voting, or defer a vote only once for 3 days, on any matter for which shareholders consider they are not sufficiently informed about, without the need of reconvening. All of the above when individually or jointly own ten percent of the capital stock, without being applicable the percentages as referred to in Articles 184 and 199 of the General Corporate's Law.

- Legally oppose, in accordance with provisions of Article 201 of the General Corporate's Law, resolutions of the General Assembly, only when they have the right to vote on the subject concerned, when either individually or jointly twenty percent or more of the capital stock is owned, without being applicable the percentage referred to in the provision.

VII. Agree between them:

a. Obligations to not develop commercial businesses that compete with some of the financial group's entities or controlled companies, limited in time, matter and geographic coverage, without these limitations exceeding three years from the date on which the shareholder ceased to participate in the controlling company and without prejudice to provisions in other applicable laws.

b. Rights and obligations that establish options to buy or sale shares representing the company's equity, such as:
    1. That one or more shareholders may only dispose of all or part of their shareholding, when the acquirer is also obliged to acquire a proportion or all of the shares of another or other shareholders, under identical conditions.
    2. One or more shareholders may demand that another shareholder sell all or part of his shareholding, when they accept a tender offer, under identical conditions.
    3. That one or more shareholders have the right to dispose of or acquire from another shareholder, who shall be obliged to dispose of or acquire, as appropriate, all or part of the shareholding pertaining to the operation, at a determined or determinable price.
    4. That one or more shareholders are obligated to subscribe and pay a certain number of shares representing the company's equity, at a determined or determinable price.

c. Divestitures and other legal acts relating to the domain, provisions or exercise of the right of preference referred to in Article 132 of the General Corporate's Law, with independent of legal acts are carried out with other shareholders or other persons.

d. Agreements to exercise the right to vote at Shareholders' Assemblies, without the Article 198 of the General Corporate's Law becoming applicable.

e. Agreements for the divestiture of shares in a public offering.

The agreements referred to in this section will not be opposable to the company, except for a legal resolution, which is why non-compliance will not affect the validity of the vote at Shareholders' Assemblies

- Shareholders who represent at least 15% of GFNorte's equity, may directly exercise liability action against administrators under the terms of the applicable legislation.

The corporate bylaws stipulate the company's faculties to purchase its shares under the terms of the Mexican Securities Market Law

Ordinary nominative shares, are comprised of Series “O”, the fixed portion of the equity is represented by Class I, ordinary, nominative shares and the variable portion of equity is represented by Class II ordinary, nominative shares, both with face value of Ps 3.50 each. The variable portion of equity cannot exceed 10 times the fixed portion, and is not subject to withdrawal.

Additional equity can also be included, represented by Series "L" shares. This series will be represented by nominative shares, with a face value of Ps 3.50 (three 50/100 pesos national currency) each and freely subscribed, except from what is provided in Articles 24 and 27 of the Law Regulating Financial Groups and up to 40% of the ordinary equity, with prior authorization from the SHCP. Shares of this series will have voting and other limited corporate rights under the terms of Article 25 of the Law Regulating Financial Groups.

The Special Assembly to appoint members of the Board of Directors, corresponding to the shareholders of the "L" series, under the terms of Articles 29 and 40 of the present bylaws, will be subject to the provisions for Ordinary Shareholders’ Assemblies set in the General Corporate’s Law. Other special meetings will convene to decide on matters other than the aforementioned, and shall be governed by the General Corporate’s Law.

To install and vote on resolutions of the General Shareholders’ Meetings, ordinary or extraordinary, the dispositions established in the General Corporate’s Law for these types of meetings will apply.

Since GFNorte is a financial group, the integration, organization and functioning of the social organs, including those related to administration and monitoring, will be governed by the dispositions of the Law Regulating Financial Groups and the Securities Markte Law.

5. STOCK MARKET

a) SHARE STRUCTURE

GFNorte does not have convertible obligations or Ordinary Participation Certificates (CPO's) of shares. The information on representative shares of equity can be found in section 2.B) xxi "The Company – Business Description - Representative Shares of Equity" of this Annual Report.

In June 2009, Grupo Financiero Banorte (BMV: GFNORTEO) established a Level 1 Sponsored Program of ADRs in the United States, as a consequence of changes on October 10, 2008 to regulation 12g3-2b of the Securities and Exchange Commission (SEC) that facilitates the establishment of sponsored and non-sponsored ADR programs for shares in companies which don't trade in US financial markets. Because Banorte's shares are one of the most liquid and one of the most traded in the Mexican Stock Exchange, they have attracted the interest of institutional funds around the world. This ADR program supplements the efforts of Banorte to achieve presence in the main international financial markets for its shares. The program has been established as Level 1, which allows it to operate in "Over the Counter" markets without having to be listed in the NYSE, NASDAQ or any other Stock Exchange. The shares operate under the GBOOY symbol. Each ADR represents 5 shares of GFNORTEO and 6,676,362 ADRs were in circulation at the end of 2017. The depository bank is Bank of New York Mellon. On July 15, 2010, the Level 1 ADR program was authorized to operate in the OTCQX International Premier platform, the highest level in the "Over The Counter" (OTC) market and on April 9, 2014, was included in the OTCQX ADR 30 Index ("OTCQX30"), comprised by the 30 most relevant ADRs in the market, in terms of market capitalization, volume and liquidity. Grupo Financiero Banorte is one, of only two Mexican companies, included in this index. The inclusion of our Level 1 ADR in this index will provide more visibility and liquidity to our program.

On June 9, 2009, ordinary shares of Grupo Financiero Banorte began trading in the Madrid Stock Exchange through the Latin American Stock Market "Latibex", under the symbol XNOR. GFNORTE's shares were included in the FTSE Latibex All Shares index from their inclusion to the market, and as of June 10, they were incorporated into the FTSE Latibex TOP index which includes the 16 Latin American most important companies of this market. One share of XNOR represents 10 shares of GFNORTE.

b) PERFORMANCE OF SHARES IN THE STOCK MARKET

GFNORTE's series "O" shares are traded in the Mexican Stock Exchange (BMV) under the ticker "GFNORTEO".

The following charts show, for the indicated periods, the maximum, minimum and close market prices for shares in the BMV (GFNORTEO), GBOOY (ADR Level 1) and XNOR (Latibex).

Performance of the stock at closing of the last 5 fiscal years:

GFNORTEO (Pesos) – BMV

Date	Maximum	Minimum	Close	*P/BV	**P/E	Volume of Shares (Daily Average)	Total Volume Operated
31/12/2012	84.99	42.40	83.45	2.37	17.83	5,626,429	1,417,860,174
31/12/2013	101.07	68.98	91.36	1.39	24.96	7,662,952	1,923,400,944
31/12/2014	97.00	73.89	81.2	2.37	17.35	7,312,924	1,835,543,844
31/12/2015	97.00	72.05	94.99	2.38	17.76	6,023,866	1,511,990,380
31/12/2016	114.99	82.89	102.30	1.83	18.63	5,954,054	1,554,008,213
31/12/2017	127.90	93.76	107.83	1.95	17.48	6,320,486	1,643,326,321

*P/BV = Multiple Price to Book Value. The indicators were calculated with known numbers as of the date of the report.
**P/E = Multiple Price to Earnings annualized. The indicators were calculated with known numbers as of the date of the report.
Source: Bloomberg.

GBOOY (Dollars) – ADRs*

Date	Dollars per ADR			Volume of Shares (Daily Average	Total Volume
	Maximum	Minimum	Close		Operated
31/12/2013	40.58	26.08	35.04	14,417	3,633,034
31/12/2014	37.28	25.57	27.62	19,802	4,990,185
31/12/2015	31.08	21.29	27.34	14,669	3,696,672
31/12/2016	31.09	22.09	24.86	24,932	6,282,768
31/12/2017	36.03	21.28	27.36	45,259	11,676,945

XNOR (Euros) – Latibex*

Date	Euros			Volume of Shares (Daily Average)	Total Volume
	Maximum	Minimum	Close		Operated
31/12/2013	6.50	3.95	5.04	14,944	3,810,757
31/12/2014	5.41	4.11	4.61	5,474	218,942
31/12/2015	5.55	3.92	4.95	3,359	90,683
31/12/2016	5.42	3.80	4.60	137	35,540
31/12/2017	5.66	4.09	5.20	4,312	1,121,165

Quarterly performance of the stock for the last 2 fiscal years:

GFNORTEO (Pesos) – BMV

Date	Maximum	Minimum	Close	P/BV *	P/E **	Volume of Shares (Daily Average)	Total Volume Operated
31/03/2016	114.90	90..89	97.43	1.98	15.27	6,324,731	379,483,887
30/06/2016	103.00	91.63	102.52	2.03	15.53	5,441,333	353,686,619
30/09/2016	109.45	98.19	101.68	1.99	14.84	4,713,213	306,358,814
31/12/2016	114.99	90.80	102.30	2.02	14.88	6,979,046	432,700,855
31/03/2017	113.29	93.76	107.66	2.12	15.66	6,659,484	419,547,500
30/06/2017	115.59	105.00	115.39	2.24	16.82	5,247,739	341,103,014
30/09/2017	127.29	114.38	125.58	2.54	17.17	5,069,891	329,542,930
31/12/2017	127.90	100.51	107.83	2.10	13.95	8,221,514	534,398,425
31/03/2018	120.39	105.05	111.13	2.11	12.94	6,951,565	451,851,718

*P/BV = Multiple Price to Book Value. The indicators were calculated with known numbers as of the date of the report.
**P/E = Multiple Price to Earnings. The indicators were calculated with known numbers as of the date of the report.
Source: Bloomberg.

GBOOY (Dollars) – ADRs

Date	Dollars per ADR			Volume of Shares (Daily Average)	Total Volume
	Maximum	Minimum	Close		Operated
31/03/2016	28.95	22.12	28.18	29,567	1,803,579
30/06/2016	28.80	24.40	27.84	30,969	1,982,020
30/09/2016	30.30	25.25	26.19	14,147	905,388
31/12/2016	31.09	22.09	24.86	25,266	1,591,781
31/03/2017	29.94	21.28	28.76	82,552	5,200,792
30/06/2017	32.89	27.83	31.93	37,084	2,410,434
30/09/2017	36.03	31.63	34.39	19,602	1,274,156
31/12/2017	35.52	26.03	27.361	42,947	2,791,563
31/03/2018	32.71	27.18	30.99	21,160	1,375,421

XNOR (Euros) – Latibex

Date	Euros			Volume of Shares (Daily Average)	Total Volume
	Maximum	Minimum	Close		Operated
31/03/2016	5.42	4.30	5.42	147	9,420
30/06/2016	5.42	4.68	4.75	155	10,100
30/09/2016	5.17	4.72	4.72	109	7,220
31/12/2016	5.19	3.80	4.60	135	8,800
31/03/2017	5.41	4.09	5.41	1,292	83,956
30/06/2017	5.58	5.16	5.58	4,019	261,245
30/09/2017	5.66	5.58	5.66	4,262	277,000
31/12/2017	5.66	5.16	5.20	7,676	498,964
31/03/2018	5.25	4.94	4.94	5,415	351,969

Monthly performance of shares during the last 6 months:

GFNORTEO (Pesos) – BMV

Date	Maximum	Minimum	Close	Volume of Shares (Daily Average)	Total Volume Operated
31/10/2017	115.69	111.41	113.78	12,275,058	61,375,290
30/11/2017	118.70	106.51	109.30	8,811,266	193,847,853
31/12/2017	111.69	100.51	107.83	6,051,668	127,085,021
31/01/2018	120.00	105.05	119.58	7,205,954	165,736,939
28/02/2018	119.94	112.11	113.16	6,118,803	122,376,052
31/03/2018	120.39	109.71	111.13	7,442,669	163,738,727

GBOOY (Dollars) – ADRs

Date	Dólares por ADR			Volume of Shares (Daily Average)	Total Volume Operated
	Maximum	Minimum	Close		
31/10/2017	30.22	29.08	29.57	29,335	146,673
30/11/2017	31.32	28.74	29.22	19,288	424,340
31/12/2017	29.95	26.03	27.361	39,336	826,065
31/01/2018	32.35	27.18	32.11	28,332	651,633
28/02/2018	32.47	29.85	30.05	20,244	404,871
31/03/2018	32.71	29.49	30.99	14,496	318,917

XNOR (Euros) – Latibex

Date	Euros			Volume of Shares (Daily Average)	Total Volume Operated
	Maximum	Minimum	Close		
31/10/2017	5.66	5.66	5.66	5,000	25,000
30/11/2017	5.66	5.16	5.20	8,538	187,826
31/12/2017	5.20	5.20	5.20	9,578	201,138
31/01/2018	5.25	5.00	5.00	8,645	198,826
28/02/2018	5.00	5.00	5.00	6,000	120,000
31/03/2018	5.00	4.94	4.94	1,507	33,143

c) MARKET MAKER

GFNorte does not have nor ever had a market maker.

6. UNDERLYING ASSETS

At the moment GFNorte's subsidiaries do not carry out operations that involve underlying assets.

7. RESPONSIBLE OFFICERS

“The undersigned hereby solemnly declare that within the scope of our respective functions, we have truthfully prepared the information contained in this annual report related to Grupo Financiero Banorte, which to the best of our knowledge and understanding reasonably reflects the situation. We also declare that we do not have knowledge of any relevant information that has been omitted or falsified in this annual report or that it contains information that could mislead investors.”

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

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Rafael Arana de la Garza
Chief Operating Officer

____

Hector Martin Avila Flores
Managing Director of Legal Affairs

Al Consejo de Administración y Accionistas de Grupo Financiero Banorte, S.A.B. de C.V. y Subsidiarias
Av. David Alfaro Siqueiros 106 del Valle
San Pedro Garza Garcia, N.L., México
C.P. 66269

Estimados Señores:

Los suscritos manifiestan bajo protesta de decir verdad, que los estados financieros consolidados que contiene el presente reporte anual de Grupo Financiero Banorte, S.A.B. de C.V. y Subsidiarias (la Emisora), al 31 de diciembre de 2017 y 2016 y por los años que terminaron en esas fechas, contenidos en el Anexo B del presente reporte anual, fueron dictaminados con fecha 21 de febrero de 2018. De igual manera los estados financieros consolidados al 31 de diciembre de 2015 fueron dictaminados con fecha del 23 de febrero de 2016, de acuerdo con las Normas Internacionales de Auditoría.

Así mismo, manifestamos que hemos leído el presente reporte anual y basado en su lectura y dentro del alcance del trabajo de auditoría realizado, no tenemos conocimiento de errores relevantes o inconsistencias en la información que se incluye y cuya fuente provenga de los estados financieros consolidados dictaminados, señalados en el párrafo anterior, ni de información que haya sido omitida o falseada en este reporte anual o que el mismo contenga información que pudiera inducir a error a los inversionistas.

No obstante, los suscritos no fueron contratados para realizar, y no realizaron procedimientos adicionales con el objeto de expresar su opinión respecto de la otra información contenida en el reporte anual que no provenga de los estados financieros consolidados por ellos dictaminados.

Reporte Anual de Grupo Financiero Banorte, S.A.B. de C.V. y Subsidiarias
al 31 de diciembre de 2017

C.P. Jaime Luis Castilla Arce	C.P.C. Daniel Castellanos Cárdenas
Galaz, Yamazaki, Ruiz Urquiza, S.C.	Galaz, Yamazaki, Ruiz Urquiza, S.C.
Apoderado Legal	Socio

Al Consejo de Administración y Accionistas de Grupo Financiero Banorte, S.A.B. de C.V. y Subsidiarias
Av. Revolución 3000, Col. Primavera
C.P. 64830
Monterrey, N.L., México

Estimados Señores:

"Los suscritos manifiestan bajo protesta de decir verdad, que los estados financieros consolidados que contiene el presente reporte anual de Grupo Financiero Banorte, S.A.B. de C.V. y Subsidiarias, por los ejercicios 2016 y 2015 fueron dictaminados con fecha 27 de febrero de 2017. De igual manera los estados financieros consolidados correspondientes al ejercicio terminado el 31 de diciembre de 2014 fueron dictaminados con fecha del 23 de febrero de 2016, de acuerdo con las Normas Internacionales de Auditoría.

Así mismo, manifestamos que hemos leído el presente reporte anual y basado en su lectura y dentro del alcance del trabajo de auditoría realizado, no tenemos conocimiento de errores relevantes o inconsistencias en la información que se incluye y cuya fuente provenga de los estados financieros consolidados dictaminados señalados en el párrafo anterior, ni de información que haya sido omitida o falseada en este reporte anual o que el mismo contenga información que pudiera inducir a error a los inversionistas.

No obstante, los suscritos no fueron contratados, y no realizaron procedimientos adicionales con el objeto de expresar su opinión respecto de la otra información contenida en el reporte anual que no provenga de los estados financieros consolidados por ellos dictaminados."

Reporte Anual Grupo Financiero Banorte, S.A.B. de C.V. y Subsidiarias
al 31 de diciembre de 2016

C.P. Jaime Luis Castilla Arce
Galaz, Yamazaki, Ruiz Urquiza, S.C.
Apoderado Legal

C.P.C. Daniel Castellanos Cárdenas
Galaz, Yamazaki, Ruiz Urquiza, S.C.
Socio

8. ANNEXES

a) AUDIT AND CORPORATE PRACTICES COMMITTEE REPORT

Mexico City, March 15, 2018

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

According to Article 58 of the Law to Regulate Financial Groups (Ley para Regular las Agrupaciones Financieras) and Article 43 of the Stock Market Law (Ley del Mercado de Valores), the Audit and Corporate Practices Committee ("the Committee") presents its 2017 annual activity report.

The content of this report will address Grupo Financiero Banorte (GFNorte) and the following relevant entities: 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, Sólida Administradora de Portafolios, S.A. de C.V. SOFOM ER, Seguros Banorte, S.A. de C.V., Pensiones Banorte, S.A. de C.V , and Banorte Ahorro y Previsión S.A. de C.V.

I. Regarding Audit Matters:

a) Regarding the general situation, deviations and deficiencies of the Internal Control System (ICS), and Internal Audit of GF Norte and its relevant entities, the following elements were considered:

   1. The annual reports of relevant entities regarding Internal Control matters, prepared by its General Managers.
   2. Reports from Internal Comptrollers of GFNorte's relevant entities, including their opinion regarding ICS operation at their entities.
   3. Internal Audit's opinion regarding SCI's general situation at the relevant entities.
   4. Reports about deficiencies and relevant observations of GFNorte and Subsidiaries presented by Internal Audit, as well as follow-up of corrective measures.
   5. The External Auditor's report regarding observations to Internal Control as well as the audited financial statements of GF Norte and Subsidiaries.
   6. Audit reports from Commissioners of relevant entities.
   7. Other Audit Committees' reports regarding relevant events and their session minutes.
   8. Internal Audit management reports, and compliance with its work program.

   Considering the aforementioned elements, it is reported that GFNorte's and its relevant entities' ICS work in an effective way and that any identified deficiencies or deviations have been successfully addressed and others are currently in progress of being addressed.

   Regarding Internal Audit's operation, the Area has kept its independence, reasonably met its work program according to best practices and observed in an effective manner the implementation of measures to correct observations and areas of improvement.

   There were no significant non-compliant guidelines or operating policies, the areas of improvement were reported to their respective areas. There were actions taken for each of these areas of improvement, and there is a system in place to ensure its close follow-up and implementation.

b) Regarding performance evaluation of the company that provides external audit services, we inform that we have validated the credentials and quality of Galaz, Yamazaki, Ruiz Urquiza, S. C. (member of Deloitte Touche

Tohmatsu), as well as the Auditor in charge, as it relates to their activities and relationship with Management and the Board of Directors.

c) We conclude that the content of their audit reports are of good quality and useful to support the Committee, and we highlight that their results and opinions are no different from those of Management.

d) Regarding the description and evaluation of additional or complementary services provided by the External Audit, we confirm that it was authorized that they be hired in order to obtain an opinion regarding the interim financial statements as part of the issuing process of Capital Instruments (Sovereing Debt), a structural analysis of our employees' Pension Plan, the funds that integrate it, the resources that they generate, and the deferred tax treatment of the plan, as well as to perform activities related to the Issuing Program as Recurring Issuer that Banco Mercantil del Norte plans to do in the local markets during the next 5 years.

   It was also approved that they review the fiscal situation of Grupo Financiero Interacciones for the periods ending in 2015, 2016, and 2017 as well as perform activities related to the Financial Due Dilligence.

   Finally, it was authorized that they be hired to review the sustainability and local taxes and transfer pricing in intercompany transactions report.

e) We conducted the review of the financial statements of GFNorte and Subsidiaries as of December 31, 2017, and the external auditor's report, confirming that they were prepared in all material aspects according to the applicable accounting criteria, and it was recommended that this Board of Directors approve it. The committee also performed a quarterly reviewed of interim financial statements for the period.

f) Regarding the main modifications to accounting policies and criteria used during the fiscal year, we inform that modifications were made to comply with changes in applicable regulations described in Note 4 to the financial statements named "Main Accounting Policies" which contains a detailed explanation of such modifications and their implications.

g) No relevant observations were received during the fiscal year from shareholders, board members, management members, employees or any third party regarding accounting, internal controls or internal or external audit, nor claims of irregularities. Consistent with best practices, the annonimous No se recibieron observaciones relevantes durante el ejercicio de accionistas, there is an anonynmous complaints system in place, and the Committee provides follow-up to any complaint with due attention.

h) In regards to the agreements from the Shareholders Meeting and Board of Directors, such entities did not request the Committee to follow-up on any particular matter.

i) During the fiscal year, the Committee hosted Banco de México, during its inspection visit, which focused on matters related to financial markets, payment channels and compliance with the Transparency Law.

   The CNBV made observations related to payroll loans, car loans and some inconsistencies in risk calculations, accounting records and investment services.

   On December, an answer was sent to the CNBV regarding the aforementioned observations, including in some of the items, additional information so that these items be fully addressed, in some other cases specifying the corrective action plan already in progress, and for some other cases, informing that certain analysis will be performed so that corrective programs be started.

   The main findings were informed to the Board of Directors during the board meeting held on January 25, 2018.

j) Other relevant activities performed within the Committee's responsibilities were the review of GFNorte's Conflict of Interest Prevention System operation, and the remediation plan of the observations identified by Internal Audit to the Currency and Fiduciary Markets processes.

k) Regarding Technological matters, the Committee reviewed the actions to fully remediate the issue of users with incorrect profiles, and progress in the project to improve client identification mechanisms, in order to comply with regulations to avoid identity fraud.

l) During the period, the Committee provided follow-up to advancements in the implementation of the new Fiduciary operating model.

Regarding Internal Audit's function, the Committee evaluated the results of the review that the Mexican Institute of Internal Auditors (IMAI) performed, the work plan to address the areas of improvement identified regarding the Technology Audit's function.

Regarding communication with the External Auditor, the Committee reviewed relevant events of the 2017 audit report, and other topics considered in its external audit plan such as new fiscal and corporate governance practices, the results of Solvency II compliance levels presented by Seguros Banorte and Pensiones Banorte, the results of the review to the General Controls of Information Technology (CGTI) and other matters related to the audit.

Additionally, the Committee reviewed the status of the External Auditor's added value services that were pending from fiscal years 2015 and 2016, and authorized those for 2017.

Regarding the incident at Casa de Bolsa Banorte Ixe, the Committee provided follow-up on it, reviewing the areas of improvement identified as well as actions to mitigate them,together with Private Wealth, Legal, Comptroller and Internal Audit departments.

Regarding credit matters, the Committee reviewed the contributions made by the Analytics department towards reducing the cost of risk for Payroll Loans and the results from 2017's Loan Review for Banco Mercantil del Norte and Arrendadora y Factor Banorte.

Regarding the merger with Grupo Financiero Interacciones (GFI), the Committee held independent work sessions, as well as sessions with members of GFI's management, their legal and financial advisors, as well as with different external advisors to the Committee.

On this line, the Committee reviewed Management´s presentations and the financial expert's presentations hired by management as well as the one hired by the Committee itself.

Resulting from the above, the Committee recommended presenting to the Board of Directors for their own review and analysis,the opinions of third party analysts that were hired to evaluate from different perspectives,the proposed merger with Grupo Financiero Interacciones. After this, the Board of Directors authorized Management to continue with the negotiation process and present the Project at the Shareholders' Meeting for approval.

Regarding other topics, the Committee reviewd the external auditor´s selection process at Banorte USA, the training course for Board Members related to Anti-Money Laundering and Counter Terrorism Financing (PLD yFT), information about financial profitability (ROE) by product and by segment, Uniteller Financial Services' business plan, the quality analysis process for products and services, as well as information regarding manuals and regulatory guidelines of GFNorte.

II. Regarding Corporate Practices matters:

a) Regarding observations about relevant members of management, the Human Resources Committee Secretary informed that during the fiscal year, there were no cases presented to them regarding any member of senior management behaving against the established guidelines.

b) Operations with related parties were approved by the Board of Directors, and as of December 31,2017 loans granted by Banco Mercantil del Norte to related parties amounted to Ps 19.41bn, below the limit established by the corresponding regulation.

Inter-company operations were performed at market prices, and this was verified by the external auditor, without reporting any findings.

During 2017, the Committee followed-up the implementation of GFNorte's Conflict of Interest Prevention system. This activity was supported by Internal Audit and Internal Comptroller reports.

Regarding the CEO's and senior management's compensation packages, there is a Compensation System in place, approved by this Board of Directors, which separate their compensation in ordinary and extraordinary, and includes rules to deferr the extraordinary compensation as a function of established risk metrics and compliance with policies. This system was consistently applied throughout the fiscal year, considering the results of the audit performed by Internal Audit and reports presented by the Human Resources and Risk Policies Committees to the Board of Directors.

During the fiscal year, the Board of Directors did not grant any leaves of absence to any board members or relevant members of management to take advantage of business opportunities.

Sincerely,

Héctor Reyes Retana y Dahl
Chairman of the Audit and Corporate Practices Committee
Grupo Financiero Banorte, S.A.B. de C.V.

Mexico City, March 16, 2017.

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

In accordance with the provisions of Articles 58 of the Law to Regulate Financial Groups, and 43 of the Securities Market Law, the Audit and Corporate Practices Committee (the Committee) hereby submits its annual report for fiscal year 2016.

The contents of this report shall refer to Grupo Financiero Banorte (GFNorte) and the following relevant entities: Banco Mercantil del Norte, S.A., Inter National Bank, Casa de Bolsa Banorte Ixe, S.A. de C.V., Arrendadora y Factor Norte, S.A. de C.V., SOFOM ER, Sólida Administradora de Portafolios, S.A. de C.V. SOFOM ER, Seguros Banorte, S.A. de C.V., Pensiones Banorte, S.A. de C.V. and Banorte Ahorro y Previsión, S.A. de C.V.

I. As to Auditing:

a) On the condition of the Internal Control System (SCI) and Internal Audit of GFNorte and its relevant entities, and the deficiencies and deviations, we considered the following items:

1. The annual reports on activities regarding the Internal Control of the relevant entities prepared by their Managing Directors.
2. The reports of the Internal Comptrollers of the relevant entities of GFNorte in Mexico, along with their opinion on the operation of the SCI.
3. The opinion of Internal Audit regarding the condition of the SCI at the relevant entities.
4. The reports on relevant deficiencies and observations of GFNorte and Subsidiaries submitted by Internal Audit and follow-up to corrective measures.
5. The reports of observations to Internal Control made by the External Auditor and his opinion on the financial statements of GFNorte and Subsidiaries.
6. The reports of the inspection visits of the competent Authorities.
7. The opinions of the Statutory Auditors of the relevant entities of GFNorte.
8. The reports by the other Audit Committees on any relevant events and the minutes of their meetings.
9. The management and compliance with work program reports of Internal Audit .

Considering the elements stated above, it is informed that the SCI of GFNorte and its relevant entities works appropriately, and that any deficiencies or deviations that were found have been remedied and others are in process of being remedied.

With respect to the operation of the Internal Audit, the area has remained independent, and reasonably performed its work program according to the best practices, and efficiently oversaw the implementation of actions to correct the observations and areas of opportunity.

b) No significant breaches of the operation and accounting criteria and policies of GFNorte and its relevant entities occurred. The identified areas of opportunity were informed to the responsible parties, and measures were taken to address them, using the corresponding monitoring system to ensure their proper implementation.

c) Concerning the evaluation of the performance of the legal entity that provides external audit services, it is informed that, in the performance of its activities and in its relationship with the Management and the

Committee, the quality of the firm Galaz, Yamasaki, Ruiz Urquiza, S.C. (a member of Deloitte Touche Tohmatsu), and of the Auditor in charge has been confirmed.

Additionally, the contents of its opinions and reports are of good quality and useful in support of the Committee, especially since their results and opinions do not reflect any differences with those that the Management has.

d) Concerning the description and assessment of any additional or supplementary services provided by the External Auditor, during the fiscal year, the contracting to evaluate the tax effects on the restructure of liabilities of GEO and URBI, the provision of advisory on the preparation of the tax deduction of the taxable basis of the Income Tax for 2015 from portfolio write-offs, and the preparation of studies and analyses of the tax treatment of portfolio write-offs derived from portfolio acquisitions, were approved.

   The contracting thereof was approved to carry out tasks related to the issuance of capitalization instruments (Subordinated Debt) and to make an analysis of the procedure for the computation of the Capitalization ratio.

   It was also approved to contract such firm to validate the biannual valuation and review models to measure risk, and to deliver induction workshops when required for new directors or for updating purposes.

   Regarding technology, its contracting was approved to conduct external and internal tests of intrusion in the systems and to provide consultancy on the Software Development Life Cycle (SDLC) process, but also for purposes of optimization of the Security Operations Center (SOC) and response to incidents.

   Likewise, it was approved to contract it to review the report of sustainability and local taxes and transfer prices in intercompany operations.

e) The financial statements of GFNorte and Subsidiaries as of December 31, 2016, and the External Auditor opinion were reviewed, it is confirmed that these were prepared, in all material aspects, in accordance with the applicable accounting criteria, and their approval was recommended to this Board of Directors. The Committee also reviewed on a quarterly basis the interim financial statements for the fiscal year.

f) With respect to the main amendments to the accounting policies and criteria used during the fiscal year, it is reported that amendments were made to comply with the changes in the applicable provisions described in Note 4 to the financial statements "Main Accounting Policies", which includes a detailed explanation of the same and their effects.

g) No relevant observations were received during the fiscal year from shareholders, directors, senior officers, employees or any third party, with respect to the accounting, internal controls or internal and external audit, or reports of any irregular event. Pursuant to best practices, there is an anonymous reporting system, and the Committee monitors its duly follow-up.

h) With respect to the follow-up of the resolutions of the Shareholders Meeting and of the Board of Directors, such bodies did not request the Committee to monitor any agreement.

i) During the fiscal year, the supervision visits of Banxico, Condusef, CNSF and CNBV were received, including an inspection visit conducted by the last one, which focused on the credit process, especially on the payroll loans, identity theft, mortgage portfolio, trustee, operating and technological risk. The main findings were reported to the Board of Directors at the meeting held on January 26, 2017.

The observations resulting from the abovementioned visits were addressed to a good extent, or are being addressed.

j) Other relevant activities conducted within the responsibilities of the Committee include the analysis of the proposed criteria for the days on which corrective measures may be taken and the scaling of observations, and approval of the sanction proposal for those responsible for correcting observations delayed observations.

During the term, the Committee monitored the relevant observations that were delayed, with the presence of those responsible therefor.

The Committee reviewed measures to mitigate incidences in branches and electronic banking, the progress in the recovery of mortgage testimonies and the current status of the Trustee area.

The Committee met the External Auditor to discuss relevant subjects of the external audit plan, monitor the deficiencies of the general technology controls identified in the intermediate review, evaluate the new standards due to changes in the auditor and business report, as well as review other items related to audit.

Additionally, the Committee discussed the value added activities of the External Auditor, including the senior review of Technological Internal Audit.

With respect to other subjects, the Committee monitored the current status of international businesses of GFNorte, the process of banking and FX correspondents, the actions taken to comply with the Law of Protection of Personal Information, and the Internal Control activities implemented at GFNorte to highlight the importance of control on day-to-day operations.

Concerning the credit portfolio, the Committee reviewed the entire Time to Market project, the States and Municipalities credit analysis methodology and the results of the forensic audit on written-off credits, remediation plan to solve the covenant default problem; moreover, it discussed the reasons of the hike on payroll write-offs and reconciled the observations and recommendations of the Loan Review for the fiscal year 2015.

Finally, the Committee continued to monitor the progress of the “Adding Value for Clients” project, and reviewed the outsourcing project of IT services with IBM.

II. Concerning Corporate Practices:

a) In connection with the observations on the performance of relevant senior officers, the Secretary of the Human Resources Committee informed that no cases were registered of senior officers acting in breach of the established policies during the fiscal year.

b) The operations with related parties were approved by the Board of Directors, as of December 31, 2016, the credits extended by Banco Mercatil del Norte to related parties amounted to $9,792 million, lower than the limit established by the corresponding regulations.

Intercompany operations were carried out at market prices; these were verified by the External Auditor who reported no findings.

During 2016, the Committee monitored the implementation of the GFNorte Conflict of Interest Prevention System, in reliance upon the Internal Audit and Controllership management reports.

c) Regarding the benefit packages of the CEO and relevant senior officers, there is a Compensation System approved by this Board of Directors, which divides their compensations into ordinary and extraordinary, and considers rules to defer the latter, depending on established risk indicators and compliance with policies; this system was consistently applied during the fiscal year, taking into consideration the result of the review carried out by Internal Audit and the reports submitted 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 grant any releases to any directors or relevant senior officers for them to take advantage of any business opportunities.

Sincerely,

Héctor Reyes Retana y Dahl
Chairman of the Audit and Corporate Practices Committee
Grupo Financiero Banorte, S.A.B. de C.V.

Mexico City, March 17, 2016

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

In accordance with Articles 58 of the Law Regulating Financial Groups and 43 of the Securities Market Law, the Audit and Corporate Practices Committee presents its annual report of activities for 2015.

The contents of this report refer to Grupo Financiero Banorte (GFNorte) and the following relevant institutions: Banco Mercantil del Norte, S.A., Inter National Bank, Casa de Bolsa Banorte Ixe, S.A. de C.V., Banorte Ixe Tarjetas, S.A. de C.V. SOFOM ER, Arrendadora y Factor Banorte, S.A. de C.V. SOFOM ER, Solida Administradora de Portafolios, S.A. de C.V. SOFOM ER , Seguros Banorte, S.A. de C.V., and Pensiones Banorte, S.A. de C.V.

I. Regarding audit:

a) With respect to the state of the Internal Control System (SCI) and Internal Audit of GFNorte and its material institutions, deficiencies and deviations, the following elements were considered:

1. Annual reports on Internal Control activities of the relevant entities, elaborated by their Managing Directors.

2. Reports from Internal Comptrollers and those responsible for Control and Compliance functions of some relevant entities, and their opinion on the functioning of the SCI.

3. Internal Audit's opinion on the state of the SCI of relevant entities.

4. Reports on deficiencies and relevant observations of GFNorte and subsidiaries, submitted by Internal Audit and the monitoring of corrective measures.

5. Reports on observations to the Internal Control made by the External Auditor and its opinion on the GFNorte's and its subsidiaries financial statements.

6. Inspection reports from competent Authorities.

7. Reports from the Commissioners of GFNorte's relevant entities.

8. Reports from other Audit Committees about material events and the minutes of their meetings.

9. Reports on Internal Audit's management and compliance with its work program.

Considering the aforementioned, GFNorte's and its relevant subsidiaries' SCI works reasonably, and detected deficiencies or deviations were corrected or are in the process of being addressed.

On Internal Audit's functioning, the area has maintained its independence, reasonably met its work program according to best practices, and effectively monitored the implementation of measures to correct observations and identified areas of opportunity.

b) No significant non-compliances were found to GFNorte's and its relevant subsidiaries'operating and accounting guidelines and policies ; the identified areas of opportunity were reported to policymakers and measures were taken to address them and monitoring to ensure their proper implementation.

c) Regarding the performance of the firm Galaz, Yamazaki, Ruiz Urquiza, S.c. (Deloitte Touche Tohmatsu member), the legal entity providing external audit services, and the Auditor in charge, the corresponding evaluation reflected the quality of their performance and relationship with the Management and the Committee.

   The content of their reports are considered to be of good quality and useful in supporting the Committee, and their results and opinions do not disagree with those of the Management.

d) On the description and assessment of additional or complementary services provided by the External Auditor, during the fiscal year it was approved to hire it to to review technical aspects of risk management, evaluate FATCA processes and procedures, as well as review the sustainability report, transfer pricing for intercompany transactions and reports of local taxes.

   As a result of the corporate restructuring process, the External Auditor was hired to conduct a limited review of financial statements and review fiscal costs of the companies' stocks, as well as to design and document a management and operation model for a Security Operations Center.

   The Committee ensured that there was no conflict of interest when hiring these services.

e) GFNorte's and Subsidiaries' financial statements as of December 31, 2015 were reviewed. Fustheremore, the External Auditor's report confirmed these were prepared, in all material aspects, in compliance with the applicable accounting principles, and it was recommended to be approved by the Board of Directors. The Committee also reviewed interim financial statements for the fiscal year on a quarterly basis.

f) On main modifications to accounting policies and criteria used during the year, it was reported that modifications were made to comply with changes in the applicable provisions, which are described in Note 4 of the financial statements "Main Accounting Policies", containing a detailed explanation of such and their effects.

   It is worth mentioning that in 2015 the Board of Directors approved changes to Banco Mercantil del Norte's accounting policy on write-offs for SME, Middle-market and Corporate banking clients, without implying additional cost of reserves.

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. In accordance with best practices there is an anonymous complaints system and the Committee follows it up.

h) In regards to monitoring the agreements of the Shareholders' Assembly and the Board of Directors, such bodies did not request the Committee to monitor any agreement in particular.

i) During the fiscal year, various visits were received from Condusef, IPAB, Banxico and CNBV. It is worth mentioning the CNBV visit on issues related to the credit process specially focused on payroll loans, information security and remuneration system for which modifications to manuals, processes and technological adaptations were requested. The aforementioned was reported to the Board of Directors in the session held on October 22, 2015.

   Most of the observations resulting from such visits were attended or are in the process of being attended.

j) Other relevant activities carried out by the Committee include the approval of changes to the Internal Audit structure, the evaluation of work guidelines on the minimum aspects to be considered in a review of the Technology area and the approval to incorporate materiality as a measure for the possible economic impact of observations.

In terms of credit, the functions of the Credit, Legal, Operations, Accounting and Internal Audit departments were analyzed to comply with Articles 20, 21 and 31 of the General Provisions applicable to credit institutions, criteria for the Acceptance of Risk (CARs) for specific-purpose projects were reviewed, and the methodology to promote the culture of proper record integration was authorized in order to minimize the reprocessing presented in the standard review.

The state of loans granted to Corporate, Middle-market, SME, Agricultural and home developers was reviewed and the process for payroll loan and mortgage products was analyzed.

We reviewed the progress of corrective measures for observations from Internal Audit reviews qualified as “Unacceptable”, including the revocation of authority process for officials and employees who ceased to work for GFNorte, and approved the bonus methodology, based on revision results of responsible branch-based officials and employees.

The progress of the projects: “Adding value for the customer” and “Markets, Broker Dealer and Investments Transformation” was followed-up and the relaunch of Ixe branch plan was analyzed.

Regarding relevant regulatory changes, the Committee reviewed the impacts of the Volcker rule and the responsibilities of the Comptroller in the insurance and annuities companies as the Insurance and Bonding Institutions Law became effective.

II. Regarding corporate practices:

a) The Human Resources Committee reported that during the fiscal year there were no observations on the performance of relevant managers acting outside the established policies.

b) Transactions with related parties were approved by the Board of Directors and as of December 31, 2015 loans granted through Banco Mercantil del Norte to related parties amounted to Ps 7.552 billion, less than the limit set by the corresponding regulation. Intercompany transactions were carried out at market prices, which was verified by the External Auditor who did not report findings.

   In relation to unusual or non-recurring operations, during the fiscal year the Board of Directors approved the capitalization of Corporación GEO S.A.B. de C.V. for up to Ps 3,000 million, through Sólida Administradora de Portafolios.

c) With respect to emolument packages for the CEO and relevant directors, there is a compensation system approved by the Board of Directors, which divides their remuneration in ordinary and extraordinary, and includes rules to defer the latter according to established risk indicators and in compliance to policies. The aforementioned was applied consistently during the fiscal year considering the results of the Internal Audit review and reports submitted by the Human Resources and Risk Policies Committees to the Board of Directors.

d) Finally, it is reported that during the fiscal year the Board of Directores granted a dispensation to the Board member Juan Carlos Braniff to take advantage of a business opportunity; considering he holds a stake in Capital I Reserva, S.A. de C.V., which contributed Ps 500 million for GEO' financial and operational restructuring.

Sincerely,

Héctor Reyes Retana y Dahl
Chairman of the Audit And Corporate Practices Committee

For the years 2017-2016

Independent Auditors' Report to the Board of Directors and Stockholders of Grupo Financiero Banorte, S.A.B. de C.V. and Subsidiaries

Opinion

We have audited the consolidated financial statements of Grupo Financiero Banorte, S.A.B. Of C.V. And Subsidiaries (the 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

GRUPO FINANCIERO BANORTE, S.A.B. DE C.V. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
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
TOTAL ASSETS	**Ps.1,354,147**	**Ps.1,268,119**

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**
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**Ps. 1,354,147**	**Ps. 1,268,119**

Act. José Marcos Ramírez Miguel
CEO

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Deputy Managing Director - Controller

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

GRUPO FINANCIERO BANORTE, S.A.B. DE C.V. AND SUBSIDIARIES
CONSOLIDATED INCOME STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(In millions of Mexican pesos)

	2017	2016
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)
NET INTEREST INCOME	**63,366**	**53,057**
Provisions for loan losses	(15,213)	(13,313)
NET INTEREST INCOME AFTER ALLOWANCE FOR LOAN LOSSES	**48,153**	**39,744**
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)**
OPERATING INCOME	**31,944**	**24,965**
Equity in earnings of unconsolidated subsidiaries and associated companies	1,264	1,246
INCOME BEFORE INCOME TAX	**33,208**	**26,211**
Current income tax	(8,469)	(7,056)
Deferred income taxes, net	(579)	178
	(9,048)	**(6,878)**
INCOME BEFORE DISCONTINUED OPERATIONS	**24,160**	**19,333**
Discontinued Operations	89	243
INCOME BEFORE NONCONTROLLING INTEREST	**24,249**	**19,576**
Minority Interest	(341)	(268)
NET INCOME	**Ps. 23,908**	**Ps. 19,308**

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

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

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

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GRUPO FINANCIERO BANORTE, S.A.B. DE C.V. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(In millions of Mexican pesos)

	PAID-IN CAPITAL		OTHER CAPITAL			
	Common Stock	**Additional paid-in capital**	**Capital reserves**	**Retained earnings from prior years**	**Result from valuation of securities available for sale**	**Result from valuation of instruments for cash flow hedging**
Balances, January 1, 2016	**PS. 14,606**	**Ps. 36,424**	**Ps. 5,765**	**Ps. 62,860**	**(Ps.1, 552)**	**Ps. (828)**
TRANSACTIONS APPROVED BY STOCKHOLDERS:						
Share repurchase for executive shares' plan payable in equity instruments	(32)	28	(940)	-	(8)	-
Transfer of prior year's result	-	-	-	17,108	-	-
Dividends declared at the General Stockholders' meetings on:						
February 19,June 28 and August 19 2016	-	-	-	(7,229)	-	-
Special criterion of the Commission for sale of INB	-	-	-	(3,741)	-	-
Total transactions approved by stockholders	**(32)**	**28**	**(940)**	**6,138**	**(8)**	**-**
COMPREHENSIVE INCOME:						
Net income	-	-	-	-	-	-
Result from valuation of securities available for sale	-	-	-		(1,032)	-
Effect of subsidiaries, affiliates and mutual funds	-	(25)	-	(44)	-	-
Result from valuation of instruments for cash flow hedging	-	-	-	-	-	(1,261)
Result from valuation of instruments for cash flow hedging	-	-	-	(462)	-	-
Total comprehensive income	**-**	**(25)**	**-**	**(506)**	**(1,032)**	**(1,261)**
Minority Interest	**-**	**-**	**-**	**-**	**-**	**-**
Balances, December 31, 2016	**14,574**	**36,427**	**4,825**	**68,492**	**(2,592)**	**(2,089)**
TRANSACTIONS APPROVED BY STOCKHOLDERS:						
Share repurchase for executive shares' plan payable in equity instruments	17	(823)	211	-	(5)	-
Transfer of prior year's result	-	-	-	19,308	-	-
Dividends declared at the General Stockholders' meetings on:						
February 24 and June 20 2017	-	-	-	(14,645)	-	-
Special criterion of the Commission for sale of INB	-	-	-	(357)	-	-
Share-based payments payable in stock options	-	-	455	(455)	-	-
Total transactions approved by stockholders	**17**	**(823)**	**666**	**3,851**	**(5)**	**-**
COMPREHENSIVE INCOME:						
Net income	-	-	-	-	-	-
Result from valuation of securities available for sale	-	-	-		207	-
Effect of subsidiaries, affiliates and mutual funds	-	(12)	-	(23)	-	-
Result from valuation of instruments for cash flow hedging	-	-	-	-	-	(1,499)
Result from valuation of reserve for unexpired risks variations in rates	-	-	-	-	-	-
Defined remedies for employees benefits	-	-	-	-	-	-
Modification in consumer loan rating provisions	-	-	-	(725)	-	-
Interest on subordinated debentures	-	-	-	(301)	-	-
Total comprehensive income	**-**	**(12)**	**-**	**(1,049)**	**207**	**(1,499)**
Minority Interest	**-**	**-**	**-**	**-**	**-**	**-**
Balances, December 31, 2017	**Ps. 14,591**	**Ps. 35,592**	**Ps. 5,491**	**Ps. 71,294**	**(Ps. 2,390)**	**(Ps. 3,588)**

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

	OTHER CAPITAL						
	Result in the valuation of unexpired risk reserves due to changes in rates	**Cumulative foreign currency translation adjustment**	**Defined remedies for employee s benefits**	**Net income**	**Total majority interest**	**Total minority interest**	**Total stockhold ers' equity**
Balances, January 1, 2016	**Ps. -**	**Ps. 1,069**	**Ps.-**	**Ps. 17,108**	**Ps. 135,452**	**Ps. 1,900**	**Ps. 137,352**
TRANSACTIONS APPROVED BY STOCKHOLDERS:							
Share repurchase for executive shares' plan payable in equity instruments	-	-	-	-	(952)	-	(952)
Transfer of prior year's result	-	-	-	(17,108)	-	-	-
Dividends declared at the General Stockholders' meetings on:							
February 19,June 28 and August 19 2016	-	-	-	-	(7,229)	-	(7,229)
Criterio especial de la CNBV por venta de INB	-	-	-	-	(3,741)	-	(3,741)
Total transactions approved by stockholders	**-**	**-**	**-**	**(17,108)**	**(11,922)**	**-**	**(11,922)**
COMPREHENSIVE INCOME:							
Net income	**-**	**-**	**-**	19,308	19,308	-	19,308
Result from valuation of securities available for sale	-	-	-	-	(1,032)	-	(1,032)
Effect of subsidiaries, affiliates and mutual funds	-	1,015	-	-	946	-	946
Result from valuation of instruments for cash flow hedging	-	-	-	-	(1,261)	-	(1,261)
Result from valuation of reserve for unexpired risks variations in rates	87	-	-	-	87	-	87
Defined remedies for employees benefits	-	-	(370)	-	(370)	-	(370)
Modification in consumer loan rating provisions	-	-	-	-	(462)	-	(462)
Total comprehensive income	**87**	**1,015**	**(370)**	**19,308**	**17,216**	**-**	**17,216**
Minority Interest	-	-	-	-	-	55	55
Balances, December 31, 2016	**87**	**2,084**	**(370)**	**19,308**	**140,746**	**1,955**	**142,701**
TRANSACTIONS APPROVED BY STOCKHOLDERS:							
Share repurchase for executive shares' plan payable in equity instruments	-	-	-	-	(600)	-	(600)
Transfer of prior year's result	-	-	-	(19,308)	-	-	-
Dividends declared at the General Stockholders' meetings on:							
February 24 and June 20 2017	-	-	-	-	(14,645)	-	(14,645)
Special criterion of the Commission for sale of INB	-	-	-	-	(357)	-	(357)
Share-based payments payable in stock options	-	-	-	-	-	-	-
Total transactions approved by stockholders	**-**	**-**	**-**	**(19,308)**	**(15,602)**	**-**	**(15,602)**
COMPREHENSIVE INCOME:							
Net income	**-**	**-**	**-**	23,908	23,908	-	23,908
Result from valuation of securities available for sale	-	-	-	-	207	-	207
Effect of subsidiaries, affiliates and mutual funds	-	(400)	-	-	(435)	-	(435)
Result from valuation of instruments for cash flow hedging	-	-	-	-	(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 of provisions on consumer loans rating	-	-	-	-	(725)	-	(725)
Intereses de obligaciones subordinadas	-	-	-	-	(301)	-	(301)
Total comprehensive income	**9**	**(400)**	**(556)**	**23,908**	**20,608**	**-**	**20,608**
Minority Interest	-	-	-	-	-	(123)	(123)
Balances, December 31, 2017	**Ps. 96**	**Ps. 1,684**	**Ps. (926)**	**Ps. 23,908**	**Ps. 145,752**	**Ps. 1,832**	**Ps. 147,584**

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GRUPO FINANCIERO BANORTE, S.A.B. DE C.V. AND SUBSIDIARIES
CONSOLIDATED CASH FLOW STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(In millions of Mexican pesos)

	2017	2016
Net income	**Ps. 23,908**	**Ps. 19,308**
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)
	46,195	**38,547**
OPERATING ACTIVITIES:		
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)**
INVESTING ACTIVITIES:		
Proceeds on disposal of property, furniture and equipment	742	1,033
Payments for acquisition of property, furniture and equipment	(4,780)	(4,083)
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)**
FINANCING ACTIVITIES:		
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
Cash and cash equivalents at the end of the year	**Ps. 76,269**	**Ps. 65,886**

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

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

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 Ps. 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 Ps. 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 Ps. 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 Ps. 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:

	2017	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:

	2017 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
Total stockholders' equity	**147,584**	**147,584**	**-**
Total liabilities and stockholders' equity	**Ps.1,354,147**	**Ps.1,354,147**	**Ps.-**

	2016 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**	**-**
Total liabilities and stockholders' equity	**Ps.1,268,119**	**Ps.1,268,119**	**Ps.-**

Assets, liabilities and discontinued results

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

Assets and liabilities	2016
Loan Portfolio	Ps.21,479
Investments in Securities	6,178
Cash and cash equivalents	3,519
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)
Total Long Term Assets Available for Sale	**Ps. 5,299**

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

Income statements	2017	2016
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)
Net Income	**Ps.89**	**Ps.243**

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	Anual 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	Anual 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:

Concept	Amount
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**
Total liabilities and stockholders’ equity	**Ps.1,352,400**

(1) 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. <u>Improvements to NIFs</u>

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 valuated 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.

<u>Operation strategies</u>

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:

Movable property reserves	
Time elapsed as of award date or receipt as payment in kind (months)	**Reserve percentage**
Up to 6	-%
More than 6 and up to 12	10%
More than 12 and up to 18	20%
More than 18 and up to 24	45%
More than 24 and up to 30	60%
More than 30	100%

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

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

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

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

Real estate property reserves	
Time elapsed as of award date or receipt as payment in kind (months)	**Reserve percentage**
Up to 12	-%
More than 12 and up to 24	10%
More than 24 and up to 30	15%
More than 30 and up to 36	25%
More than 36 and up to 42	30%
More than 42 and up to 48	35%
More than 48 and up to 54	40%
More than 54 and up to 60	50%
More than 60	100%

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

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

Property, furniture and equipment

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

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

Permanent stock investments

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

Income taxes

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

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

Intangible assets

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

Goodwill

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

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

"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	
	2017	2016	2016	2016	2017	2016
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
	Ps. 39,899	**Ps. 25,915**	**Ps. 12,927**	**Ps. 19,713**	**Ps. 52,826**	**Ps. 45,628**

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:

	2017	2016
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
	Ps. 93	**Ps. 102**

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
Government securities	**$196,330**	**$1,210**	**$166**	**$197,706**	**$151,347**
Not restricted	**11,119**	**160**	**9**	**11,288**	**8,650**
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
Restricted	**185,211**	**1,050**	**157**	**186,418**	**142,697**
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
Bank securities	**39,040**	**106**	**10**	**39,156**	**28,800**
Not restricted	**3,318**	**1**	**-**	**3,319**	**2,369**
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
Restricted	**35,722**	**105**	**10**	**35,837**	**26,431**
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
Private securities	**1,776**	**1**	**380**	**2,157**	**1,630**
Not restricted	**1,621**	**1**	**380**	**2,002**	**1,518**
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
Restricted	**155**	**-**	**-**	**155**	**112**
CEBUR – corporate	129	-	(1)	128	112
CEBUR – fiduciary	26	-	1	27	-
	$237,146	**$1,317**	**$556**	**$239,019**	**$181,777**

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:

	2017				2016
	Acquisition cost	**Accrued interest**	**Valuation increase (decrease)**	**Book value**	**Book value**
Government securities	**$132,886**	**$2,288**	**$562**	**$135,736**	**$165,125**
Not restricted	**48,499**	**688**	**222**	**49,409**	**27,121**
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
Restricted	**84,387**	**1,600**	**340**	**86,327**	**138,004**
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	-
Bank securities	**6,514**	**10**	**(1)**	**6,523**	**4,878**
Not restricted	**6,514**	**10**	**(1)**	**6,523**	**4,878**
CEBUR – bank	254	2	33	289	287
CEDES	5,836	8	(3)	5,841	4,225
Structured notes	424	-	(31)	393	366
Private securities	**29,965**	**437**	**(4,121)**	**26,281**	**25,084**
Not restricted	**28,260**	**393**	**(4,156)**	**24,497**	**23,444**
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
Restricted	**1,705**	**44**	**35**	**1,784**	**1,640**
Eurobonds	1,705	44	35	1,784	1,640
	$169,365	**$2,735**	**($3,560)**	**$168,540**	**$195,087**

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:

	2017			2016
	Acquisition cost	Accrued interest	Book value	Book value
Government securities	**$88,616**	**$241**	**$88,857**	**$75,482**
Not restricted	**85,837**	**226**	**86,063**	**72,903**
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
Restricted	**2,779**	**15**	**2,794**	**2,579**
CEBUR – Municipality	2,580	15	2,595	2,579
UDIBONOS	199	-	199	-
Bank securities	**1,202**	**675**	**1,877**	**1,731**
Not restricted	**1,202**	**675**	**1,877**	**1,731**
CEBUR – bank	722	14	736	690
CEDES	300	539	839	758
Structured notes	180	122	302	283
Private securities	**4,032**	**573**	**4,605**	**4,707**
Not restricted	**1,440**	**564**	**2,004**	**1,983**
CEBUR – corporate	1,440	564	2,004	1,983
Restricted	**2,592**	**9**	**2,601**	**2,763**
CEBUR - BORHIS	1	-	1	22
CEBUR – corporate	2,591	9	2,600	2,741
Other securities	**(29)**	**-**	**(29)**	**(39)**
	$93,821	**$1,489**	**$95,310**	**$81,920**

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)
	$2,207	**$2,243**	**$90,860**	**$95,310**

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:

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

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

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
	Ps. 28,973	**Ps. 19,510**

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

Instrument	2017	2016
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
Government securities	**252,408**	**266,178**
Promissory Notes	6,264	1,887
CEDES	14,008	7,017
CEBUR Bank	12,950	15,254
Financial Institution Negotiable Instruments	731	703
Bank securities	**33,953**	**24,888**
Short-term CEBUR	15,303	5,451
Mortgage certificates	1	10,717
Certificates of deposit	-	1,543
Private securities	**15,304**	**17,711**
	Ps.301,655	**Ps.308,777**

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 Repurchase agreement from debtors	2017 Received, sold collateral in repurchase	2017 Debit difference	2017 Credit difference	2016 Repurchase agreement from debtors	2016 Received, sold collateral in repurchase	2016 Debit difference	2016 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	-	-
Government securities	**59,897**	**59,219**	**678**	-	**15,951**	**15,951**	-	-
CEDES	3,408	3,408	**-**	**-**	2,008	2,008	**-**	**-**
Bank bonds	188	188	-	-	1,529	1,529	-	-
Securitized bank certificates	389	389	-	-	916	916	-	-
Bank securities	**3,985**	**3,985**	**-**	-	**4,453**	**4,453**	-	-
Short-term CEBUR	2,628	2,631	**-**	**-**	3,322	3,322	-	-
Private securities	**2,628**	**2,631**	**-**	**-**	**3,322**	**3,322**	**-**	**-**
	Ps.66,510	**Ps.65,835**	**Ps.678**	**Ps.-**	**Ps.23,726**	**Ps.23,726**	**Ps.-**	**Ps.-**

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

Asset position	2017	2016
Forwards		
Foreign currency forwards	Ps. 120	Ps. 9
Options		
Interest rate options	849	1,051
Stock options	13	4
Currency	111	263
Swaps		
Interest rate swaps	20,921	34,570
Exchange rate swaps	3,506	5,237

Total trading	**Ps. 25,520**	**Ps. 41,134**
Options		
Rate Options	25	46
Swaps		
Interest rate swaps	180	696
Total hedging	**205**	**742**
Total position	**Ps. 25,725**	**Ps. 41,876**

Liability position	**2017**	**2016**
Forwards		
Foreign currency forwards	Ps. 55	Ps. 28
Options		
Interest rate options	784	1,112
Currency options	177	1
Swaps		
Interest rate swaps	18,322	32,937
Exchange rate swaps	5,270	6,325
Total trading	**24,608**	**40,403**
Swaps		
Interest rate swaps	492	168
Exchange rate swaps	11,909	9,204
Total hedging	**12,401**	**9,372**
Total position	**Ps. 37,009**	**Ps. 49,775**

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	TIIE 28	TIIE 28
Fx-EUR	TIIE 28	TIIE 91	TIIE 91
Fx-CAD	TIIE 91	CETES 91	Libor
	Libor	Libor	Euribor
			UDI

The risk management policies and internal control procedures for managing risks inherent to derivatives are described in Note 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 TIIE 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
	Ps.907	**Ps.2,082**	**Ps.5,716**	**Ps.2,493**

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
Total commercial loans	**233,777**	**224,218**	**5,672**	**5,672**	**240,496**	**229,891**
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
	381,821	**342,587**	**5,763**	**4,640**	**387,584**	**347,226**
Total loan portfolio	**Ps. 615,598**	**Ps. 566,805**	**Ps. 12,482**	**Ps. 10,312**	**Ps. 628,080**	**Ps. 577,117**

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	-	-
	Ps. 13,181	**Ps. 1,477**	**Ps. 5,018**	**Ps. 1,465**

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
	Ps.7,528	**Ps.1,908**	**Ps.703**	**Ps.2,343**	**Ps.12,482**

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

	From 1 to 180 days	From 181 to 365 days	From 366 days to 2 years	More than 2 years	Total
Commercial loans					
Business loans	Ps. 656	Ps. -	Ps. -	Ps. 5,360	Ps. 6,016
Consumer loans	3,127	115	1	4	3,247
Mortgage loans	731	318	-	-	1,049
	Ps. 4,514	**Ps. 433**	**Ps. 1**	**Ps. 5,364**	**Ps. 10,312**

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

	2017	2016
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
Year-end balance	**Ps.12,482**	**Ps.10,312**

* 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:

	2017		2016	
	Amount	**Concentration percentage**	**Amount**	**Concentration percentage**
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%
	Ps.628,080	**100.00%**	**Ps.577,117**	**100.00%**

Policies and Procedures for Granting Loans

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

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

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

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

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

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

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

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

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:

	2017						
		Required allowances for losses					
Risk category	**Loan portfolio**	**Companies**	**Government**	**Financial institutions'loans**	**Consumer portfolio**	**Mortgage portfolio**	**Total**
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	-	-	-	-	-	-
	Ps. 667,494	**Ps. 4,575**	**Ps. 700**	**Ps. 123**	**Ps. 9,586**	**Ps. 933**	**Ps. 15,917**
Less: Recorded allowance	-	-	-	-	-	-	**16,122**
Reserve supplement*							**Ps. 205**

Risk category	Loan portfolio	Required allowances for losses: Companies	Govern ment	Financial institutions' loans	Consumer portfolio	Mortgage portfolio	Total
	2016						
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	-	-	-	-	-	-
	Ps. 604,327	**Ps. 4,740**	**Ps. 736**	**Ps. 263**	**Ps. 7,698**	**Ps. 747**	**Ps. 14,185**
Less: recorded allowance	-	-	-	-	-	-	**14,384**
Reserve Supplement*							**Ps. 198**

*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
Year-end balance	**Ps. 16,122**	**Ps. 14,384**

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
	Ps. 2,477	**Ps. 2,025**

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:

	2017	2016
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
	Ps. 4,031	**Ps. 4,245**

14 – ACCOUNTS RECEIVABLE FROM REINSURANCE

This item is made up as follows:

	2017	2016
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 Foreing	(2)	(3)
Estimate for punishments	(293)	(46)
	Ps. 8,717	**Ps. 7,166**

15 - OTHER ACCOUNTS RECEIVABLE, NET

This item is made up as follows:

	2017	2016
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)
	Ps. 51,834	**Ps. 50,366**

* 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)
	(2,088)	**(1,755)**
	Ps.1,100	**Ps.1,610**

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
Moveable property	Ps. 25	Ps. 22	Ps. 47

Concept / Months	12 to 24	24 to 30	30 to 36	36 to 42	42 to 48	More than 48	Total
Real estate property	$19	$15	$12	$8	$106	$1,877	$2,037
Goods pledged for sale	-	-	-	-	-	4	4
	$19	**$15**	**$12**	**$8**	**$106**	**$1,881**	**$2,041**

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)
	Ps. 18,170	**Ps. 15,829**

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)
		Ps. 13,771	**Ps. 13,764**

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
Temporary Differences - Assets				
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
Total assets	**Ps. 34,282**	**Ps. 10,283**	**Ps. 36,704**	**Ps. 11,008**

	2017		2016	
	Temporary Differences	Deferred Effect	Temporary Differences	Deferred Effect
Temporary Differences - Liabilities				
Excess of tax over book value of foreclosed and fixed assets and expected payments	Ps.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
Total Liabilities	**24,454**	**7,334**	**23,388**	**7,014**
Deferred tax, net		**Ps. 2,949**		**Ps. 3,994**

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
	$3,711

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
	Ps. 28,686	**Ps. 29,742**

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
	Ps. 12,644	**Ps. 12,679**

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:

	2017	2016
Demand deposits		
Non-interest bearing checking accounts:		
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
	393,308	**381,203**
Time deposits		
General public:		
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
	239,174	**190,461**
Money market:		
Over the counter promissory notes	3,678	1,458
Provision for interest	1	1
	3,679	**1,459**
	242,853	**191,920**
Senior debt issued	**3,003**	**85**
Global Account of deposits without movements	**1,657**	**1,352**
	Ps. 640,821	**Ps. 574,560**

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:

	2017				2016			
Foreign exchange	**1Q**	**2Q**	**3Q**	**4Q**	**1Q**	**2Q**	**3Q**	**4Q**
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:

	2017				2016			
Foreign exchange	**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**
General public				
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
	226,061	**12,147**	**966**	**239,174**
Money market:				
Promissory notes	-	-	3,678	3,678
Provision for interest	-	-	1	1
	-	**-**	3,679	**3,679**
Senior debt issued	**3,003**	**-**	**-**	**3,003**
Global account of deposits without movements	**1,657**	**-**	**-**	**1,657**
	Ps. 230,721	**Ps. 12,147**	**Ps. 4,645**	**Ps. 247,513**

	2016			
	From 1 to 179 days	From 6 to 12 months	More than 1 year	Total
General public:				
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
	181,566	**7,917**	**978**	**190,461**
Money market:				
Promissory notes	-	-	1,458	1,458
Provision for interest	-	-	1	1
	-	**-**	1,459	**1,459**
Senior debt issued	**85**	**-**	**-**	**85**
Global account of deposits without movements	**1,352**	**-**	**-**	**1,352**
	Ps. 183,003	**Ps. 7,917**	**Ps. 2,437**	**Ps. 193,357**

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
Immediately due:						
Domestic banks (Call money)	Ps.-	Ps.4,019	Ps.-	Ps.-	Ps.4,019	Ps.4,019
Short-term:						
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
	11,912	**15,705**	**6,301**	**1,450**	**18,213**	**17,155**
Long-term:						
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
	11,615	**11,820**	**4,115**	**5,642**	**15,730**	**17,462**
	Ps.23,527	**Ps.31,544**	**Ps.10,416**	**Ps.7,092**	**Ps.33,943**	**Ps.38,636**

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

The average interest rates are shown below:

	2017				2016			
Foreign exchange	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
<u>Call money</u>								
Mexican pesos and UDIS	5.82%	6.80%	6.79%	6.89%	3.27%	3.15%	4.15%	5.07%
<u>Other bank loans</u>								
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
Current risk:		
Life	Ps.86,527	Ps.74,839
Accidents and health	1,663	1,579
Damages	3,315	3,256
	91,505	79,674
Contractual obligations:		
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
	12,661	7,665
Contingency:		
Catastrophic risk	1,207	992
Contingencies	1,667	1,443
Special	754	595
	3,628	3,030
	Ps. 107,794	**Ps. 90,369**

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
	Ps.20,532	**Ps.18,037**

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
Funded status	(506)	(19)	(1,053)	(1,578)
Unrecognized prior service cost	-	-	110	110
Unrecognized actuarial losses	461	11	944	1,416
Net projected asset	**(Ps.45)**	**(Ps.8)**	**Ps.1**	**(Ps. 52)**

	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
Funded status	1	100	453	554
Unrecognized prior service cost	-	-	146	146
Unrecognized actuarial losses	667	17	1,368	2,052
Net projected asset	**Ps.668**	**Ps.117**	**Ps.1,967**	**Ps.2,752**

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)
Amortizations of unrecognized items:		
Profits (actuarial losses)	136	132
Cost of the advance reduction/liquidation of obligations	4	(85)
Net periodic pension cost	**Ps.193**	**Ps.187**

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:

Concept	2017 Nominal	2016 Nominal
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:

Concept	2017	2016
Defined and projected benefit obligations	(Ps. 277)	(Ps. 248)
Net projected liability	**(Ps. 277)**	**(Ps. 248)**

The net periodic pension cost is as follows:

Concept	2017	2016
Service cost	Ps. 26	Ps. 37
Interest cost	9	15
Net periodic pension cost	**Ps. 35**	**Ps. 52**

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:

	2017	2016
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)	-
	Ps. 32,445	**Ps. 21,917**

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

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:

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

(1) 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:

	Mexican pesos		Foreign Currency		Total	
Type of portfolio	**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
Performing loan portfolio	**559,187**	**514,779**	**44,384**	**42,279**	**603,571**	**557,058**
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**
Total portfolio	**570,230**	**525,164**	**45,994**	**42,220**	**616,224**	**567,584**
Allowance for loan losses	15,685	14,116	327	323	16,012	14,439
Net portfolio	**Ps.554,545**	**Ps.511,048**	**Ps.45,667**	**Ps.42,097**	**Ps.600,212**	**Ps.553,146**
Allowance for loan losses					**126.55%**	**137.18%**
% of past-due portfolio					**2.05%**	**1.85%**

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	**Fees**	**Total**
	MXP	**MXP**	**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
	Ps.109,340	**Ps.1,169**	**Ps.110,509**

	2016		
	Interest	**Fees**	**Total**
	MXP	**MXP**	**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
	Ps.79,058	**Ps.1,206**	**Ps.80,264**

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:

	2017	2016
Banking sector:		
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
Brokerage sector:		
Net income	972	832
Stockholders' equity	3,060	2,753
Portfolio balance	824,291	757,423
Total net assets	121,833	81,175
Long term saving sector*		
Net income	6,271	5,727
Stockholders' equity	25,996	22,513
Total net assets	139,625	119,283
Other finance companies sector:		
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
Grupo Financiero Banorte (Financial Group)		
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:

	2017	2016
Trading results:		
Spot foreign currency	($153)	$82
Derivatives financial instruments	492	329
Investments in securities	(709)	(73)
Valuation	**(370)**	**338**
Purchase-sales result, net		
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**
Total trading results	**$2,657**	**$2,346**

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

Economic sector	2017	%	2016
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
Mortgage	135,405	22.0%	114,807
Credit card	33,906	5.5%	28,445
Other consumer loans	71,660	11.6%	59,882
Leasing	12,478	2.0%	11,505
Factoring	11,020	1.8%	11,177
	Ps.615,598	**100%**	**Ps.566,805**

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

Economic sector	2017	%	2016
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
Mortgage	1,323	10.6%	1,049
Credit card	2,187	17.5%	1,623
Other consumer loans	2,253	18.0%	1,624
Leasing	85	0.7%	132
Factoring	69	0.6%	48
	Ps.12,482	**100%**	**Ps.10,312**

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

	2017						
	Geographical location						
Product	Monterrey	Mexico City	West	Northwest	South-east	Treasury and other	Total
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
Total deposits	**Ps.139,815**	**Ps.272,710**	**Ps.60,138**	**Ps.66,979**	**Ps.86,899**	**Ps.12,656**	**Ps.640,821**

	2016						
	Geographical location						
Product	Monterrey	Mexico City	West	Northwest	Southeast	Treasury and other	Total
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
Total deposits	**Ps.132,770**	**Ps.239,380**	**Ps.57,592**	**Ps.61,012**	**Ps.79,919**	**Ps.3,886**	**Ps.574,560**

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%)
Effective rate	**28%**	**26%**

30 - STOCKHOLDERS' EQUITY

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

Paid-in Capital	Number of shares with a nominal value of Ps. 3.50	
	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
	Ps. 14,591	Ps. 14,574

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
Outstanding shares as of December 31, 2016	**2,753,976,459**

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
Total	Ps.	98,637	Ps.	82,707

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**
	Common equity level 1: regulatory adjustment	
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**
	Additional equity level 1: securities	
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
	Additional equity: regulatory adjustments	
44	**Additional equity level 1 (AT1)**	20,103
45	**Equity level 1 (T1 = CET1 + AT1)**	95,323
	Equity level 2: instruments and allowances	
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
	Equity level 2: regulatory adjustments	
58	**Equity level 2 (T2)**	13,286
59	**Total equity (TC = T1 + T2)**	108,609
60	**Weighted assets for total risk**	630,264
	Equity ratios and suplements	
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%
Amounts below the thresholds for deduction (before risk weighting)		
75	Deferred tax asset due to temporary differences (net of deferred tax liability)	3,512
Limits applicable to the inclusion of reserves in the capital of Level 2		
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
Equity instruments subject to gradual elimination (applicable only between 1 January 2018 and 1 January 2022)		
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
	Assets	**1,055,733**
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
	Liabilities	**969,671**
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
	Stockholders' equity	**86,062**
BG29	Paid-in capital	18,753
BG30	Other capital	67,309
	Memorandum accounts	**1,151,520**
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.
	Assset			
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	
	Liability			
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)
	Stockholders' equity			
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	3, 11	(3,653)	BG30; -3,653 (Earned

	instruments for cash flow hedging of items not accounted at fair value			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	Average of the annual positive net income of last 36 months
41,156	56,225

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

Reference	Characteristics	Q BANORTE 08U
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
Regulatory treatment		
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
Yields / dividends		
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

Reference	Characteristic	D2 IXEGB40 141020
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
Regulatory treatment		
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)
9ª	**Currency**	USD Dólar
10	**Accounting classification**	Liability at amortized cost
11	**Date of issuance**	14/10/2010
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
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 moment before maturity date
Yields / dividends		
7	**Type of yields/Dividends**	Fix
18	**Interest rate/Dividends**	IRUSD0Libor
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 (*Write0Down*)**	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%
Indica	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%
Singapour	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**
	Exposure inside the balance	
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
	Exposures to derivative financial instruments	

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
Exhibitions by financing operations with values		
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
Other exposures out of balance sheet		
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
Capital and total exposure		
20	Equity level 1	95,323
21	Total exposures (Sum of lines 3, 11, 16 and 19)	1,133,176
Leverage ratio		
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.
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 %).
	The amount must be registered with a negative sign.
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 [1]	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)**
Net asset position in Mexican pesos	**(Ps.2,565)**	**(Ps.1,250)**

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
Net income per share consolidated	**23,908**	**2,750,448,219**	**Ps.8.6924**	**Ps.7.0107**

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 though 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.

a.

2.1.3. Credit risk of financial instruments

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

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

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

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

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

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

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

1) The probability of nonfulfillment of the issuer, security or counterparty, which is expressed as a percentage between 0% and 100% where the better the rating or lower rate differential vs. the instrument of an equivalent government bond, the lower the probability of non-fulfillment and vice versa.

2) The loss given default that could be experienced with respect of the total of the operation in the event of non-fulfillment, is expressed as a percentage between 0% and 100% where the better the guarantees or credit structures, the smaller the loss given default and vice versa. To mitigate Credit Risk and to reduce the loss given default in the event of non-fulfillment, the counterparties have signed ISDA contracts and agreements to net out, in which credit lines and the use of collateral to mitigate loss in the event of non-fulfillment are implemented.

2.2. Credit Risk Exposure

b.

As of December 31st, 2017 the total amount of the exposure subject to the Standard Method to calculate the Capital Ratio is the following:

Gross Exposures subject to Standard Method	Banorte	Arrendadora y Factor	Sólida	Total portfolio
Commercial	Ps.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
Total Portfolio subject to Standard Method	**Ps. 615,744**	**Ps. 25,744**	**Ps. 4,211**	**Ps. 645,698**
Eliminations				**(17,618)**
Total portfolio				**Ps. 628,080**

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%
Cartera Total	**577,117**	**612,656**	**628,080**	**15,425**	**2.5%**	**50,963**	**8.8%**

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
Total portfolio	**Ps.614,103**	**Ps.7,432**	**Ps.1,495**	**Ps.5,050**	**Ps.628,080**	**Ps.16,122**

*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		Write-offs 4Q17	Days overdue**
	Performing	Past-due	Performing	Past-due		4Q17	Var vs 3Q17		
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
5 Major Sectors	**309,486**	**1,646**	**855**	**4,769**	**316,756**	**4,473**	**(281)**	**326**	
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			
Total portfolio	**614,103**	**7,432**	**1,495**	**5,050**	**628,080**	**16,122**	**(102)**	**3,417**	

*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.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
5 Major Sectors	**Ps.293,912**	**Ps.23,013**	**Ps.530**	**Ps.316,756**
Rest	304,914	2,731	3,680	311,325
Total portfolio	**Ps.598,126**	**Ps.25,744**	**Ps.4,211**	**Ps.628,080**

*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	Total Reserves
		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
	Top 10	**Ps.457,701**	**Ps.5,702**	**Ps.1,253**	**Ps.4,348**	**Ps.469,003**	**Ps.11,807**
	Other Federal Entities	156,403	1,730	242	703	159,077	4,110
	Accounting records						206
	Total Loans	**Ps.614,103**	**Ps.7,432**	**Ps.1,495**	**Ps.5,050**	**Ps.628,080**	**Ps.16,122**

*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
Banorte*	**Ps.584,454**	**Ps.7,318**	**Ps.1,481**	**Ps.4,874**	**Ps.598,126**	**Ps.15,359**
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
Total portfolio	**Ps.614,103**	**Ps.7,432**	**Ps.1,495**	**Ps.5,050**	**Ps.628,080**	**Ps.16,122**

*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	4Q17			
	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	-	Ps.206
For written off loans	123	-	-	Ps.123
For foreign exchange variations	2	-	-	Ps.2
For credit risk adjustments	71	10	-	Ps.81
Payment in kind	(137)	-	-	(Ps.138)
Write-offs, Cancellations, and Debt forgiveness	(353)	-	-	(Ps.353)
Final Loan Loss Reserves	**Ps.2,795**	**Ps.86**	**Ps.15**	**Ps.2,896**
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 CABEI 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:

Position (at year's end)	2017	Average 2017
Forwards	Ps.17	Ps.125
Options	24	7
Swap Interest Rate (IRS)	3,895	3,755
Cross Currency Swap (CCIRS)	(13,617)	(11,527)
Total	**(Ps.9,682)**	**(Ps.7,639)**
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	-	-
Total	**(Ps.6,580)**	**(Ps.6,155)**

*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.

Contrapartes Financieras	4Q17	Avarage 4Q17	4Q17	Avarage 4Q17
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)
Total	**4,142**	**4,283**	**(6,950)**	**(6,206)**
Clientes (No Financieras)	4T17	Promedio 4T17	4T17	Promedio 4T17
FWD	45	38	10	0
OPCIONES	25	29	(687)	(553)
SWAP TASA	813	1,170	(2,026)	(847)
CCS	26	24	(28)	(33)
Total	**895**	**1,245**	**(2,731)**	**(1,433)**

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

Net Cash Outlays ***(at year's end)***	**2017**
Cash Outflow with 1-notch Downgrade	Ps. -
Cash Outflow with 2-notch Downgrade	-
Cash Outflow with 3-notch Downgrade	-

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

Rating	2017	Average 2017
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)
Total	**(Ps.9,682)**	**(Ps.7,639)**

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.

c. The covered loan portfolio by type of guarantee at the end of 2017 is as follows:

d.

Guarantee Type	2017			
	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
Total Covered Portfolio	**Ps.420,709**	**Ps.11,503**	**Ps.25**	**Ps.432,237**

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

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

g.

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):

Tier 1 as of September 30, 2017	**Ps. 98,044**
I. Financing whose individual amount represents more than 10% of basic capital:	
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	-
II. Maximum amount of financing with the three largest debtors and common risk groups	**Ps. 41,187**

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

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

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

Equity as of September 30, 2016	**Ps. 3,999**
I. Financing whose individual amount represents more than 10% of equity (group level):	
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	-
II. Maximum amount of financing with the three largest debtors and common risk groups	**Ps. 672**

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.

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

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:

Risk factor	4Q17	Average 4Q17
Rates	28.4	32.8
FX	13.5	9.0
Variable income	8.8	8.0
Diversification effect	(17.3)	(12.7)
Banorte's Total VaR	**33.5**	**37.1**

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

Risk factor	4Q17	Average 4Q17
Domestic rates	25.7	24.1
Foreign rates	3.7	-
FX	4.0	11.0
Variable revenue	0.1	2.1
Total VaR	**33.5**	**37.1**

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:

Risk factor	4Q17
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
VaR / Net Capital	**0.53%**

* 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	-	-
VaR Total Casa de Bolsa	**Ps.19**	**Ps.12.5**

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

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)
COMPUTABLE LIQUID ASSETS		
1 Total Computable Liquid Assets	NA	Ps. 105,614
CASH DISBURSEMENTS		
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	-	-
16	**TOTAL CASH DISBURSEMENTS**	**NA**	**129,931**
CASH INFLOW			
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
20	**TOTAL CASH INFLOW**	**N/A**	**Ps. 44,395**
		Adjusted amount	
21	**TOTAL COMPUTABLE LIQUID ASSETS**	**NA**	**Ps. 105,614**
22	**TOTAL NET CASH DISBURSEMENTS**	**NA**	**Ps. 86,177**
23	**LIQUIDITY COVERAGE RATIO**	**NA**	**123.42%**

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

A 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 (Millons 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.

	3Q17	4Q17	Var vs. 3Q17
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.

Liquidity Ratio	Casa de Bolsa Banorte Ixe	Arrendadora y Factor	Sólida
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:

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

<u>Labor Relations and Safety in the Workplace:</u> 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.

<u>Customers, Products and Business Practices:</u> 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.

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

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

<u>Process Execution, Delivery and Management:</u> 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 Intitution’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 processes 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 or Technology Risk Management are performed by the Institution under institution regulatory and Integrity Committee guidelines.

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

5.7. Legal Risk

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

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

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

6. SECURITIZATIONS EXECUTED BY THE FINANCIAL GROUP

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

The Financial Group has accomplished the following securitizations:

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

- On December 13th, 2006, Banorte held the irrevocable trust for the issuance of market certificates No. 583, issuer code BNORCB, whose underlying assets are mortgages originated and transferred by Banorte.

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

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

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

Particularly in Trusts 374 and 477 operations with derivatives are carried out, specifically swaps, in order to reduce exposure to exchange rate and interest rate risks. The institution assumes the counterparty risk generated by these operations, however these operations are only carried out with institutions of recognized solvency. The Trust's policy is to only carry out derivative instrument operations for the sole purpose of coverage, never for speculation.

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

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

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

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

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

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

Securitization	Banorte		Insurance		Total	
	Securities	Amount	Securities	Amount	Securities	Amount
91_BNTECB_07	50,763,776	2,037	500,000	20	51,263,776	2,057
91_BNTECB_07-2	563,059	19	-	-	563,059	19

97_BNORCB_06	4,938,137	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	Verum
	Local	Global	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
91_BNTECB_07	Ps. 2,785	Ps.-	Ps. 2,785
91_BNTECB_07-2 97_BNORCB_06	Ps. 73	Ps. 83	Ps. 156
97_BNORCB_06-2 97_BNORCB_06-2	Ps.118	Ps.136	Ps.255

There are no impaired assets in Trust 477

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

Concept	Balance	Capital requirement
Securitizations with Risk Level 1 (weighted 20%)	Ps.2,009	Ps.32
Securitizations with Risk Level 2 (weighted 50%)	21	1
Securitizations with Risk Level 3 (weighted 100%)	-	-
Securitizations with Risk Level 4 (weighted 350%)	-	-
Securitizations with Risk Level 4, 5, 6 or not rated (weighted 1250%)	-	-

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

The securitizations of Trusts 563, 583 and 477 considers early amortization provisions. 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	-
			Total	**Ps.4,090**	**Ps.185**	**(Ps.8)**

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.-
			Total	Ps.479	Ps.246	Ps.-

36 - MEMORANDUM ACCOUNTS (not audited)

	2017	2016
Operations on behalf of third parties		
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
	Ps.1,100,642	**Ps.948,441**
Proprietary transactions		
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
	Ps.1,436,905	**Ps.1,257,123**

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.

For the years 2016-2015

Independent Auditors' Report to the Board of Directors and Stockholders of Grupo Financiero Banorte, S.A.B. de C.V. and Subsidiaries

Opinion

We have audited the consolidated financial statements of Grupo Financiero Banorte, S.A.B. de C.V. And Subsidiaries (the Holding), which comprise the consolidated balance sheets as of December 31, 2016 and 2015, 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, 2016 and 2015, as well as its consolidated results of operations and cash flows for the years ended according to the accounting criteria established by the National Banking and Securities Commission (the Commission) through the "General Provisions applicable to 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) We verified that the Financial Group complies with the provisions of Criterion B-2, Investments in securities, of the Accounting Criteria issued by the Commission, inasmuch as do not classifying securities acquired from December 2014 until December 31 2016 in the category of Securities held to maturity.

c) In the item of investments with characteristics of equity instruments, we reviewed i) the valuation, obtaining as evidence the fair value determined by an independent price provider and ii) the presentation according to the intention and classification of the instrument.

d) In the case of investments that show signs of deterioration and for which the Management of the Financial Group performed an impairment analysis, we 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.

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

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

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

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

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

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

In the preparation of the consolidated financial statements, management is responsible for evaluating the 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 27, 2017

GRUPO FINANCIERO BANORTE, S.A.B. DE C.V. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2016 AND 2015
(In millions of Mexican pesos)

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

MEMORANDUM ACCOUNTS (Note 36)

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

As of December 31, 2016, the stockholders' equity amounts to Ps. 9,619.

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

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

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

Act. José Marcos Ramírez Miguel
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

GRUPO FINANCIERO BANORTE, S.A.B. DE C.V. AND SUBSIDIARIES
CONSOLIDATED INCOME STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(In millions of Mexican pesos)

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

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

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

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

Act. José Marcos Ramírez Miguel
CEO

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

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Managing Director – Internal Audit

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Executive Director - Accounting

GRUPO FINANCIERO BANORTE, S.A.B. DE C.V. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(In millions of Mexican pesos)

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

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

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

Act. José Marcos Ramírez Miguel
CEO

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

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Deputy Managing Director - Controller

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

GRUPO FINANCIERO BANORTE, S.A.B. DE C.V. AND SUBSIDIARIES
CONSOLIDATED CASH FLOW STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(In millions of Mexican pesos)

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

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

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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, 2016.

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

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

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

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

2 – SIGNIFICANT EVENTS DURING THE YEAR

a) Changes to the corporate structure

1**.** Banorte-Ixe Tarjetas Merger

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

On May 2, 2016, the merger of Banorte-Ixe Tarjetas –acting as merged company- and Banorte –acting as merging and surviving company- became effective.

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

2**.** Banorte Ahorro y Prevision

The corresponding authorizations of the Commissions to constitute the Subholding Banorte Ahorro y Previsión, S.A. de C.V. (Banorte Ahorro y Previsión) were obtained. On September 1, 2016, Banorte Ahorro y Previsión held an Ordinary General Shareholders' Meeting in which was approved to increase the variable portion of its equity, which was subscribed and paid by the Financial Group through a contribution in kind of the shares of Pensiones Banorte, S.A. de C.V. (Pensiones Banorte) and Seguros Banorte, S.A. of C.V. (Seguros Banorte) amounting to Ps. 7,106.

3. Banorte Futuro

On November 4, 2015 Banorte held an Extraordinary General Shareholders' Meeting in which was approved to spin-off Banorte -acting as spun-off company- and to create Banorte Futuro, S.A. de C.V. (Banorte Futuro) –acting as a new company-. Banorte Futuro's main objective is to acquire and manage shares of financial entities, service providers and real estate companies, according to the terms of the provisions set forth in the Law Regulating Financial Groups (LRAF). Simultaneous to the spin-off, the Financial Group transferred the shares of Banorte Futuro to Seguros Banorte.

As a result of the spin-off, in October 2016 Banorte transferred to Banorte Futuro assets amounting to Ps.14,494 corresponding to investment in subsidiaries, goodwill and intangible assets associated with the investment that Banorte held in Afore XXI Banorte, S.A. de C.V. (Afore XXI Banorte), Ps.404 as liabilities and Ps.14,090 as stockholders' equity. Banorte Futuro assumed all liabilities arising from the equity transferred from the spin-off.

This spin-off had no effect on the figures presented in the consolidated financial statements, since the Holding Company already recognized Afore XXI Banorte's results per equity method.

b) Follow-up on loan exposure to the housing development sector

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

As of December 31, 2016, the credit exposure related to the housing developers was classified as past due amounted to Ps. 2,230.

URBI

Capitalization of liabilities

Derived from the restructuring processes and agreements reached with URBI, in 2016 the Financial Group received in exchange for the unsecured credits recognized by the bankruptcy judge, shares and optional securities to subscribe shares of such company for an amount equivalent to the unsecured credit exposure, net of reserves, which reduced the past due loans of this company in Ps.1,476.

The shares and optional securities to subscribe 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 Holding Company reclassified shares and optional securities to subscribe shares under Investments in Securities (in the "Securities available for sale" category, see Note 6b) and Derivatives (See Note 8), respectively. The Holding Company records these assets at fair value.

As of December 31, 2016, the losses from market valuation of these shares amounted to (Ps. 756), recorded as equity in the item “Result from valuation of securities available for sale”. On the other hand, an impairment of (Ps.17) in the valuation of the optional securities was recognized, recorded in the results of the year as Trading income.

As part of the restructuring agreement instructed by the bankruptcy judge of URBI, the Holding Company received shares and optional securities to subscribe shares of such company in exchange of collection rights and unsecured receivables recognized in the bankruptcy process, which net book value amounted to Ps.320. The shares were recorded as securities available for sale and a valuation loss of Ps. 298 was registered in the equity item, as well as an impairment of the option securities of Ps.9, recorded in the results of the year as Trading income.

GEO and Homex

Capitalization of liabilities

During 2015, as part of the GEO and Homex liabilities restructuring, the Financial Group received, in exchange for the unsecured credits recognized by the judges of the various bankruptcy processes, shares and optional securities to subscribe shares within a term of 12 years. This enabled the Financial Group to eliminate the unsecured loans from its balance sheet totaling Ps.1,631 (See note 6).

The shares and optional securities to subscribe shares received as payment in kind were initially registered 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 subscribe shares under Investments in Securities (in the "Securities available for sale" category, see Note 6b) and Derivatives (See Note 8), respectively. The Holding Company records these assets at fair value.

GEO Capitalization

In 2015, the Financial Group, through its subsidiary Sólida Administradora de Portafolios, S.A. de C.V., SOFOM, E.R. Grupo Financiero Banorte (Sólida), capitalized GEO with Ps.3,000, receiving 308,348,302 shares representing its capital stock. According to its intention, Sólida recorded the shares received as Investments in Securities in the category "Securities available for sale" at fair value. As of December 31, 2016 and 2015, Sólida held 236,809,904 shares for a book value of Ps.1,413 and 234,331,151 shares for a value of Ps.2,196, respectively.

c) Issuance of Subordinated Debt

On September 30, 2016, Banorte successfully concluded the issuance of the Tier 2 Subordinated Preferred Capital Notes for USD 500 million in the international markets.

This transaction considered the issuance of Tier 2 Notes with a 15-year term and a coupon rate at 5.750%, callable at the tenth year. Ratings granted by Moody’s and Fitch were Ba1 and BB+, respectively. These debentures are Basel III-compliant.

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

d) Settlement of Banorte's subordinated obligations due 2021

On October 13, 2016, Banorte exercised the the prepayment option of the Subordinated Non-preferred & Non-cumulative Obligations, due 2021 amounting to US Ps.200 million dollars.

These obligations were issued on October 13, 2006 and had a prepayment option as of the tenth year.

3 – BASIS OF PRESENTATION

Explanation for translation into English

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

Monetary unit of the consolidated financial statements

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

Consolidation of financial statements

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

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

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

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

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

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

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

Long Term Assets Available for Sale and Disposition

During 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).

<u>Application of Special Accounting Criteria</u>

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, 2016 and 2015.

The comparison between the net book value of the investment and the estimated sale value generated a difference of (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 Balance Sheet as of December 31, 2016 in the items affected would be:

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

Assets, liabilities and discontinued results

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

Assets and liabilities	2016
Loan Portfolio	Ps.21,479
Investments in Securities	6,178
Cash and cash equivalents	3,519
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)
Total Long Term Assets Available for Sale	**Ps. 5,299**

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

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

Comprehensive Income

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

4 – SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies of the 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

B. 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	Anual application 20%	Gradual recognition as of December 31 2016
Corporate Bonds	Ps.183	Ps.37	Ps.37

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 2016, 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	Anual application 20%	Gradual recognition as of December 31 2016
Corporate Bonds	Ps.2,729	Ps.546	Ps.546

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 balance sheet as of December 31, 2016, had the aforementioned option not been applied in the affected items are:

Concept	Amount
Other assets and short and long term (1)	Ps.1,096
Total assets	**1,265,656**
Retained earnings from prior years	68,344
Remediest for benefits to employees	(2,553)
Total stockholders’ equity	**140,354**
Total liabilities and stockholders’ equity	**Ps.1,265,656**

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

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

Seguros Banorte

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

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

A. Strengthening corporate governance of insurance institutions.
B. Determination and coverage of the solvency capital requirement.
C. Further disclosure in notes of the financial statements.

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

The Insurance Company's maagement has implemented an action plan to ensure compliance with the provisions contained in the new Law, as well with complementary regulation.

New General provisions applicable to Insurance and Bonding companies (new CUSF) were published in the Official Gazette on December 19, 2014 in order to compile in a single legal instrument the provisions derived from the Law on Insurance and Bonding Institutions, aiming to systematize the integration and homologate the terms to provide legal certainty on the regulatory framework to which Insurance companies and entities are subject to. The provisions contained in the new CUSF became effective as of April 4, 2015, with the exception of the following provisions, according to the transitional articles:

Insurance institutions must present actuarial methods for the constitution, increase, valuation and recording of unexpired risk reserves, for review and approval by the Commission, no later than September 30, 2015, on the understanding that if authorized by the Commission, this would become effective as of January 1, 2016.

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

a) Technical Reserves.

Under the new risk management framework based on quantitative parameters on risk profile, the Insurance Company developed actuarial methods related to unexpired risk reserves and outstanding liabilities.

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

For the unexpired risk reserve, the amount of the valuation generated when using the risk-free market interest rate and the technical interest rate used until December 31, 2015 is identified. This amount is recognized in equity, as part of the comprehensive income.

b) Annualization of premiums.

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

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

c) Securities held to Maturity.

The classification of Securities held to maturity is limited exclusively to insurance institutions that operate pension insurance: therefore, as of January 1, 2016, the institution reclassified securities held to maturity to securities, available for sale, registering a valuation result in stockholders' equity, as part of the comprehensive income.

d) Estimation of Recoverable Reinsurance.

The calculation is made on contracts for which a Transfer of Certain Insurance Risk is derived, considering timely difference between reinsurance recoveries and direct payments, applying the interest rates implicit in the risk-free interest rate curves for unexpired risk reserves and reserve for due obligations.

e) Loan Loss Reserves.

This item represents the reserve that the Insurance Company requires to constitute according to CUSF in order to face possible non-compliance by the borrowers with loans granted by the company.

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

	Effect of adoption on Dec 2016	Transactions carried out in 2016	IS as December 2016
Retained Premiums	Ps.612	Ps.13,008	Ps.14,534
Net Increase in the Unexpired Risk Reserve and Bonds	199	242	422
Accrued Retained Premiums	**413**	**12,765**	**14,112**
Net Cost of Acquisition and Claims and Other Technical Reserves	131	9,689	11,088
Gross Profit (Loss)	**282**	**3,076**	**3,024**
Net Operating Expenses	-	357	219
Operating Income (Loss)	**282**	**2,719**	**2,805**
Comprehensive Financing Result	(1)	709	1,091
Provision for Taxes	84	1,030	983
Profit (Loss) before Discontinued Operations	**196**	**2,397**	**2,913**
Minority interest	**-**	5	12
Net income (loss) for the year	**Ps.196**	**Ps.2,392**	**Ps.2,902**

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

Premium Debtor: The effect of annualized short and long-term Life premiums of the traditional contracts, this effect represented an entry of Ps.656, in compliance with the provisions established in section 5.1.3 of the CUSF.

Premiums: The institution annualized short and long-term Individual Life premiums of the traditional contracts, this effect represented an entry of Ps.656, in compliance with the provisions established in section 5.1.3 of the CUSF.

Moreover, due to the annualized premiums, based on the contracts with the Reinsurance companies, Ps.45 of Transferred Reinsurance was recognized.

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

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

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

Pensiones Banorte

Investment Fluctuation Reserve.

The changes resulting from the entry into force of the new legislation are related to the requirement of capital solvency, on the one hand we observe its impact on the limitation of Investment Fluctuation Reserve for as referred technical reserves changed from being those at the end of the current month to those of the previous month, this effect impacted results by Ps.97 and (Ps.5) as of December 31, 2016 and 2015, respectively.

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

C. Improvements to NIFs

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

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

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

As of December 31, 2016, the Holding Company had no effect on its consolidated financial information related to these improvements to NIFs.

Recognition of the effects of inflation in financial information

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

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

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

Cash and cash equivalents

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

Trading Securities

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

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

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

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

Securities available for sale

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

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

If, in a subsequent period, the fair value of 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.

<u>General valuation standards</u>

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:

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

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

<u>Transactions for trading purposes:</u> 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.

<u>*Forward and futures contracts*</u>

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:

c. 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.

d. 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 valuated 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:

5. The hedging instrument expires or is sold, terminated or enforced;
6. The hedging fails to meet the requirements of documentation, evaluation and effectiveness measuring;
7. The projected transaction is not expected to occur;
8. 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:

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

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

Operation strategies

Trading

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

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

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

Hedging

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

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

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

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

Contingencies

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

At present, no such contingency situations have arisen.

Embedded derivatives

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

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

Loan portfolio

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Allowance for loan losses

Application of new portfolio rating criteria

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

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

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

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

General description of rules established by the Commission

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

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

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

Probability of Default

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

Severity of the loss

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

Exposure to non-compliance

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

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

Acquired collection rights

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

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

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

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

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

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

Premium receivables

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

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

Reinsurance

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

Securitization involving transfer of ownership

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:

Movable property reserves	
Time elapsed as of award date or receipt as payment in kind (months)	**Reserve percentage**
Up to 6	-%
More than 6 and up to 12	10%
More than 12 and up to 18	20%
More than 18 and up to 24	45%
More than 24 and up to 30	60%
More than 30	100%

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

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

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

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

Real estate property reserves	
Time elapsed as of award date or receipt as payment in kind (months)	**Reserve percentage**
Up to 12	-%
More than 12 and up to 24	10%
More than 24 and up to 30	15%
More than 30 and up to 36	25%
More than 36 and up to 42	30%
More than 42 and up to 48	35%
More than 48 and up to 54	40%
More than 54 and up to 60	50%
More than 60	100%

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

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

Property, furniture and equipment

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

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

Permanent stock investments

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

Income taxes

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

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

Intangible assets

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

Goodwill

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

Deposits

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

Interbank and other loans

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

Technical reserves

According to the Commission, all technical reserves must be audited by independent actuaries on a yearly basis. On January 31, 2017 and January 29, 2016, the actuaries have confirmed that in their opinion, the amounts of the reserves recorded by the Financial Group as of December 31, 2016 and 2015, respectively, are reasonably acceptable based on 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 ssued 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 t 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.

<u>Defined benefit plan</u>

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

Share-based payments

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

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

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

Memorandum accounts

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

- Contingent assets and liabilities (unaudited):

  It records the amount of economic penalties imposed by the administrative or judicial authorities until such payments are made, as a motion for revocation has been filed. It also records the exposure to risk line item for its participation in the Expanded Use Electronic Payments System.

Loan commitments (unaudited):

  The balance represents the amount of the letters of credit granted by the Financial Group that are considered as irrevocable commercial loans not disposed by the borrowers. It includes the lines of credit granted to clients that were not disposed.

- Assets in trust or mandate (unaudited):

  For the assets in trust, the value of the goods is recorded and any information related to their individual administration is recorded independently. For assets under mandate, the declared value of the assets, subject to the mandates executed by the Financial Group is recorded.

- Assets in custody or under management (unaudited):

  This account records the movement of others’ assets and securities that are received in custody or are to be managed by the Financial Group.

- Collateral received:

The balance represents all the collateral received in securities repurchase agreement operations when the Financial Group is the buyer.

- Collateral received and sold or given as a pledge:

  The balance represents all the collateral received in securities repurchase agreements when the Financial Group is acting as the buyer, and which in turn are sold by the Financial Group acting as the seller.

Main subsidiaries' income recognition

Banco Mercantil del Norte

- Income from cash equivalents, securities' investments, repurchasing operations, hedging transactions and loan interest is recorded as income when accrued.

- The fees charged for the initial granting, restructuring and renewal of loans will be recorded as a deferred credit, which will be amortized as interest income.

- Securities purchase-sales results are recorded when performed.

- The revenues from loan asset recovery are recorded when accrued, collected or both agree to the Valuation Method.

- Permanent stock investments in affiliates are originally recorded at their acquisition cost and are valued using the equity method based on the last available financial statements.

Casa de Bolsa Banorte Ixe

- Recognition of income from services, financial advisory and securities intermediation fees and commissions generated by customer securities' operations are recorded as they are performed.

- Income from financial advisory is recorded when accrued as per the contract.

- Securities intermediation results are recorded when performed.

- Income and expenses - are recorded as generated or accrued as per the relative contracts.

- Share dividends - share dividends are recorded at zero value in investments; therefore they only affect the results when the shares are sold.

- Permanent stock investments in affiliates – they are originally recorded at their acquisition cost and are valued using the equity method based on the last available financial statements.

Arrendadora y Factor Banorte

- Credit from financial leasing operations, net – financial leasing operations are recorded as direct financing, wherein the account receivable is the total amount of the settled rents, and potential profit is the difference between such amount and the cost of the leased properties. Net financed capital is recorded on the Consolidated Balance Sheet, deducting the total of rents from the potential profit.

- Loans from operating leasing operations – represent company assets given to a third party for the latter's temporary use and enjoyment for a given term equal to or over six months. The operating leasing contract rents are recorded as revenues when accrued.

- Loans from factoring operations, net – funded or non-funded factoring is recorded as follows:
  - Ceded portfolio – the amount is recorded in loan portfolios, minus the difference between loans and the financed amount.
  - Profit from acquired documents (interest) - calculated in advance, per month completed and upon maturity, recorded in factoring, and both are applied to results when accrued.
- Recognition of income – interest from leasing and financial factoring is recognized as income when accrued; however the accumulation of interest is suspended whenever the uncollected interest and/or total loan is transferred to past-due loans. Accrued, normal and past-due interest during the period the loan is considered past-due is recognized as income when collected.
- Profits to be realized from financial leasing are recognized as income when accrued. The final value of the good in financial leasing is recognized as income when purchased.
- The fees for credit opening in leasing and factoring operations are recognized as income as accrued.

Seguros Banorte

Income from premiums – Recognized as follows:

d. 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.

e. 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.

f. 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.

Pensiones Banorte

Premium income is recorded at the time premiums are settled

Sólida Administradora de Portafolios

d. 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.

e. Loan interest is recognized as accrued.

f. Moreover the Financial Group recognizes an income from the trust's return on equity based on fulfilling the construction project's progress and/or sale, and suspends recording such income when the progress is not as expected in the plan included in the trust's contract. Impairment of investment projects is determined based on time for those projects not in development.

5 - CASH AND CASH EQUIVALENTS

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

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

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

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

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

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

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

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

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

6 - INVESTMENTS IN SECURITIES

a. Trading securities

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

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

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

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

b. Securities available for sale

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

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

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

As of December 31, 2016, 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.

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).

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

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.

As of December 31, 2016 and December 31, 2015 the losses from market valuation of these shares amounted to (Ps. 2,744) and (Ps. 753), respectively, recorded in stockholders' equity as Result from valuation of securities available for sale.

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

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

c. Securities held to maturity

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

<u>Medium and long-term debt instruments:</u>

	2016			2015
	Acquisition cost	**Accrued interest**	**Book value**	**Book value**
CETES Specials	Ps. 950	Ps. -	Ps. 950	Ps. 912
Bonds	256	2	258	1,608
Development Bonds	-	-	-	200
CETES	-	-	-	57
Udibonos	66,994	111	67,105	58,578
Bank securities	449	193	642	613
Eurobonds	-	-	-	214
Securitization certificates	12,017	948	12,965	20,631
	Ps. 80,866	**Ps. 1,254**	**Ps. 81,920**	**Ps. 83,115**

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

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

	More than one and up to 5 years	More and 5 and up to 10 years	More than 10 years	Total
Government bonds- support program for Special Federal Treasury Certificates	Ps. -	Ps. -	Ps. 950	Ps. 950
Bonds	-	-	256	256
Udibonos	148	846	66,000	66,994
Bank securities	-	449	-	449
Securitization certificates	-	-	12,017	12,017
	Ps. 148	**Ps. 1,295**	**Ps. 79,223**	**Ps. 80,666**

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

d. Collateral

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

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

		2015	
		Fair value in millions	
Type of collateral:	**Instrument category**	**Pesos**	**USD**
Cash	-	Ps. 470	536
PEMEX bonds	Available for sale	96	63
		Ps. 566	**599**

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

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

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

f. Impaired securities

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

f) considerable financial difficulties of the instrument's issuer;
g) the issuer may be declared bankrupt or in some other financial reorganization;
h) breach of contractual clauses, such as failure to pay interest or the principal;
i) unavailability of an active market for the instrument in question due to financial difficulties; or

j) 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:

iii. adverse changes in the payment status of the issuers in the group, or
iv. local or national economic conditions that are correlated with the groups defaults.

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

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

f) Reclassification of Securities held to maturity

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

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

7 - CREDITOR BALANCES UNDER REPURCHASE AND RESALE AGREEMENTS

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

Acting as seller of securities

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

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

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

Acting as securities purchaser

Instrument	2016 Repurchase agreement from debtors	2016 Received, sold collateral in repurchase	2016 Debit difference	2016 Credit difference	2015 Repurchase agreement from debtors	2015 Received, sold collateral in repurchase	2015 Debit difference	2015 Credit difference
Cetes	Ps.-	Ps.-	Ps.-	Ps.-	Ps. 339	Ps. 339	Ps. -	Ps. -
Development Bonds	101	101	-	-	23,412	23,256	156	-
Bonds IPAB	-	-	-	-	16,617	16,391	226	-
Quarterly IPAB bonds	13,067	13,067	-	-	22,971	22,871	101	1
Semi-annual IPAB bonds	108	108	-	-	13,021	13,021	-	-
Udibonos	-	-	-	-	500	500	-	-
20-year bonds	1,701	1,701	-	-	3,716	3,716	-	-
Government securities	**14,977**	**14,977**	-	-	**80,576**	**80,094**	**483**	**1**
CEDES	2,008	2,008	-	-	2,094	2,094	-	-
Bank bonds	1,529	1,529	-	-	1,697	1,697	-	-
Securitized bank certificates	916	916	-	-	496	496	-	-
Bank securities	**4,453**	**4,453**	-	-	**4,287**	**4,287**	**-**	**-**
Short-term CEBUR	3,322	3,322	-	-	5,127	5,117	10	-
Private securities	**3,322**	**3,322**	**-**	**-**	**5,127**	**5,117**	**10**	**-**
	Ps.22,752	**Ps.22,752**	**Ps.-**	**Ps.-**	**Ps. 89,990**	**Ps. 89,498**	**Ps. 493**	**Ps. 1**

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

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

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

8 - DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

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

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

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

Trading instruments

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

Hedging instruments

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

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

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

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

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

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

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

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

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

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

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

Cash flow hedging:

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

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

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

Concept	Up to 3 months	More than 3 months and up to 1 year	More than 1 and up to 5 years	More than 5 years
Assets denominated in USD	Ps. 180	Ps. 185	Ps. 1,474	Ps. 139
Assets denominated in Euros	26	199	1,105	1,133
Assets denominated in GBP	156	21	887	313
	Ps.362	**Ps.405**	**Ps.3,466**	**Ps.1,585**

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

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

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

The following table shows the cash flows hedging valuation balance:

Balance	Valuation of cash flows hedging instruments	Net change in period	Reclassified to income
Balance, January 1, 2007	(Ps. 58)	Ps. -	Ps. -
Balance, December 31, 2007	(308)	(250)	-
Balance, December 31, 2008	(1,567)	(1,259)	18
Balance, December 31, 2009	(1,394)	173	47
Balance, December 31, 2010	(2,114)	(720)	42
Balance, December 31, 2011	(2,935)	(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

In October 2016, as part of the restructuring process, the Financial Group received warrants to subscribe URBI's shares (see Note 2). These warrants were recorded as derivatives for Ps. 36. As of December 31, 2016, the valuation loss on the warrants was (Ps. 26), registered in the year's income in trading results. As of December 31, 2016, the valuation loss on the warrants to subscribe GEO's shares was (Ps. 49), recorded in the year's income in trading results.

9 - LOAN PORTFOLIO

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

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

Restructured loans

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

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

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

	From 1 to 180 days	From 181 to 365 days	From 366 days to 2 years	More than 2 years	Total
Commercial loans					
Business loans	Ps.656	Ps.-	Ps.-	Ps.5,360	Ps.6,016
Consumer loans	3,127	115	1	4	3,247
Mortgage loans	731	318	-	-	1,049
	Ps.4,514	**Ps.433**	**Ps.1**	**Ps.5,364**	**Ps.10,312**

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

	From 1 to 180 days	From 181 to 365 days	From 366 days to 2 years	More than 2 years	Total
Commercial loans					
Business loans	Ps. 1,158	Ps. 1,113	Ps. 1,737	Ps. 3,915	Ps. 7,923
Consumer loans	2,808	96	1	3	2,908
Mortgage loans	594	478	-	-	1,072
	Ps. 4,560	**Ps. 1,687**	**Ps. 1,738**	**Ps. 3,918**	**Ps. 11,903**

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

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

* Corresponds to 100% hedged loans.

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

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

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

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

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

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

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

Policies and Procedures for Granting Loans

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

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

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

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

h) Product design
i) Promotion
j) Evaluation
k) Formalization
l) Operation
m) Administration
n) Recovery

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

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

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

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

10 - LOANS RESTRUCTURED IN UDIS

As of December 31, 2016 and 2015, 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, 2016, the remaining balance of SPECIAL CETES not repurchased by the Federal Government is Ps. 951 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:

	2016						
		Required allowances for losses					
Risk category	**Loan portfolio**	**Companies**	**Government**	**Financial institutions'loans**	**Consumer portfolio**	**Mortgage portfolio**	**Total**
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	-	-	-	-	-	-
	Ps. 604,327	**Ps. 4,740**	**Ps. 736**	**Ps. 263**	**Ps. 7,698**	**Ps. 747**	**Ps. 14,185**
Less: Recorded allowance	-	-	-	-	-	-	**14,384**
Reserve supplement*							**Ps. 198**

Risk category	2015						
		Required allowances for losses					
	Loan portfolio	Companies	Govern ment	Financial institutions' loans	Consumer portfolio	Mortgage portfolio	Total
Risk A1	Ps.416,795	Ps.836	Ps.384	Ps.168	Ps.374	Ps.138	Ps.1,900
Risk A2	68,672	316	238	6	383	43	986
Risk B1	23,515	120	87	1	559	9	776
Risk B2	22,104	85	32	-	759	18	894
Risk B3	13,076	242	1	3	358	11	615
Risk C1	6,882	115	45	1	274	42	477
Risk C2	5,089	91	-	2	527	68	688
Risk D	12,409	3,075	-	-	1,590	295	4,960
Risk E	3,717	882	-	-	1,345	77	2,304
Unclassified	(22)	-	-	-	-	-	-
	Ps.572,237	**Ps.5,762**	**Ps.787**	**Ps.181**	**Ps.6,169**	**Ps.701**	**Ps.13,600**
Less: recorded allowance	-	-	-	-	-	-	**13,813**
Reserve Supplement*							**Ps. 213**

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

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

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

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

The estimated allowance includes the classification of loans granted in foreign currency, which are evaluated at the exchange rate in effect as of December 31, 2016 and 2015.
Pursuant to the regulation in effect, as of December 31, 2016 the Financial Group rated the commercial (except loans intended for investment projects having their own source of payment), mortgage, revolving and non-revolving consumer loans using the methodologies based on expected losses.

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

Type of Loan	Exposure to Default	Weighted Probability of Non-compliance	Weighted Severity of Loss
Commercial*	Ps. 339,133	5.6%	26.7%
Mortgage	115,856	2.6%	24.9%
Non-revolving consumer	61,512	9.5%	64.3%
Revolving Consumer loan	45,315	11.4%	76.1%

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

Movements in allowance for loan losses

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

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

As of December 31, 2016, the net amount of 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. As of December 31, 2015, the net amount of loan loss provisions charged to the Consolidated Income Statement totals Ps. 10,687, and is presented net of other operating income (expenses) for (Ps. 399), and due to the USD 62 exchange rate variation , such amounts are affected against results for Ps. 10,382 credited directly to the provision.

12 - ACQUIRED COLLECTION RIGHTS

The acquired collection rights are comprised as follows:

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

As of December 31, 2016, derived from applying the valuation methods (described in Note 4), the Financial Group recognized income from credit asset portfolios of Ps. 531, coupled with the corresponding amortization of Ps. 389, the effects of which were recognized under the “Other income (expense)” heading in the Consolidated Income Statement. For the year ended December 31, 2015, the Financial Group recognized income of Ps. 641, together with the respective amortization of Ps. 484.

The Financial Group performs an analysis based on events or information to estimate the amount of expected cash flows to determine the estimated rate of return used in applying the valuation method for the amortization of the accounts receivable. If based on current events information, the analysis demonstrates that the expected future cash flows will decrease to the degree that they will not cover the book value, it will constitute an estimate for non-recoverability or difficult collection against the year’s results for the amount that such expected cash flows are lower than the book value of the accounts receivable.

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

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

13 – PREMIUM RECEIVABLES, NET

This item is made up as follows:

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

14 – ACCOUNTS RECEIVABLE FROM REINSURANCE

This item is made up as follows:

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

15 - OTHER ACCOUNTS RECEIVABLE, NET

This item is made up as follows:

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

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

Loans to officers and employees mature 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, 2016 and 2015, the foreclosed assets balance is as follows:

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

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

Concept / Month			**12 a 18**	**18 a 24**	**Más de 24**		**Total**
Moveable property			Ps.-	Ps.-	Ps.32		Ps.32
Real estate property	19	10	73	164	44	1,407	1,717
Goods pledged for sale	-	-	-	-	-	6	6
	Ps.19	**Ps.10**	**Ps.73**	**Ps.164**	**Ps.44**	**Ps.1,411**	**Ps.1,755**

17 - PROPERTY, FURNITURE AND EQUIPMENT, NET

This item is made up as follows:

	2016	**2015**
Furniture and equipment	Ps. 13,706	Ps. 12,313
Property intended for offices	8,510	8,376
Installation costs	5,470	4,970
	27,686	**25,659**
Less - Accumulated depreciation and amortization	(11,857)	(11,122)
	Ps. 15,829	**Ps. 14,537**

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

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

	Useful Life
Furniture and equipment	From 4 to 10 years
Real estate	From 4 to 99 years
Installation costs	10 years

18 - PERMANENT STOCK INVESTMENTS

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

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

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

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

19 - DEFERRED TAXES, NET

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

	2016		2015	
	Temporary Differences	**Deferred Effect**	**Temporary Differences**	**Deferred Effect**
Temporary Differences - Assets				
Allowance for loan losses	Ps. 275	Ps. 83	Ps. 3,729	Ps. 1,135
Tax loss carryforwards	5,191	1,557	5,786	1,736
Tax losses in foreclosure sales	-	-	270	94
Tax losses in stock sales	-	-	8	2
Surplus allowances for credit risks over the net tax limit	14,887	4,466	9,337	2,801
Excess of tax over book value of foreclosed and fixed assets	3,514	1,051	2,960	880
PTU	385	115	370	111
Fees collected in advance	3,233	970	2,937	881
Accounting provisions	3,492	1,048	3,065	919
Financial instruments valuation	156	47	248	248
Total assets	**Ps. 31,133**	**Ps. 9,337**	**Ps. 28,710**	**Ps. 8,637**

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

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

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

20 - OTHER ASSETS

This item is made up as follows:

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

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

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

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

21 - DEPOSITS

Liquidity coefficient

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

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

Deposits

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

	2016	2015
Demand deposits		
Non-interest bearing checking accounts:		
Cash deposits	Ps. 210,850	Ps. 153,616
Checking accounts in US dollars for individual residents on the Mexican border	2,621	1,780
Demand deposits accounts	16,572	20,522
Interest bearing checking accounts:		
Other bank checking deposit	80,433	80,096
Savings accounts	-	3
Checking accounts in US dollars for individual residents on the Mexican border	2,110	1,792
Demand deposits accounts	68,617	89,767
	381,203	**347,576**
Time deposits		
General public:		
Fixed-term deposits	20,063	24,334
Retail time deposits	140,121	181,148
Promissory note with interest payable at maturity PRLV primary market for individuals	22,838	2,111
Promissory note with interest payable at maturity PRLV primary market for institutions	6,776	-
Foreign residents deposits	14	13
Provision for interest	649	334
	190,461	**207,940**
Money market:		
Over the counter promissory notes	1,458	4,603
Provision for interest	1	3
	1,459	**4,606**
	191,920	**212,546**
Senior debt issued	**85**	**100**
Global Account of deposits without movements	**1,352**	**1,240**
	Ps. 574,560	**Ps. 561,462**

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

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

Immediately due and payable deposits:

Foreign exchange	2016				2015			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Mexican pesos and UDIS	0.49%	0.56%	0.47%	0.47%	0.47%	0.52%	0.54%	0.54%
Foreign currency	0.02%	0.02%	0.02%	0.02%	0.02%	0.02%	0.02%	0.02%
Banorte USA (INB)								
Demand deposits accounts	-%	-%	-%	-%	0.01%	0.01%	0.01%	0.01%
Money market	-%	-%	-%	-%	0.03%	0.03%	0.02%	0.02%

Time deposits:

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

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

	2016			
	From 1 to 179 days	From 6 to 12 months	More than 1 year	Total
General public				
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
	181,566	**7,917**	**978**	**190,461**
Money market:				
Promissory notes	-	-	1,458	1,458
Provision for interest	-	-	1	1
	-	**-**	1,459	**1,459**
Senior debt issued	**85**	**-**	**-**	**85**
Global account of deposits without movements	**1,352**	**-**	**-**	**1,352**
	Ps. 183,003	**Ps. 7,917**	**Ps. 2,437**	**Ps. 193,357**

	2015			
	From 1 to 179 days	**From 6 to 12 months**	**More than 1 year**	**Total**
General public:				
Fixed-term deposits	Ps. 22,589	Ps. 1,346	Ps. 399	Ps. 24,334
Demand deposits	177,856	3,172	120	181,148
Promissory note with interest payable at maturity PRLV primary market for individuals	1,936	174	1	2,111
Foreign residents deposits	13	-	-	13
Provision for interest	304	29	1	334
	202,698	**4,721**	**521**	**207,940**
Money market:				
Promissory notes	-	-	4,603	4,603
Provision for interest	-	-	3	3
	-	**-**	4,606	4,606
Senior debt issued	**-**	**-**	100	100
Global account of deposits without movements	**1,240**	**-**	**-**	**1,240**
	Ps. 203,938	**Ps. 4,721**	**Ps. 5,227**	**Ps. 213,886**

22 - INTERBANK AND OTHER LOANS

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

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

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

The average interest rates are shown below:

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

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

23 - TECHNICAL RESERVES

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

24 - SUNDRY CREDITORS AND OTHER PAYABLES

This item is made up as follows:

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

25 - EMPLOYEE RETIREMENT OBLIGATIONS

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

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

	2016			
	Pension plan	**Seniority premiums**	**Medical services**	**Total**
Projected benefit obligation (PBO)	(Ps.1,227)	(Ps.239)	(Ps.3,399)	(Ps.4,866)
Fund market value	1,228	339	3,852	5,419
Funded status	1	100	453	553
Unrecognized prior service cost	-	-	146	146
Unrecognized actuarial losses	667	17	1,368	2,052
Net projected asset	**Ps.668**	**Ps.117**	**Ps.1,967**	**Ps.2,752**

	2015			
	Pension plan	**Seniority premiums**	**Medical services**	**Total**
Projected benefit obligation (PBO)	(Ps. 1,265)	(Ps. 245)	(Ps. 3,439)	(Ps. 4,949)
Fund market value	1,407	354	3,843	5,604
Funded status	142	109	404	655
Unrecognized prior service cost	2	-	183	185
Unrecognized actuarial losses	886	22	1,815	2,723
Net projected asset	**Ps. 1,030**	**Ps. 131**	**Ps. 2,402**	**Ps. 3,563**

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

The net periodic pension cost is as follows:

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

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

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

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

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

The net periodic pension cost is as follows:

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

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

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

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

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

26 - SUBORDINATED DEBENTURES

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

	2016	2015
Non preferred subordinated 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. 10,310	Ps. -
Preferred subordinated nonconvertible debentures, QBANORTE 12 maturing in May 2022, paying interest at the 28-day TIIE rate plus 1.5%, payable in 130 periods of 28 days each.	3,200	3,200
Non preferred subordinated nonconvertible debentures (Q BANORTE 08 debentures), maturing in February 2018, paying interest at the 28-day TIIE rate plus 0.60%.	3,000	3,000
Preferred subordinated nonconvertible debentures (Q BANORTE 08-2), maturing in June 2018, paying interest at the 28-day TIIE rate plus 0.77%.	-	2,750
Non preferred subordinated nonconvertible debentures BANOA28 131021, maturing in October 2021, denominated in US dollars, at an interest rate of 6.862%, payable semiannually with a final principal payment at maturity.	-	3,449
Preferred subordinated nonconvertible debentures, Q BANORTE 08-U maturing in February 2028, paying interest at a 4.95% annual rate.	2,487	2,406
Non preferred subordinated nonconvertible debentures IXEGB40 141020, maturing in October 2020, denominated in US dollars, at an interest rate of 9.25%, payable semiannually with a final principal payment at maturity.	2,474	2,070
Subordinated debentures, maturing in June 2034, denominated in US dollars, at a 3-month LIBOR interest rate plus 2.75%.	212	178
Preferred subordinated debentures maturing in April 2034, denominated in US dollars, at a 3-month LIBOR interest rate plus 2.72%.	212	178
Accrued interest	22	154
	Ps. 21,917	**Ps. 17,385**

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

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

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

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

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

Institution granting the loan	2016	% over the limit	2015	% over the limit
Banco Mercantil del Norte, S.A.	Ps. 9,792	11.8%	Ps. 7,552	10.5%

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

Loan portfolio sales

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

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

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

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

	Mexican pesos			Foreign Currency			Total		
Type of portfolio	**Aug 02**	**Dec 16**	**Dec 15**	**Aug 02**	**Dec 16**	**Dec 15**	**Aug 02**	**Dec 16**	**Dec 15**
Performing loan portfolio									
Commercial	Ps. 5	Ps.-	Ps.-	Ps. 5	Ps.-	Ps.-	Ps. 10	Ps.-	Ps.-
Mortgage	54	22	22	-	-	-	54	22	22
Total	**59**	**22**	**22**	**5**	**-**	**-**	**64**	**22**	**22**
Past-due loan portfolio									
Commercial	405	237	193	293	11	13	698	248	205
Consumer	81	71	71	-	-	-	81	71	71
Mortgage	1,112	214	203	-	-	-	1,112	214	203
Total	**1,598**	**522**	**467**	**293**	**11**	**13**	**1,891**	**533**	**480**
Total portfolio	**1,657**	**544**	**489**	**298**	**11**	**13**	**1,955**	**555**	**502**
Allowance for loan losses(1)									
Commercial	326	236	193	246	11	13	572	247	206
Consumer	77	71	71	-	-	-	77	71	71
Mortgage	669	226	214	-	-	-	669	226	214
Total allowance for loan loss	**1,072**	**533**	**478**	**246**	**11**	**-**	**1,318**	**544**	**491**
Net portfolio	**Ps. 585**	**Ps.11**	**Ps.11**	**Ps. 52**	**Ps.-**	**Ps.-**	**Ps.637**	**Ps.11**	**Ps.11**

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

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

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

28 - INFORMATION BY SEGMENT

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

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

2016	Interest 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
	Ps.79,058	**Ps.1,206**	**Ps.80,264**

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

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

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

*For 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. For 2015, Afore's results were 100% presented in the Banking Sector's results through participation method.

** Includes pure leasing portfolio and fixed assets for Ps. 40, both recorded in property, furniture and equipment (net) for 2016 and Ps. 28 for 2015.

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

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

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

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

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

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

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

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

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

29 - INCOME TAXES

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

ISR

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

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

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

30 - STOCKHOLDERS' EQUITY

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

Paid-in Capital	Number of shares with a nominal value of Ps. 3.50	
	2016	2015
"O" Series	2,749,220,050	2,758,464,252

Paid-in Capital	Historical Amounts	
	2016	2015
"O" Series	Ps. 9,619	Ps. 9,651
Restatement in Mexican pesos through December 2007	4,955	4,955
	Ps. 14,574	Ps. 14,606

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

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

Restrictions on profits

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

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

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

Year	Amount that may be subject to withholding	Amount not subject to withholding
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	-

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

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

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

Share-based payments

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

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

Capitalization Ratio (Banorte)

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

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

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

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

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

Assets subject to risk are detailed below:

Assets subject to market risk

Concept	**Positions weighted by risk**	**Capital requirement**
Nominal interest rate securities' transactions in Mexican pesos	Ps.51,214	Ps.4,097
Floating rate securities' transactions in Mexican pesos	9,575	766
Real interest rate or UDI denominated securities' transactions in Mexican pesos	2,230	178
UDIS or inflation indexed (INPC) securities' transactions	-	1
Nominal interest rate foreign exchange denominated securities' transaction in Mexican pesos	8,787	703
Positions in foreign exchange or exchange rate indexed securities transactions.	7,598	608
Positions in shares or whose yield is indexed to the price of a share or group of shares	1,741	139
Total	**Ps.81,145**	**Ps.6,492**

Assets subject to credit risk

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

Assets subject to operational risk

	Risk Weighted Assets	Capital requirement
Total	**Ps.82,153**	**Ps.6,572**

Institution of Local Systemic Importance

In 2016, Banorte was designated as Level II - Domestic Systemically Important Financial Institution, which implies that Banorte must maintain a capital buffer of 0.90 pp, to be constituted progressively in up to four years, starting on December 2016. Therefore, the minimum regulatory Capitalization Ratio for Banorte amounts to 10.73% as of 2016 (corresponding to the regulatory minimum of 10.5% plus the constituent capital supplement to date).

Management

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

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

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

31 - FOREIGN CURRENCY POSITION

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

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

32 - POSITION IN UDIS

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

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

33 - EARNINGS PER SHARE

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

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

	2016			2015
	Net Income	**Weighted share average**	**Earnings per share**	**Earnings per share**
Net income per share	Ps. 19,065	2,754,050,771	Ps.6.9225	Ps.6.1086
Net income per share	243	2,754,050,771	0.0882	0.0843
Net income per share consolidated	**19,308**	**2,754,050,771**	**Ps.7.0107**	**Ps.6.1929**

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

	2016			2015
	Net Income	**Weighted share average**	**Earnings per share**	**Earnings per share**
Net income per share	Ps. 19,308	2,773,729,563	Ps. 6.9610	Ps. 6.1708

34 - RISK MANAGEMENT (unaudited)

Authorized bodies

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

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

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

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

1. Propose for approval by the Board:

• The objectives, guidelines and policies for overall risk management.
• The global limits for risk exposure.
• The mechanisms for the implementation of corrective actions.
• The cases or special circumstances which may exceed the overall limits as much as the specifics.

2. Approve and review at least once a year:

• Specific limits for discretionary risks and the risk tolerance levels for non-discretionary.
• The methodology and procedures to identify, measure, monitor, limit, control, report and disclose various types of risk to which the Financial Group is exposed to.
• The models, parameters and settings used to carry out the valuation, measurement and control of risks proposed by the unit for comprehensive risk management.

3. Approve:

• The methodologies for the identification, valuation, measurement and control of risks of new business, products and services that the holding intends to offer to the market.
• The corrective actions proposed by the drive for comprehensive risk management.
• Manuals for comprehensive risk management.
• The technical evaluation aspects of risk management.

4. Appoint and remove the unit responsible for overall risk management, it is ratified by the Board.

5. Report to the Board at least quarterly, the risk exposure and its possible negative effects and follow-up to the limits and tolerance levels.

6. Report to the Board on corrective actions taken.

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

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

4. 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.

4.1. Risk management structure and corporate governance

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

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

The Board of Directors designates the CPR (Risk Policy Committee) as accountable for managing the risks that the Financial Group is exposed to; in order to monitor the performance of operations; and, to comply with objectives, policies and procedures for Risk Management.

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

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

Moreover, the Assets and Liabilities Committee and the Capital and Liquidity Group, analyze, surveys, and make decisions regarding rate's risks in the balance sheet, the financial margin, liquidity and net capital of the Institution.

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

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

4.2. 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.

5. 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 though 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**.**

5.1. Credit Risk Scope and Methodologies

5.1.1. 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.

5.1.2. 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.

5.1.3. Credit risk of financial instruments

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

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

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

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

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

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

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

3) 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.

4) 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.

5.2. Credit Risk Exposure

As of December 31st, 2016 the total amount of the exposure subject to the Standard Method to calculate the Capital Ratio is the following:

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

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

5.2.1. Loan portfolio

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

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

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

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

Subsidiary	Portfolio		Distressed		Total portfolio	Total Reserves
	Performing	Past-due	Performin g	Past-due		
Banorte*	Ps.539,794	Ps.4,407	Ps.1,375	Ps.5,653	Ps.551,229	Ps.13,751
Arrendadora y Factoraje	23,936	60	4	120	24,120	312
Sólida	1,695	47	-	25	1,768	122
Accounting records						198
Total portfolio	**Ps.565,425**	**Ps.4,515**	**Ps.1,379**	**Ps.5,798**	**Ps.577,117**	**Ps.14,384**

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

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

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

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

*Includes financial, real estate and other services.
**Days past due from Non-Performing Loans.

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

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

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

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

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

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

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

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

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

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

Loan Loss Reserves for Impaired Loan Credit Risks	4Q16				
	Banorte	Inter National Bank	Arrendadora y Factor	Sólida	Total
Initial Loan Loss Reserves	**Ps.4,021**	**Ps.14**	**Ps.71**	**Ps.15**	**Ps.4,122**
Charged to earnings	118	(Ps.14)	(Ps.1)	-	Ps.103
For written off loans	121	-	-	-	Ps.121
For foreign exchange variations	2	-	-	-	Ps.2
For credit risk adjustments	(5)	(14)	(1)	-	(Ps.20)
Payment in kind	(683)	-	-	-	(Ps.683)
Write-offs, Cancellations, and Debt forgiveness	(311)	-	-	-	(Ps.311)
Final Loan Loss Reserves	**Ps.3,145**	**Ps.-**	**Ps.70**	**Ps.15**	**Ps.3,231**
Loan recoveries	**Ps.76**	**Ps.-**	**Ps.-**	**Ps.-**	**Ps.76**

5.2.2. Exposure with financial instruments

As of December 31st, 2016, exposure to Credit Risk for Securities Investments of Banco Mercantil del Norte was Ps 286,965 billion, of which 99.2% is rated higher or similar to A-(mex) on a local scale, placing them in investment grade and the 3 main counterparties other than the Federal Government, State Governments and National Financial Institutions represent 10% of the Tier 1 Capital as of September 2016. Additionally, the exposure of investments with the same counterparty other than the Federal Government that represents a higher or similar concentration to 5% of the Net Capital as of September 2016 has similar rating to AAA(mex) and is comprised of (average considered term, amount in billion pesos and rate): market and bond certificates from: Pemex to 14 years and 9 months for Ps 15,973 at 5.2% , Banco Inbursa market certificates for 1 year and 3 months for Ps 7,335 at 6.2% and Banamex market certificates for 4 months for Ps 6,500 at 2.9%

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

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

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

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

Banorte's exposure to counterparty risk from transactions with derivatives is presented below, as well as the netting effect and risk mitigation based on the aggregate of guarantees related to transactions:

Position (at year's end)	2016
Forwards	(Ps.14)
Options	(12)
Swap Interest Rate (IRS)	2,678
Cross Currency Swap (CCIRS)	(10,280)
Total	**(Ps.7,628)**
Positive Fair Value *(Positive Market Value)*	12,732
Netting effect*	20,360
Guaranties Given (-) / Received (+)	
Cash	(6,153)
Securities	8
Total	**(Ps.6,145)**

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

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

Financial Counterparties	Potential Risk	Current Risk
FWD	Ps.10	(6)
OPTIONS	1,164	918
SWAP RATE	14,776	5,575
CCS	939	(10,267)
Total	**Ps.14,485**	**(Ps.3,781)**
Clients (Non Financial)		
FWD	15	(8)
OPTIONS	6	(930)
SWAP RATE	132	(2,897)
CCS	10	(12)
Total	**Ps.163**	**(Ps.3,847)**

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

Net Cash Outlays ***(at year's end)***	**2016**
Cash Outflow with 1-notch Downgrade	Ps. -
Cash Outflow with 2-notch Downgrade	-
Cash Outflow with 3-notch Downgrade	-

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

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

5.3. Credit Guarantee

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

The main types of real guarantees are the following:

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

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

The covered loan portfolio by type of guarantee at the end of 2016 is as follows:

Guarantee Type	2016			
	Banorte	Arrendadora y Factor	Sólida	Total*
Total Loan portfolio	**Ps.567,083**	**Ps.24,120**	**Ps.1,768**	**Ps.577,117**
Guarantee				
Real Financial Guarantees	19,157	-	-	19,157
Real Non-Financial Guarantees	292,361	5,700	25	298,086
Pari Passu	17,260	-	-	17,260
First Losses	28,216	-	-	28,216
Personal Guarantees	17,158	6,397	-	23,555
Total Covered Portfolio	**Ps.374,152**	**Ps.12,097**	**Ps.25**	**Ps.386,274**

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

5.4. Expected losses

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

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

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

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

5.5. Risk diversification

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

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

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

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

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

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

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

6. MARKET RISK

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

The Market Risk policies in GFNorte are:
• New products subject to market risk should be evaluated and approved using the new product guidelines approved by the Risk Policy Committee.

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

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

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

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

3.1. Exposure to market risk

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

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

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

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

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

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

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

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

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

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

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

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

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

3.3. Backtesting

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

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

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

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

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

	4Q15	1Q16	2Q16	3Q16	4Q16
VaR *	Ps.15	Ps.27	Ps.28	Ps.33	Ps.5
Net capital**	2,641	2,836	2,355	1,906	2,058
VaR / Net Capital	**0.57%**	**0.95%**	**1.19%**	**1.73%**	**0. 24%**

* Quarterly average

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

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

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

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

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

3.6. Backtesting

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

5. 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.

5.1. 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.

5.2. Profile and Funding Strategy

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

Funding Source	1Q16	2Q16	3Q16	4Q16	Var vs. 1Q16
Demand deposits					
Local Currency	Ps.288,568	Ps.298,404	Ps.306,594	Ps.331,280	14.8%
Foreign Currency	37,227	38,203	42,587	51,179	37.5%
Demand deposits	**325,795**	**336,607**	**349,181**	**382,459**	**17.4%**
Time Deposits – Retail					
Local Currency (1)	131,891	137,386	143,069	149,861	13.6%
Foreign currency	19,398	20,255	16,554	17,792	(8.3%)
Core Deposits	**477,084**	**494,248**	**508,805**	**550,112**	**15.3%**
Money market					
Mexican pesos (2)	62,158	60,139	35,788	24,391	(60.8%)
Foreign currency(2)	**Ps.539,242**	**Ps.554,387**	**Ps.544,593**	**Ps.574,502**	**6.5%**

5.3. Liquidity Coverage Ratio

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

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

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

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

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

Evolution of LCR Components

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

*See main LCR results.

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

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

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

5.4. LCR Results' Main Causes

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

5.5. Liquidity Risk in Foreign Currency

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

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

5.6. Exposure to Derivatives and possible Margin Calls

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

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

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

5.7. Liquidity Gaps

A As part of the liquidity analysis for the Bank, 30 days liquidity gaps for the institution's assets and liabilities (obligations) are analyzed. Results for the Bank at the end of 4Q16 are presented in the following table.

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

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

Concept (Millons of pesos)	1 day	7 days	1 month	3 months	6 months	12 months
Natural Gap	(1,911)	(17,363)	(3,278)	7,530	(9,369)	2,810
Accumulated Gap	(1,911)	(19,274)	(22,552)	(15,022)	(24,392)	(21,582)

5.8. Stress Testing under liquidity extreme conditions

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

5.9. Contingency Funding Plan

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

5.10. Interest Rate Risk

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

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

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

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

5.11. Subsidiaries

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

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

Liquidity Ratio	Casa de Bolsa Banorte Ixe	Arrendadora y Factor	Sólida
Cumulative 30 days Gap	Ps. 1,214	(Ps. 3,125)	(Ps. 4,269)
Liquid assets	Ps. 1,689	Ps. 8	Ps. 9

6. 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.

6.1. Policies, Objectives and Guidelines

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

The Operational Risk Directorship maintains close communication and coordination with the Regulatory Comptrollership in order to facilitate effective Internal Control in which the proper procedures and controls are established that will mitigate Operating Risk in the processes, and provide follow up through the Internal Audit Department.

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

6.2. Quantitative and qualitative measuring tools

6.2.1. Operating Losses Database

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

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

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

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

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

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

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

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

6.2.2. Legal and Fiscal Contingencies Database

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

As part of the Financial Intitution'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.

5.5. 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 processes 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.

7.6.0. 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 or Technology Risk Management are performed by the Institution under institution regulatory and Integrity Committee guidelines.

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

7.7. 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.

8. SECURITIZATIONS EXECUTED BY THE FINANCIAL GROUP

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

The Financial Group has accomplished the following securitizations:

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

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

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

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

Particularly in Trusts 374 and 477 operations with derivatives are carried out, specifically swaps, in order to reduce exposure to exchange rate and interest rate risks. The institution assumes the counterparty risk generated by these operations, however these operations are only carried out with institutions of recognized solvency. The Trust's policy is to only carry out derivative instrument operations for the sole purpose of coverage, never for speculation.

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

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

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

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

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

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

Securitization	Banorte		Insurance		Total	
	Securities	Amount	Securities	Amount	Securities	Amount
91_BNTECB_07	50,763,776	2,037	500,000	20	51,263,776	2,057
91_BNTECB_07-2	563,059	19	-	-	563,059	19
97_BNORCB_06	4,938,137	27	500,000	3	5,438,137	29
97_BNORCB_06-2	576,011	4	-	-	576,011	4
97_FCASACB_06U	-	-	-	-	-	-

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

Securitization	Issued Securities	Banorte	Insurance	Total	Total Clients
91_BNTECB_07	52,313,776	97.0%	1.0%	98.0%	2.0%
91_BNTECB_07-2	1,113,059	50.6%	0%	50.6%	49.4%
97_BNORCB_06	19,853,820	24.9%	2.5%	27.4%	72.6%
97_BNORCB_06-2	620,431	92.8%	0%	92.8%	7.2%
97_FCASACB_06U	1,351,386	-	-	-	100%

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

Securitization	Standard & Poor's		Fitch Ratings		Moody's		HR Ratings	Verum
	Local	Global	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, 2016, the amounts of the underlying assets of each securitization were:

Securitization	Amount		
	Performing	Past-due	Total
91_BNTECB_07	Ps. 2,937	Ps.-	Ps. 2,937
91_BNTECB_07-2 97_BNORCB_06	Ps. 134	Ps. 95	Ps. 228
97_BNORCB_06-2 97_BNORCB_06-2	Ps.129	Ps.141	Ps.270

* Figures correspond to securities valuation of trust securitizations.

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

There are no impaired assets in Trust 477

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

Concept	Balance	Capital requirement
Securitizations with Risk Level 1 (weighted 20%)	Ps.27	Ps.-
Securitizations with Risk Level 2 (weighted 50%)	2,056	82
Securitizations with Risk Level 3 (weighted 100%)	4	-
Securitizations with Risk Level 4 (weighted 350%)	-	-
Securitizations with Risk Level 4, 5, 6 or not rated (weighted 1250%)	-	-

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

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

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

6.2 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:

d) Eliminate transferred financial assets at the last book value;
e) Recognition for the consideration received in the operation;
f) 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:

c) 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.
d) 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:

i) 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.
j) 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.
k) Portfolio term: is estimated using WAM (*Weighted Average Maturity*) of the securitized portfolio.
l) Portfolio interest rate: is estimated using WAC (*Weighted Average Coupon*) of the securitized portfolio.
m) Portfolio payment dates: loan portfolio payment dates are considered to be the same as those of the stock certificates.
n) 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.
o) 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.
p) 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.

9. POSITION IN SHARES

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

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

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

Institution	Type of Quotation	Accounting Classification	Capitalization Treatment	Market Value 4Q16	Gain / Losses 4Q16	Accum. Profit /Loss 4Q16
Banorte	Public	Negotiable Securities	Subject to Market Risk Requirement	Ps.370	Ps.76	(Ps.9)
Banorte	w/o public quote	Securities available for sale	Subject to Market and Credit Risk Requirements	3,435	32	36
Banorte	Public	Securities available for sale	Subject to Market and Credit Risk Requirements	22	(24)	-
Banorte	Public	Securities available for sale	Subject to Core Tier 1 Deduction	110	16	-
Banorte	Public	Securities available for sale	Subject to Credit Risk Requirement	120	103	-
			Total	**Ps.4,057**	**Ps.204**	**Ps.27**

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

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

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

Institution	Type of Quotation	Accounting Classification	Capitalization Treatment	Market Value 4Q15	Gain / Losses 4Q15	Accum. Profit /Loss 4Q15
Casa de Bolsa Banorte-Ixe	Cotización Pública	Títulos para Negociar	Sujeta a Requerimiento Riesgo Mercado	Ps.387	Ps.153	Ps.1.6
Casa de Bolsa Banorte-Ixe	Sin Cotización Pública	Títulos Disponibles para la Venta	Sujeta a Requerimiento Riesgo Mercado y Crédito	-	-	-
Casa de Bolsa Banorte-Ixe	Cotización Pública	Títulos Disponibles para la Venta	Sujeta a Requerimiento Riesgo Mercado y Crédito	-	-	-
Casa de Bolsa Banorte-Ixe	Cotización Pública	Títulos Disponibles para la Venta	Sujeta a Deducción Capital Fundamental	-	-	-
Casa de Bolsa Banorte-Ixe	Cotización Pública	Títulos Disponibles para la Venta	Sujeta a Requerimiento Riesgo Crédito	-	-	-
			Total	Ps.387	Ps.153	Ps.1.6

36 - MEMORANDUM ACCOUNTS

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

37 - COMMITMENTS

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

- Other contingent obligations and opening of credits totaling Ps. 324,573 (Ps. 160,548 in 2015), which are recorded in memorandum accounts.

- Certain operating equipment is leased. Total property lease payments for the years ended December 31, 2016 and 2015, were Ps. 130 and Ps. 110, respectively.

38 - CONTINGENCIES

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

39 - PREVENTIVE MECHANISM FOR SAVINGS' PROTECTION

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

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

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

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

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

40 - NEW ACCOUNTING GUIDELINES

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

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

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

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

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

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

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

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

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

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

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

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