



GRUPO FINANCIERO BANORTE

Audit and Corporate Practices Committee Annual Report

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.



**GRUPO FINANCIERO
BANORTE**

- 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



GRUPO FINANCIERO BANORTE

"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.



GRUPO FINANCIERO BANORTE

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 Mercantil 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 Controllershship 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.