



# GRUPO FINANCIERO BANORTE

## Board of Directors' Annual Report

San Pedro Garza García, Nuevo León, April 28, 2017.

### To the General Shareholders Meeting of Grupo Financiero Banorte, S.A.B. de C.V.

In compliance with the provisions of Article 39, Section IV of the Law to Regulate Financial Groups (LRAF) and Article 28, Section IV of the Securities Market Law (LMV), the following reports corresponding to fiscal year 2016 are hereby submitted to the General Shareholders Meeting of Grupo Financiero Banorte, S.A.B. de C.V. (GFNorte):

- a) With respect to the reports referred to in Article 58 of the LRAF and Article 43 of the LMV, the Annual Report of the Auditing and Corporate Practices Committee dated March 16, 2017 is attached hereto.
- b) With respect to the report that the CEO must prepare in accordance with the provisions of Article 59, Section X of the LRAF and Article 44, Section XI of the LMV together with the opinion of the external auditor, the report on the business of the company signed by Mr. Marcos Ramírez Miguel corresponding to fiscal year 2016 is attached hereto, together with the opinion of Galaz, Yamasaki, Ruiz Urquiza, S.C. (member of Deloitte Touche Tohmatsu), External Auditor of GFNorte.
- c) With respect to the opinion on the contents of the Report of the CEO of Grupo Financiero Banorte (GFNorte) on the Progress of Business, the third report of Mr. Marcos Ramírez Miguel corresponding to fiscal year 2016, was reviewed, as well as the Audited Financial Statements of GFNorte and Subsidiaries as of December 31, 2016 and the opinion of the External Auditor, and in our opinion, it contains an objective review of the Mexican and international environment where our business was conducted, especially regarding the evolution of the credit portfolio and the fact that, as of this fiscal year, the consolidation of the companies Seguros Banorte, Pensiones Banorte and Afore XXI Banorte is in effect (the last consolidated through the participation method); the results as of December 31, 2016 and profitability, the ratification of the commitment of the Institution on social responsibility and sustainable development matters, relevant information of the financial performance of GFNorte and Subsidiaries and the outstanding achievements of the first yearly period of implementation of the "20/20 Perfect Vision" strategy. Likewise, it is informed that:
  1. The accounting and information policies and criteria followed are appropriate and comply with the regulations applicable to GFNorte and the financial entities that comprise it.



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2. Based on the opinion of the External Auditor and the reports of the Internal Audit reviews, such accounting policies and criteria were consistently applied in the financial information submitted by the CEO.
  3. As a consequence of the two above paragraphs, the information submitted by the CEO reasonably reflects the financial condition and the results of GFNorte and Subsidiaries.
- d) With respect to the report on the main accounting and information policies and criteria followed in the preparation of the financial information of Grupo Financiero Banorte (GFNorte) and Subsidiaries, required by Article 172 paragraph b) of the General Law of Business Corporations, it is hereby informed that the Audit and Corporate Practices Committee reviewed, with the people in charge of their preparation and review, the financial statements as of December 31, 2016 and the notes thereto, as well as the opinion of the External Auditor before the issuance thereof, which does not contain any exceptions, requiring the Board of Directors to approve them.

Note 4 of the audite financial statements, "Main Accounting Policies", describes and explains the main accounting and information policies and criteria followed in the preparation of the financial information of GFNorte and Subsidiaries, as well as the main changes in the accounting policies made during the fiscal year and their effects on the financial information.

- e) In connection with the report on the operations and activities where the Board of Directors of Grupo Financiero Banorte (GFNorte) participated, after hearing the opinion of the Auditing and Corporate Practices Committee, we highlight the following approvals:
1. The transactions made with related parties were approved, and as of December 31, 2016 the amount of the credits extended through Banco Mercantil del Norte amounted to \$9,792 million pesos, which amount is below the limit set forth by the respective regulations.
  2. The annual review of the basic documents of internal control was made, especially regarding the Code of Conduct, the Internal Control Objectives and Guidelines and the General Policies of Material Resources.
  3. The financial statements as of December 31, 2016 and the quarterly financial statements for the same fiscal year were approved.
  4. The accounting firm Galaz, Yamasaki, Ruiz Urquiza, S.C. (member of Deloitte Touche Tohmatsu), was appointed as External Auditor of GFNorte and Subsidiaries for fiscal year 2016.



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5. All changes to the bylaws of the Audit and Corporate Practices Committee were approved.
6. The provision of additional services by the External Auditor in order to assess the tax effects on the restructure of liabilities of GEO and Urbi, advice on the preparation of the tax deduction of the taxable basis of the Income Tax for 2015 resulting from portfolio write-offs and to prepare the necessary studies and analyses of the tax treatment of portfolio write-offs resulting from portfolios acquisitions was approved.

The contracting thereof in order 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 was approved.

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 in order to carry out external and internal tests of intrusion in the GFNorte systems, and consulting on the process of the Software Development Life Cycle (SDLC), and optimization of the Safety Operation Center (SOC) and response to incidents.

Additionally, it was approved to contract it to review the report on sustainability and local taxes and transfer prices in intercompany operations.

Very truly yours,

**Mr. Héctor Avila Flores**

Secretary of the Board of Directors of  
Grupo Financiero Banorte, S.A.B. de C.V.