Annual Report 2013

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

Av. Revolucion 3000, Col. Primavera.

C. P. 64830.

Monterrey, N. L., Mexico.

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, 2013.

The 2,773,729,563 “O” series shares of Grupo Financiero Banorte, S.A.B. de C.V. in circulation as of December 31, 2013 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 at www.banorte.com/ri. Select “Annual Reports”, in the Financial Information section, and then the document entitled “Circular Unica CNBV 2013 Annual Report”.

Monterrey, N. L. April 30, 2014.

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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.
Afore XXI Banorte:	Afore XXI Banorte, S.A. de C.V. (corporate identity after the Afore Banorte and Afore XXI merger).
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-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).
BMV:	Bolsa Mexicana de Valores, S. A. B. de C. V. (Mexican Stock Exchange).
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 December 2, 2005, as they have been modified.
Circular Unica de Emisoras:	General provisions applicable to issuers and other market participants, published in the Official Gazette on March 19, 2003, as they have been modified.
COFECO:	Comision Federal de Competencia (Federal Commission of 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).

TERM	DEFINITION
CONSAR:	Comision Nacional del Sistema de Ahorro para el Retiro (National Comission of the Retirement Saving Funds System).
CNBV:	Comision Nacional Bancaria y de Valores (National Banking and Securities Commission).
CNSF:	Comision Nacional de Seguros y Fianzas (National Insurance and Bonding Commission).
CPO´s:	Certificados de Participacion Ordinarios (Ordinary Participation Certificates).
CR:	Capitalization ratio.
DMD:	Deputy Managing Director
DOF:	Diario Oficial de la Federacion (Official Gazette).
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.
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 .
GFNORTE, the Company, the Issuer:	Grupo Financiero Banorte, S. A. B. de C. V.
Holding:	Holding company.
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, INB Financial Corp.
Indeval:	S. D. Indeval, Institucion para el Deposito de Valores, S. A. de C. V. (Institute for Deposit of Securities).
IPAB:	Instituto de Proteccion al Ahorro Bancario (Institute for the Protection of Bank Savings).
ISR:	Income Tax.
Ixe Automotriz:	Ixe Automotriz, S.A. de C.V., Sociedad Financiera de Objeto Multiple, Entidad Regulada, Grupo Financiero Banorte
Ixe Banco:	Ixe Banco, S. A., Institucion de Banca Multiple, Grupo Financiero Banorte
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 GF:	Ixe Grupo Financiero, S.A.B. 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).
LIC:	Ley de Instituciones de Credito (Credit Institutions Law).
LMV:	Ley del Mercado de Valores (Securities' Market Law).
LRAF:	Ley para Regular las Agrupaciones Financieras (Law to Regulate Financial Groups)
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).
Nafin, Nacional Financiera:	Nacional Financiera, S.N.C., Institucion de Banca de Desarrollo.
NII:	Net Interest Income.
NIM:	Net Interest Margin.

TERM	DEFINITION
OTC:	Over The Counter.
PDL:	Past due loan ratio
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.
SAT:	Servicio de Administracion Tributaria (Tax Administration Service).
SCI/ICS:	Sistema de Control Interno (Internal Control System).
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 de 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:	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 Holdings, Inc. (remittance company based in New Jersey).
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 Consolidated Financial Statements for the years ended December 31, 2013 and 2012, published by Galaz, Yamazaki, Ruiz Urquiza, S. C., a member of Deloitte Touche Tohmatsu Limited dated February 20, 2014. For the year ended December 31, 2011, financial figures are based on GFNORTE's Audited Consolidated Financial Statements published by Galaz, Yamazaki, Ruiz Urquiza, S. C., a member of Deloitte Touche Tohmatsu Limited, dated February 27, 2013, and therefore include changes to accounting criteria that occurred in 2011.*
- ✓ *In January 2012, the merger between Afore Banorte and Afore XXI was completed. As a result, Banco Mercantil del Norte determined that it has no control over Afore XXI Banorte, and therefore does not consolidate it in its financial statements, and recognizes the equity participation method given its significant influence. Financial statements as of December 31, 2011,* ***reflect the effects of the deconsolidation of Afore XXI Banorte, in order to make them comparable with the 2012 financial statements.*** *Consequently, some figures in GFNORTE's 2011 Income Statement and Balance Sheet differ in this report to those in the Report that was sent to the authorities in April, 2012.*
- ✓ *Changes to Accounting Criteria. In January 2011, the CNBV issued a series of regulations to modify the accounting criteria of controlling companies of financial groups and financial institutions. The main changes are:* ***a) For Controlling Companies****. Criteria A-2 "Application of particular norms". The facility of not consolidating permanent investments in Insurance or Bonding companies in which the company is controlling has been eliminated with these criteria. As of February 1, such institutions must be consolidated with the financial statements of the controlling companies. As a consequence, the consolidation of "Seguros y Pensiones Banorte" (the Insurance and Annuities companies) has initiated.* ***b) For Credit Institutions.*** *Criteria D-2 "Income Statement". The way the Income Statement is presented was modified, mainly eliminating the items of "Non Operating Income (Expenses), net" and the accounts that were previously registered there will now be registered under "Other Operating Income (Expenses)" in the Operating Income heading. For more information about the changes to accounting criteria, refer to the corresponding section in the notes of the Audited Financial Statements (Note 4 - Significant Accounting Policies).*
- ✓ *In April 2011, the merger with IXE GF became effective, thereby, the year of 2011 includes 9 months of integrated results*
- ✓ *The arithmetic operations were carried out in pesos and in the following tables are presented in million pesos. As a result, some totals appear to have minimal errors, which is not the case as it is just a matter of rounding off figures.*

SELECTED FINANCIAL INFORMATION

Grupo Financiero Banorte

	2013	*2012*	*2011*
Net Income Grupo Financiero Banorte (GFNorte) (*)	$13,508	$10,888	$8,517
Total Assets GFNorte (*)	$1,006,788	$916,567	$825,147
Total Liabilities GFNorte (*)	$898,097	$828,058	$748,713
Stockholders' equity GFNorte (*)	$108,691	$88,509	$76,434
Stockholders' equity GFNorte excluding minority interest (*)	$106,657	$81,881	$70,849
INFORMATION PER SHARE			
Net income per share (pesos)	$5.35	$4.68	$3.79
Dividend per share (pesos) (1)	$0.7852	$0.732	$0.52
Book value per share (pesos) (excluding minority interest)	$38.45	$35.20	$30.45
Shares outstanding (millions) (2)	2,526.1	2,326.4	2,312.8
INFRASTRUCTURE AND EMPLOYEES			
Bank branches (3)	1,288	1,316	1,285
ATMs (automated teller machines)	7,035	6,707	6,367
Full-time employees	27,474	26,108	24,100
Full-time employees and professional services	27,549	26,212	24,134
PROFITABILITY RATIOS			
NIM	4.2%	4.1%	4.1%

	2013	2012	2011
NIM adjusted for credit risks	3.2%	3.4%	3.3%
Return on Assets (ROA)	1.4%	1.3%	1.1%
Return on Equity (ROE)	14.2%	14.3%	14.1%
OPERATIONS			
Efficiency Ratio (4)	52.0%	54.0%	55.6%
Operating Efficiency Ratio (5)	2.9%	2.9%	3.2%
Liquidity Ratio	137.4%	128.4%	101.8%
ASSET QUALITY INDICATORS			
Past due loan ratio	3.1%	2.1%	1.9%
PDL Reserve coverage	104.6%	138.3%	143.1%
CAPITALIZATION RATIO			
Banco Mercantil del Norte	**15.12%**	**14.75%**	**12.9%**
Ixe Banco	**-**	**15.5%**	**15.3%**

(*) Million pesos.
1. Dividends approved by the Shareholders' Assemblies in 2013, 2012 and 2011 were: a total dividend of Ps.0.52 per share in 2011, to be paid in three installments (Ps 0.17 in October 2011, Ps 0.17 in February 2012 and Ps 0.18 in May 2012). The total dividend of Ps 0.732 per share decreed in 2012 to be paid in four installments of Ps 0.183 per share (October 2012, January, April and July 2013). Total Dividend decreed in 2013 was Ps 0.7852 per share to be paid in four installments of Ps 0.1963 per share (October 2013, January, April and July 2014) although in the Shareholders' Assembly celebrated on December 20 2013, it was authorized to make the payments regarding the installment of January and April 2014 in advance on the 31 December 2013.
2. The 2,526.14 million shares are the accumulated weighted average in 2013; while as of closing of 4Q13 the total amount of outstanding shares totals 2,773.73 million shares resulting from the increase in GFNorte's equity following the Public Offering carried out in July 2013.
3. Includes bank modules and excludes agencies abroad.
4. Non Interest Expense / Total Income = Net Income + Non-Interest Income.
5. Non Interest Expense / Average Total Assets.

Grupo Financiero Banorte's Results

In 2013 GFNORTE reported profits of Ps 13.51 billion, 24% higher vs. 2012. The contribution to accumulated profits in 2013 by business sector was:

Net Income of the **Consolidated Banking Sector** (Banco Mercantil del Norte, Banorte- Ixe Tarjetas, Banorte USA, and the 50% participation in Afore XXI Banorte) amounted to Ps 12.12 billion pesos, 34% higher vs. 2012 as a result of the integration of Ixe Tarjetas and Afore XXI Banorte, as well as a reduction in minority interest due to the payment made to IFC in the fourth quarter of 2013. Profits in this sector represented 90% of GFNORTE's net income.

Excluding profits generated by Afore XXI Banorte and considering the effect of the Fincasa Hipotecaria merger and the Solida spin-off, the banking sector net income amounted to Ps 10.66 billion, +46% vs. 2012, representing 79% of GFNORTE's net profits.

The **Brokerage Sector** comprised of Casa de Bolsa Banorte Ixe and Operadora de Fondos Banorte-Ixe, reported profits of Ps 649 million, (5%) below YoY as a result of a decrease in operating income, and an increase in operating expenses and income tax. The accumulated profits of this sector represented 5% of GFNORTE's net income.

Net Income for **the Long Term Savings Sector** comprised of Afore XXI Banorte, Insurance and Annuities Companies was Ps 3.58 billion, 65% higher vs. 2012, contributing with Ps 1.96 billion or 15% to the Group´s profits according to the participation in this sector, which represents a YoY increase of 86%. This increase was due to the incorporation of Afore Bancomer's results, an improvement in business dynamics in the Insurance and Annuities companies and to a lesser extent, to the decrease in minority interest as a result of acquiring Generali's 49% participation in the Insurance and Annuities companies in October.

SOFOM and Other Finance Companies comprised of Arrendadora y Factor Banorte, Almacenadora Banorte and Solida Administradora de Portfolios (which was spun-off from Banco Mercantil del Norte to later merge into Ixe Soluciones in May 2013), recorded profits of Ps 391 million in 2013, a 53% increase vs. 2012. The accumulated profit of this sector represented 3% of GFNORTE´s profits.

In 2012, GFNORTE reported profits of Ps 10.89 billion, 28% higher vs. 2011. During 2012, Net Income of the **Consolidated Banking Sector** (Banco Mercantil del Norte, Banorte-Ixe Tarjetas, Banorte USA, and the 50% interest in Afore XXI Banorte) amounted to Ps 9.03 billion, 24% above 2011. Net income in this sector represented 83% of the Financial Group's profits. Excluding profits generated by Afore XXI Banorte and considering the effect of the Fincasa Hipotecaria merger and the Solida spin-off, the banking sector net income amounted to Ps 7.31 billion, +12% vs. 2011, representing 67% of GFNORTE's net profits. The **Brokerage Sector** generated accumulated profits of Ps 681 million, 63% YoY growth, contributing with 6% of GFNORTE´s profits. The **Long Term Savings Sector**, generated profits of Ps 2.17 billion, a YoY increase of 87%; contributing with Ps 1.05 billion or 9.7% of GFNORTE's profits, based on the group's participation in these businesses, representing an increase of 84% vs. 2011. **SOFOM and Other Finance companies**, reported profits of Ps 255 million, which represented 2% of GFNORTE´s Profits.

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

Net Income by Segment	2013	2012	2011
Banking Sector (1) (2)	Ps. 10,658	Ps. 7,310	Ps. 6,544
Brokerage	$649	$681	$418
Long-Term Savings	Ps. 1,962	Ps. 1,052	Ps. 573
Afore XXI Banorte (2)	1,114	532	209
Aseguradora (Insurance)	725	471	339
Pensiones (Annuities)	123	49	25
SOFOM and Other Finance Companies	Ps. 391	Ps. 255	Ps. 708
Arrendadora y Factor (Leasing and Factoring)	599	604	616
Almacenadora (Warehouse)	43	43	40
Ixe Automotriz	15	33	30
Fincasa Hipotecaria (1)	-	-	22
Solida Administradora de Portafolios (3)	(266)	(425)	-
Other Companies	$1	$1	($62)
Ixe Soluciones	1	1	2
Ixe Servicios (4)	-	-	(64)
Holding	(Ps. 153)	Ps. 1,589	Ps. 336
GFNORTE	***Ps. 13,508***	***Ps. 10,888***	***Ps. 8,517***

Million pesos.

(1) For comparability purposes between 2013 and 2012 financial statements, some retroactive changes have been made to the corporate structure of Banco Mercantil del Norte, as include Fincasa Hipotecaria - merged in May 2013 - and the Solida Administradora de Portafolios spin-off – in May 2013 - in the Financial Statements of 2012 of this sector. Therefore, figures and ratios of 2012 presented in the Banking Sector of this Annual Report differ from those presented to the authority in April 2013. **Financial statements as of December 31, 2011 have not been modified, so are not comparable with those of 2013 and 2012.**

(2) As of 1Q12, Afore XXI Banorte is recognized under the equity participation method in Banorte's results; nevertheless, for informative and comparative purposes of this segment's profits, Afore XXI Banorte profits are presented in its corresponding business segment.

(3) On April 26, 2013, it was approved that Banco Mercantil del Norte divested its interest in Solida, through a spin-off, and subsequently absorbed by Ixe Soluciones, in order to consolidate the recovery banking operations. Afterwards, Ixe Soluciones changed its name to Solida Administradora de Portafolios. The merger and spin-off were effective on May 24, 2013. Figures above in 2013 and 2012 correspond to Solida Administradora de Portafolios with these effects.

(4) Previous to the merger with Solida

Comparative analysis: Summary of the years ended December 31, 2013 and 2012.

Net Interest Income

During 2013**, GFNORTE's Net Interest Income increased 13% YoY,** from Ps 32.81 to Ps 37.18 billion as a result of a combined effect of:

a) A 16% increase in net financial revenues and loan origination fees derived from 6% growth in the loan portfolio, mainly in higher yielding products such as Payroll loans, Credit cards, SMEs and Mortgages.
b) A (2%) decrease in the NII of the Insurance and Annuities Companies due to an increase in technical reserves stemming from growth in premium sales.
c) Cancellation of the debt servicing cost of GFNORTE's US 800 million dollar syndicated loan disbursed in February and paid on July 26.
d) A 100 basis point decrease in the benchmark rate during the year (50 basis points in March, 25 basis points in September and 25 basis points in October).

Net Interest Income excluding the Insurance and Annuities companies presented an accumulated increase of 14%**,** from Ps 31.02 billion to Ps 35.43 billion pesos.

The average NIM for 2013 was 4.2%, a YoY increase of 11 bp, resulting from growth in higher yielding segments (Consumer portfolio represented 14% of the total portfolio at the end of 2013 vs. 11% at the end of 2012).

During 2013, **NIM related to lending activity** increased YoY by 44 basis points to 7.8%, whereas the **average NIM excluding the Insurance and Annuities companies** was 4.3% during 2013, 17 basis points higher vs. the previous year.

Provisions

Provisions charged to results in 2013 totaled Ps 8.94 billion, a 45% YoY increase vs. 2012. This increase is mainly due to provisions created to cover exposures to home developers: URBI, GEO and HOMEX; in addition, the increase is explained by growth in Consumer portfolios which require higher initial provisions under the recently implemented methodology of expected losses, as well as growth in past due loans for the Consumer and SME portfolios as a result of the negative impact of slower economic growth.

The average NIM adjusted for Credit Risks was 3.2% in 2013, a decrease of 14 basis points vs. 2012 due to the increase in provisions registered during the first half of 2013 resulting from the deterioration in the exposures to home developers and in the loan portfolio as a consequence of the negative impact from weaker economic activity.

Non-Interest Income

In 2013, Non-Interest Income amounted to Ps 16.28 billion, 12% higher YoY due to an increase in almost all headings, except real estate portfolio recoveries, as a result of better business dynamics.

Non Interest Expense

Non Interest Expenses in 2013 amounted to Ps 27.82 billion, a 9% YoY increase vs. 2012 derived mainly from the strengthening of business areas, the expansion of operating infrastructure and the payment of bonuses and incentives with a higher profit base, which was partially offset by declines in other items. **The Efficiency Ratio during 2013 was 52.0%,** (1.9 pp) YoY lower vs. 2012 due to the positive operating leverage obtained in the period.

Taxes

Income tax during 2013 amounted to Ps 3.56 billion, (14%) lower YoY. **The effective tax rate and the Employee Profit Sharing in 2013 was 22.8%**, (7.8 pp) lower vs. 30.6% of 2012.

Net Income

GFNORTE reported Net Income of Ps 13.51 billion during 2013, 24% higher vs. 2012, due to the positive operating leverage derived from a 13% YoY growth in total income, as well as a lower rate of growth in operating expenses, which combined with the integration of Afore Bancomer's profits in Subsidiaries' results and the use of tax credits, offset higher loan loss provisions mainly due to home developers' loans.

ROE during 2013 was 14.2%, a YoY decrease of 12 bp vs. 2012; whereas, **Return on Tangible Equity (ROTE), rose to 18.7%**, unchanged vs. the previous year. On the other hand, **ROA during 2013 was 1.4%**, 15 bp higher YoY vs. 2012 and **Return on risk-weighted assets (RRWA) was 3.0%,** a 34 bp increase vs. 2012.

Loan Portfolio

	2013	**2012**	**2011**
Performing Loans	**Ps 424,837**	**Ps 401,190**	**Ps 350,265**
Recovery Bank	201	243	292
Total Performing Loans	**Ps 425,038**	**Ps 401,433**	**Ps 350,558**
Past Due Loans	13,655	8,481	6,949
% PDL Ratio	**3.1%**	**2.1%**	**1.9%**

Million pesos

Total Performing Loans increased 6% YoY, growing by Ps 23.65 billion to Ps 424.84 billion at the close of 2013, excluding the proprietary loans managed by the Recovery Bank. The loan portfolio registered lower growth rates YoY mainly due to the economic slowdown in the year and prepayments made by corporate clients, which were not offset by the origination of new loans in this segment during 2013. In spite of this, the loan portfolio grew at a faster pace than the economy did.

Past Due Loans

At the close of 2013, past due loans amounted to Ps 13.66 billion, 61% higher YoY vs. 2012, mainly due to an increase of past due loans in the corporate portfolio - especially from home developers -, SMEs, credit card, mortgage and payroll loans, derived from the negative impact of the economic slowdown. **At the end of 2013**, **the Past Due Loan Ratio ("PDL") was 3.1%,** 1.0 pp higher YoY vs. 2012, mainly due to more past due loans in all segments, except Commercial and Government.

Excluding the past due loans for the three troubled home developers, the NPL ratio would be 1.5%, 60 basis points below YoY.

Deposits

	2013	2012	2011
Non Interest Bearing Demand Deposits	Ps. 122,499	Ps. 107,450	Ps. 91,860
Interest Bearing Demand Deposits (1)	132,798	103,968	98,085
Total Demand Deposits (2)	255,297	211,418	189,944
Time Deposits – Retail	129,121	124,255	116,223
Core Deposits	384,418	335,673	306,168
Money Market (3)	59,729	90,073	63,127
Total Banking Sector Deposits	**Ps. 444,148**	**Ps. 425,746**	**Ps. 369,295**
GFNorte's Total Deposits (4)	**Ps. 443,741**	**Ps. 424,325**	**Ps. 370,293**
Third Party Deposits	150,636	111,042	123,918
Total Assets Under Management	**Ps. 594,783**	**Ps. 536,788**	**Ps. 493,213**

Million pesos.

(1) As of 2004, IPAB checking accounts for the deposit of cash collections related to the managed portfolios of Banpais and Bancen are excluded retroactively for comparison purposes. The balances of these accounts for 2011, 2012 and 2013 were Ps 0 million pesos in all cases.

(2) Includes debit cards.

(3) Includes bank bonds. (Customers and Financial Intermediaries).

(4) Includes eliminations between subsidiaries. The eliminations during 2011, 2012 and 2013 were Ps 998 million, (Ps 1,421) million and (Ps 407) million, respectively.

At the close of 2013, GFNORTE's Total Deposits amounted to Ps 443.74 billion, an increase of Ps 19.42 billion or a 5% YoY increase vs. 2012, driven mainly by the efforts to promote Banorte-Ixe's deposit products. In the **Banking Sector, Total Deposits amounted to Ps 444.15 billion**, a 4% increase or Ps 18.40 billion higher YoY, comprised of a 21% increase in Demand Deposits, a 4% increase in Retail Time Deposits and a (34%) decrease in Money Market Deposits.

Monthly stock performance for the last 6 months:

Date	Maximum	Minimum	Closing	Volume of Shares (Daily Average)	Total Volume
30/09/2013	88.90	80.00	81.73	6,698,071	133,961,417
31/10/2013	85.49	80.28	83.28	5,734,224	131,887,150
30/11/2013	90.05	78.31	89.62	7,665,083	153,301,662
31/12/2013	98.19	88.60	91.36	9,344,628	186,892,555
31/01/2014	97.00	84.20	84.42	5,939,173	130,661,814
28/02/2014	88.51	80.51	86.03	6,429,955	122,169,147
31/03/2014	88.29	80.31	87.83	6,893,028	151,646,608

Source: Bloomberg

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In Section 2. "a) The Company - Development and History of the Company" of this Annual Report are the Material Events of 2013, as well as those which happened during the first quarter of 2014.

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C) RISK FACTORS

The risks and uncertainties described below are not the only ones the Company faces and the importance of the risk that we attribute to them today may increase in the future. GFNorte's operations may also face unknown risks or risks that we currently consider immaterial. If any of the risks described below occur, they could adversely and significantly affect 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 the context so requires, the terms "GFNorte", "us" and "our" refer to Grupo Financiero Banorte, S.A.B. de C.V. and its subsidiaries.

a. Risks Relating to Our Business

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

Market risk refers to the probability of variations in our net interest income, or in the market value of our assets and liabilities and securities positions, due to interest rate and equity market volatility. Changes in interest rates and equity values affect the following areas, among others, of our business:

- net interest income;
- the volume of loans we originate;
- the market value of our financial assets; and
- gains from sales of loans and securities by our subsidiaries.

A significant portion of our assets are long-term assets, and some were originated with fixed nominal interest rates. In contrast, most of Banorte's and other subsidiaries' (such as Arrendadora y Factor Banorte) borrowings are short-term. When interest rates rise, we must pay higher interest on our borrowings while interest earned on granted loans to our clients does not rise as quickly, which causes profits to decrease and may affect our ability to meet our liabilities. Interest rate increases could result in decreases in the net interest income of our loan portfolio, which would adversely affect our financial condition and results of operations.

In addition, increases in interest rates may reduce the volume of loans we originate. Sustained high interest rates have historically discouraged customers from borrowing and have resulted in increased delinquencies in performing loans and deterioration in asset quality.

Increases in interest rates may also reduce the value of our financial assets. Banorte and some of our other subsidiaries hold a substantial portfolio of loans and debt securities that have both fixed and adjustable interest rates. The market value of a security with a fixed interest rate generally decreases when interest rates rise, which may have an adverse effect on our earnings and financial position. In addition, Banorte or any other of our other subsidiaries may incur costs (which, in turn, will impact their results) as strategies are implemented to reduce future interest rate exposure. The market value of an obligation with an adjustable interest rate can be adversely affected when interest rates increase, due to a lag in the determination of a new interest rate and in the implementation of repricing terms.

Increases in interest rates may reduce gains or require us to record losses on sales of loans or securities. In recent years, interest rates in Mexico have been low by historical standards and may continue in the future.

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

Non-performing or low credit quality loans can negatively impact the results of our operations. We cannot assure that we will be able to control and reduce effectively the level of the impaired loans in our loan portfolio. In particular, 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, such as the impact of the global financial crisis and macroeconomic trends and political events affecting Mexico or events affecting certain industries.

As of December 31, 2013 and December 31, 2012, the aggregate outstanding principal amount and accrued interest of loans to Banorte's 15 largest clients (including corporate and Mexican government loans) represented 19.7% and 21.1%, 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 developments or any other factor, it could lead to an increase in Banorte's non-performing 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 current 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 be 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. Banorte has experienced asset quality problems, including with respect to collaterals, and has reported relatively large loan loss provisions.

As is the case with many Mexican banks, the asset quality of Banorte's loan portfolio, including collaterals, has been negatively affected by the unfavorable financial and economic conditions prevailing in Mexico following the global financial crisis that commenced in September 2008. Mexican regulatory authorities and the banking system responded to this situation in several ways, including making revisions to Mexican Banking GAAP, including allowing for the reclassification of certain "available for sale securities" to "held to maturity securities" and broadening the class of securities available for repurchase. Other regulatory responses have included imposing more stringent loan loss reserve requirements and capitalization standards, as well as adopting a number of programs designed to provide relief to Mexican borrowers in connection with the granting and restructuring of performing loans. Such reserve requirements compliance 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 caused Banorte to experience asset quality problems and to record large loan loss provisions due to adopted regulatory provisions. We also believe that recoveries from those non-performing loans as a percentage of the non-performing loan portfolio are likely to decline over time as a consequence of the aging of such non-performing loan portfolio, as well as the decreased value of the collateral supporting these loans.

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 recently enacted financial reform, aims to make these process quicker. In addition, other factors such as defects in the perfection of Banorte's collaterals, 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.4. We are exposed to the home building development sector, 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, Arrendadora y Factor Banorte and Solida, we have been involved in extending loans to and participated, through specialized trust operations, in home development projects. Some companies in this sector have experienced, and are currently experiencing, financial difficulties. As a result of these challenges, three of the largest companies in this sector are in the process of restructuring their debt and have recently missed payments on their debt.

As of December 31, 2013, we had a loan exposure to Urbi Desarrollos Urbanos, S.A.B. de C.V., Corporacion Geo, S.A.B. de C.V. and Desarrolladora Homex, S.A.B. de C.V. amounting to Ps 8.71 billion representing 2.0% of our total loan portfolio, of which Ps 8.68 billion corresponds to Banorte and Ps 30 million to Arrendadora y Factor Banorte. Of the loans granted to these companies, Ps 7.00 billion was past due and reserved as of December 31, 2013. 73% of the loan portfolio is guaranteed.

As of December 31, 2013 Solida had Ps 8.62 billion in investment projects through specialized trusts and Ps 553 million in collection rights.

We cannot provide assurance of the level of recovery that we can achieve from the loans to this sector or that we will be able to realize our target level of reserves or, if we do, that such 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.5. We may be unable to implement successfully and continue to improve our credit risk management system, which could substantially and adversely affect our results of operations and financial position.

As a commercial bank, one of the main risks Banorte faces is credit risk. 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 to employ an internal credit rating system to assess the particular risk profile of customers. As this process involves detailed analyses of the customer or 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 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, follow consistently or revise continuously Banorte's risk management system may result in a higher risk exposure, which could materially and adversely affect our results of operations and financial position.

a.6. The credit card industry is highly competitive and entails significant risks, including the possibility of over-indebtedness of customers.

The credit card industry in Mexico is dominated by institutions that may possess greater financial resources and broader coverage in this market than we do. Moreover, our credit card business is subject to a number of risks and uncertainties, including the possibility of over-indebtedness of our customers and the higher rate of consumer default in the credit card industry than other credit industries. Part of our current growth strategy is to increase volume in the credit card portfolio, at the same or a slightly greater rate than the market, which may increase our exposure to risk in our loan portfolio, which could have a material adverse effect on us.

a.7. 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 our retail banking sector and grow our retail loan portfolio. The recoverability of these loans in particular and 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 the penetration of bank lending products in the Mexican retail sector historically has been low, there is little basis on which to evaluate how the retail sector will perform 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.8. Banorte maintains lower levels of capital or reserves in connection with loans to the Mexican federal, state and municipal governments.

The Mexican provisions regarding capitalization and creation of reserves for loan losses in credit institutions require significantly lower capitalization levels or creation of reserves in connection with loans made to the Mexican federal, state or municipal governments (together, the "***Governmental Loans***").

Recently, Banorte has created sufficient capital and reserves pursuant to new regulations in Mexico that require provisions according to expected losses for governmental loans, and these reserves represent a lower percentage of the total portfolio of government 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, 2013 governmental loans amounted to Ps. 93.48 billion, or 21.6% of Banorte's total loans portfolio; whereas, in GFNORTE amounted to Ps 95.64 billion or 21.8% 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 internal credit ratings assigned by our risk management area according to the methodology approved by the CNBV, and the guarantees of these loans, among other factors. As of December 31, 2013, non-performing loans in GFNORTE's government sector amounted to Ps.2.3 million, and in Banorte any balance was registered.

a.9. Some of GFNORTE's loans to Mexican states and municipalities may be restructured.

Mexican government and commercial banks, including Banorte, have from time to time agreed to modify the terms of Governmental Loans. Such modifications have included extensions in maturity of up to 12 years, reductions in interest rates and prepayment options. As of December 31, 2013, GFNORTE has restructured performing loans amounting to Ps. 8.85 billion . 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.

Recently, the SHCP announced its intentions to implement a plan to restructure the debt of state and municipal governments. We cannot provide assurance that upon the implementation of such plan, the loans that Banorte has granted to state and municipal governments will not be restructured or that they will be restructured on terms favorable to Banorte. Any such restructuring could adversely affect our business, financial condition and results of operations.

a.10. The rules applicable to reserves for loan losses to Governmental Loans have recently been amended.

On October 5, 2011, the CNBV amended the rules applicable to reserves for loan losses for loans to states and municipalities in an effort to conform its regulations to the most recent recommendations issued by the Basel Committee. These new rules shift away from an accrued losses methodology to an expected losses methodology intended to help identify certain sector risks in advance. Both qualitative and quantitative credit information is now required to mitigate the risk of sudden changes in reserve levels associated with credit transactions with states and municipal entities.

The expected losses approach takes into account several factors including probability of default and magnitude of a given loss instead of allowing reliance on credit agencies ratings. The CNBV rules also require banks to retrospectively fully reserve for short-term credits included in any restructuring process. As a result of the new methodology, GFNORTE's reserves for loan losses as of December 31, 2013 were Ps. 963 million and for Banorte amounted to Ps 938 million. In the future, the CNBV could further change accounting regulations for determination of allowances for loan losses or the methodology to measure credit risk of governmental institutions.

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 *participaciones federales*. Any changes to Mexican laws and regulations regarding the use of *participaciones federales* as source of payment for these type of loans, may require amendments to our credit facilities and may impact the credit risk of such facilities or the manner in which we conduct business with Mexican state and municipal governments, which in turn could affect our results of operations and financial position.

Furthermore, as *participaciones federales* are in function of the condition of the Mexican economy, we cannot assure that the *participaciones federales* to Mexican state and municipal governments will remain at their current funding level. If *participaciones federales* were reduced to a lower level as a result of changes to Mexican laws and regulations, our results of operations and financial condition could be adversely affected.

Defects in the perfection of our collaterals or fraudulent transfers by borrowers may impair our ability to recover on our collateral. Accordingly, there cannot be assurance that we will be able to realize the full value of our collateral in connection with loans to Mexican state and municipal governments. If we were not able to realize the full value of our collateral, our results of operations and financial condition could be adversely affected.

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

Our business is subject to a continuously evolving regulatory regime of financial service laws, regulations, administrative actions and policies in each jurisdiction in which we operate. Furthermore, due to certain recent high profile restructurings of Mexican state and municipal debt, the Mexican Congress, regulatory agencies and media coverage have been focused on government lending. As a result, we cannot provide assurance that the trend of growing government lending over the past decade will not be affected by potential regulatory changes or by increases in the level of reserve requirements, and, if such growth trends do not continue, our results of operations could be adversely affected.

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 and other federal 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.

In addition to the reform packages relating to terms and conditions of government lending, on April 9, 2014 financial reforms were enacted. We cannot assure that such reforms will not have an adverse and material effect on our business, financial condition or results of operations. .

a.13. 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* used by states or municipalities may not be subject to attachment or liens, may not be assigned or subject to retention or withholding, except that they may be used to satisfy payment obligations of such states and municipalities, provided they have the authorization of the local congress and are registered with the Ministry of Finance in the Registry of Obligations and Loans of the States (*Registro de Obligaciones y Emprestimos de Entidades Federativas*).

In addition, Article 4 of the Mexican Federal Code for Civil Procedure (*Codigo Federal de Procedimiento 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. As a result, the ability to enforce judgment against such governments or agencies, upon the occurrence of a default, may be limited, and this could materially affect our business, financial condition and results of operation.

a.14. Loan loss reserves in Mexico differ from those applicable to banks in the United States and other countries.

Except for loans to governments and loans to certain Mexican development banks guaranteed by the federal government and the Mexican Central Bank, Banorte is required to classify each loan or type of loan according to an assessment of risk based on criteria set forth by Mexican banking regulations and to establish corresponding reserves. The criterion to establish reserves include both qualitative and quantitative factors. Mexican banking regulations relating 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. The Mexican government has enacted new rules regarding the way in which Mexican banks classify loans and determine loan loss reserves. In particular, in 2009, the CNBV approved new rules that affect Banorte's provisions regarding the expected losses methodology to reserve loan losses. In 2009 such methodology was implemented for credit card portfolio, in 2010 for consumer and mortgage loans, in 2011 for government portfolio and in 2013 for commercial loans, including those originated by Arrendadora y Factor Banorte.

GFNORTE and its subsidiaries may be required or deem necessary to increase their respective loan loss reserves in the future, as a result of changes in CNBV rules or for other reasons, including the recently adopted expected loss methodology for commercial loans. Increasing loan loss reserves could adversely affect our results of operations and financial position.

a.15. The short-term nature of Banorte's funding sources may pose a liquidity risk.

Many Mexican banks have suffered severe liquidity problems in the past, particularly in connection with refinancing short- and medium-term dollar liabilities in the international capital markets. No assurance can be given that liquidity problems will not affect the Mexican banking system again or that liquidity constraints will not affect Banorte in the future. We expect Banorte to be able to pay or refinance its future liabilities, but no assurance can be given that it will be able to repay such liabilities or refinance such liabilities on favorable terms.

We anticipate that customers in Mexico will continue in the near future to demand short-term deposits (particularly demand deposits and short-term time deposits) and loans, and that Banorte will maintain its reliance on the use of deposits as a source of funding. The short-term nature of this funding source could cause liquidity problems for Banorte in the future if deposits are not made in the volumes it expects or are not renewed. As of December 31, 2013, 97.3% and 97.6%% of GFNORTE's and Banorte's, respectively, local and foreign currency deposits had remaining maturities of one year or less or were payable on demand (*See section 8 "Annexes. Subsection c) Audited Financial Statements – Note 21 Deposits" of this Annual* Report). In the past, a substantial portion of such customer deposits have been rolled over upon maturity or maintained with Banorte (in the case of demand deposits) and, as a result, such deposits have been a stable source of funding over time. No assurance can be given, however, that customers will continue to roll over or maintain their deposits with Banorte. If a substantial number of Banorte's customers fail to roll over their deposits upon maturity or withdraw their deposits from Banorte, its liquidity position could be adversely affected, and it may be required to seek funding from more expensive sources, affecting our financial condition and results of operations.

a.16. We engage in transactions with our subsidiaries and affiliates on terms that others may not consider to be on an arm's length basis.

Banorte has entered into certain service agreements with its subsidiaries and affiliates, allowing them to offer their products and services within Banorte's branch network in consideration for 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 our subsidiaries and affiliates, 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.17. 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 interest rate risk when we have an interest rate re-pricing gap or carry interest-earning securities having fixed real or nominal interest rates. FX rates and interest rates in Mexico have been subject to significant fluctuations in recent years. Because of the historical volatility in Peso exchange rates and interest rates in Mexico, the risks associated with such positions may be greater than in certain other countries. Exchange rates and interest rates have experienced considerable volatility from October 2008 to date due to the U.S. and international financial crisis. Although we follow various risk management procedures in connection with our trading and treasury activities, there cannot be assurance that we will not experience losses with respect to these positions in the future, any of which could have a material adverse effect on our results of operations and financial position.

In 2008 and 2009, as a result of the negative economic conditions in the United States and in other parts of the world, local and international markets experienced high volatility, which contributed to the depreciation of the Peso. During 2008 and 2009, the Peso depreciated by 19.7% compared to the U.S. dollar. During 2010, 2011, 2012 and 2013 the Peso appreciated 5.5%, depreciated 13.0%, appreciated 7.0% and depreciated 0.9%, respectively. As of closing February 2014, Peso depreciated 3.3%.

In recent years, interest rates in Mexico have been low by historical standards; however, there cannot be assurance that such low rates will continue in the future. A sustained increase in interest rates will also raise our funding costs and may reduce GFNORTE's loan demand, especially among retail banking products. Rising 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. In addition, rising interest rate levels may adversely affect the Mexican economy and the financial position and repayment ability of GFNORTE's corporate and retail borrowers, including credit cards holders, which in turn may lead to deterioration in our asset quality.

Also, volatility in exchange and interest rates could affect the ability of GFNorte's clients to repay their loans, which could result in an increase in GFNORTE's non-performing loan portfolio, and therefore materially and adversely affect our business, financial condition and results of operations.

a.18. We are subject to market and operational 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 enters into financial derivative transactions primarily for hedging purposes and, to a lesser extent, on behalf of its customers. Accordingly, we are subject to market 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 credit or default risk (the risk of insolvency or other inability of the counterparty to a particular transaction to perform its obligations thereunder).

Mexican courts have limited experience in dealing with issues related to derivatives transactions. Given that for certain of our financial derivative transactions the derivative market is not yet as developed in Mexico as in other jurisdictions, there are added structuring risks and the risk that our documentation will not incorporate accurately the terms and conditions of such derivative transactions. The execution and performance of these types of transactions depend on our ability to develop adequate control and administration systems, and hire and retain qualified personnel.

Moreover, the ability of Banorte to adequately monitor, analyze and report these derivative transactions depends, to a great extent, on its information technology systems. In addition, Afore XXI Banorte, through its specialized pension funds (*Sociedades de Inversion Especializadas de Fondos para el Retiro*), or Siefores, carries out derivatives transactions (interest rate and foreign exchange futures and forwards, interest rate swaps, equities futures and forwards) on behalf of third parties. These factors may further increase the risks associated with these transactions, leading to material and adverse effects on our results of operations and financial position.

a.19. 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 relating 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 and UniTeller in 2006, Motran in 2007 and Ixe Afore, S.A. de C.V., Afore Ahorra Ahora, S.A. de C.V. and Afore Argos, S.A. de C.V. in 2009. In 2011, we significantly expanded our financial group through our merger with Ixe GF, in 2012 we merged with Afore XXI. In January 2013, we acquired Afore Bancomer, thereby creating the largest pension fund management company in Mexico.

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.

In addition to the markets in which we operate, we also intend to expand our business into certain regions of the United States. Derived from factors such as the changing regulatory environment, as well as intense competition, we cannot guarantee that we will be successful in expanding into new markets.

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

a.20. We may need additional capital in the future, and may not be able to obtain such capital 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. Moreover, we may need to raise additional capital in the event of large losses in connection with 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 necessary 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.

a.21. 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 ratings 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.

Among other factors, Banorte's credit ratings, our main subsidiary, are based on the financial strength, credit quality and loan portfolio composition, level and volatility of earnings, capital adequacy and leverage, the liquidity of its balance sheet, the availability of a significant base of core retail and commercial deposits, and ability to access a broad array of wholesale funding sources. Banorte’s ability to compete successfully in the marketplace for deposits depends on various factors, including its financial stability as reflected by its credit ratings. A downgrade in Banorte's credit ratings may adversely affect perception of GFNORTE’s financial stability and its ability to raise deposits, which could significantly affect our business, financial conditions and results of operations.

a.22. 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 enter into expose us to significant credit risk in the event of default by one of our counterparties. Concerns relating to the financial health of a number of European governments, the European sovereign debt crisis and the beginning of tapering in the United States have, contributed to volatility of the capital 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.23. We are subject to significant competition from other financial groups in providing financial services.

We face strong competition in all aspects 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 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 entrance of new participants into the financial services sector derived from the recently enacted 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 an promote more and cheaper loans offered by credit institutions. Mexican financial authorities have recently granted a number of banking licenses for the establishment and operation of several new financial institutions. It is possible that the CNBV continues granting banking licenses to new participants.

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 for 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 lesser 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 its acquisition of INB and UniTeller in 2006 and Motran in 2007, GFNORTE has faced strong competition from U.S. based financial groups, commercial banks and other financial institutions. In particular, Banorte's operations in the United States face competition from Wells Fargo & Company, Bank of America Corporation, J.P. Morgan Chase and Banco Bilbao Vizcaya Argentaria, each of which has a significant presence in the regions covered by INB, UniTeller and Motran, GFNORTE's remittances companies. 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 in and, consequently, adversely impact our financial position or operating results.

a.24. Our ability to maintain our competitive position depends, in part, on the success of new products and services we offer our clients and 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 our ability to continue offering products and services from third parties. However, we cannot guarantee that our new products and services will be responsive to client demands or successful once they are offered to our clients, 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 the experience of 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.25. Our increasing focus on individuals and SMEs could lead to higher levels of non-performing loans and subsequent charge offs.

As part of Banorte's business strategy, it 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. Consequently, Banorte 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 2.2% and 5.4%, respectively, as of December 31, 2013, compared to 1.9% and 3.8% as of December 31, 2012. There cannot be 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.26. 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. Recent 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; recently proposed reforms to Mexican financial legislation aim to further strengthen these powers and grant greater discretion to the authorities. In the event that we or our subsidiaries encounter significant financial problems or become insolvent or in danger of becoming insolvent, 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 Banking Supervision Basel Committee, 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 other things, 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 by Mexican authorities of regulation that changes 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 may have a material adverse effect on our business and results of operations.

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

a.27. 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, the CNBV and the SHCP. (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) composite and management component ratings to INB.

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).

a.28. 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 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.29. 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, 2013, approximately 26% of our 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.30. We are subject to litigation proceedings.

We are regularly party to litigation and other legal proceedings relating 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, which 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.31. Our businesses rely heavily on data collection, processing and storage systems in order for our internal control systems and other operating to function properly.

All of 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 or branches, at a time when transaction processes have become increasingly complex, with increasing volume. The proper functioning of financial control, accounting or other data collection and processing systems is critical to our businesses 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.32. 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 in part on our ability to upgrade our information technology infrastructure on a timely and profitable basis, through continuous investment. Our 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.33. 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 harm 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. Recent rules have been adopted in Mexico restricting 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 or inappropriate activities, through organizations and people related to terrorism, such policies and procedures have in some cases only been recently adopted and may not completely eliminate instances where we or our subsidiaries may be used by other parties to engage in money laundering and other illegal or improper activities. To the extent we fail to fully comply with applicable laws and regulations, the relevant government agencies to which they report have the power and authority to impose fines and other penalties on them. In addition, our business and reputation could suffer if our infrastructure or our subsidiaries are used for money laundering or illegal or improper purposes. Any of these situations could have a materially adverse effect on our business, financial position or results of operations.

a.34. 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 sum or 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.)

a.35. Under the Statutory Responsibility Agreement, we are responsible secondarily and without limitation for 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 our subsidiaries, 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 Banorte's losses. 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 IPAB 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.36. We are subject to the Federal Anticorruption Law in Public Contracting, the U.S. Foreign Corrupt Practices Act and similar worldwide anti-bribery laws.

The Federal Anticorruption Law (Ley Federal Anticorrupcion en Contrataciones Publicas), 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 cannot be 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 business, financial condition or results of operations.

a.37. 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 and Ixe Banco (before its merger into Banorte) together contributed Ps.1.81 billion and Ps.1.57 billion to IPAB during 2013 and 2012, 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.38. 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.39. Future Mexican government restrictions on interest rates, banking fees or reserves could negatively affect GFNORTE's profitability.

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 banking fees, subject to certain exceptions, that a bank may charge. However, the possibility that such limits may be imposed has been and continues to be debated by the Mexican Congress and Mexican regulators. In the future, the Mexican government could impose limitations or additional informational requirements regarding such rates of interest or fees, or regarding the granting of credit to certain segments. A significant portion of our revenues and operating cash flow is generated by Banorte's consumer credit services and any such limitations or additional informational requirements could materially and adversely affect our results of operations and financial position. In addition, if Mexican governmental authorities require Mexican banks and other financial institutions to increase their reserve requirements for loan losses or change the manner in which such loan reserves are calculated or change capitalization requirements, it may adversely affect our results of operations and financial position.

b. Risks Relating to Mexico

b.1. Economic, financial and political risks in Mexico.

During the last five 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, reduced business activity, rising unemployment, declining interest rates and erosion of consumer confidence. The global economic slowdown and the U.S. economic slowdown in particular have 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:

- We potentially face increased regulation of the financial industry. Compliance with such regulation may increase our costs and limit our ability to pursue business opportunities. In particular, the Mexican government recently promoted a financial reform, which, was enacted on January 10, 2014, becoming effective one day later. There are particular provisions to be effective later, based on transitory articles. Likewise, there are many secondary provisions pending to be issued by diverse public administration entities, therefore, short and long term effects are uncertain;
- 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 Mexican 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.

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 our securities.

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 in the form of 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, price volatility and inflation, interest rates, regulation, taxation, social instability and other political, social and economic developments in or affecting Mexico, over which we have no control. In the past, Mexico has experienced both prolonged periods of weak economic conditions and deteriorations in economic conditions that have had a negative impact on us. We cannot assume that such conditions will not return or that such conditions will not have a material adverse effect on our business, financial condition or results of operation.

Mexico experienced a period of slow growth from 2001 through 2003 primarily as a result of the downturn in the U.S. economy. In 2009, GDP decreased by 6% and inflation decreased to 3.6%; in 2010, GDP increased by 5.3% and inflation increased to 4.4%; in 2011, GDP increased 3.9% and inflation increased 3.8%; and in 2012, GDP increased 3.9% and inflation increased 3.6%. In 2013, GDP increased 1.1% and inflation increased to 3.97%.

Mexico also has, and is expected to continue to have, high real and nominal interest rates relative to the U.S. The interest rates on 28 day Mexican government treasury securities (Certificados de la Tesoreria de la Federacion), or CETES, averaged 5.4%, 4.5%, 4.2%, 4.2% and 3.8% for the years ended December 31, 2009, 2010, 2011, 2012 and 2013, respectively. Accordingly, if we incur Peso denominated debt in the future, our funding cost could be uncertain.

A recession could affect our operations to the extent that we are unable to reduce our costs and expenses in response to falling demand. Similarly, 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 and in their revenues and net income, negatively, and materially, affecting 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 a material adverse effect on our financial situation, operational results and cash flows in the future, increasing the default ratio among Banorte's or any other GFNORTE subsidiary's debtors the amounts of our foreign-denominated obligations in Peso terms. However, we cannot assure that our currency hedging strategies will be effective in the event of further periods of exchange rate volatility.

Currently, the Mexican government has not imposed restrictions on the conversion of Pesos to dollars or other currencies, although such restrictions have existed in the past. The exchange rate is currently determined exclusively by supply and demand as a result of the free floating regime. While the Mexican government has not restricted the right or ability of Mexican or foreign entities or persons to convert Pesos to dollars or to transfer currency abroad, the government could enact restrictive currency exchange policies in the future as it has done in the past. A severe depreciation of the Peso could also result in governmental intervention, 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 recent 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 relating 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 or adverse social or political developments in or affecting Mexico 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 resulted in more detailed anti-money laundering and terrorism financing rules and an 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. For example during 2007 and 2008, prices of both Mexican debt and equity securities decreased substantially as a result of the global financial crisis. The Dow Jones Industrial Average index fell by 35% from its monthly average level in July 2007 to its monthly average level in January 2009, while Mexico's stock exchange index, the Prices and Quotations Index (Indice de Precios y Cotizaciones) fell by 39% in the same period. Although these indices have recovered their losses since then, periods of market volatility have continued.

In addition, in recent years economic conditions in Mexico have become increasingly correlated to economic conditions in the United States as a result of the North American Free Trade Agreement, or NAFTA, and increased economic activity between the two countries, which was highlighted during the recent economic crisis affecting the United States. The Mexican economy continues to be heavily influenced by the U.S. economy and, therefore, the termination of NAFTA or other related events, further deterioration in economic conditions in, or delays in recovery of, the U.S. economy may hinder any recovery in Mexico. We cannot assure you that the events in other emerging market countries, in the United States or elsewhere will not adversely affect our business, financial position, results of operations or the price of our securities.

b.7. Certain financial reforms, could have an adverse and material effect in our business and operations.

On November 26, 2013 the Mexican Congress approved significant modifications to 34 laws in financial matters, and issued a new Law Regulating Financial Groups, all of them in one reform decree integrating the so-called **Financial Reform**.

The Financial Reform was enacted by the President on January 9, 2014 and was published in the Diario Oficial de la Federacion (Official Gazette) on January 10, 2014, becoming effecting one day after being published. There are particular provisions to be effective later, based on transitory articles. Likewise, there are many secondary provisions pending to be issued by diverse public administration entities.

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 on lending products;
- Strengthening the financial and banking system to achieve sustained long-term growth;
- Establishing a new mandate for development banks to fosters 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.

Diverse modifications of the Financial Reform are grouped in the following specific topics: (i) strengthening of the CONDUSEF, (ii) Savings and Loans Institutions, (iii) Credit Unions, (iv) Development Banks, (v) Granting and Execution of Guarantees, (vi) Bankruptcy, (vii) warehouses, multypurpose financial institutions, (viii) Credit Institutions, (ix) Mutual Funds, (x) Securities Market, (xi) Fines, (xii) Foreign Investment, (xiii) Financial Groups and (xiv) Guaranteed Loans.

The Financial Reform will have diverse impact in GFNORTE and its subsidiaries, as it implies an obligation to adjust procedures, operations, policies and agreements.

b.8. Changes in Mexican tax laws may have an adverse effect on our customers, which may adversely affect our business.

During November 2009, the Mexican Congress approved a general tax reform, effective as of January 1, 2010. The general tax reform includes changes to the tax consolidation regime that requires the deconsolidation of tax returns prepared for prior periods. Specifically, the tax reform requires taxes to be paid on items in past years that were eliminated in consolidation or that reduced consolidated taxable income. On January 1, 2014 various tax changes came into effect, standing out among the approved changes was the authorization to raise the Value Added Tax from11 to 16 percent 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 of it, could be negative toour 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.9. Our corporate disclosures may be different or less substantial than those of issuers in other countries.

Issuers of securities in Mexico 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 Relating to the Securities Markets and Ownership of Common Shares

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

Although they are valued and traded on the BMV, historically, our shares have experienced and may continue to experience low liquidity volumes. In addition, the BMV is the only securities market in Mexico and it is substantially smaller, less liquid, more volatile, has a lower institutional investor base, and is more concentrated than major international securities markets, such as those of the United States. Such market characteristics may substantially limit the capacity of holders of our common shares to sell them, or to sell them on time, and impact the price of our common 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 disclosure requirements, to maintain our registration in the National Registry of Securities (RNV) with the CNBV 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, which may have a material adverse effect on the market price of our shares or on the liquidity of our shares.

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 of the market 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 sales of equity by other banks or financial groups in Mexico;
- changes in the financial recommendation of the securities analysts that cover us and our sector;
- operating performance of companies comparable to us or our subsidiaries;
- new laws or regulations or new interpretations of laws and regulations (such as the proposed modifications relating to the extension of credit to certain sectors), 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 the market price of our common shares and could have a dilutionary effect.

In the event we seek to raise capital, or the perception that such issues could occur, 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 shareholders do not, or are not able to, exercise their preemptive rights in subscribing to any such issuance.

In addition, actions taken by our shareholders with respect to the disposition of all or a portion of the common shares they own, or the perception that such actions might occur, may decrease the trading price of our common shares. Any significant sale of common shares may result in a decrease of the market value of our common shares.

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, and many 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 dividends 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 such dividends. Dividend policies, if any, adopted by our Board of Directors, are subject to change at any time. 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 and Supervision - Banking Regulation – Corrective Measures" in this Annual Report.

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

Pursuant to the Mexican Financial Groups Law, no person or entity, or group thereof, may, directly or indirectly, in one or more transactions:

- acquire more than 2% of our shares without informing the SHCP;
- acquire 5% or more of our shares, except with the prior authorization of the SHCP; or
- acquire 30% or more of our shares, except with the prior authorization of both the SHCP and the CNBV, and undertake a public tender offer to purchase up to 100% of our shares.

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 Mexican Financial Groups Law, cannot purchase our shares. Additionally, our by-laws provide that any person or entity, or group thereof, that plans to acquire more than 5%, but less than 50%, of our shares, requires the prior authorization of our Board of Directors, and to acquire more than 30% of our shares, a public tender offer must be made for 100% of the shares. 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 officers and directors are, in some respects, distinct or less clear than those applicable in the United States and certain 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 mebers 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, such as the states of Delaware or New York, or any other jurisdiction different from Mexico. For example, according to Mexican Law, protection afforded to minority shareholders, duties of the Board members and officers are in some aspects, less comprehensive or different from those in the United States and certain other jurisdictions. Particularly, legal regime for the duties of the Board members in Mexico is not as comprehensive and developed, as it is in the United States.

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 shareholders with at least 5.0% stake in outstanding shares, 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, 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**"), we may be subject to 30% U.S. withholding tax on certain payments we receive unless we comply with certain due diligence, 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", recently modified on April 9, 2014. We expect to qualify for such an exemption, or to otherwise be FATCA-compliant.

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 passthru payment," but only if such payment is made to a payee that does not comply or is not otherwise deemed to comply with FATCA. Under the current regulations, the term "foreign passthru payment" is not defined and it is not yet clear whether or to what extent payments on our shares will be treated as foreign passthru payments. The Intergovernmental Agreement provides that the United States and Mexico will work together to develop a practical and effective alternative approach to achieve the policy objectives of foreign passthru payment withholding that minimizes burden. 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.

D) OTHER SECURITIES

Banorte has the following registered and existing financial instruments:

Subordinated Non-preferred & Non- cumulative Obligations, due 2021 (in US dollars):

Subordinated non-preferred, non cumulative and non-convertible obligations denominated in dollars, listed in the Luxembourg Stock Exchange amounting to US $200 million dollars, for a term of 15 years (maturing in October 2021), interest is paid bi-annually at a fixed rate of 6.862%, and amortization of the capital will be at the end of 15 years, with a prepayment option as of the tenth year.

Place and payment method: both the principal and interest will be paid in a single exhibition in New York City, N.Y., USA through the Bank of New York.

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

At the moment of issuance, this instrument was rated as Baa2 by Moody´s Investors Service, Inc..

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, D.F. 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 obligation.

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

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 Obligations Q Banorte 08 (non-preferred and non-convertible):

Subordinated non-preferred and non-convertible obligations of Banorte amounting to Ps 3 billion, issued on March 11, 2008 for a term of 10 years and maturing on February 27, 2018.

Interest is payable every 28 days. The interest rate is TIIE plus 0.60%.

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

In the event of liquidation or bankruptcy, payment of 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 obligation.

Common representative of bondholders: Banco Invex, S.A., Multiple Banking Institution, Invex Grupo Financiero, Trustee.

At the moment of issuance, this instrument was rated Aaa.mx- by Moody´s de Mexico: 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 Obligations Q Banorte 08-2 (preferred and non-convertible):

Subordinated preferred and non-convertible obligations of Banorte, amounting to Ps 2.75 billion, issued on June 27, 2008 for a term of 10 years, maturing on June 15, 2018.

Interest is payable every 28 days. The interest rate is TIIE plus 0.77%.

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

In the event of liquidation or bankruptcy, payment of these 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 obligation.

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

At the moment of issuance, this instrument was rated Aaa.mx by Moody´s de Mexico: 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 Obligations Q Banorte 09 (preferred and non-convertible):

Subordinated preferred and non-convertible obligations of Banorte, amounting to Ps 2.2 billion, issued on March 30, 2009 for a term of 10 years maturing on March 18, 2019.

Interest is payable every 28 days. The interest rate is TIIE plus 2.00%.

Place and payment method: both the principal and interest will be paid in a single exhibition in Mexico City, D.F. 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 obligation.

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

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

Furthermore, at the moment of issuance, this instrument was rated by Fitch Mexico as AA (mex): very high credit quality with respect to other issuers or issued securities in the country.

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.

Senior Notes due 2015 (in US dollars with a rate of 4.375%):

Non-convertible Senior Notes, denominated in US dollars, listed in the Luxembourg Stock Exchange for an amount of up to USD $300 million, for a term of 5 years (maturing in July 2015), interest payment is bi-annual at a fixed rate of 4.375% and amortization of capital will be at the end of 5 years.

Place and payment method: both the principal and interest will be paid in a single exhibition in New York City, N. Y., USA through the Bank of New York.

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

At the moment of issuance, this instrument was rated A3 and BBB-, respectively, by Moody´s Investors Service and S&P.

Subordinated Obligations Q Banorte 12 (preferred and non-convertible):

Subordinated preferred and non-convertible obligations of Banorte, amounting to Ps 3.2 billion, issued on June 8, 2012 for a term of 10 years maturing on May 27, 2022.

Interest is payable every 28 days. The interest rate is TIIE plus 1.50%.

Place and payment method: both the principal and interest will be paid in a single exhibition in Mexico City, D.F. 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 obligation.

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

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

Furthermore, at the moment of issuance, this instrument was rated by HR Ratings as AA+: high credit quality, offering great security of timely debt payments and mainting a very low credit risk in adverse economic scenarios.

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 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.

Generic entries: in addition to the securities described above, there are generic entries for Promissory notes Settled upon Maturity, Bank Acceptances and Certificates of Deposit.

Other GFNORTE's subsidiaries have the following registered and existing financial instruments:

INB - Subordinated Preferred and Non-Convertible Obligations maturing in June 2034.

Denominated in USD with a 3 month LIBOR rate plus 2.75% amounting to Ps 135 million.

INB - Subordinated Preferred and Non-Convertible Obligations maturing in April 2034.

Denominated in USD with a 3 month LIBOR rate plus 2.72% amounting to Ps 135 million.

Dual Program of BondsBonds of Arrendadora y Factor Banorte:

Dual Program of BondsBonds of up to Ps 3.0 billion, with a Ps 3.0 billion limit for short-term issuances.

This instrument was rated by Moody's de Mexico (Long-term, National Scale Aaa.mx/ Short-term, National Scale MX-1) and by Fitch (Long-term, National Scale AA+(mex)/ Short-term, National Scale F1+(mex)).

As of closing 2013, Arrendadora y Factor Banorte had the following existing issuances:

Short-term BondsBonds (AFBNT 01013)
Peso-denominated issuance amounting to Ps 400 million, issued on October 10, 2013 and maturing on January 9, 2014 with a coupon rate of TIIE 28 days minus -0.05%.

Short-term BondsBonds (AFBNT 01113).
Peso-denominated issuance amounting to Ps 500 million, issued on October 31, 2013 and maturing on January 23, 2014 with a coupon rate of TIIE 28 days minus -0.05%.

Short-term BondsBonds (AFBNT 01213).
Peso-denominated issuance amounting to Ps 500 million, issued on November 21, 2013 and maturing on February 13, 2014 with a coupon rate of TIIE 28 days minus -0.07%.

Other financing obtained after December 31, 2013:

a) Short-term BondsBonds (AFBNT 00314):
Date Issued: February 6, 2014
Maturity Date: April 30, 2014
Amount Issued: $250 million pesos
Coupon Rate: TIIE 28d - 0.10%

b) Short-term BondsBonds (AFBNT 00414):
Date Issued: February 13, 2014
Maturity Date: May 8, 2014
Amount Issued: $250 million pesos
Coupon Rate: TIIE 28d - 0.11%

c) <u>Short-term BondsBonds (AFBNT 00514):</u>
Date Issued: February 14, 2014
Maturity Date: June 5, 2014
Amount Issued: $250 million pesos
Coupon Rate: TIIE 28d - 0.10%

d) <u>Short-term BondsBonds (AFBNT 00614):</u>
Date Issued: February 27, 2014
Maturity Date: August 14, 2014
Amount Issued: $200 million pesos
Coupon Rate: TIIE 28d - 0.09%

e) <u>Short-term BondsBonds (AFBNT 00714):</u>
Date Issued: April 3, 2014
Maturity Date: September 11, 2014
Amount Issued: $250 million pesos
Coupon Rate: TIIE 28d - 0.10%

f) <u>Short-term BondsBonds (AFBNT 00814):</u>
Date Issued: April 10, 2014
Maturity Date: September 25, 2014
Amount Issued: $250 million pesos
Coupon Rate: TIIE 28d - 0.10%

g) <u>Short-term BondsBonds (AFBNT 00914):</u>
Date Issued: April 16, 2014
Maturity date: October 1, 2014
Amount Issued: $195.3 million pesos
Coupon Rate: TIIE 28d - 0.10%

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

<u>Capital Increases</u>

In GFNORTE's Extraordinary General Shareholders’ Meeting held on July 3, 2013, formalized though the agreement 39,854 dated on July 5, 2013, it was agreed to increase the variable portion of GFNORTE’s equity, in the amount of Ps 1,565,801,233.50, through the issuance of 447,371,781 common shares, nominative, with a face value of Ps 3.50 corresponding to Series "O", Class II. Such offering was authorized by the CNBV on July 4, 2013.

On July 22, 2013, Grupo Financiero Banorte finalized a primary public offering in Mexico and private in certain foreign markets for 447,371,781 common shares (considering the over-allotment exercise) equivalent to Ps 31.99 billion, approximately US 2.5 billion dollars.

Settlement of Banco Mercantil del Norte's Subordinated Obligation

On August 26, 2013 Banorte exercised the pre-payment option (available since February 2012) to settle the US 120 million dollars Non-Preferred, Non- Cumulative Perpetual Subordinated Obligations which were registered at the Luxembourg Stock Exchange and paid a 9.75% fixed rate. This debt was issued on February 26, 2007 by Ixe Banco S.A., and given the merger of Ixe Banco into Banorte, in May 2013, Banorte assumed each and every one of Ixe's obligations.

f) USE OF PROCEEDS

The proceeds from GFNORTE's Global Offering carried out in July 2013 were used to:

- Amortize on July 26, 2013, the syndicated loan granted by 4 financial institutions without any guarantee by the Financial Group or any of its subsidiaries and which was contracted in February 2013 with a term of 364 days for a total amount of US 800 million dollars.

- Pay liablilities and strengthen Banorte's capital. On August 26, 2013 Banorte exercised the pre-payment option to settle the US 120 million Non-Preferred, Non-Cumulative Callable Perpetual Subordinated Obligations which paid a 9.75% fixed rate. This debt was issued in 2007 by Ixe Banco and was assumed by Banorte, given its merger with Ixe Banco. Additionally, in April 2014, Banorte settled the Preferred and Non-Convertible Subordinated Obligations for an amount of Ps 2.2 billion. These 10 year term obligations were issued on March 30, 2009, maturing on March 18, 2019, and paid TIIE + 2.0%. Coupled with the former, the Financial Group capitalized Banorte with the proceeds from the equity offering amounting to Ps 2.5 billion.

- Pay US 858 million dollars in October 2013, for the remaining 49% of the equity representative common shares of the Insurance and Annuities companies held by Assicurazioni Generali S.p.A.

- Finalize in December 2013 International Finance Corporation's (“IFC”) participation in GFNORTE, equivalent to 54,364,887 shares of the Group, such stake derived from the IFC's investment in Banco Mercantil del Norte since 2009. With this payment, the IFC does not longer have any patrimonial interest on GFNORTE or its subsidiaries.

- For general corporate purposes.

g) PUBLIC DOCUMENTS

The Finance and Investor Relations Department, in charge of Ursula Wilhelm, is the area responsible for attending analysts and investors. It is located at:

Av. Prolongacion Reforma 1230, 4th Floor
Col. Cruz Manca Santa Fe, Delegacion Cuajimalpa, Mexico, D. F., 05300
Telephone: (5255) 5268 1680
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 selecting “Annual Reports” in the Financial Information Section and finally in the document named “Circular Unica CNBV 2013 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:

<u>MEXICO CITY, D. F.</u>
Ave. Prolongacion Reforma 1230, Col. Cruz Manca Santa Fe, Delegacion Cuajimalpa
C. P. 05300, Mexico, D. F. (0155) 1103-4000

<u>MONTERREY, N. L.</u>
Ave. Revolucion 3000, Col. Primavera
C. P. 64830 Monterrey, N. L., Mexico (0181) 8319-6500

<u>GFNORTE's most important historical events</u>

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 approximately 34% of Banorte's capital stock to the public. In 1990, the Mexican Constitution was amended to permit the re-privatization of Mexican commercial banks; afterwards, the government enacted the Mexican Banking Law 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. Later on, in September of the same year, the SHCP authorized the operations of the Holding company as a financial services provider under the Mexican Financial Groups Law, 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 **Bancentro** in March 1997. The primary goal in acquiring Bancentro was to gain additional market share and add 195 branches, 80% of which were located in the central and western regions of Mexico. In August 1997, 81% of Banpais' shares were acquired, enabling further expansion of the client base, geographical position and national coverage through the addition of 161 branches. 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, Bancentro 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, Bancentro extinguished (being the merged company.)

As part of its development strategy in the US, in November 2006, Banorte **acquired 70% of INB shares**, a regional bank based in Texas with its headquarters in McAllen, Texas. At the time of the acquisition INB had 14 branches and as of December 31, 2013, INB had 20 branches. In 2007, Banorte finalized the 100% acquisition of UniTeller, a New Jersey-based remittances company, and in 2007 acquired 100% of Motran Services, Inc., another remittances company based in California. 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, S.A. de C.V., Afore Ahorra Ahora, S.A. de C.V. and Afore Argos, S.A. de C.V. 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**, with each of Banorte and the IMSS 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 remaining 49% stake in the Insurance and Annuities Companies** held by Assicurazioni Generali S.p.A.'s, after receiving the corresponding governmental authorizations from COFECO and SHCP.

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.

On November 12, 2009 **International Financial Corporation** (IFC) invested US 150 million dollars in Banco Mercantil del Norte, which represented 4.48% of Banorte'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.

Material events in 2013 and 1Q14.

Recent Events. First Quarter 2014.

- **Banorte-Ixe Securities complies with terms and conditions of the letter of Acceptance Waiver and Consent (AWC) issued by FINRA.**

On January 28, 2014, GFNORTE informed that Banorte-Ixe Securities International ("BSI") had accepted the terms and conditions of the Letter of Acceptance Waiver and Consent ("AWC") issued by the Financial Industry Regulatory Authority ("FINRA") in the U.S., in which the later observed two primary regulatory deficiencies in some of BSI's policies and processes, as a result of these deficiencies, FINRA imposed a fine on BSI of US 475,000 dollars, which was paid in full by BSI. GFNORTE's management is permanently committed to complying with the applicable regulations in all the jurisdictions where its affiliates operate, thus corrective actions to internal policies and procedures have been implemented in order to comply with the regulatory requirements of U.S. authorities. GFNORTE's management acknowledges that any deficiency is unacceptable, and therefore has enhanced its systems in order to correct the areas cited by the regulator. GFNORTE and BSI remain committed to providing their Mexican clients with world class services and products that satisfy their particular financial needs in the U.S. markets, but always under the premise of comprehensively complying with the applicable regulations in the U.S. and in cooperation with its authorities.

- **Soriana, joins the network of third party correspondents.**

As of January 2014, Banorte's clients and accountholders may pay, online and in real time, their credit card all year round in more than 600 Soriana stores. With this, Banorte expands its correspondent network from 4,147 - at the end of December 2013 - to 4,763.

- **GFNORTE reached an agreement with Corporacion GEO to restructure its liabilities.**

On March 20, 2014 GFNORTE informed that as a follow-up to past information disclosed to the investment community regarding the Group's exposure to the home developers facing liquidity problems, Corporacion GEO announced that day that after several months of negotiations with its main creditors, it had reached a general agreement with a group of 6 banks, including GFNORTE, in order to restructure its liabilities. As a result of this agreement, Corporacion GEO filed for "bankruptcy with previous restructuring" (concurso mercantil con plan de reestructura previo) in order to achieve a financial restructuring to enable the company to continue operating. As part of the agreements reached between Corporacion GEO and its creditor Banks, the funding lines available to the company may be reactivated if it complies with the terms and conditions of the restructuring agreement.

In this regard, as of March 31, 2014 the Financial Group's loan exposure to the three troubled home developers (Urbi Desarrollos Urbanos, S.A.B. de C.V., Corporacion Geo, S.A.B. de C.V. and Desarrolladora Homex, S.A.B. de C.V.) amounted to Ps 6.88 billion, 21.0% lower vs. the previous quarter mainly due to the settlement of a past due loan. The three companies represent 1.6% of our total loan portfolio compared to the 2.0% these represented in December 2013. Of these loans, Ps 5.73 billion are past due, decreasing by Ps 1.27 billion in 1Q14.

- **Prepayment of Subordinated Obligations.**

As part of the use of proceeds from the Public Offering carried out in July 2013, on April 21, Banorte settled the Preferred and Non-Convertible Subordinated Obligations for an amount of Ps 2.2 billion. These 10 year term obligations were issued on March 30, 2009, maturing on March 18, 2019, and paid TIIE + 2.00%. This prepayment will reduce Banorte's servicing cost as well as improve its equity profile, as these instruments have lost effectiveness to compute as regulatory capital, and were replaced by better quality capital.

- **Credit Ratings.**

Fitch upgraded GFNORTE's, Banorte's and other subsidiaries' international and national long-term ratings with Stable outlook.

On March 21, 2014 Fitch Ratings upgraded GFNORTE's and other subsidiaries' international and national long-term ratings, after its annual review, maintaining a stable outlook.

The upgrade in GFNORTE's ratings considered its consolidating franchise, the improved business profile after recent acquisitions and the elimination of double leverage after the public offering. As for Banco Mercantil del Norte, the upgrade was driven by the material improvement in the bank's capital structure, strengthening business, growing competitive position, adequate financial performance and revenue diversification. For GFNORTE's subsidiaries Arrendadora y Factor Banorte, Almacenadora Banorte and Casa de Bolsa Banorte Ixe, Fitch improved their ratings given their core role in GFNORTE's strategy and business profile.

The detailed ratings granted by Fitch for the next entities are as follows, all of them with stable outlook:

<table>
<tr><th>Entity</th><th>Scale</th><th>Category</th><th>From:</th><th>To:</th></tr>
<tr><td rowspan="5">GFNORTE</td><td rowspan="5">Global</td><td>Viability</td><td>bbb</td><td>bbb+</td></tr>
<tr><td>Support</td><td colspan="2">5</td></tr>
<tr><td>Support rating floor</td><td colspan="2">NF</td></tr>
<tr><td>Long-term foreign and local currency IDRs</td><td>BBB</td><td>BBB+</td></tr>
<tr><td>Short-term foreign and local currency IDRs</td><td colspan="2">F2</td></tr>
<tr><td rowspan="9">Banorte</td><td rowspan="5">Global</td><td>Viability</td><td>bbb</td><td>bbb+</td></tr>
<tr><td>Support</td><td colspan="2">2</td></tr>
<tr><td>Support rating floor</td><td colspan="2">BBB-</td></tr>
<tr><td>Long-term foreign and local currency IDRs</td><td>BBB</td><td>BBB+</td></tr>
<tr><td>Short-term foreign and local currency IDRs</td><td colspan="2">F2</td></tr>
<tr><td rowspan="4">National</td><td>Long-term</td><td>AA+ (mex)</td><td>AAA (mex)</td></tr>
<tr><td>Short-term</td><td colspan="2">F1+ (mex)</td></tr>
<tr><td>Long-term - Subordinated unsecured debt (BANORTE 09)</td><td>A+ (mex)</td><td>AA- (mex)</td></tr>
<tr><td>USD 120 million junior subordinated debt</td><td>BB-</td><td>BB</td></tr>
<tr><td rowspan="4">Arrendadora y Factor Banorte</td><td rowspan="4">National</td><td>Long-term</td><td>AA+ (mex)</td><td>AAA (mex)</td></tr>
<tr><td>Short-term</td><td colspan="2">F1+ (mex)</td></tr>
<tr><td>Long-term - Senior unsecured debt</td><td>AA+ (mex)</td><td>AAA (mex)</td></tr>
<tr><td>Short-term - Senior unsecured debt</td><td colspan="2">F1+ (mex)</td></tr>
<tr><td rowspan="2">Almacenadora Banorte</td><td rowspan="2">National</td><td>Long-term</td><td>AA+ (mex)</td><td>AAA (mex)</td></tr>
<tr><td>Short-term</td><td colspan="2">F1+ (mex)</td></tr>
<tr><td rowspan="2">Casa de Bolsa Banorte Ixe</td><td rowspan="2">National</td><td>Long-term</td><td>AA+ (mex)</td><td>AAA (mex)</td></tr>
<tr><td>Short-term</td><td colspan="2">F1+ (mex)</td></tr>
</table>

- **"Del Sol" and "Woolworth" became part of our third party correspondents.**

After obtaining the CNBV authorization, **in March "Del Sol" and "Woolworth" started operations** to receive Banorte and Ixe credit card payments under the third party correspondent scheme. Banorte and Ixe clients and accountholders will be able to pay online and in real time their credit cards 365 days of the year in more than 70 stores of both brands. located in 18 different states of the country.

- **Recognitions.**

In February, Operadora de Fondos Banorte Ixe received the award of Best Aggressive-Mixed Fund in Mexico 2014 by Morningstar.

- **Organizational Changes.**

Reporting directly to GFNORTE's CEO, in April 2014, **Luis Fernando Orozco Mancera** was appointed Chief Credit Officer, in charge for credit planning, evaluation, management and follow-up.

Last February, **Juan Jesus Viteri Alvarez** was appointed as Managing Director of Internal Communication, in charge of aligning and integrating the communication efforts among the different areas in the organization. This position reports directly to Chief Operating Officer (COO), Rafael Arana de la Garza.

Last March, **Ursula Wilhelm** was appointed as Head of Investor Relations and Financial Intelligence, reporting directly to CFO, David Suarez Cortazar. Additionally**, Mariana Amador** was appointed Director of Investor Relations.

In January 2014, the following appointments and organizational adjustments were made, all of them reporting directly to COO:

- **Jose Antonio Murillo Garza** as Managing Director of Analytics, responsible for management and trend analysis of institutional information in order to generate better value propositions to clients.

- **Ayax Carranza Segura** was appointed as Managing Director of Communications and Institutional Relations, in charge of relations with media and other external agents. He was previously Executive Director of Communications and Institutional Relations.

- **Felipe Duarte Olvera** was appointed as Managing Director of Client Experience, in charge of ensuring quality in the interaction processes with clients and their continuous improvement. He was previously Advisor to the Financial Group's CEO.

Material events in 2013

Events Related to Corporate Governance

During 2013, several **General Shareholders' Meetings** were held, where among other proposed items in the agenda were, and in all cases approved:

Current Board of Directors. In the GFNORTE's Annual Ordinary General Shareholders' Meeting held on April 26, 2013 it was approved that the Board of Directors be comprised of 15 members, and if the case, by their respective alternates, ensuring that at least 50% of the Members are independent in accordance to international best practices. The Board Members may be appointed for defined periods of 3 years, with the possibility of reelection, seeking a generational balance. The Proprietary and Alternate members may be consulted in Section 4. c) "Administration - Managers and Shareholders" of this Annual Report.

Designation of Members of Audit and Corporate Practices and Risk Policies Committees. In the formerly mentioned Annual Ordinary General Shareholders' Meeting, the members of the Committees that will be part of the Audit and Corporate Practices and Risk Policies Committees were appointed, including their respective Chairmen. The members, duties and characteristics of these Committees may be consulted in Section 4. c) "Administration - Managers and Shareholders" of this Annual Report.

Adjustments to the Regional Board's duties. In the formerly mentioned Annual Ordinary General Shareholders' Meeting held on April, 26, 2013, the following adjustments were approved: (i) the creation o f the sixth Regional Board in Leon Gto., which comprises the statesof Guanajuato, Aguascalientes, San Luis Potosi, Queretaro y Zacatecas; the incorporation of new members of Mexico City, Puebla and Tlaxcala, in the Metropolitan Regional

Board and the incorporation of new members of Veracruz and Tabasco in the Peninsular Regional Board and (ii) the Regional Board will meet al least once a year or when convened by the Chairman of the Board of Directors.

Except for these adjustments, the rest of the powers, functions and other operation rules of the Regional Boards, which were constituted by resolution of the Ordinary General Shareholders' Meeting held on July 21, 2011 and modified its operation by resolution of the Ordinary General Shareholders' Meeting held on February 17, 2012, continued in force for all applying purposes.

Subscription of a new Agreement of Shared Responsibilities.

- ✓ On January 22, 2013, the Extraordinary General Shareholders' Meeting approved to modify GFNORTE's by-laws and celebrate a new Agreement of Shared Responsibilities in order to: (i) exclude Ixe Automotriz as an integrated entity of GFNORTE, as a result of its merger with Arrendadora y Factor Banorte and (ii) modify the legal denomination of Ixe Casa de Bolsa to Casa de Bolsa Banorte Ixe.

- ✓ On April 26, 2013, the Extraordinary General Shareholders' Meeting approved to modify GFNORTE's by-laws and celebrate a new Agreement of Shared Responsibilities in order to: (i) exclude Ixe Banco and Fincasa Hipotecaria as integrated entities of GFNORTE and (ii) modify the legal denomination of Ixe Soluciones to Solida Administradora de Portafolios and Ixe Fondos to Operadora de Fondos Banorte Ixe

Adjustments in Grupo Financiero Banorte's equity. On last July 3, an GFNORTE's Extraordinary General Shareholders' Meeting was held, in which an increase in the variable portion of GFNORTE's equity, through the issuance of non-subscribed common shares to be placed among the investment public through a public primary offering was approved, without the application of preferential subscription rights.

a) The authorized increase in the variable portion of equity of up to 447,371,781 common shares, nominative, with a face value of $3.50 corresponding to Series "O", Class II.

b) The maximum authorized sum of GFNORTE's equity was the amount of up to Ps. 9,708,053,470.50, which will be represented by up to 2,773,729,563 common, nominative shares, with a face value of Ps. 3.50, corresponding to Series "O" Class I shares, which represent the fixed portion of equity and Class II for the shares representing the variable portion of equity; in the understanding that of the subscription price per each of the shares subject to the Primary Offering, the amount of Ps. 3.50 was recorded as equity and the difference corresponded to "Premium of Subscribed & Issued Shares" .

Decreed Dividends:

Meetings' Date (decreed dividend)	Amount of Decreed Dividend (pesos per share)	Date of Payment	Comments
January 22, 2013	$0.549 (in three disbursements of $0.183)	As of January 31, April 23 and July 23, 2013.	Remaining disbursements to cover the amount of Ps. 0.732 per share, approved by the Shareholders' Assembly in October 2012.
October 14, 2013	$0.7852 (in four disbursements of $0.1963)	As of October 23, 2013, January 23, April 23 and July 23, 2014.	Total decreed dividend for Ps 0.7852 per share approved by the Group's Board of Directors on July 25, 2013.

Meetings' Date (decreed dividend)	Amount of Decreed Dividend (pesos per share)	Date of Payment	Comments
December 20, 2013	$0.3926 (prepayment of the second and third disbursements for $0.1963 each)	As of December 31, 2013.	It was approved to modify the first resolution approved in the Ordinary General Shareholders' Meeting held on October 14, 2013, in order to make advanced payments on December 31, 2013 of the dividends that would be disbursed on January 23, 2014 and April 23, 2014 amounting to Ps 0.1983 per share, respectively. The fourth and last disbursement was not paid in advance and will be disbursed on July 23, 2014, as agreed in the aforementioned Shareholders' Meeting of October.

Material events related to Corporate Structure, Finance and Business, as well as to Government Regulations.

1) **Acquisitions, Mergers and Spin-Offs.**

- **Acquisition of Afore Bancomer through Afore XXI Banorte.**

On January 9, 2013, Afore XXI Banorte finalized the acquisition of Administradora de Fondos para el Retiro Bancomer, S.A. de C.V. (Afore Bancomer) for US 1.73 billion dollars, of which US 1.6 billion dollars corresponds to the price paid by Afore XXI Banorte and US 135 million dollars to excess capital of Afore Bancomer.

Banco Mercantil del Norte contributed with 50% of the price paid by Afore XXI Banorte and the Mexican Social Security Institute ("IMSS") with the remaining 50%. The amount contributed by Banorte through Afore XXI Banorte to pay Grupo BBVA was Ps. 11.12 billion, using Banorte's available liquid resources to make this payment.

- **GFNORTE acquired the participation of International Finance Corporation investment in Banorte in 2009.**

In March, 2013, GFNORTE signed an agreement with the IFC in order to finalize the capital investment made in November, 2009. The investment 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. Moreover, stemming from the agreement with the IFC to finalize the totality of the investment before the exchange period ended, its stake will no longer be considered as minority interest in Banorte, increasing Financial Group's stake in Banorte to 97.2%. GFNORTE informed on December 6, 2013, that as of that date the IFC received the payment in order to finalize its participation in GFNORTE, using the proceeds from the Global Public Offering, 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.

- **GFNORTE finalizes the acquisition of Assicurazioni Generali's minority interest in Insurance and Annuities.**

As part of the use of proceeds from the Global Public Offering, and as a follow up to the information published on June 11, 2013 by GFNORTE regarding the binding agreement under which the Financial Group would acquire the remaining 49% of the equity representative common shares of Seguros Banorte Generali, S. A. de C. V. and Pensiones Banorte Generali, S. A. de C. V., held by Assicurazioni Generali S.p.A Generali Group, GFNORTE informed on October 4, that it had obtained the corresponding government authorizations in order to finalize the acquisition of the Generali Group's minority stake in the insurance and annuities companies. This operation was finalized on October 4, 2013. The total amount of the transaction was US 858 million dollars, including excess capital: US 637 million dollars for Seguros Banorte Generali and US 221 million dollars for Pensiones Banorte Generali.

- **Changes to GFNORTE's Corporate Structure.**

✓ On December 19, 2012, Banorte submitted a request to the CNBV and SHCP for their authorization to implement a disinvestment plan by which Banorte would withdraw its investment in Solida and simultaneously carry out the merger of Banorte as the acquiring company with Ixe Banco and Fincasa Hipotecaria, as the acquired and extinguished corporations. The spin-off and mergers were authorized by the CNBV in Document No. 210-27564/2013 dated April 15, 2013 becoming effective on May 24, 2013; and by Banco de Mexico in Document No. S33-001-8665 dated May 7, 2013.

As part of this corporate restructuring process, in the General Shareholders' Meeting held on April 26, 2013, Banorte's stockholders approved the disinvestment of its share in Solida by means of a spin-off, and the subsequent merger of Ixe Soluciones, after this merger, Ixe Soluciones changed its company name to Solida Administradora de Portafolios, S.A. de C.V., SOFOM, ER., Grupo Financiero Banorte. The merger became effective on May 24, 2013.

✓ Additionally, on August 14, 2012, GFNORTE submitted to the CNBV and SHCP its request for their authorization for the merger of Ixe Automotriz, as the acquired company, with Arrendadora y Factor Banorte, as the acquiring corporation. The SHCP gave its authorization in Document No. UBVA\DGABV\015\2013 dated May 7, 2013, becoming effective on May 1, 2013.

- **Merger of Mutual Funds of Operadora de Fondos Banorte Ixe.**

During November and December 2013, 16 of the 43 mutual funds of Operadora de Fondos Banorte Ixe were merged, resulting in a range of 35 mutual funds.

2) <u>Financial and Business Structure.</u>

- **Grupo Financiero Banorte carries out an international follow-on offering.**

According to the authorizations granted by the Board of Directors and Shareholders' Meeting, last July 16, GFNORTE informed the investment public it had priced an international follow-on offering of common shares in the primary public offering held by GFNORTE. The amount of subscribed common shares, subject to the offering was 389,018,940 at a price per share of Ps. 71.50, amounting to Ps. 27,814,854,210.00, approximately US 2.18 billion dollars, not considering the exercise of the over-allotment options. Furthermore, on July 19 it was announced that the Mexican underwriters and international initial purchasers on July 17, 2013 indicated their intention to exercise in full the over-allotment options granted to them by GFNORTE for the aggregate purchase of 58,352,841 additional common shares.

All of the common shares subject to offering were settled on July 22, 2013, the proceeds from the offering of 447,371,781 common shares equivalent to Ps. 31.99 billion or approximately US 2.5 billion dollars, were fully delivered to GFNORTE, deducting the expenses from the offering itself. As it was informed in the prospectus, which may be found in the Bolsa Mexicana de Valores' and our Company's websites, the net proceeds obtained from the public offering were used to (i) repay a syndicated loan obtained in February 2013, (ii) purchase from Grupo Generali the capital stock it owns in GFNORTE's insurance and annuities companies, (iii) purchase the capital stock of Banorte owned by the International Finance Corporation ("IFC"), (iv) strengthen the regulatory capital of Banorte and (v) for general corporate purposes.

As a result of GFNORTE's promotional efforts in the national and international markets, a 3.4 times over subscription was achieved, representing a demand of more than US 8.5 billion dollars. The share allocation was 63% among international investors and 37% among local investors. In this offering 10,126 Mexican retail investors, 22 Mexican institutional funds (including 4 of the most important Afores) and 160 global institutional funds participated. This primary follow-on offering is the largest in Mexico's history, the greatest from a locally controlled Mexican financial institution, the second most important public offering in the country's history and the ninth most important carried out by a Latin American financial institution. Furthermore, it is the most important executed by a Mexican bank, measured in terms of the amount placed among local investors.

The primary public offering in Mexico was conducted in the BMV; meanwhile, the international offering carried out in the United States of America was pursuant to Rule 144A under the U.S. Securities Act of 1933, as amended (the "Securities Act") and outside of the United States and Mexico in reliance on Regulation S of the Securities Act and pursuant to applicable legislation of the jurisdictions where the international offering was conducted. The common shares subject to the offering were not registered under the Securities Act, and were not offered or sold in the United States to retail investors.

- **Use of proceeds from the Global Public Offering.**

On August 30, 2013, GFNORTE informed regarding the use of proceeds from the Global Public Offering carried out in July 2013, the amortization of the syndicated loan granted by 4 financial institutions without any guarantee by the Financial Group or any of its subsidiaries and which was contracted in February 2013 with a term of 364 days for a total amount of US 800 million dollars, took place.

Additionally, on August 26, Banco Mercantil del Norte exercised the pre-payment option available since February 2012 to settle the US 120 million Non-Preferred, Non- Cumulative Callable Perpetual Subordinated Obligations which were registered at the Luxembourg Stock Exchange. This perpetual subordinated debt was issued on February 26, 2007 by Ixe Banco S.A., Institucion de Banca Multiple ("Ixe Banco") and given the merger of Ixe Banco with Banorte, in May 2013, Banorte assumed and is responsible for each and every one of Ixe's obligations.

The payment is consistent with the information provided to the investment public during the equity offering carried out by GFNORTE, as well as by the content in the operation documents.

- **Adopted measures to strengthen Banco Mercantil del Norte's capitalization ratios.**

On February 22, 2013, GFNORTE informed that stemming from the finalization of the US 1.73 billion dollars acquisition of Afore Bancomer, of which US 1.6 billion dollars corresponded to the price paid by Afore XXI Banorte, and US 135 million dollars to the excess capital of Afore Bancomer: i) the contribution by Banorte, which has a 50% equity stake on Afore XXI Banorte, of Ps. 10.25 billion to finalize the acquisition with its available liquid resources; ii) GFNORTE's assertion that it counted with various capital regeneration mechanisms to neutralize the short-term impact on Banorte's Capitalization ratio due to the investment on this new subsidiary; GFNORTE informed the following:

1. After the payment on January 9, 2013, to finalize the acquisition of Afore Bancomer, Banorte's pro-forma Capitalization ratio according to Basel III requirements decreased to approximately 13.3% forecasted at closing of January 2013. These levels kept Banorte as an adequately capitalized bank according to the capitalization rules established by the CNBV, it is Banorte's practice to maintain sufficient capitalization levels to support the expected growth in business volume.

2. Stemming from the above, the Shareholders' Meeting of Banorte approved on February 14, 2013, to authorize a capital increase of Ps. 10.2 billion of this GFNORTE's subsidiary. This capital increase was subscribed by GFNORTE with the resources obtained from a loan granted by financial institutions, according to the Mexican Central Bank's (Banco de Mexico) authorization through the official memorandum S33-001-8078 on February 14, 2013. Meanwhile, the CNBV gave its favorable opinion on February 21 through the official memorandum 312-3/12635/2013 to reform Banorte's bylaws and implement the capital increase.

3. The total amount of the loan for US 800'000,000.00 dollars, which at the current foreign exchange rate was equivalent to approximately Ps. $10.2 billion, the same sum that Banorte contributed for Afore Bancomer's acquisition was disbursed. The loan's term was 364 days and the outstanding balance accrued an interest rate of 3 month LIBOR + 0.80% (equivalent to TIIE -0.02%, considering the benefit of the foreign exchange and interest rate hedging mechanisms contracted in order to cover risks arising from the loan). The resources to service the loan would come from dividend payments of GFNORTE's subsidiaries, and in case of a corporate event that contributed with additional resources, these would have been used to pre-pay the loan. The loan was not guaranteed by GFNORTE or any other of its subsidiaries and was obtained with a bank syndicate.

4. Additionally, during February Afore XXI Banorte decreed a Ps. 950 million dividend payment and a capital decrease of Ps. 2.0 billion. Both of these events had a favorable impact for Banorte, amounting to Ps $1.48 billion since it owns 50% of the Afore, thus strengthening Banorte's capital ratios by reducing net capital deductions related to the investments in subsidiaries.

5. As a result of the capital regeneration initiatives formerly described, Banorte's preliminary Capitalization ratio at closing of January 2013 was approximately 16.3%, and at closing of December 2013, was 15.12%

- **Strategic agreement between IBM and Grupo Financiero Banorte.**

GFNORTE and IBM announced on March 11 the formalization of a 10-year strategic agreement that will allow the Mexican financial institution to create a new customer-centric banking model, while substantially improving its efficiency to achieve levels close to 40% as well as a return on equity above 20%. The agreement – based on the solid growth of GFNORTE – seeks to create an expandable and sustainable platform to achieve world class efficiencies as well as high levels of customer service and segmentation, retention and contact with clients, through the existing channels and others to be developed. Additionally, this agreement establishes an unprecedented transformational relationship in the Latin American banking industry.

The partnership considers the establishment of a very solid Corporate Governance where both companies participate. Depending on the progress achieved of the partnership itself, as well as the benefits generated, will drive the investment in new projects.

As a result of these efforts, Banorte - Ixe seeks to become the bank with the best customer service and experience not only in Mexico, but also around the world, leading its sector and setting an example of innovation through smarter use of advanced technologies.

Banorte - Ixe’s goal is not only to understand deeply their clients’ needs and offer a superior customer service to its more than 20 million users through business analytics solutions, but also to develop and offer personalized products and services better suited for each customer’s unique condition.

Banorte - Ixe will experience an outstanding transformation in its operations and service innovation in the mid-term. Transformational services will primarily focus on client interactions, achieving a better understanding of their needs and the adoption of better risk and information management systems. Operational services will focus on processes and applications improvement of and adoption of new technology.

Launches

- **Banorte launches a green platform for Micro, Small and Medium Sized Enterprises (MiSME).**

Within the framework of the “Green Businesses Summit 2013” organized by the Global Institute for Sustainability at the Tecnologico de Monterrey in October, Banorte presented the “eco-efficiency platform for MiSMEs”, which seeks to achieve a more sustainable production chain to make SMEs (that are bank clients and service providers) more competitive. Banorte’s initial commitment is to finance projects with the most potential to develop green markets.

- **Planet Payment and Banorte announced “MICROS Payment Gateway”.**

In October 213, Planet Payment, one of the main international payment processing and multi-currency payment providers, and Banorte announced the initial implementation of “MICROS Payment Gateway” integrated in the “*Pague en su Moneda*” Service (Pay in your Currency), enabling international consumers and users to pay for purchases and accommodation expenses in their own currency, whereas at the same time lowering transaction processing costs for businesses or service providers.

- **Formalization of an agreement between Banco Mercantil del Norte and Western Union.**

On April 24, 2013, Banorte and Western Union, leader in global payment services, announced a five-year agreement that will allow Banorte to offer Western Union global money transfer services. In the first stage, Western Union services will be offered at most of Banorte branches, followed by a nationwide rollout.

- **Launch of Co-branded Credit Card with United Airlines.**

On April 9, 2013, Banorte Ixe Tarjetas launched two credit card products (Platinum and Universe – Infinite) co-branded with United Airlines. Thus, Banorte Ixe Tarjetas seeks to have the most competitive products and services platform in Mexico.

Corporate Events

- **New York Banorte Day.**

Last November 25**,** GFNORTE's top management, carried out a new edition of Banorte Day in New York City, a meeting with more than 100 national and international analysts and investors, in which the institution's current ability to generate value after recent acquisitions was demonstrated, as well as the business transformation strategy, the new model of retail banking and the advances in technology.

Besides Alejandro Valenzuela (CEO) and Guillermo Ortiz (Chairman of the Board), the following executives participated during *New York Banorte Day*: Gabriel Casillas, Managing Director of Economic Analysis; Rafael Arana, Chief Operating Officer; David Suarez, CFO and Head of IR; Fernando Solis, Managing Director of Long-term Savings, Concepcion Borjon, leader of Sumando Program; Javier Salgado, Deputy Managing Director of Branch Management; Ignacio Aldonza, Managing Director of Technology and Operations; Andres Aymes, Territorial Director for Southern Mexico; Jesus Garza, Managing Director of Commercial Banking; Manuel Romo, Managing Director of Consumer Products, and Marcos Ramirez, Managing Director of Wholesale Banking.

3) Accounting Regulations.

- **Amendment to the rating methodology of the commercial portfolio.**

On June 24, 2013, the CNBV published a resolution amending the provisions regarding the methodology for rating commercial loans. This resolution modifies the current model of reserves, in order to establish a methodology under which the portfolio is rated and reserved based on expected losses for the next 12 months considering the probability of default, loss severity and exposure to default of each client.

The resolution came into force on June 25, 2013 and is applicable optionally as of this date, and must be met no later than December 31, 2013 for loans granted to individuals with business activity, corporations and decentralized bodies, excluding loans to financial institutions, for which the new methodology cannot be applied until January 2014.

Pursuant to that resolution, GFNORTE decided to apply the formerly mentioned methodology with figures as of June 30, 2013, consequently the Institution recognized Ps 3.95 billion, in the heading of retained earnings from prior years, within stockholders' equity, corresponding to the initial cumulative financial effect derived from the application of the new rating methodologies for commercial loans, excluding loans granted to financial institutions which will be adopted until January 2014 according to the regulation.

The amount of the allowance for loan losses for commercial loans of the Institution applying the new methodology was Ps. 8.38 billion, and the amount of the reserve for such commercial portfolio considering the methodology used prior to the implementation of this resolution was Ps. 4.99 billion, both with figures as of June 30, 2013.

The amount recognized in equity includes Ps. 557 million of reserves corresponding to the portfolio sold by Arrendadora y Factor Banorte.

Pursuant to the regulation in effect, as of December 31, 2013 GFNORTE rated the commercial (except loans to financial intermediaries and 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.

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

- **Standard & Poor's increases the ratings for Banorte and Casa de Bolsa Banorte Ixe.**

Derived from the upgrade in foreign and domestic long-term sovereign ratings of Mexico to “BBB+” and “A”, respectively, last December 20, Standard & Poor’s Ratings Services raised Banorte's global scale ratings from BBB-/A-3 with positive outlook to BBB/A2 with stable outlook.

Furthermore, S&P increased Banorte's and Casa de Bolsa Banorte Ixe's national scale ratings, from mxAA+/mxA-1+ with positive outlook to mxAAA/mxA-1+ with stable outlook, respectively.

- **Fitch Ratings gives its opinion on the upcoming fund mergers of Operadora de Fondos Banorte Ixe.**

In September, 2013, following the announcement by Operadora de Fondos Banorte Ixe of its intention to merge 16 funds of the 43 mutual funds that comprised its range of funds (finalized during November and December 2013), the rating agency informed that it did not expect any changes in their ratings, as the funds had similar characteristics in terms of rating, investment strategy, horizon and share purchasing policy, besides a solid organizational structure that includes directors with many years of experience in the financial sector.

- **Moody’s ratified the ratings of Banorte, Arrendadora y Factor Banorte and Casa de Bolsa Banorte Ixe; the outlook was changed from negative to stable.**

On September 10, 2013, Moody's de Mexico and Moody's Investors Service ratified the global and national-scale ratings of Banorte, Arrendadora y Factor Banorte and Casa de Bolsa Banorte Ixe with stable outlook. This derived from GNORTE’s Primary Public Offering, which will enable the Group to finance its recent acquisitions and pay down debt, including the payment of some of certain Banorte’s subordinated debt.

- **Standard & Poor’s affirmed ratings of Banorte and Casa de Bolsa Banorte Ixe.**

On June 26, 2013 S&P affirmed Banorte’s BBB-/A3 long and short-term international-scale ratings, respectively, as well as the mxAA+/mxA-1+ long and short-term national-scale ratings, respectively, on the bank and on Casa de Bolsa Banorte Ixe. The rating agency affirmed the BBB- rating on Banorte's senior unsecured debt. The outlook of all the ratings is positive.

- **Moody’s affirmed Banorte’s and Arrendadora y Factor Banorte's ratings; outlook remains negative.**

On June 17, Moody's de Mexico affirmed all of Banorte’s ratings and maintained a negative outlook. The C- standalone bank financial strength rating and the A3 long-term global local currency deposit ratings were ratified. The C- standalone bank financial strength rating maps to a baa2 standalone baseline credit assessment. Moody's also affirmed the Baa3 long-term subordinated debt and Ba1 junior subordinated debt ratings. At the same time, Moody's affirmed the A3 global local currency issuer ratings of Arrendadora y Factor Banorte. The outlook on these ratings is negative.

- **Withdrawal of Ixe Banco's, Fincasa Hipotecaria's and Ixe Automotriz's ratings.**

Last June 7 and 26, Fitch Ratings and S&P, respectively affirmed and immediately after withdrew Ixe Banco's ratings, given its merger with Banorte. The subordinated debt of Ixe Banco was assumed by Banorte and its ratings remained unchanged. Additionally, on June 7 and May 3, Fitch and S&P, respectively affirmed and immediately after withdrew Fincasa Hipotecaria's ratings, given its merger with Banorte. Furthermore, on April 17 and March 2, S&P and Fitch, respectively affirmed and immediately after withdrew Ixe Automotriz's ratings given its merger with Arrendadora y Factor Banorte.

- **HR Ratings affirmed ratings of Banorte and its subordinated debt.**

On May 29, 3013, HR Ratings ratified Banorte's "HR+1" short and "HR AAA" long-term credit ratings. HR Ratings also affirmed the "HR AA+" preferred subordinated debt issuance BANORTE 12 rating. The outlook on these ratings remained stable.

- **Fitch affirmed ratings of GFNORTE, Banorte and Casa de Bolsa Banorte Ixe.**

On April 18, Fitch affirmed all of the GFNORTE's ratings (global scale, long and short-term of foreign currency debt BBB/F2, respectively), Banorte (global scale, long and short-term of foreign currency debt BBB/F2, respectively and in national scale AA+(mex)/F1+(mex)) and Casa de Bolsa Banorte Ixe (national scale, long and short term AA+(mex)/F1+(mex)). The outlook of all these ratings is stable.

- **Fitch ratified the ratings of GFNORTE and its subsidiaries.**

On March 22, 2013 Fitch Ratings ratified GFNORTE's, and its main subsidiary, Banorte's viability ratings (VR) of "bbb" and long & short-term Issuer Default Ratings (IDRs) of "BBB" and "F2", respectively. Ixe Banco's VR improved to "bb+" from "bb". The national scale ratings of both banks, as well as the ratings of certain non-banking subsidiaries of "AA+(mex)" and "F1+(mex)" were ratified derived from the support granted by GFNORTE. The outlook of all long-term ratings of these entities remains Stable.

- **Moody's ratified ratings of Banorte, its subordinated debt and some ratings of GFNORTE's subsidiaries.**

On March 13, 2013, Moody's de Mexico ratified the credit ratings of Banorte maintaining negative outlook. The C- standalone bank financial strength rating and the A3 long-term global local currency deposit rating were ratified. The C- standalone bank financial strength rating maps to a baa2 standalone baseline credit assessment. Moody's also affirmed the Baa3 long-term subordinated debt and Ba1 junior subordinated debt ratings. The outlook on all of these ratings remained negative. Moody's also affirmed the A3 global local currency issuer ratings of Arrendadora y Factor Banorte, as well as the A3 issuer rating of Casa de Bolsa Banorte Ixe. The outlook on these ratings is negative.

5) <u>Recognitions</u>

- **Banorte Movil is awarded as the best financial application.**

In November 2013, Banorte Movil was awarded the best of e-business in 2013 during the third edition of the CNN Expansion Awards. Pago Movil service, enables users to pay with their cell phone at retail and online establishments without using a physical card. More than 193 small, medium and large companies, entrepreneurs and educational and government institutions were postulated to 11 categories.

- **The Banker awards Banorte as the "Bank of the Year 2013 - Mexico" and the "Best Private Bank in Mexico 2013".**

In December 2013, for the sixth time in the last 9 years, Banorte was awarded as the "Bank of the Year 2013 - Mexico" and the "Best Private Banking in Mexico 2013" through the Financial Times' specialized publication –The Banker- which recognizes and promotes excellence in the banking industry on a global standard.

The "Best Bank of the Year 2013 - Mexico" award considers factors such as growth of core capital, assets, the level of profits achieved by Banorte, and improvements in ROE and Efficiency during the past 12 months. The Group's growth strategy was another factor that the Financial Times considered in this award. Also, Afore Bancomer's acquisition finalized at the beginning of this year, the successful stock offering carried by GFNORTE in July of US 2.5 billion dollars the largest offering made through the Mexican Stock Exchange - Bolsa Mexicana de Valores; the acquisition of Generali's stake in the Insurance and Annuities companies, as well as the strategic alliance with IBM to generate higher value propositions to customers, were important factors considered to give Banorte the award.

The Banker also awarded Banorte-Ixe as the “Best Private Bank in Mexico in 2013”. The magazine considered Banorte-Ixe’s success in integrating the two platforms of private banking, incorporating the best features of the two groups; asset management, investment processes and above all, a service culture characterized by the added value offered to clients through a comprehensive products offering, as well as their vision for the future, and innovation in new investment products and platforms.

- **Institutional Investor Magazine’s Rankings.**

In August 2013, Institutional Investor magazine announced the “Best Latin America Executive Team 2013” rankings, which was based on a survey of 395 buy-side fund managers and 417 sell-side analysts. For a fourth consecutive year, GFNORTE's Management and Investor Relations team figured among the top Mexican companies and Latin American banks. Alejandro Valenzuela, Grupo Financiero Banorte's CEO, was ranked as the number two CEO in Mexico based on sell-side opinions (he was ranked fifth last year) and second based on buy-side opinions (he was ranked seventh last year); in the Mexican ranking he was placed fourth by both buy and sell-side. David Suarez, Head of IR at GFNORTE, was ranked as the best IR Professional in Latin America in the opinion of sell-side analysts and third in Latin American according to the buy-side. In Mexico, David Suarez was ranked top by the buy-side and second by the sell-side. The Investor Relations Department was ranked second in Latin America by the sell-side and third by the buy-side; in the national ranking both groups ranked this department in second place. At the regional level, the group was placed ahead of institutions like Santander Chile and Brazil, BTG, Bradesco, Bancolombia, Banco Do Brasil, Credicorp, among more than 30 banks. In Mexico it ranked ahead of America Movil, Wal-Mart, FEMSA, Cemex, Bimbo, Banregio, Compartamos, Santander Mexico, among more than 60 companies.

- **Banorte recognized as "Best Commercial Bank in Mexico 2013" by World Finance.**

In August 2013, the prestigious World Finance magazine revealed its Banking Awards recipients in which Banorte was recognized as "Best Commercial Bank in Mexico 2013". Factors taken into consideration for awarding the prize were financial performance; variety and clarity of products and services; CRM innovations, systems and solutions; sales and growth within the existing structure of clients; geographic expansion; platforms; alternative financial products; market interaction and competitive strategy.

- **The Banker – Top 1000 World Banks.**

In July, 2013, the prestigious magazine The Banker, published the 2013 Top 1000 World Banks ranking, in which Banorte ranked 9 among the Top 10 of Latin American banks measured by size of capital, being the best Mexican bank in this category and was placed 242 in the world ranking, advancing nine positions compared to the previous year (previous position # 271).

- **Banorte-Ixe recognized by Euromoney in several categories.**

On April 1, 2013, the magazine specialized in banking and capital markets, Euromoney, announced the results of its study of the Best Managed Companies in Latin America 2013, in which Banorte ranked 6 among 261 nominated companies. Considering only companies of the banking and financial sector, Banorte ranked as the third Best Managed Company in Latin America.

Furthermore, in the assessment of the companies that have most improved its performance in the region, Banorte had the highest score among 116 nominated firms, therefore the prestigious magazine ranked the Mexican institution in the first place of this category.

In Latin America, Banorte was the second institution with the highest corporate governance standards, among 132 nominated companies, and the third among 165 with the most accessible management.

In the analysis carried out by the British magazine, Banorte was the second Best Managed Company in Mexico, among 59 companies of the telecom, food, construction and oil & gas sector, and the only of the financial sector ranking in the first six positions.

Euromoney also ranked Banorte fifth in 2012, among the most important banks in Latin America, in the Annual Real Estate Survey conducted with real estate developers, investment advisors, banks and corporate end-users.

Moreover, Euromoney recently recognized Banorte as the Best Local Bank in Mexico 2012 in the Private Banking and Wealth Management annual survey conducted among the participants of this industry.

- **Fund Pro awarded Banorte among the best investment funds in Mexico during 2012.**

In March 2013, Fund Pro granted Ixe Fondos the “Platinum Performance Award 2012”, for being the best fund manager in 2012 in the “Flexible Funds” category; moreover, the Institution was awarded in the “Short-term Debt”, “North American Shares”, “Non-Taxable Mid-term Debt” and “International Flexible Aggressive“ categories. This evidences Banorte -Ixe's commitment to its clients by offering the best products and services.

- **Fondo Personal MiFon winner of “ConnectBanking” in the beyondBanking awards by the Inter-American Development Bank (IDB).**

The beyondBanking awards by the IDB recognize the best sustainability, environmental, social and corporate governance initiatives and projects carried out by Financial Intermediaries in Latin America and the Caribbean. In March 2013, Fondo Personal MiFon won the “ConnectBanking” category for using new information and communication technologies for financial inclusion. The main objective of this product is to be offered in market segments that still do not have access to traditional financial services, expanding infrastructure and services to every corner of Mexico. These awards are a great incentive to continue with the firm commitment to bring financial services closer and increase the development opportunities to more Mexicans.

- **Banorte leads the Netmedia Research ranking “The 50 most innovative companies in Mexico”.**

Netmedia Research, a company dedicated to the analysis of IT the adoption, announced in June 2013, the list of companies that occupied a place in the prestigious ranking of "The 50 Most Innovative Companies" by Information Week Mexico, which were chosen from over 90 companies' projects of the private sector.

6) Organizational Changes

As of January 2013, **Hector Avila Flores** was designed as Managing Director of Legal, previously, since May 2011, he was Co-Managing Director of the same department. Hector is secretary of GFNORTE’s Board of Directors, and formerly led the Group’s Fiduciary area.

As of January 2013, **David Margolin Schabes** was designated as Managing Director of Risk Management.

On April 16, 2013, **Ignacio Aldonza Goicochea** was designated as Managing Director of Technology of Grupo Financiero Banorte.

As part of ongoing efforts to focus the organization towards a client-centered business model, the following appointments and organizational adjustments were made:

I. Areas reporting directly to the Board of Directors

On August 3, **Martha Elena Navarrete Villarreal** was appointed Managing Director of Internal Audit, an area that will report directly to the Audit and Corporate Practices Committee, body of the Board of Directors.

On July 25, 2013 the Board of Directors decided that the Head of Corporate Affairs, **Sergio Garcia Robles Gil**, and the Director of Social Responsibility, **Mayra Hernandez Gonzalez**, would report directly to the Board.

II. Business Areas

On July 25, 2013, the Board of Directors approved a new organizational structure in order to achieve a business model based on products, segments and channels, in order to focus the strategy towards client service. As a result, **Manuel Antonio Romo Villafuerte** was appointed Managing Director of Consumer Products and **Jesus**

Garza Martinez was appointed Managing Director of Retail Banking, in charge of segments and channels. Both of them reporting directly to GFNORTE's CEO.

III. Staff Areas

In order to consolidate the staff and support areas and improve the organization's internal service levels, on October 24, GFNORTE's Board of Directors appointed **Rafael Arana de la Garza** as Chief Operating Officer (COO), who in turn will report to GFNORTE's CEO. The areas of Corporate Services, Finance and Investor Relations, Strategic Planning and Value Creation, Customer Experience, Marketing, Legal, Technology and Operations, Institutional Relations and Communications, and the Sumando Program will all report to the COO.

As part of these changes**, David Ricardo Suarez Cortazar** was appointed as Chief Financial Officer (CFO); **Fausto Hernandez Pintado** was appointed as Chief Strategic Planning and Value Creation Officer and **Concepcion Guadalupe Borjon Shears** was appointed Leader of Sumando Program.

The Board ratified **Alejandro Garay Espinoza** as Managing Director of Corporate, **Hector Avila Flores** as Managing Director of Legal, **Ignacio Aldonza** as Managing Director of Technology and Operations, and **Carla Juan Chelala** as Managing Director of Marketing.

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 and general provisions issued by this entity.

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 regulated, depending on their activities, by the CNBV, the CNSF, Banxico and other applicable laws and regulations; whereas, Afore XXI Banorte, Banorte's subsidiary, is regulated by the CONSAR.

In general terms, 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:

II. **Banking Sector.-** Its main activity is to offer universal banking services in Mexico through Banorte, Banorte Ixe Tarjetas; and in United States through Banorte USA (comprising INB and the remittances companies UniTeller and Motran). These services are offered through the following segments:

- **Retail Banking:** It is specialized in individuals providing them with non-specialized banking products and services through several distribution channels. Most of the transactions in this segment are carried out through Banorte's and Ixe's branches, ATM's, telephone and online banking. Among the products and services offered are: checking and savings accounts, credit cards, mortgages, car loans, payroll and personal loans.

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

  ✓ **Transactional Banking**: Offers corporate and middle-market clients a comprehensive model of transactional services. In 2012, the construction and development of Cash Management products was defined, allowing to consolidate our position in this segment.

  ✓ **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 services, collection, fiduciary, payroll payment, checking accounts, lines of credit, and loans such as "*Crediactivo Empresarial"* (product partially guaranteed by NAFIN), as well as specialized products for SMEs. 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.

  During 2013, a new 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.

✓ **Government Banking:** In this segment, financial services are offered to federal, state and municipal governments in Mexico and to other entities such as social security institutions, unions, public trusts, semi-public organizations, etc. Products and services offered include checking accounts, loans, cash management services, payroll payment services, among others.

- ✓ **International Banking and Financial Institutions:** This segment offers products and services mainly related to international trade. In order to strengthen Banorte' share in international markets, the Financial Institutions department was created, which acts as a relationship bank for this segment. Since its inception it has reached agreements with international banks, which allows to offer unique international solutions to its clients, providing them with access to top financial and banking institutions anywhere in the world.

  Some of the products and services offered are:

  -Credit support for the export of goods and services, including letters of credit, payment orders and dollar checking accounts.

  -Advisory and credit support in relation to the import of goods and services, including financing to import livestock and machinery, financing of working capital and investment projects, letters of credit and payment orders.

III. Long-term Savings Sector.- Offers life and damages insurance, as well as pension fund management. The companies comprising this sector are: Afore XXI Banorte, Seguros Banorte and Pensiones Banorte.

IV. 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 portfolio management, asset management, investment banking and sale of investment funds and debt instruments.

V. 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

Banorte-Ixe's strategy aims to ratify and increase its presence in the national market, strengthening all the banking infrastructure, ATMs, branches and third party correspondents, in order to serve growing and emerging markets.

Branch network

Banorte-Ixe 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 - Ixe’s products and services.

Banorte-Ixe's market share regarding number of branches is 10% as of December 2013, according to the CNBV, raking third in the system, considering only Financial Groups.

Banorte’s Branches

Banorte ended 2013 with a network of 1,117 branches throughout 348 locations, decreasing by 25 branches vs. 2012.

Ixe's Branches

Ixe’s branch network as of December 31, 2013, totaled 171 branches, decreasing by 3 vs. 2012.

According to the “Master Plan of Branches" proposed by GFNORTE's management, during 2014 various openings, relocations, expansions, conversions and closings of branches for both brands will be carried out, aiming to get greater efficiencies in the network.

ATMs

ATM network grew 5% YoY from 6,707 branches in 2012 to 7,035 branches at the end of 2013, considering 198 ATMs of the Ixe network. According to CNBV, Banorte-Ixe’s ATM network market share totaled 17% as of December 2013, raking second in the system.

An average of over 6.5 million clients are served monthly through our ATM network, representing a 15% YoY vs. 2012, having carried out almost 499 million transactions during the year, representing an 8% YoY increase.

Banorte offers a wide variety of products and services of electronic banking, including debit 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.

Necessary adjustments were made to ATMs in order to comply with mandatory regulations issued by the CNBV, so they can operate using smart cards. 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.

Telephone Banking - Contact Center “Roberto Gonzalez Barrera”

The telephone banking system, allows our clients to check balances, transfer funds between their accounts in Banorte and other banks, pay their bills and receive account statements via fax.

During 2013, our telephone banking system attended 49.2 million incoming calls, (+19% vs. 2012) and 17.4 million outgoing calls, (-6% vs. 2012), maintaining efficiency and quality service levels for our clients; furthermore, the implementation of surveys "voice of the customer" took place in order to enhance their experience.

In 2013 within the Contact Center 4,000m^2 of green roof were inaugurated, of which 1,784 m^2 are gardens, promoting energy efficiency and conservation of endangered species.

SME Centers

As of December 2013 there were 16 specialized offices operating for this segment, 6 more centers vs. 2012, as a result of the strategy to strengthen personalized and specialized service to our clients in this sector.

Point of Sale Terminals (POSs)

In 2013 POS network reached over 141 thousand, of which approximately 27 thousand belong to Ixe's network, representing a 23% YoY increase. We have a 23% market share, ranking top according to the CNBV.

During 2013, the number of transactions reached 162.2 million, a 24% YoY increase, and the amount reached Ps.160.1 billion pesos, a 27% YoY increase, 14 pp higher vs. the system according to PROSA (clearance agency for transactions via ATMs, POSs and credit cards). This growth placed our acquiring business in the third place at national level, with a 14% market share according to PROSA. The growth mentioned above was possible given the dynamism in both POSs and e-commerce.

Online Banking

Our online banking service enables customers to check balances, transfer funds nationally and internationally, pay bills and invest in funds and certificates of deposit through internet.

"*Banorte en su empresa*", is an online corporate banking service focused on medium and large companies. Through this system, Banorte's corporate clients may access to banking services offered in our branches such as funds transfers, payroll services and payments to suppliers.

As of December 2013, over 1.57 million clients have *Banorte por Internet* or *Ixe Net*, 18% higher vs. 1.34 million in 2012; more than 700 million total transactions were carried out, representing a 15% YoY growth. Moreover, regarding online banking we served 377,016 accounts, 170,070 accounts chose to receive their account statements by e-mail and 142,667 were not mailed, in both cases the Paperless was chosen, representing a 63% and 44% growth, respectively, vs. 2012.

Banorte Movil

Through this mobile financial services platform, we provide a global, efficient, secure and sustainable solution to a wide segment of our clients since it is compatible with all mobile telephone service providers in Mexico.

In 2013, more than 192 thousand clients used the Banorte Movil service, a 41% YoY growth vs. 136 thousand clients in 2012, these clients carried out more than 22 million total transactions, representing a 120% YoY increase.

As part of the upgrades in Banorte Movil, GFNORTE designed a service through which cash may be withdrawn in ATMs through a numeric reference, without the need to insert cards in ATMs.

Derived from the launch of Pagomovil Banorte, the first payment platform via mobile devices, a large number of clients have made their payments without the need to use their physical card. At the end of 2013 we had 106,910 mobile tokens, a 126% YoY increase.

Third-party Correspondents

Through 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.

Banorte's strategic alliances with different retail companies have allow us to increase our market share and be available for our customers 24/7.

Banorte has positioned itself as a major player in this market. At the end of 2013, we had 4,147 contact points through 7-Eleven (1,647), Telecomm-Telegrafos (1,614) and Extra stores (886), representing a 35% increase vs. 3,080 in 2012.

In 2013, total transactions conducted through 7-Eleven, Telecomm-Telegrafos and Extra stores increased by more than 29% YoY, going from 4.6 million to 5.9 million.

Cuenta MiFon

During 2013, our *Cuenta MiFon* clients have allowed us to get a better understanding of their financial needs, identify their preferred means of withdrawal, and the most appreciated and essential aspects of the product.

As this products serves a low banking penetration market, clients carry out most of their transactions through correspondents (48%), followed by ATMs (26%), retail establishments (15%) and traditional channels (11%). *Cuenta MiFon* clients are starting to experience savings in a banking instrument, reporting an average balance per account of more than Ps. 444. Little by little, *Cuenta MiFon* extends our client base and allows boosting banking penetration throughout Mexico.

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 WOMEN, 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 this credit institution, which is one of the most representative subsidiaries of GFNorte and/ or its subsidiaries 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.

As a result of the merger between GFNorte and Ixe GF, GFNorte gained ownership of the "*IXE*" brand, which is duly registered for a period of 10 years from the filing date of the application for registration, renewable for periods of 10 years at the end of its term. To date it is existing and in full legal effect. *IXE AUTOMOTRIZ*, registered trademark for a period of 10 years from the filing date of the application for registration, renewable for additional periods of 10 years at the end of its term. To date, it is in use and in full legal effect. *IXE NET* duly registered trademark for a period of 10 years from the filing date of the application for registration, is renewable for additional periods of 10 years at the end of its term, and to date is current and in full legal effect. The *IXE* trademark, effective since 2010 which boasts advertisements such as *ES LO MISMO PERO NO ES IGUAL (THE SAME BUT NOT ALIKE)*, is duly registered for a period of 10 years as from the filing date of the application for registration, renewable for additional periods of 10 years at the end of its term, to date it is in current and in full legal effect. *ASI DEBERIA SER SIEMPRE, ASI ES IXE (THAT'S THE WAY IT SHOULD ALWAYS BE, THAT IS IXE),* are commercial advertisement slogans duly registered for a period of 10 years as from the filing date of the application for registration, renewable for additional periods of 10 years at the end of its term, to date they are being used and in full legal effect.

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

Relevant Contracts:

Banco Mercantil del Norte, S. A. (Banorte), being 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 which is 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 the provision of 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 was celebrated on June 1, 2009 and was 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 was 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, was celebrated on July 15, 2008 and 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.) for printing services and inserting account statements into envelopes, was celebrated on October 3, 2008 and is still in effect as it was negotiated for an indefinite period of time. The transfer became effective on January 1, 2014.

- The contract with Satelites Mexicanos S. A. de C.V., for satellite signal services was celebrated on July 12, 2006, expiring on July 30, 2012, through addendum the agreement was extended until June 30, 2015.

- The contract with ASAE Consultores S.A. de C.V. for the maintenance of computer equipment and networks was 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, was celebrated on August 1, 2007 for an indefinite period of time.

- The contract with Microsoft Licensing GP for the licensing of software was signed on December 28, 2011 and expires on December 27, 2014.

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

- The agreement with EMC Computer Systems de Mexico, S.A. de C.V. for the support and maintenance of Networker Legato licenses which was valid from January 1, 2011 to December 31, 2013. This contract was renewed with Xtornet Consultores, S.A. de C.V. and it is valid from October 1, 2013 to December 31, 2017.

- Several Contracts with IGSA, S.A. de C.V. were signed in 2010 for the supply of equipment batteries for UPS, 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, S.A. de C.V. (formerly Libros Foraneos, S.A. de C.V.).

- The agreement with ORACLE DE MEXICO, S.A. DE C.V., for the technical Oracle Premier Support to SUN-Oracle infrastructure, signed on November 1, 2012, and expired on February 28, 2014. This contract is in renewal process with a new expiring in 2016.

- The agreement with HEWLETT-PACKARD MEXICO, S. DE R.L. for licensing HP products for comprehensive and performance tests, signed on June 1, 2012 expiring on 30 June, 2015.

  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.

iv. MAIN CLIENTS

As of December 31, 2013 GFNORTE had an ample and diversified client portfolio; with the largest client representing only 2.9% of the total loan portfolio.

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

v. APPLICABLE LEGISLATION AND TAX SITUATION

Mexico has one of the most developed financial systems in Latin America. Mexico's financial system is currently comprised of commercial banks, national development banks, broker-dealers, mutual funds, development trust funds and other non-bank institutions, such as insurance and reinsurance companies, bonding companies, foreign exchange houses, bonded warehouses, mutual fund companies, pension fund management companies, multiple purpose financial institutions (known as Sofomes). The Mexican Financial Groups Law aimed to achieve the benefits of universal banking, which permits a number of financial services companies to operate as a single financial services holding company. Most major Mexican financial institutions are members of financial groups.

The principal financial authorities that regulate and supervise financial institutions are Banco de Mexico, the SHCP, the CNBV, the CONSAR, the CNSF, the IPAB and the CONDUSEF.

Financial Groups

The enactment of the Mexican Financial Groups Law 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. The operations of financial services holding companies are generally restricted to holding shares representing the capital stock of financial services operating subsidiaries. Such subsidiaries, whether direct or indirect, may include commercial banks, broker-dealers, insurance companies, bonding companies, mutual fund operators, mutual funds, bond-warehousing companies, Sofomes, foreign exchange service providers and retirement fund administrators. Financial groups may be comprised by a holding company and any two financial institutions (which may be of the same type of financial institution), provided that a financial group may not be comprised solely by the holding company and two Sofomes.

On January 10, 2014, the new Law to Regulate Financial Groups 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 Mexican Financial Groups Law permits entities controlled by the same 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 Mexican Financial Groups Law requires that each financial services holding company enter into an agreement with each of its financial services subsidiaries 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.

Authorities of the Mexican Financial System

The principal authorities that regulate and supervise financial institutions in Mexico are Banco de Mexico, 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 regulations that govern their regulatory, supervisory and other powers. Also, these entities continually enact administrative regulations within the scope of their respective authority 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 CNBV. In addition, our financial subsidiaries are subject to the supervision and regulation of the corresponding financial authority, and are in constant interaction with such authorities during their normal course of business.

Banco de Mexico

Banco de Mexico is the Mexican Central Bank. It is an autonomous entity that is not subordinated to any other body in the Mexican federal government. Its primary purpose is to issue the Mexican currency, as well as to maintain the 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 the members of the Governing Board of Banco de Mexico. The Governing Board is composed of a Governor and four Deputy Governors, all of which are appointed by the President and ratified by the Senate or the Permanent Commission of Congress, as applicable.

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 Banco de Mexico 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 regulator in charge of proposing, conducting and controlling the economic policy of the Mexican federal government in matters of economics, tax, finance, public budget, public debt and income. Together with the CNBV and Banco de Mexico, it is the primary regulator of commercial banks and national development banks. The SHCP participates in the process of incorporation, revocation, operation, merger, control and stock purchase of financial institutions.

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 decentralized governmental body in charge of financial orientation services, provision of guidance and information services to customers of financial services, as well as implementation of corrective measures in attendance of claims by customers, with the primary purpose of protecting customer's interests. The CONDUSEF may also act as arbitrator in disputes between financial institutions and their customers and establish regulations and impose sanctions to financial institutions in order to protect their clients. The CONDUSEF is also in charge of supervising contracts of adhesion entered into by and between financial institutions and their customers.

Brief History of the Banking Sector

Banking activities in Mexico have been and continue to be affected by prevailing conditions in the Mexican economy, and 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 had assumed or intervened in the operations of 13 banks and had 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 Mexico 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 debtors (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 help restructure or convert loans of borrowers facing cash-flow problems. Finally, the Mexican government created a program to promote increased capitalization of Mexican banks by, among other things, providing for the transfer of 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 February 1, 2008, the Mexican Congress enacted a number of reforms to the Mexican Banking Law, which grant more power to the CNBV and establish new provisions on transparency and reliability on the disclosure of bank's information. The main objectives of the reforms include:

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.

Additionally, the reforms permit the CNBV to partially suspend or restrict the execution of the authorized transactions referred to in Article 46 of the Mexican Banking Law, when such transactions are prohibited or not performed with the required infrastructure or internal controls. The order of suspension can be issued regardless of any other applicable sanctions under the Mexican Banking Law.

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 fiscalization 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.

Improvement of 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.

Furthermore, on January 10, 2014, a decree was published which reforms, adds and repeals diverse regulations on financial matters and the Law to Regulate 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. In the case of a Multiple Banking Institutions' bankruptcy and judicial liquidation, the LIC should be applied.

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 precautionary 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. In case of bankruptcy, the IPAB acts as liquidator through its staff or through the attorneys, that will be appointed and hired out with charge to the bank's assets.

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 any of the following conditions: (i) liabilities must be least 30 days past-due, (ii) represent 35.0% or more of a debtor's outstanding liabilities as of the date in which the lawsuit or request is presented, and (iii) the debtor fails to have certain specifically defined liquid assets and receivables to support at least 80.0% of its obligations which are due and payable at the moment of the lawsuit or request. For verifying purposes, the LIC, grants supervisory powers to the CNBV, which must be exercised at the request of the CONDUSEF.

In relation to the above, in order to anticipate for situations of insolvency and liquidity, the Multiple Banking Institutions must have a contingency plan. The contingency plan must be approved by the CNBV, prior opinion of IPAB, Banco de Mexico and SHCP. This plan will have the character of confidential, without prejudice to the exchange of information between authorities in terms of the present law.

CONDUSEF may appoint up to three inspectors who will be required to represent and protect the rights and interests of the creditors of the institution declared bankrupt.

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. In this sense, the judicial liquidator may sign an agreement with the known creditors, whereby the agreed payment of their loans differently to that established in this section, through the payment in kind of the institution's assets.

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.

A restructuring agreement must be entered into by the debtor, as well as recognized creditors representing more than 50.0% of the sum of the total recognized amount corresponding to common creditors and the total recognized amount corresponding to secured or privileged creditors subscribing the agreement. The proposed agreement, once approved by the creditors, must be presented to the IPAB for its approval. Any such agreement, when confirmed by the court, becomes binding on all creditors, and the insolvency proceeding is then considered to be concluded. If an agreement is not reached, the debtor is declared bankrupt.

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.

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 multiple purpose financial entities (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.

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), 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 other 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 in 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 recent 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 seeks to improve disclosure standards as they relate to derivative transactions.

On November 1, 2013, the Mexican Congress approved the tax reform that went into effect in January 2014, including several changes to tax regulations that, although they have no direct impact on GFNorte, they do 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 is Banorte. Some of the main changes in the Tax Reform are: Business Flat Tax (IETU) was repealed, uniform Value Added Tax nationwide at 16%, and the new Income Tax Law that has 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 now 30%.

<u>10% Income Tax on Dividends:</u> A new 10% tax is to be 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, GFNORTE could deduct from taxes the loan reserves in an amount equivalent to 2.5% of the loan portfolio. Now according to the tax reform, this deduction of loan reserves will be replaced by the deduction of write-offs (art. 27 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. However, the addendum for 2014 states that write-offs on loans originated prior to January 1, 2014 cannot be

deducted. This eliminates any possibility of minimizing the impact of the non-deductibility of the loan reserves. The addendum also eliminated the possibility of deducting losses from bad debts associated with the portfolio originated prior to 2014, which limits its sale to the Financial Group's affiliates. Given the above, the Banking guild, through the Association of Bank of Mexico is holding meetings with the authorities to clarify the application of these provisions.

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.

Applicable Law and Supervision

The following is a summary of certain matters relating to the Mexican banking system, including provisions of Mexican law and regulations applicable to financial institutions in Mexico. This summary is not intended to constitute a complete analysis of all 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 Mexican Financial Groups, 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 a Financial Group is primarily regulated by the Mexican Financial Groups Law and the Mexican Financial Groups Regulations, issued by the SHCP. The operations of our subsidiaries operating in the financial sector are primarily regulated by the Mexican Banking Law, the Mexican Securities Market Law, the Insurance Contract Law, the Insurance Companies Law, the Retirement Savings System Law and the rules issued thereunder by the SHCP, the CNBV, the CNSF and the CONSAR, as well as rules issued by Banco de Mexico and IPAB. The authorities that supervise our financial subsidiaries' operations are the SHCP, Banco de Mexico, the CNBV, the CNSF, the CONSAR and the CONDUSEF.

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

During 2013, some subsidiaries applied the total or partial cancellation of tax loans consisting of federal contributions administered by the Mexican Tax Administration Service in accordance with of Provisional article three of the Income Law of the Federation for the 2013 fiscal year, published in the Diario Oficial de la Federacion on December 17, 2012.

Incorporation of a Financial Group and Subsidiaries

Pursuant to the Mexican Financial Groups Law, the incorporation of a financial group requires an authorization by the SHCP. The SHCP may grant or deny such authorization at its own discretion, taking into consideration the opinion of Banco de Mexico and, as the case may be, the opinion of the CNBV or the CNSF, depending on the type of financial entities that would comprise the intended financial group. 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 Mexico and, as the case may be, the opinion of the CNBV, the CNSF or the CONSAR.

Financial groups are integrated by a number of financial operating entities controlled by a financial services holding company, such as GFNorte. Such financial operating entities may include banks, brokerage firms, insurance companies, bonding companies, mutual fund operators, mutual funds, Sofomes, foreign exchange houses, afores and popular financial entities. Financial groups may be comprised by a financial services holding company and any two financial institutions (which may be of the same type of financial institution), provided that a financial group may not be comprised solely by the holding company and two Sofomes.

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

Institutions members of 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 Mexico 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: (i) up to 5.0% of the capital of such companies at any time, without any approval; (ii) 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 (iii) 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.

Under the Mexican Banking Law, the approval of the CNBV is required prior to the merger of a commercial bank with any other entity, in addition to approvals from the COFECO and Banco de Mexico.

Financial Groups' Statutory Responsibility

The Mexican Financial Groups Law 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 services holding company is responsible secondarily and without limitation for performance of the obligations incurred by its subsidiaries as a result of the authorized activities of such subsidiaries, and is fully responsible for certain losses of its subsidiaries, up to the total amount of the financial services holding company's assets. For such purposes, a subsidiary is deemed to have losses if (i) its stockholders' equity represents an amount that is less than the amount the subsidiary is required to have as minimum paid-in capital under applicable law, (ii) its capital and reserves are less than the subsidiary is required to have under applicable law, or (iii) in the judgment of the regulatory commission supervising the subsidiary's activities, the subsidiary is insolvent and cannot fulfill its obligations.

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 Mexican Financial Groups Law, 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 Mexico 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, which in turn supervises Banorte, is subject to the supervision of the CNBV. A 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 Mexican Financial Groups Law. Series O shares can be subscribed by both Mexican and non-Mexican investors.

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

I. When done with prudential measures of a temporary nature such as for support or bailouts.

II. 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:

   a. They do not exert authority, and
   b. Their decision-making bodies operate independently of the foreign government involved.

III. 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 Mexican Financial Groups Law.

In addition, pursuant to the Mexican Financial Groups Law and our by-laws, no person or entity or group of persons or entities may acquire (i) more than 2.0% of our shares, unless any such person or entity notifies the Ministry of Finance after the acquisition, (ii) in case of exceed 5.0% our shares, unless any such person or entity obtains the prior approval by the Ministry of Finance, taking into consideration the CNBV's opinion, and (iii) 30.0% or more of our shares, unless any such person or entity (a) obtains the prior approval of the Ministry of Finance, and (b) with the approval of the CNBV, undertakes a public tender offer to purchase 100.0% of our aggregate outstanding shares.

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 Mexican Financial Groups Law and the Mexican Banking 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 Mexico. 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, banks must publish on their website, among other things:

- the bank's basic consolidated and non-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 sum of 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 Mexico has authority to impose certain fines and administrative sanctions for failure to comply with the provisions of the Law of Banco de Mexico (Ley del Banco de Mexico) 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.

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 Mexico, 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, of any kind 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 grants extraordinary financial support to the bank in accordance with the Mexican Banking Law.

A CNBV Intervention pursuant to Articles 129 and 130 of the Mexican Banking Law will only occur when (i) during a calendar month, the Capital Ratio of a bank is reduced from a level equal to or above the minimum Capital Ratio required under the Mexican Capitalization Rules, to 50.0% or less than such minimum Capital Ratio; (ii) a bank does not comply with any minimum corrective measure ordered by the CNBV pursuant to Article 121 of the Mexican Banking Law, does not comply with more than one additional special corrective measures ordered by the CNBV pursuant to such Article 121 or consistently does not comply with any such additional corrective measures ordered by the CNBV and, in the case of this clause (ii), it does not submit itself to the conditional management regime described under Section 2. "Issuer. Subsection b) Business Description– Applicable Laws and Tax Position – Applicable Law and Supervision—Improved Framework to Resolve/Support Commercial Banking Institutions—Financial Support—Conditional Management Regime"; (iii) the CNBV, in its sole discretion, determines the existence of irregularities that may affect the stability or solvency of the bank and as a result, the interests of the public and of the bank's creditors; or (iv) if the bank (a) does not repay loans or its debt securities issued, or (b) does not timely pay money bank deposits retirements or checks.

The peremptory manager appointed by the IPAB will assume the authority of the Board of Directors and of the shareholders in such cases in which the execution of their rights does not correspond to the IPAB. 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.

Improved Framework to Resolve/Support Commercial Banking Institutions

In July 2006, certain amendments to the Mexican Banking Law, the Banking Deposit Insurance Law (Ley de Proteccion al Ahorro Bancario, the "IPAB Law") and the Mexican Financial Groups Law were enacted by the Mexican Congress, to provide an improved legal framework to resolve and grant financial support to commercial banking institutions undergoing financial difficulties.

Revocation of a Banking License; 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: (i) 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; (ii) 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 (iii) 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 events:

(i) that the shareholders' meeting decide to request the revocation;
(ii) if the banking institution is dissolved or initiates liquidation or bankruptcy procedures (concurso mercantil or quiebra);
(iii) if the banking institution (a) does not comply with any minimum corrective measures ordered by the CNBV pursuant to Article 122 of the Mexican Banking Law; (b) does not comply with any special corrective measure ordered by the CNBV pursuant to such Article 122; or (c) consistently does not comply with an additional special corrective measure ordered by the CNBV;
(iv) if the banking institution does not comply with the minimum Capital Ratio required under the Mexican Banking Law and the Mexican Capitalization Rules;
(v) if the banking institution defaults with respect to any of the following payment obligations: (a) 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 Mexico, or (2) payments of principal or interest on securities issued, that have been deposited with a clearing system, and (b) 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
(vi) if the institution is a repeat offender of prohibited or sanctioned transactions in accordance with the Mexican Banking Law or that continues not complying with preventive or corrective actions imposed by the CNBV.

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 accordance with the Mexican Banking Law and the IPAB 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:

(i) term obligations will become due (including interest accrued);
(ii) unpaid principal amounts, interest and other amounts due in respect of unsecured obligations denominated in Pesos or UDIs will cease to accrue interest;
(iii) 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 Mexico;
(iv) 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;
(v) obligations subject to a condition precedent, shall be deemed unconditional; and
(vi) 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.

Liabilities owed by the banking institution in liquidation will be paid in the following order of preference: (i) liquid and enforceable labor liabilities, (ii) secured loans, (iii) tax liabilities, (iv) 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, (v) bank deposits, loans and credits 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 to in clause (iv) above, (vi) any other liabilities other than those referred to in the following clauses, (vii) preferred subordinated debentures, (viii) non-preferred subordinated debentures, and (ix) the remaining amounts, if any, shall be distributed to stockholders.

Financial Support

Determination by the Financial Stability Committee. The Financial Stability Committee, or the FSC includes representatives of the SHCP, Banco de Mexico, 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 the operation of the payments' system at risk, 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:

(a) 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.

(b) 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 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, a new conditional management regime was created, that may apply to commercial banks with a Capital Ratio below the minimum required pursuant to the Mexican Capitalization Rules. To adopt this regime, the relevant bank must voluntarily request from the CNBV, with prior approval of its shareholders, the application of the conditional management regime. 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 75.0% of its shares to an irrevocable trust.

Banking institutions with a Capital Ratio equal to or below 50.0% of the minimum Capital Ratio required by the Mexican Capitalization Rules may not adopt the conditional management regime.

Capitalization

The minimum subscribed and paid-in capital for banks is set in accordance with the transactions in which it may engage. Pursuant to the General Rules Applicable to Mexican Banks, banks may perform any of the activities and render the services as provided under Article 46 of the Mexican Banking Law, as well as those permitted under other laws. Applicable corporate by-laws of all banks shall provide for the performance of at least one credit activity and one funding activity.

The minimum equity capital required for banks that engage in all banking activities under the Mexican Banking Law (such as Banorte) is 90,000,000 UDIs; however, the minimum equity capital may vary from 54,000,000 UDIs to 36,000,000 UDIs for limited-purpose banks, depending on the activities each bank is allowed to carry out.

Banks are required to maintain a net capital (capital neto) relative to market risk, risk-weighted assets incurred in its operation, and operations risk, which may not be less than the capital required in respect of each type of risk. The Mexican Capitalization Rules set forth the methodology to determine the net capital relative to market risk, risk-weighted assets and operations risk. Under the relevant regulations, the CNBV may impose additional capital requirements and Banco de Mexico may, with the CNBV's recommendation, grant temporary exceptions to such requirements.

The Mexican Capitalization Rules provide capitalization standards for Mexican banks similar to international capitalization standards, particularly with respect to the recommendations of the Basel Committee on Banking Supervision.

In particular, on July 26, 2010, the Basel Committee 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 other things, 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.

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 in 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").

Under the Mexican Capitalization Rules, Mexican banks are required to maintain a minimum capital ratio of 8.0%, including a capital conservation supplement 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.

Tier 1 capital consists primarily of common stock and disclosed reserves (or retained earnings), but may also include non-redeemable non-cumulative preferred stock. Tier 2 capital consists of preferred stock and capitalization instruments that comply with the requirements of Tier 2 capital and supplementary capital consists of admissible reserves and capitalization instruments that do not fall under the Tier 1 or Tier 2 capital category.

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

		CAPR ≥ 10.0%	10.0% > CAPR ≥ 8.0%	8.0% > CAPR ≥ 7.0%	7.0% > CAPR ≥ 4.5%	4.5% > CAPR
CT1 ≥ 0.875	CT ≥ 1.0625	I	II			
	1.0625 > CCB ≥ 0.875		II	III		
0.875 > CT1 ≥ 0.5625	CT ≥ 1.0625		II			
	1.0625 > CCB ≥ 0.75		II	III	IV	
	CT < 0.75		II	IV	IV	
CT1 < 0.5625						V

Where,

TRWA = Total Risk Weighted Assets

CAPR = Capital Ratio

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

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

CAPR_M = Minimum Capital Ratio, 8.0%.

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, as well as verify its compliance of corrective measures imposed. Such corrective measures include:

- requiring the bank to (x) inform the Board of Directors about the bank's classification, as well as the causes that motivated 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, (y) include in such report any observations mandated, in accordance with their respective scope of authority, by each of the CNBV and Banco de Mexico and (z) 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;

- requiring the bank's Board of Directors to (y) within no more than 15 business days, submit to the CNBV, for its approval, a plan for capital restoration that will result in an increase in its capital 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 by-laws, 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 (z) 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. 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 buyback programs of the bank and, in the event the bank belongs to a financial group, also the programs of the holding company of such group;

- requiring the bank to postpone or cancel the interest payments and, when applicable, defer or cancel 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 in accordance with the provisions referred to in Article 50 of the Mexican Banking Law; and

- requiring the bank to refrain from increasing outstanding amounts of any credit granted to any individual who is a related party. When a bank complies with the capitalization requirements set forth in Article 50 of the Mexican Banking Law and the provisions that derive therefrom, it will be classified in the category with banks that meet such a minimum and the CNBV has the authority, at its discretion, to order the implementation of corrective measures, which may include:

- requiring the bank to (x) inform its Board of Directors of the bank's classification, as well as the causes that motivated it, 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, (y) include in such report any observations mandated by the CNBV and Banco de Mexico, within their respective powers, and (z) report the financial situation to the chief executive officer and chairman of the Board of Directors of the bank or to the Board of Directors of its holding company, in the event the bank is part of a financial group; and

- requiring the bank to refrain from participating in transactions that would cause its capital ratio to drop below the required minimum pursuant to the applicable provisions.

Regardless of the capitalization level of the banks, the CNBV may order the implementation of additional and special corrective measures. The additional and special corrective measures that, if applicable, the banks must comply with are the following: (a) define the concrete actions that it will carry out in order not to deteriorate its capital ratio; (b) hire the services of external auditors or any other specialized third person for special audits on specific issues; (c) 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; (d) substitute officers, members of the board or external auditors with appointed persons occupying the respective positions; or (e) 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.

Banking institutions that have been classified under Category I pursuant to the table above, shall not be subject to any corrective measures.

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 Mexico'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 Mexico have been directed towards a restrictive monetary policy. Under this policy, Banco de Mexico has elected to maintain a short-term financial creditor stance with respect to the Mexican financial money markets, where every day, the market starts operations with a liquidity deficit which is then compensated by Banco de Mexico through daily operations in the money market to provide adequate liquidity and stability to these markets. Banco de Mexico's own experience has shown that its implementation of monetary policy is more effective if it starts from a deficit liquidity position at the beginning of each market day.

Under the Law of Banco de Mexico, Banco de Mexico has the authority to order the percentage of the liabilities of financial institutions that must be deposited in interest or non-interest-bearing deposits with Banco de Mexico. These deposits may not exceed 20.0% of the aggregate liabilities of the relevant financial institution. Banco de Mexico also has the authority to order that 100.0% of the liabilities of Mexican banks resulting from specific funding purposes, or pursuant to special legal regimes, be invested in specific assets created in respect of any such purpose or regime.

To manage its maturity exposures to the Mexican financial markets, Banco de Mexico 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 Mexico 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 Mexico 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.

The compulsory deposit reserves required under the terms of the Bulletin 36/2008 have an indefinite term. During the time these reserves are maintained on deposit with Banco de Mexico, each banking institution receives interest on such deposits every 28 days. Banco de Mexico 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 losses

The loan portfolio is classified according to the rules issued by the SHCP and the methodology established by the CNBV, internal methodology authorized by the CNBV may also be used.

In the case of consumer, mortgage and commercial loans (excluding loans to financial intermediaries), GFNORTE applies the Provisions for rating the loan portfolio as issued by the CNBV and published in the Official Gazette of the Federation on June 24, 2013. GFNORTE uses the internal methodology authorized by the CNBV for rating commercial loans to financial intermediaries.

On June 24, 2013, the CNBV issued changes to commercial loan rating Provisions (excluding loans to financial intermediaries), 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 rating and calculating the allowance for each type of loan, whereas also allowing credit institutions to classify and calculate allowances based on internal methodologies, when previously approved by the CNBV.

Since June 2001, GFNORTE has the CNBV's approval to apply its own methodology to commercial loans called Internal Risk Classification (CIR Banorte), by these terms, the debtors ratings are determined. CIR Banorte applies to commercial loans with balances equal to or greater than 4 million UDIS or its equivalent in Mexican pesos, and was applied to all the commercial loans (except those granted to State and Municipal Governments and loans intended for investment projects having their own source of payment) up to June 29, 2013. Thereafter, GFNORTE adopted the aforementioned changes in Provisions. Loan classification and reserve allowance are determined based on the rules set by the CNBV, this methodology is explained later.

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, GFNORTE applied the loan rating methodologies established by the CNBV to INB's loans, homologating the risk degrees and adjusting the allowance for loan losses derived from applying such methodologies.

On July 25, 2013, the CNBV issued Document 111-1/16294/2013, which renewed for a 6-month period, effective as of July 1, 2013, the authorization for such internal commercial loan rating methodology applicable to loans to financial intermediaries.

Commercial loans granted to Financial Intermediaries equal to or greater than 4 million UDIS or their equivalents in Mexican pesos are rated based on the following criteria:

- Debtor's credit quality.
- The loans, in relation to the value of the guarantees or the value of the assets in trusts or in "structured" programs, as applicable.

The commercial loan segment includes loans granted to business groups and corporations, state and municipal governments and their decentralized agencies, as well as financing to companies of the financial services sector.

GFNORTE applied the internal risk classification methodology, CIR Banorte, authorized by the CNBV, to rate debtors in loans to financial intermediaries; whereas for the rest of the commercial loans GFNORTE applied the procedure established by the CNBV.

When evaluating a debtor's credit quality with the CIR Banorte method, the following risks and payment experiences are classified specifically and independently:

Risk criteria	Risk factors
1. Financial risk	1. Financial structure and payment capacity 2. Financing sources 3. Management and decision-making 4. Quality and timeliness of financial information
2. Industry risk	5. Positioning and market in which debtor participates - - Target markets - - Risk acceptance criteria
3. Borrower's experience	6. Borrower's experience
4. Country risk	7. Country risk

Each of the risk factors is analyzed using descriptive evaluation tables, the result of which indicates the borrower's rating. This, in turn, is standardized with the risk degrees established by the Commission.

CIR Banorte	Risk level description	Commission classification equivalent
1	Substantially risk free	A1
2	Below minimal risk	A2
3	Minimum risk	A2
4	Low risk	B1
5	Moderate risk	B2
6	Average risk	B3
7	Risk requiring management attention	C1
8	Potential partial loss	C2
9	High loss percentage	D
10	Total loss	E

For commercial loans below 4 million UDIS or its equivalent in Mexican pesos to financial intermediaries, GFNORTE applied the general provisions applicable to credit institutions for rating the loan portfolio as issued by the CNBV.

General description of rules established by the CNBV

The 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 that the estimate of such loss evaluates the probability of 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 of 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

- Non-revolving consumer loan – depends on the number of outstanding payments.
- 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 that non-compliance is considered.

The CNBV's rules for rating commercial loan debtors in loans to financial intermediaries, with commitments under 4 million UDIS or the equivalent in Mexican pesos, indicated that the rating should be based on the number of months elapsed as of the first default and, if applicable, the actual and personal guarantees received.

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 be done by analyzing the risk of projects in the construction stage and operation evaluating the work's over-cost and the project's cash flows.

Applicable Provisions for Allowances For Loan Risks of loans to States and municipalities

On October 5, 2011, the CNBV modified provisions applicable to reserves for loan losses to states and municipalities in an effort to conform its regulations to the most recent recommendations issued by the Basel Committee. These new provisions shift away from an accrued losses methodology to an expected losses methodology to identify in advance certain sector risks by incorporating more relevant credit information for analysis in order to mitigate sudden changes' risks of in the reserves levels associated with the lending operations with States and municipalities. The expected losses approach takes into account several factors including probability of default and magnitude of a given loss instead of allowing reliance on credit agencies ratings. In the future, the CNBV could further change accounting regulations for determination of allowances for loan losses or the methodology to measure credit risk of governmental institutions.

Liquidity Requirements for Foreign Currency-Denominated Liabilities

Pursuant to regulations of Banco de Mexico, 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. 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 Mexico;
- treasury bills, treasury bonds and treasury notes issued by the United States government or debt certificates issued by agencies of the United States government, which have the unconditional guarantee of the United States government;
- demand deposits or one to seven-day deposits in foreign financial institutions rated at least P-2 by Moody's Investors Service, Inc., or "Moody's," or A-2 by Standard & Poor's Rating Services, or "S&P";
- investments in mutual or similar funds or companies approved by Banco de Mexico, that satisfy certain requirements; 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.

Lending Limits

In accordance with the General Rules Applicable to Mexican Banks, limits related to the diversification of a bank's lending transactions with the same person or group of persons, representing Common Risk must adjust to the following criteria:

- a capital ratio greater than 8.0% and up to 9.0%, the maximum financing exposure to a person or a group of persons representing common risk to the bank, is limited to 12.0% of the bank's Tier 1 capital;
- a capital ratio greater than 9.0% and up to 10.0%, the maximum financing exposure to a person or a group of persons representing common risk to the bank is limited to 15.0% of the bank's Tier 1 capital;
- a capital ratio greater than 10.0% and up to 12.0%, the maximum financing exposure to a person or a group of persons representing common risk to the bank is limited to 25.0% of the bank's Tier 1 capital;
- a capital ratio greater than 12.0% and up to 15.0%, the maximum financing exposure to a person or a group of persons representing common risk to the bank is limited to 30.0% of the bank's Tier 1 capital; and
- a capital ratio greater than 15.0%, the maximum financing exposure to a person or a group of persons representing common risk to the bank is limited to 40.0% of the bank's Tier 1 capital.

Limits mentioned in the prior paragraphs are required to be measured on a quarterly basis, with respect to the previously quarter Tier 1 Capital. The CNBV has discretion to reduce the aforementioned limits, if internal control or the risk management of the bank is inadequate.

Financings that have unconditional and irrevocable, guarantees covering the main and accessories of such financings, granted by an institution or a financial institution from abroad that have minimum investment grade rating and is established in countries that are part of the Organization for Cooperation and Economic Development or the European Community, as well as those guaranteed with securities issued by the Mexican Government, or with cash, they may exceed the maximum limit applicable to the institution in question, but in any case, they will represent more than 100% of the basic capital of the institution, by every person or group of persons that constitute common risk. The above, provided that guarantees mentioned above can be carried out form immediately and extra judicially funding expired, if this was not covered.

Likewise, financings granted to Sofomes for which the bank owns at least 99.0% of its capital stock, can exceed the aforementioned guidelines, but such financings may not exceed 100.0% of a bank's Tier 1 capital. Notwithstanding, if the Sofomes maintain or grant financing (regardless of the origin of the resources) to a person or a group of persons representing common risk, such financing shall comply with the aforementioned limits.

The aggregate amount of financings granted to the three largest borrowers of a bank may not exceed 100.0% of the bank's Tier 1 capital. The aforementioned limits also do not apply to financings made to other Mexican banks and to government-controlled companies and decentralized agencies, but may not exceed 100.0% of such bank's Tier 1 capital.

Banks are not obligated to comply with the aforementioned limits with respect to financings made to the Mexican government, local governments (subject to such financings being guaranteed by the right to receive certain Federal taxes), Banco de Mexico, IPAB and development banks guaranteed by the Mexican government.

Banks are required to disclose, in the notes to their financial statements, (i) the number and amount of financings that exceed 10.0% of Tier 1 capital, and (ii) the aggregate amount of financings made to their three largest borrowers.

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 100.0% of such bank's Tier 1 capital. None of our liabilities to a person or group of persons exceeds the 100.0% threshold.

Related Party Loans

Pursuant to the Mexican Banking Law, the total amount of the transactions with related parties may not exceed 50.0% of the bank's Tier 1 capital. For both, loans and revocable and irrevocable credits, only the disposed amount is considered. In credit letters operations the contingent risk is considered.

Foreign Currency Transactions

Banco de Mexico 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 in the aggregate, so long as such positions do not exceed 15.0% of a bank's Tier 1 capital. In addition, Mexican banks must maintain liquid assets, prescribed by regulations issued by Banco de Mexico, in connection with maturities of obligations denominated in foreign currencies.

Derivative Transactions

Certain Banco de Mexico rules apply to derivative transactions entered into by Mexican banks. Mexican banks are permitted to enter into swaps, credit derivatives, 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,
- nominal or real interest rates, rates with respect to any debt instrument that are related to such rates
- loans or other advances, gold or silver,
- wheat, corn, soybean, sugar, rice, sorghum, cotton, oats, coffee, orange juice, cocoa, barley, milk, canola, soybean oil and soybean paste,
- swine meat, cattle and pork.
- natural gas, heating oil, diesel, gasoline and crude oil,
- aluminum, copper, nickel, platinum, lead and zinc, ;and
- futures, options and swaps with respect to the underlying assets mentioned above.

Mexican banks require an express general approval, issued in writing by Banco de Mexico, 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 Mexico 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 Mexico, 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 and the Mexican Securities Market Law.

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, Sofoles, and any other counterparty authorized by Banco de Mexico. 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 Mexico periodically of derivative transactions entered into and whether any such transaction was entered into with a related party. The counterparties in respect of derivatives transactions entered into by Mexican banks must be other Mexican banks, Mexican financial entities authorized to enter into such derivatives by Banco de Mexico 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 Mexico to engage in swaps, forwards and options related to interest rates and foreign currencies.

Repo Operations and Securities Lending

Under a bulletin issued by Banco de Mexico, Mexican banks may enter into repor operations with other Mexican banks, Mexican broker-dealers and foreign financial institutions. Repo operations may be entered into in respect of bank securities, Mexican government securities, debt securities registered with the CNBV and certain foreign securities. Repo operations must be entered into under a master agreement approved by the Asociacion de Bancos de Mexico, A.C. and the Asociacion Mexicana de Intermediarios Bursatiles for these operations, which shall include the guidelines of the master agreements for these operations approved by the International Securities Market Association, the Public Securities Association or the Bond Market Association. Collateral may be provided in connection with repo operations. Banco de Mexico has also authorized Mexican banks to participate in securities lending activities on terms similar to those applicable to repo operations.

Restrictions on Liens and Guarantees

Under the Mexican Banking Law, banks are specifically prohibited from (i) pledging their securities or other assets as collateral (except (a) if Banco de Mexico or the CNBV so authorizes, including as described above with respect to derivative transactions or (b) for obligations in favor of Banco de Mexico, IPAB, Mexican development banks or governmental trusts) 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 (i) the depositor, debtor, accountholder or beneficiary and their legal representatives or attorneys-in-fact, (ii) judicial authorities in trial proceedings in which the accountholder is a party or defendant, (iii) the Mexican federal tax authorities for tax purposes, (iv) the SHCP for purposes of the implementation of measures and procedures to prevent terrorism and money laundering, (v) the Federal Auditor (Auditoria Superior de la Federacion), when complying with its supervision and inspection duties of the Federal Public Account, and on accounts or agreements involving federal public resources, (vi) the supervisory unit of the Federal Electoral Agency, (vii) the federal general attorney (Procurador General de la Republica) for purposes of criminal proceedings, among others, (viii) the Treasurer of the Federation, as applicable, to request account statements and any other information regarding the personal accounts of public officers, assistants and, as the case may be, particulars related to the corresponding investigation, and (ix) the head and undersecretaries of the Ministry of Public Function (Secretaria de la Funcion Publica) when investigating or auditing the estates and assets of federal public officers. 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 Provisions

Mexico has an extensive regulatory framework relating to prevention of money laundering and financing of terrorism crimes. The most recent provisions in this matter, applicable to credit institutions, were published on April 20, 2009 and became effective the next day. Each entity of Grupo Financiero Banorte has its own provisions according to the business line, although in general they are very similar to those applicable to Banorte and have been updated on different dates.

Under the anti-money laundering and anti-financing of terrorism provisions, the entities operating in the financial sector must meet several requirements, including among others the following:

- The establishment and implementation of policies and procedures, including client identification and know-your-customer policies, to prevent, detect and report actions, omissions or transactions that might favor, assist or cooperate in any manner with terrorism or money laundering activities (as defined in the Mexican Federal Criminal Code (Codigo Penal Federal).

- Implementing procedures for detecting and reporting relevant, unusual or internal concern transactions (as defined in the anti-money laundering and anti-financing of terrorism provisions).

- Reporting of relevant, unusual and internal concern transactions to the SHCP, through the CNBV; and in Banorte's case, additionally reports of dollar transactions and of transfers.

- The establishment of a Communication and Control Committee (which, in turn, must appoint a compliance officer) in charge of, among other matters, supervising compliance with anti-money laundering and anti-financing of terrorism.

- Have automated systems for transactions' monitoring carried out by customers.

- Qualify customers according to their risk degree.

- Training personnel on anti-money laundering and anti-financing of terrorism.

Entities operating in the financial sector, are required to organize and maintain a file before opening an account or carrying out any transaction, for the identification of each client.

An individual's Identification File must include, among others, the following data: (i) full name, (ii) gender; (iii) date of birth; (iv) nationality, country and state of birth; (v) occupation, profession, main activity or business line; (vi) complete address; (vii) telephone number to be located; (viii) email (if any); (ix) population registry identification number and issued by the Ministry of Interior and tax identification number, if available and (x) advanced electronic signature series number, when applicable. These same requirements apply for joint holders' and authorized third parties' identification and in case of the beneficiaries it must collect full name, date of birth and home address.

An entity's Identification File must include, among others, the following data: (i) corporate name; (ii) address; (iii) business line, main activity or purpose; (iv) nationality; (v) tax identification number; (vi) advanced electronic signature series number, when applicable; (vii) telephone number; (viii) email (if any); (ix) constitutive date; and (x) name of the sole administrator, the members of the Board of Directors, the general manager or any relevant attorney-in-fact.

The manual of each entity establishes the types of documents that must be part of the file to comply with the requirement of official identification document and address proof.

Identification files shall be maintained for the complete duration of the corresponding agreement entered with the client, and for a minimum term of ten years from the date such agreement is terminated.

According with the anti-money laundering and anti-financing of terrorism provisions, the entities operating in the financial sector must provide the SHCP, through the CNBV: (i) quarterly reports with respect to transactions equal to, or exceeding, USD10,000, when made with a monetary instrument; (ii) reports of unusual transactions, within 60 calendar days counted from the date an unusual transaction is detected by our financial subsidiaries' systems; (iii) reports of worrisome internal transactions, within the 60 calendar days counted from the date the worrisome internal transaction is detected.

In the case of credit institutions, addiionally they must send monthly reports regarding international funds transfers, sent or received, for an amount equal to or greater than USD 1,000, as well as a monthly report of cash transactions denominated in U.S. Dollars with users starting from USD 250 and with clients starting from USD 500, Additionally a weekly report must be submitted to the CNBV regarding cash transactions denominated in U.S. Dollars for any amount.

In June 2010, provisions applicable to credit institutions were modified, and were subsequently reformed in September and December 2010, to regulate cash transactions denominated in U.S. Dollars that may be entered into by banks. According with those provisions, banks are not able to receive physical cash amounts, in U.S. Dollars, from individuals in excess of USD 4,000 per month for deposits, at national level, and in the case of individuals with business activity and entities, banks are able to receive cash amounts up to USD 14,000 in a calendar month, only to those clients established in the northern border area or in tourists zones.

Furthermore, only credit institutions may perform cash purchase transactions denominated in U.S. Dollars to national users, up to USD 300 per day, not exceeding USD 1,500 accumulated in a calendar month, and for foreign users up to USD 1,500 per calendar month in one or more transactions. In Banorte, the reception of cash denominated in U.S. Dollars to national and international users, is only allowed in tourists zones and the North border, as well as in 10% of the selected branches in the country.

On October 17, 2012, the Prevention and Identification of Transactions with Illicit Resources Law was published in the Official Gazette, and became effective on July 18, 2013.

The Prevention and Identification of Transactions with Illicit Resources Law aims to protect the financial system and the national economy, through measures and procedures to prevent and identify acts or transactions involving illegal resources.

This law establishes the obligation to observe anti-money laundering measures to those who carry out vulnerable activities, and where appropriate, report unusual transactions to the authority.

Rules on Interest Rates

Banco de Mexico regulations limit the number of reference rates that may be used by Mexican banks as a basis for determining interest rates on loans. For Peso-denominated loans, banks may choose any of a fixed rate, TIIE, CETES, CCP (costo de captacion promedio a plazo), the rate determined by Banco de Mexico 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 bank funding rate (tasa ponderada de fondeo bancario) and the weighted governmental funding rate (tasa ponderada de fondeo gubernamental). For UDI-denominated loans, the reference rate is the UDIBONOS. 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 Mexico.

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 Mexico published new rules that regulate the issuance and use of credit cards. 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.

Fees

Under Banco de Mexico regulations, Mexican banks and Sofomes may not, in respect of loans, deposits or other forms of funding and services with their respective clients, (i) charge fees that are not included in their respective, publicly disclosed, aggregate annual cost (costo anual total), (ii) charge alternative fees, except if the fee charged is the lower fee, and (iii) charge fees for the cancellation of credit cards issued. In addition, among other things, Mexican banks may not (i) charge simultaneous fees, in respect of demand deposits, for account management and relating to not maintaining minimum amounts, (ii) charge fees for returned checks received for deposit in a deposit account or as payment for loans granted, (iii) charge fees for cancellation of deposit accounts, debit or teller cards, or the use of electronic banking services, or (iv) 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, Sofoles and Sofomes permitting customers the use of, or operating, 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, Sofoles 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, Sofoles and Sofomes may not charge additional fees to clients.

Banco de Mexico, on its own initiative or as per request from the CONDUSEF, banks, Sofoles or Sofomes, may assess whether reasonable competitive conditions exist in connection with fees charged by banks, Sofoles or Sofomes in performing financial operations. Banco de Mexico must obtain the opinion of the Federal Competition Commission (Comision Federal de Competencia) in carrying out this assessment. Banco de Mexico may take measures to address these issues.

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.

Only in exceptional cases may IPAB grant financial support to banking institutions.

IPAB will 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: (i) the Minister of Finance and Public Credit, (ii) the Governor of Banco de Mexico, (iii) the President of the CNBV, and (iv) 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 IPAB to a bank's depositors will be paid upon determination of the dissolution and liquidation, or bankruptcy of a bank. IPAB will act as liquidator or receiver in the dissolution and liquidation, or bankruptcy of banks, either directly or through designation of a representative. IPAB will guarantee obligations of banks to certain depositors and creditors only up to the amount of 400,000 UDIs, per person per bank.

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 0.004% multiplied by the average of the daily outstanding liabilities of the respective bank in a specific month, less (i) holdings of term bonds issued by other commercial banks; (ii) financing granted to other commercial banks; (iii) financing granted by IPAB; (iv) subordinated debentures that are mandatorily convertible in shares representing the capital stock of the banking institution; and (v) restricted assets and liabilities resulting from the repurchase transactions (reportos) and lending of securities with the same counterparty, pursuant to the provisions issued by IPAB.

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 0.003% 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 0.008% 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 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. 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.

Law for the Transparency and Ordering of Financial Services.

The Transparency and Ordering of Financial Services Law regulates (i) 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, (ii) the fees that financial institutions charge to each other for the use of any payment system, (iii) interest rates that may be charged to clients, and (iv) 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 Mexico 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 Mexico 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 Mexico of any changes in fees at least 30 calendar days before they become effective.

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: (i) 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; (ii) the compliance by credit institutions and borrowers with certain requirements in the application process; (iii) the binding effect of offers made by credit institutions granting secured loans; (iv) the inclusion of mandatory provisions in loan agreements; and (v) 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 institutions. This provision of the Secured Credit Law is designed to reduce expenditures made by borrowers.

Insurance Companies

Insurance companies (instituciones de seguros) are regulated and subject to supervision by the CNSF, and are subject to the General Insurance Companies Law (Ley General de Instituciones y Sociedades Mutualistas de Seguros), 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 general 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.

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

Amendment to the rating methodology of the commercial portfolio.

On June 24, 2013, the CNBV modified provisions applicable to reserves for loan losses regarding the commercial loan clients, in an effort to conform its regulations to the most recent recommendations issued by the Basel Committee. These new provisions shift away from an accrued losses methodology to an expected losses methodology to identify risks in advance. Both, qualitative and quantitative credit information is now required to assess credit risk and cover it with the reserve levels associated with this new methodology.

Bill on Financial Discipline for the States and Municipalities

In February 12, 2013, senators from the PRI (Partido Revolucionario Institucional) presented before the Senate a reform package and a bill on financial discipline for states and municipalities aimed at establishing a nationwide policy relating to fiscal responsibility on the incurrence of debt by government entities. This new regulation will organize sub-national debt by regulating financial obligations through limits to indebtedness both to states and municipalities. This law will improve the regulation of public finances, by creating a new public debt scheme called "deuda estatal garantizada" or "state guaranteed debt," which will prohibit states and municipalities from borrowing to finance current spending, among others.

In addition, this new regulation respects the autonomy of the states but elevates sub-national funding to a federal level by adding provisions to the Mexican Constitution empowering the Mexican Congress to legislate matters of fiscal responsibility and fiscal coordination and by introducing a new system of public borrowing for states and municipalities. This new regulation will set the rules for public finances while permitting the Mexican Congress to establish general applicable principles and rules, without making the regulation of public debt and transparency become a federal question.

The purpose of this law is to support government entities by improving their financing terms and conditions to foster growth and development without damaging public finances and continue endorsing state sovereignty and independence, through a transparent system, accountability, and efficient public spending.

If this new law is approved, it will establish a system of financial discipline that will set funding limits and conditions, rules for fiscal responsibility and rules regarding the use of participaciones federales as a source of payment and state guaranteed debt.

New Insurance and Bonding Institutions Law.

The General Insurance Companies Law and the Bond Companies Law were repealed on April 4, 2013 while a new Insurance and Bonding Institutions Law was published on the same date in the Official Gazette and will become effective 730 days after its publication, on April 4, 2015.

The Insurance and Bonding Institutions Law was created in order to ensure that the companies of the sector have the proper solvency, stability and financial security to meet their obligations.

To regulate the solvency of these institutions the Insurance and Bonding Institutions Law adopts international standards in terms of regulation and supervision of their activities.

Additionally, a monitoring process will also be implemented, which will increase the obligations of the board of directors as it commits such board to implement mechanisms for permanent verification with respect to the fulfillment of operational and financial aspects of the institution. The main aspects of the law are, among others, the following:

a) Sets the legal framework for the regulatory development of the Solvency II requirements in Mexico. Solvency II is a legislative program which will be carried out in the European Union and will affect insurance and bonding institutions. The three pillars of Solvency II are the following:

    (i) Measurement of assets, liabilities and capital: the new measure in this pillar consists on the Solvency Capital Requirement, which replaces the Minimum Guarantee Capital for insurance companies and the Operations Base Capital for bonding institutions.

    Also, in accordance with Solvency II, the Insurance and Bonding Institutions Law allows insurance institutions to develop and use its own model of Capital Solvency Requirements, once approved by the CNSF, or to use the model developed by the CNSF.

    On the other hand, the Insurance and Bonding Institutions Law provides that all capital, including capital in excess of the Investment Base or of the Solvency Capital Requirement should be invested prior authorization of the policies by the CNSF.

(ii) Monitoring process: the Insurance and Bonding Institutions Law increases the obligations of the board of directors as it forces such board to implement mechanisms for permanent verification with respect to the fulfillment of the operational and financial aspects of the institution.

In addition, the Insurance and Bonding Institutions Law requires the creation of an Audit Committee which replaces the Regulatory Controller.

The Insurance and Bonding Institutions Law also requires the implementation of measures that ensure systems, terms, balance sheets and financial information separate from that of the business group of which the institutions are part, mainly to ensure free competition conditions, for example, carrying out transfer pricing studies.

(iii) Transparency requirements: the financial statements published by the insurance and bonding institutions should include notes that disclose the funds that cover the Base of Investment as well as the Own Eligible Funds that cover the Solvency Capital Requirements.

Also, these institutions must obtain a quality rating of a specialized credit agency authorized by the CNSF.

b) Create a new line of business for the called bail insurance, which would coexist with the existing bonds. The Insurance and Bonding Institutions Law expressly provides that the bail insurances should be accepted as a guarantee as the bonds are accepted in operations with federal and local governments.

c) The authority that currently has the powers to regulate on insurance licenses and authorizations matters is the SHCP and will be transferred to the CNSF.

We cannot predict the scope of enforceability of the Insurance and Bonding Institutions Law with regard to Seguros Banorte.

Adoption of New Rules in Mexico in accordance with Basel III

Basel III Guidelines

Basel III is a comprehensive set of reform measures developed by the Basel Committee to strengthen the regulation, supervision and risk management of the banking sector. These measures aim to: improve the banking sector's ability to absorb shocks arising from financial and economic stress, whatever the source; improve risk management and governance; and strengthen banks' transparency and disclosures.

Adoption of Basel III Standards in Mexico

On November 28, 2012, the CNBV published an amendment to the Mexican 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 in until the year 2022. 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.

Definition of "Capital"

Under these new rules, net capital continues to be integrated by a basic tier (Tier 1 and Tier 2 basic capital) and a complementary tier.

The new proposal establishes a new capital ratio of 10.5% to be classified as a category I institution. Banorte had a capital ratio of 15.12% as of December 31, 2013.

vi. HUMAN RESOURCES

GFNorte had 27,549 full-time and professional fee-based employees at the end of 2013.

Sector	2013	2012	2011
Banking, Brokerage, SOFOM and Other Finance Companies Sector	21,084	20,964	20,207
Long- term Savings Sector	6,390	5,144	3,893
Total full-time employees	**27,474**	**26,108**	**24,100**
Total full-time employees & salaries	**27,549**	**26,212**	**24,134**

74% 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

Banorte has an established environmental policy containing the following 4 principles:

1. Achieve sustainable development.
2. Address social responsibility in the pursuit of return on investment.
3. Convey awareness of sustainable development through the operation of the bank.
4. Integrate environmental protection in the operation of the bank.

GFNorte did not receive a certificate or environmental recognition issued by any authority or duly accredited entity in 2013.

The development of existing programs and environmental projects as well as new ones continued throughout 2013. The most important are:

- **Natural Capital Declaration:** GFNorte chairs Working Group 2 on the integration of natural capital considerations into financial products and services. GFNorte has developed two pilot projects: (i) for the incorporation of natural capital in credit risk assessment, and (ii) for the creation of risk policies in agricultural products.

  Additionally, the Natural Capital Declaration project seeks to reduce risk, increase portfolio resilience, provide clients with financial security, allocate capital more efficiently and correct market flaws. Also with these pilot projects, guidelines will be obtained on deforestation and forest destruction caused by agricultural production. The final objective is to develop financial products and services that incorporate aspects of natural capital.

- Banorte continues to actively participate in **CESPEDES** (Commission for the Study for Sustainable Development in the Private Sector), and in Comision de Sustentabilidad del Consejo Coordinador Empresarial, A. C., working particularly in the Energy Group, and taking part in the "Study for Low-Carbon Growth in the Private Sector" developed by WWF (World Wildlife Fund), CESPEDES and PwC.

Regarding products and services:

- **Impact Generation:** this joint initiative of Banorte Ixe and New Ventures Mexico seeks to support and promote companies focused on environmental issues. In the 2013 edition of this project, 765 MSMEs accessed to a training platform with more than 100 resources including tutorials, interviews, workshops, courses and articles addressing topics such as business, communication, leadership, innovation and impact measurement. Afterwards, a two-day event was held so the 50 selected finalists had an opportunity to develop contacts with allies and present their projects before the jury. This initiative originated more than 70 alliances on a national level and multiple benefits were provided to the winners.

- Banorte, together with the Global Institute of Sustainability of the Instituto Tecnologico y de Estudios Superiores de Monterrey (ITESM), the Multilateral Investment Fund (MIF) of the Inter-American Development Bank, FEMSA, and Walmart have worked together on the **"Pilot Program for the Competitiveness of Micro-SMEs through the Implementation of Sustainable Practices".** As part of this pilot program, the "Eco-efficient Chains" website was launched in 2013, promoting the participation of MSMES (Banorte clients) in eco-efficiency courses. In the long term, this initiative seeks to create financial instruments that will enable MSMEs to use clean and efficient technologies.

- In 2013, the number of clients using electronic banking as well as the **mobile device token** increased; reducing the use of the physical token has improved savings for the institution and contributes to environmental conservation. In 2013 10,000 physical tokens returned by customers were recycled, either having ceased to function, having expired or because clients switched to using mobile device tokens.

Regarding energy and climate change:

- In 2013, a **green roof** in the **"Roberto Gonzalez Barrera Call Center"** was inaugurated which complements the energy efficiency and water savings systems included in the construction of the building. In the roof 67 different species representative of various regions of the country grow, some of which are endangered. This system improves the Call Center by regulating the temperature inside the building and thereby extending its lifetime.

- At the close of 2013, **CO_2 emissions generated** by GFNorte amounted to 68,765 tons, more than 15% reduction in emissions per employee vs. 2009. Our carbon footprint has been verified in 2012 and 2013 by an external firm accredited by the EMA (Mexican Accreditation entity).

- In 2013 the Group held a total of 21,958 videoconferences, which in addition to the savings in costs involved, prevented CO_2 emissions generated by the transportation of those employees to attend such meetings. Three connections are equivalent to one videoconference.

- **Integral Energy Control System** (SICE) has installed programmed on/off controls for air conditioning and lighting units, and replaced 10-year old air conditioning units or those that have reached the end of their useful life by more efficient equipment.

- At the close of 2013, photovoltaic cells installed in two Banorte branches continued to operate.

- Banorte is an active participant in the technical work group of **Green House Gas** (GHG Protocol) and **United Nations Environment Program Finance** (UNEP FI). This project develops guidelines to help financial sectors calculate the emissions of their loan and investment portfolios (Complement of Scope 3).

- Banorte is working together with other Mexican financial institutions and the ABM (Mexican Bank Association) **to measure the carbon footprint** as well as a to develop a benchmark with other sectors, and in this way, create a framework on the generation of greenhouse gases.

- **INB** received an incentive from American Electric Power (AEP Texas Central) for the installation and adjustment of two new air-cooling units in its main building in McAllen.

Regarding the Paperless Program, waste management and environmental actions:

- In 2013 the internal communication campaign of Paperless began by transmitting biweekly Ecotip postcards, to raise awareness about responsible and efficient use of paper and toner.

- Derived from Grupo Financiero Banorte's responsible paper consumption program, Paperless, by the end of 2013, paper consumption of participating Staff areas was reduced by (35%) vs. 2010 and (2%) vs. 2012.

- One of the most outstanding modifications to POS terminals is the **"simplified receipt",** which reduces by 25% the consumption of paper and ink used in issuing the receipt.

- More clients are opting to use the electronic banking option. At the close of 2013, we served 377,016 accounts, 170,070 accounts chose to receive their account statements by e-mail and 142,667 were not mailed, in both cases opting for the Paperless option, representing a 63% and 44% growth respectively vs. 2012.

- **Uniteller USA** has also promoted the **"Paperless"** project, encouraging mail culture vs. printing.

- In 2013 **Banorte Securities International** recycled 128 tons of paper, cardboard, glass, plastic and aluminum.

- **INB** recycles paper, aluminum cans and cardboard at the McAllen, Texas USA corporate building.

- **INB** continues with the **"Green Business"** Certification Program in McAllen, demonstrating its commitment to reducing the environmental footprint of its central office and branches.

- In 2013 **Seguros y Pensiones Banorte** recycled 12.87 tons of cardboard and white paper.

- In 2013, an initiative was led by the **Western Territory** together with the municipality of Guadalajara, for the care and maintenance of the median strips along Chapultepec Avenue; 50 volunteers helped to plant 3,000 plants.

In relation to the management of Socio-environmental risks:

As a service-oriented company located predominantly in urban areas, our activities do not represent a significant environmental risk

- During the last quarter of 2013, the **Sustainability Management System** (SMS) started to be implemented, the system aims to collect, validate, monitor and analyze ratios of the Group's environmental, social and economic performance. Banorte purchased this system from CRedit360.

- Since October 2012, Banorte has adopted the Social and Environmental Management System (SEMS), which identifies, manages, mitigates and offsets risks associated with Banorte's loan portfolio. During the last quarter of 2013, version 2.0 of the system was implemented, thus optimizing the analysis of socio-environmental financing risks by systematizing the risk detection process based on industries and sectors with negative impacts on both society and the environment.

- In 2013 more direct contact was achieved with account executives receiving real time notifications of loans registered into the credit system. Through almost 1,300 phone calls during the year, the majority of those involved in the process were informed in a timely manner.

Results in 2013:

% of Projects by type of environmental risk -2013	
Low socio-environmental risk	66.6%
Medium socio-environmental risk	3.8%
High socio-environmental risk	0.6%

- In 2013, 12 socio-environmental due diligences were conducted, offering clients timely advice on managing, minimizing, mitigating and offsetting social and/or environmental impacts resulting from projects to be developed.

- Additionally, 141 personalized consultancies were provided to improve socio-environmental performance of clients.

- **Equator Principles**

  Since March 2012, Equator Principles were implemented providing the framework for risk identification, socio-environmental analysis and management in investment project transactions.

  Reporting

  Within the framework of these principles, 10 financings were authorized in 2013 of which 4 were rated Category B. In-depth social and environmental risk and performance analyses were conducted on these financings, all monitored under the Equator Principles' framework.

  Results of 2013 the analysis:

Equator Principles	
Category A	0
Category B	4
Category C	6
TOTAL	10

**Socio-environmental risk categories:*
***Category A** –Projects with possible significant adverse environmental or social impacts, which are diverse, irreversible or unprecedented.*
***Category B** –Projects with possible limited adverse environmental or social impacts, which are few in number, usually located in specific sites, largely reversible and easily manageable through mitigation measures.*
***Category C** –Projects with minimal or non-existent social or environmental impacts.*

Furthermore, in 2013 we worked together with Government Banking, Structured Financing, Corporate and Business Banking, Legal, and Loans and Risks departments, aiming to determine strategic implementation objectives such as scope and contractual commitments.

Awards

- For third year in a row, GFNorte was selected by the Bolsa Mexicana de Valores to form part of their **IPC Sustainability Index**.

- With respect to the "CDP 80 Latin America 2013 Climate Change Report", GFNorte was among the eight companies selected to be part of the **Climate Disclosure Leadership Index** for Latin America due to its leadership in transparency in information delivered in 2013 related to climate change.

- GFNorte was the first financial institution to receive the **GEI2 award** granted by the Mexico GHG Program of SEMARNAT (Secretary of the Environment and Natural Resources) in 2013, ratifying the monitoring of our carbon footprint (verified by an external entity), and the use of our mitigation program for the formerly mentioned.

viii. MARKET INFORMATION

The following presents the market share evolution of the financial institutions comprising GFNorte:

Company	Concept	2013	2012	2011
Banking Sector (1)	Retail Total Deposits	14.2%	14.3%	13.2%
	Performing Loans	14.0%	14.3%	13.8%
Brokerage (2)	Operations in equities	3.3%	4.7%	4.8%
Afore (retirement fund) (3)	Affiliations	26.0%	16.8%	16.6%
Insurance (4)	Issued Premiums	4.3%	4.3%	4.0%
Annuities (4)	Pensions	45.0%	46.6%	52.8%
Leasing and Factoring (5)	Total Loans	35.6%	38.1%	34.4%
Warehousing(6)	Certifications	6.7%	5.4%	6.2%
Solida Administradora de Portafolios (formerly Ixe Soluciones) (5)	Total Loans	1.0%	0.6%	0.6%
Ixe Automotriz (5)(*)	Total Loans	-	0.2%	0.9%
Fincasa Hipotecaria (5) (*)	Total Loans	-	6.8%	8.9%

1) Source: CNBV Banca Multiple as of December 31, 2013.
2) Source: Asociacion Mexicana de Intermediarios Bursatiles, A.C., as of December 31, 2013.
3) Source: CONSAR as of December 31, 2013.
4) Source: Asociacion Mexicana de Instituciones de Seguros, A.C. as of December 31, 2013.
5) Source: CNBV Sociedades Financieras de Objeto Multiple, Entidades Reguladas as of December 31, 2013. (2012 – total system figures were modified).
6) Source: CNBV Almacenes Generales de Deposito as of December 31, 2013.
(*) Ixe Automotriz merged into Arrendadora y Factor Banorte, becoming effective in May 2013, whereas Fincasa Hipotecaria merged into Banco Mercantil del Norte, becoming effective in May 2013.

Regarding Banking sector, position and market share in various segments are listed below:

Concept	2013		2012	
	Position	Market Share	Position	Market Share
Total Assets	4	11.7%	4	11.7%
Performing Loans	3	14.0%	3	14.3%
Commercial	4	12.8%	3	14.2%
Consumer (1)	3	10.7%	3	9.1%
Credit Cards	4	7.0%	4	6.6%
Mortgage	3	16.4%	2	16.1%
Government	1	23.0%	2	22.2%
Retail Total Deposits	3	14.2%	3	14.3%
Demand Deposits	4	12.3%	4	11.2%
Time Deposits	1	18.3%	1	19.9%

Source: CNBV Banca Mutiple as of December 31, 2013.
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.

Banorte, due to its focus on commercial and retail banking, 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) in corporate and government banking, as well as by individuals of the affluent segment. Our main competitors in Mexico are: *Scotiabank Inverlat, S.A., Institucion de Banca Multiple, Grupo Financiero Scotiabank Inverlat; BBVA Bancomer, S.A., Institucion de Banca Multiple, Grupo Financiero BBVA Bancomer; Banco Nacional de Mexico, S.A. Institucion de Banca Multiple, Grupo Financiero Banamex; Banco Santander (Mexico), S.A. Institucion de Banca Multiple, Grupo Financiero Santander; HSBC Mexico, S.A., Institucion de Banca Multiple, Grupo Financiero HSBC and 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:

- Banco Bicentenario, S.A., Institucion de Banca Multiple.
- Bankaool, S.A., Institucion de Banca Multiple.
- Banco Forjadores, S.A., Institucion de Banca Multiple.
- Consubanco, S.A., Institucion de Banca Multiple.
- ABC Capital, S.A., Institucion de Banca Multiple.
- Banco PagaTodo, S.A., Institucion de Banca Multiple.
- Banco Base, S.A., Institucion de Banca Multiple.
- Fundacion Donde Banco, S.A., Institucion de Banca Multiple.
- Bancrea, S.A., Institucion de Banca Multiple.

ix. CORPORATE STRUCTURE

Financial Entity	Totay Equity
Banco Mercantil del Norte, S. A., Institucion de Banca Multiple, Grupo Financiero Banorte. • Credit Institution authorized to conduct financial operations. • Conducts banking and lending operations.	97.50%
Arrendadora y Factor Banorte, S. A. de C.V., Sociedad Financiera de Objeto Multiple, Entidad Regulada, Grupo Financiero Banorte. • Acquires goods for financial leasing. • Obtains loans and financing from credit and insurance institutions to cover liquidity needs. • Celebrates leasing and factoring contracts.	99.99%
Almacenadora Banorte, S. A. de C. V., Organizacion Auxiliar del Credito, Grupo Financiero Banorte. • Storages, keeps and maintains goods and merchandise. • Issues deposit certificates and pledged bonds. • Transforms deposited merchandise in order to increase their value.	99.99%
Seguros Banorte Generali, S. A. de C. V.*, Grupo Financiero Banorte. • Institution that insures and re-insures individuals and corporations.. *The change of its name to Seguros Banorte, S.A. de C.V. is in course.	99.99%
Pensiones Banorte Generali, S. A. de C. V.*, Grupo Financiero Banorte. • Acts as an insurance institution whose objective is to exclusively manage annuities derived from social security laws. *The change of its name to Pensiones Banorte, S.A. de C.V. is in course.	99.99%
Casa de Bolsa Banorte Ixe, S.A. de C.V., Grupo Financiero Banorte. • Acts as an authorized intermediary to operate in the stock market, conducting transactions for securities sale and purchase. • Advices in securities' placement, and operations with securities and mutual funds.	99.99%
Operadora de Fondos Banorte Ixe, S.A. de C.V., Sociedad Operadora de Sociedades de Inversion, Grupo Financiero Banorte. • Asset Management, distribution, valuation, promotion and acquisition of shares issued by mutual funds. • Deposit and custody of shares subject to investment and shares of mutual funds, accounting, and management in the issuance of securities.	99.99%
Ixe Servicios, S. A. de C. V.	99.99%
Solida Administradora de Portafolios, S. A. de C. V., Sociedad Financiera de Objeto Multiple, Entidad Regulada, Grupo Financiero Banorte. • Obtains 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 dispositions, as well as granting loans to the automotive sector.	96.76%

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:

Location	Construction m^2	Net book value (thousands of Ps)
Lateral Autopista Mexico-Toluca, Col. Cruz Manca, Mexico D. F.	43,761	$658,566
Alfonso Reyes # 3639, Monterrey, N.L.	43,726	418,134
Av. Revolucion # 3000, Monterrey, N. L.	45,892	338,400
Calzada de Tlalpan # 2980, Mexico D.F.	18,069	325,058
Paseo de la Reforma # 281, esquina Rio Sena 110, Mexico, D. F.	1,132	127,316
Calle David Alfaro Siqueiros # 106, Col. Valle Oriente.	15,569	126,304

These properties are insured against damages and are not pledged as guarantee in credit operations.

In December 2005 Ixe changed its corporate offices to Torre Mayor, building in which 6.5 floors and an annex are leased. Following the merger in April 2011 with GFNorte, additionally to Ixe's corporate offices in Torre Mayor, GFNORTE has office spaces for its subsidiaries in 16 buildings, and a total of 171 properties for Ixe branches. 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.

Building	Offices	Branches
Mexico City and M.A.	4	73
Morelos	1	6
Puebla	1	10
Queretaro	1	9
Guanajuato	1	10
Chihuahua	1	1
Coahuila	1	-
Tabasco	1	-
Jalisco	1	23
Michoacan	2	-
Quintana Roo	2	2
Nuevo Leon	-	12
Estado de Mexico	-	22
Yucatan	-	3
Total	**16**	**171**

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, 2013, the total subscribed and paid equity amounted to Ps.9,708'053,470.50, 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 a face value of Ps 3.50.

Shares representing subscribed capital are classified as: Class I, (representing the fixed portion of equity) and Class II, (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 Ordinary Shareholders' Meeting held on October 6, 2005, an increase in the variable portion of the total equity was approved in the amount of Ps 5,298,162,313.50, through the capitalization of the "Retained Earnings" account, issuing 1,513,760,661 ordinary nominative shares, Series "O", Class II and giving shareholders 3 new shares for each outstanding share.

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.

In the General Extraordinary Shareholders' Meeting held on July 3, 2013, an increase in GFNorte's variable portion of the total equity was approved by issuing 447'371,781 ordinary nominative shares, Series "O", Class II with a face value of Ps 3.50 each, to be subscribed through a Global 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 fiscal years as follows:

Meetings' Date (decreed dividend)	Amount of Decreed Dividend (pesos per share)	Date of Payment	Comments
February 18, 2011	$0.17	As of February 28, 2011	Second of three payments corresponding to 2009's profit to cover the amount of Ps. 0.52 per share, the total amount of the dividend was decreed by the Shareholders' Assembly in October 2010.
April 29, 2011	$0.18	As of May 10, 2011.	Corresponds to the third and last payment to cover the total amount of Ps. 0.52 per share, which was approved by the Shareholders' Assembly in October 2010.
October 17, 2011	$0.17	As of October 24, 2011.	The decreed dividend corresponds to the first of three payments needed to cover the amount of Ps. 0.52 per share, approved by the Group's Board of Directors on July 25, 2011.
February 17, 2012	$0.17	As of February 29, 2012.	Corresponds to the second of three payments to cover the amount of Ps. 0.52 per share, approved by the Shareholders' Assembly in October 2011.
April 27, 2012	$0.18	As of May 11, 2012.	Corresponds to the third and last payment to cover the total amount of Ps. 0.52 per share, which was approved by the Shareholders' Assembly in October 2011.
October 11, 2012	$0.183	As of October 24, 2012.	Corresponds to the first of four payments to cover a total amount of Ps. 0.732 per share, which was approved by the Shareholders' Assembly on July, 26, 2012.
January 22, 2013	$0.549 (in three disbursments of $0.183).	As of January 31, April 23, and July 23, 2013.	Remaining disbursements to cover the amount of Ps 0.732 per share, approved by the Shareholders' Assembly in October 2012.
October 14, 2013	$0.7852 (in four disbursments of $0.1963)	As of October 23, 2013, January 23, April 23 and July 23, 2014.	Total decreed dividend for Ps. 0.7852 per share which was approved by the Group's Board of Directors on July 25, 2013.
December 20, 2013	$0.3926 (prepayment of the second and third disbursements of $0.1963 each)	As of December 31, 2013.	It was approved to modify the first resolution approved in the Ordinary General Shareholders' Meeting held on October 14, 2013, in order to make advanced payments on December 31, 2013 of the dividends that would be disbursed on January 23, 2014 and April 23, 2014 amounting to Ps 0.1983 per share, respectively. *The fourth and last disbursement was not be paid in advance and will be disbursed on July 23, 2014, as agreed in the aforementioned Shareholders' Meeting of October.*

Furthermore, the Ordinary General Shareholders' Meeting held on October 17, 2011, approved to modify the dividend policy so that the payments are as follows:

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 GFNORTE's Audited Consolidated Financial Statements for the years ended December 31, 2013 and 2012, published by Galaz, Yamazaki, Ruiz Urquiza, S. C., a member of Deloitte Touche Tohmatsu Limited dated February 20, 2014. For the year ended December 31, 2011, financial figures are based on GFNORTE's Audited Consolidated Financial Statements published by Galaz, Yamazaki, Ruiz Urquiza, S. C., a member of Deloitte Touche Tohmatsu Limited, dated February 27, 2013, and therefore include changes to accounting criteria that occurred in 2011.*
- ✓ *In January 2012, the merger between Afore Banorte and Afore XXI was completed. As a result, Banco Mercantil del Norte determined that it has no control over Afore XXI Banorte, and therefore does not consolidate it in its financial statements, and recognizes the equity participation method given its significant influence. Financial statements as of December 31, 2011,* ***reflect the effects of the deconsolidation of Afore XXI Banorte, in order to make them comparable with the 2012 financial statements.*** *Consequently, some figures in GFNORTE's 2011 Income Statement and Balance Sheet differ in this report to those in the Report that was sent to the authorities in April, 2012.*
- ✓ *Changes to Accounting Criteria. In January 2011, the CNBV issued a series of regulations to modify the accounting criteria of controlling companies of financial groups and financial institutions. The main changes are:* ***a) For Controlling Companies****. Criteria A-2 "Application of particular norms". The facility of not consolidating permanent investments in Insurance or Bonding companies in which the company is controlling has been eliminated with these criteria. As of February, such institutions must be consolidated with the financial statements of the controlling companies. As a consequence, the consolidation of "Seguros y Pensiones Banorte" (the Insurance and Annuities companies) has initiated.* ***b) For Credit Institutions.*** *Criteria D-2 "Income Statement". The way the Income Statement is presented was modified, mainly eliminating the items of "Non Operating Income (Expenses), net" and the accounts that were previously registered there will now be registered under "Other Operating Income (Expenses)" in the Operating Income heading. For more information about the changes to accounting criteria, refer to the corresponding section in the notes of the Audited Financial Statements (Note 4 - Significant Accounting Policies).*
- ✓ *In April 2011, the merger with IXE GF became effective, thereby, the year of 2011 includes 9 months of integrated results*
- ✓ *The arithmetic operations were carried out in pesos and in the following tables are presented in million pesos. As a result, some totals appear to have minimal errors, which is not the case as it is just a matter of rounding off figures.*

a) SELECTED FINANCIAL INFORMATION

Grupo Financiero Banorte

	2013	2012	2011
Net Income Grupo Financiero Banorte (GFNorte) (*)	$13,508	$10,888	$8,517
Total Assets GFNorte (*)	$1,006,788	$916,567	$825,147
Total Liabilities GFNorte (*)	$898,097	$828,058	$748,713
Stockholders' equity GFNorte (*)	$108,691	$88,509	$76,434
Stockholders' equity GFNorte excluding minority interest (*)	$106,657	$81,881	$70,849
INFORMATION PER SHARE			
Net income per share (pesos)	$5.35	$4.68	$3.79
Dividend per share (pesos) (1)	$0.7852	$0.732	$0.52
Book value per share (pesos) (excluding minority interest)	$38.45	$35.20	$30.45
Shares outstanding (millions) (2)	2,526.1	2,326.4	2,312.8
INFRASTRUCTURE AND EMPLOYEES			
Bank branches (3)	1,288	1,316	1,285
ATMs (automated teller machines)	7,035	6,707	6,367
Full-time employees	27,474	26,108	24,100
Full-time employees and professional services	27,549	26,212	24,134

	2013	2012	2011
PROFITABILITY RATIOS			
NIM	4.2%	4.1%	4.1%
NIM adjusted for credit risks	3.2%	3.4%	3.3%
Return on Assets (ROA)	1.4%	1.3%	1.1%
Return on Equity (ROE)	14.2%	14.3%	14.1%
OPERATIONS			
Efficiency Ratio (4)	52.0%	54.0%	55.6%
Operating Efficiency Ratio (5)	2.9%	2.9%	3.2%
Liquidity Ratio	137.4%	128.4%	101.8%
ASSET QUALITY INDICATORS			
Past due loan ratio	3.1%	2.1%	1.9%
PDL Reserve coverage	104.6%	138.3%	143.1%
CAPITALIZATION RATIO			
Banco Mercantil del Norte	**15.12%**	**14.75%**	**12.9%**
Ixe Banco	**-**	**15.5%**	**15.3%**

(*) Million pesos.

1. Dividends approved by the Shareholders' Assemblies in 2013, 2012 and 2011 were: a total dividend of Ps.0.52 per share in 2011, to be paid in three installments (Ps 0.17 in October 2011, Ps 0.17 in February 2012 and Ps 0.18 in May 2012). The total dividend of Ps 0.732 per share decreed in 2012 to be paid in four installments of Ps 0.183 per share (October 2012, January, April and July 2013). Total Dividend decreed in 2013 was Ps 0.7852 per share to be paid in four installments of Ps 0.1963 per share (October 2013, January, April and July 2014) although in the Shareholders' Assembly celebrated on December 20 2013, it was authorized to make the payments regarding the installment of January and April 2014 in advance on the 31 December 2013.

2. The 2,526.14 million shares are the accumulated weighted average in 2013; while as of closing of 4Q13 the total amount of outstanding shares totals 2,773.73 million shares resulting from the increase in GFNorte's equity following the Public Offering carried out in July 2013.

3. Includes bank modules and excludes agencies abroad.

4. Non Interest Expense / Total Income = Net Income + Non-Interest Income.

5. Non Interest Expense / Average Total Assets.

b) FINANCIAL INFORMATION PER BUSINESS LINE, GEOGRAPHICAL REGION AND EXPORT SALES

a. Total Deposits

By Business line

	2013	2012	2011
Commercial	327,253	259,008	224,691
Business	21,955	21,923	18,391
Corporate	7,500	7,491	7,781
Government	58,982	49,151	46,565
Financial Intermediaries	28,051	48,407	39,174
Deposits	**$443,741**	**$385,981**	**$336,602**
Ixe [(1)]	$0	38,344	33,690
Total Deposits	**$443,741**	**$424,325**	**$370,293**

Million Pesos.

[(1)] For 2012 and 2011, there is no information available by business line. Derived from the merger of Ixe Banco into Banco Mercantil del Norte, which came into effect in May 2013, Ixe's figures are integrated in each business line since that date.

By Geographical Regions

	2013	2012	2011
Mexico City- South	75,376	39,975	34,734
Mexico City- North	45,426	35,290	31,698
Northern	73,518	68,661	58,476
Central	49,017	42,420	36,718
Northwest	29,020	25,897	23,035
West	37,820	32,001	29,754
South	18,619	13,953	11,531
Peninsular	21,531	18,537	17,067
Border	18,808	17,125	15,559
Isthmus	14,583	13,691	12,373
East	30,380	29,183	25,543
Central Treasury	6,957	23,413	13,054
Foreign	22,685	25,835	27,060
Ixe [(1)]	0	38,344	33,690
Total Deposits	**$443,741**	**$424,325**	**$370,293**

Million Pesos.

[(1)] For 2012 and 2011, there is no information available by geographical regions. Derived from the merger of Ixe Banco into Banco Mercantil del Norte, which came into effect in May 2013, Ixe's figures are integrated in each geographical region since that date.

b. Total Loans

By Business line

Total Loan Portfolio	2013	2012	2011
Mortgages	83,119	73,420	65,534
Car Loans	11,599	10,464	9,502
Credit cards	21,601	18,458	12,368
Payroll	26,776	18,583	13,662
Consumer	143,095	120,923	101,066
Commercial [1]	117,184	110,977	104,719
Corporate [1]	82,774	89,660	80,545
Government [2]	95,638	88,354	71,176
Total Loan Portfolio	**$438,693**	**$409,913**	**$357,507**

Million pesos.

[1] In this Annual Report, some figures corresponding to 2012 and 2011 in the commercial and corporate loan portfolios differ from those presented in the 2012 Annual Report due to certain reclassifications during the second quarter of 2013 in the Commercial Portfolios of Ixe Banco, Arrendadora y Factor Banorte and Fincasa Hipotecaria to be considered as Corporate portfolios according to Banco Mercantil del Norte's classification criteria for the two loan portfolios; reclassification was made retroactively.

[2] Government banking includes federal, state and municipal sectors.

By Geographical Regions

	2013	2012	2011
Mexico City- South	68,253	57,245	48,145
Mexico City- North	65,636	46,204	30,705
Northern	93,035	82,936	73,627
Central	31,179	28,046	24,351
Northwest	37,102	36,605	32,409
West	36,955	32,333	28,018
South	13,811	10,682	7,374
Peninsular	22,984	18,949	16,881
Border	16,710	16,127	14,520
Isthmus	21,348	19,682	18,263
East	21,192	19,954	16,655
Abroad	10,342	9,228	11,037
Subtotal	438,546	377,989	321,985
Ixe [1]	-	31,606	35,021
Eliminations from acquiring Ixe	147	319	500
Total Loan Portfolio	**$438,693**	**$409,913**	**$357,507**

Million Pesos.

[1] For 2012 and 2011, there is no information available by geographical regions. Derived from the merger of Ixe Banco into Banco Mercantil del Norte, which came into effect in May 2013, Ixe's figures are integrated in each geographical region since that date.

c) REPORT OF RELEVANT LOANS

Financing obtained after December 31 are:

Arrendadora y Factor Banorte

h) Short-term Bondsbonds (AFBNT 00314):
Date Issued: February 6, 2014
Maturity Date: April 30, 2014
Amount Issued: $250 million pesos
Coupon Rate: TIIE 28d - 0.10%

i) Short-term Bondsbonds (AFBNT 00414):
Date Issued: February 13, 2014
Maturity Date: May 8, 2014
Amount Issued: $250 million pesos
Coupon Rate: TIIE 28d - 0.11%

j) Short-term Bondsbonds (AFBNT 00514):
Date Issued: February 14, 2014
Maturity Date: June 5, 2014
Amount Issued: $250 million pesos
Coupon Rate: TIIE 28d - 0.10%

k) Short-term Bondsbonds (AFBNT 00614):
Date Issued: February 27, 2014
Maturity Date: August 14, 2014
Amount Issued: $200 million pesos
Coupon Rate: TIIE 28d - 0.09%

l) Short-term Bondsbonds (AFBNT 00714):
Date Issued: April 3, 2014
Maturity Date: September 11, 2014
Amount Issued: $250 million pesos
Coupon Rate: TIIE 28d - 0.10%

m) Short-term Bondsbonds (AFBNT 00814):
Date Issued: April 10, 2014
Maturity Date: September 25, 2014
Amount Issued: $250 million pesos
Coupon Rate: TIIE 28d - 0.10%

n) Short-term Bondsbonds (AFBNT 00914):
Date Issued: April 16, 2014
Maturity date: October 1, 2014
Amount Issued: $195.3 million pesos
Coupon Rate: TIIE 28d - 0.10%

Financing obtained from public investors up to December 31 are:

Banorte

a) *Subordinated Non cumulative & Non-preferred Obligations, due 2021 (in US dollars, Tier 1 Notes)*:
Date Issued: October 13, 2006
Maturity date: October 13, 2021
Amount Issued: US $200 million dollars
Coupon rate: 6.862%.

b) 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%

c) Subordinated Non-preferred, Non-convertible Obligations (in Mexican pesos, Tier 1):
Date Issued: March 11, 2008
Maturity date: February 27, 2018
Amount Issued:$3 billion pesos
Coupon Rate: TIIE 28d+ 0.60%

d) Subordinated Preferred Non-convertible Obligations (in Mexican pesos, Tier 2):
Date Issued: June 27, 2008.
Maturity date: June 15, 2018
Amount Issued: $2.75 billion pesos
Coupon Rate: TIIE 28d+ 0.77%.

e) Subordinated Preferred Non-convertible Obligations (in Mexican pesos, Tier 2):
Date Issued: March 30, 2009.
Maturity date: March 18, 2019.
Amount Issued: $2.2 billion pesos
Coupon Rate: TIIE 28d+2.00%.

f) Senior Notes due 2015: (in US dollars)
Date Issued: July 19, 2010.
Maturity date: July 19, 2015.
Amount Issued: US $300 million dollars
Coupon Rate: 4.375%.

g) Subordinated Preferred Non-convertible Obligations (in Mexican pesos, Tier 2):
Date Issued: June 8, 2012.
Maturity Date: May 27, 2022.
Amounted Issued: $3.2 billion pesos.
Coupon Rate: TIIE 28d+1.50%.

h) Subordinated Non-cumulative & Non-preferred Obligations (in US dollars, Tier 1):
Subordinate 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 dollars
Coupon rate: 9.25%.

INB

a) Subordinated Preferred Non Convertible Obligations:
Maturity date: June 23, 2034.
Amount Issued: US$10.3 million dollars.
Interest Rate: Libor 3 m + 2.75%.

b) Subordinated Preferred Non Convertible Obligations:
Maturity date: April 15, 2034.
Amount Issued: US$10.3 million dollars.
Interest Rate: Libor 3m + 2.72%.

Arrendadora y Factor Banorte

a) Short-term Bonds (AFBNT 01013)
Date Issued: October 10, 2013
Maturity Date: January 9, 2014
Amount Issued: $400 million pesos
Interest Rate: TIIE 28d -0.05%.

b) Short-term Bonds (AFBNT 01113)
Date Issued: October 31, 2013
Maturity Date: January 23, 2014
Amount Issued: $500 million pesos
Interest Rate: TIIE 28d - 0.05%.

c) Short-term Bonds (AFBNT 01213)
Date Issued: November 21, 2013
Maturity Date: February 13, 2014
Amount Issued: $500 million pesos
Interest Rate: TIIE 28d-0.07%.

All of the subsidiaries of GFNORTE are current in the interest and/or capital payments of all their financial obligations.

Loan or tax liabilities

The tax credits listed below are currently in litigation:

	As of December 31, 2013
BANORTE	**$29**
IMSS fees, various occupations	6
INFONAVIT fees, various occupations	23
CASA DE BOLSA BANORTE IXE	**$35**
Fiscal year 2007 (document 900 06 05-2010-03968)	35
INSURANCE (SEGUROS BANORTE GENERALI, S. A. DE C. V.)	**$15**
Fiscal year 2003 (document 900-06-01-2009-9518)	15
IXE BANCO	**$13**
Income Tax-Profit Sharing for the 2005 fiscal year – inflation adjustement	13

Million Pesos

Banorte's liabilities financed in foreign currency.

	December 2013	
CONCEPT IN FOREIGN CURRENCY	**Capital (Average)**	**Cost**
Core deposits	2,551,412	0.73%
Non-traditional deposits	320,000	7.76%
Total interbank loans	95,321	2.22%
Total Resources in Foreign Currency	**USD $2,966,733**	**1.54%**

ThousandUS dollars.

INB liabilities financed in foreign currency

	December 2013	
CONCEPT IN FOREIGN CURRENCY.	**Capital (Average)**	**Cost**
Core deposits	1,439,020	0.60%
Total interbank loans	43	0.27%
Total Resources in Foreign Currency	**USD $1,439,063**	**0.60%**

ThousandUS 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, 2013 and 2012, and the independent auditors' opinion of February 20, 2014. (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 [(1)]

	2013	2012	2011
Interest income	Ps. 69,434	Ps. 64,127	Ps. 52,930
Premium revenue, net	18,027	16,321	15,275
Interest expense	(31,456)	(30,874)	(24,628)
Increase in technical reserves	(9,686)	(8,708)	(9,316)
Casualty rate, claims and other contractual obligations, net	(9,138)	(8,057)	(6,092)
NET INTEREST INCOME	**37,181**	**32,809**	**28,169**
Provisions for loan losses	(8,942)	(6,172)	(5,438)
NET INTEREST INCOME AFTER ALLOWANCE FOR LOAN LOSSES	**28,239**	**26,637**	**22,731**
Commission and fee income	12,006	11,539	9,733
Commission and fee expense	(3,917)	(3,480)	(2,856)
Brokerage revenues	4,971	4,152	2,778
Other operating income (expenses)	3,223	2,300	2,814
Non-Interest Income [(2) (3)]	**16,283**	**14,511**	**12,469**
Non-interest expense [(4)]	(27,818)	(25,535)	(22,588)
OPERATING INCOME	**16,704**	**15,613**	**12,612**
Equity in earnings of unconsolidated subsidiaries and associated companies	1,130	590	157
INCOME BEFORE INCOME TAX	**17,834**	**16,203**	**12,769**
Current income tax	(3,671)	(3,653)	(2,446)
Deferred income taxes, net	116	(475)	(953)
Taxes [(4)]	**(3,555)**	**(4,128)**	**(3,399)**
INCOME BEFORE NONCONTROLLING INTEREST	**14,279**	**12,075**	**9,370**
Minority interest	(771)	(1,187)	(853)
NET INCOME	**Ps. 13,508**	**Ps. 10,888**	**Ps. 8,517**

Million pesos.

(1) Financial statements as of December 31, 2011 reflect the effects of the deconsolidation of Afore XXI Banorte, **in order to make them comparable with 2012 financial statements.**

(2) As a result of new accounting criteria which came into effect in April 2009, recoveries of previously written-off loans are registered as Non-interest income in "Other Operating Income (expenses)".

(3) In January 2011, accounting criteria D-2 came into effect requiring items that were previously registered under "Other Income and Expenses, net" after Net Operating Results, to be registered under Non-Interest Income; as well as the inclusion of "Other Operating Income (Expense) from Insurance and Annuities".

(4) As a result of applying new accounting criteria in April 2009, employee profit sharing is registered as a non interest expense.

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

Net Income by Segment	2013	2012	2011
Banking Sector [(1) (2)]	Ps. 10,658	Ps. 7,310	Ps. 6,544
Brokerage	$649	$681	$418
Long-Term Savings	Ps. 1,962	Ps. 1,052	Ps. 573
Afore XXI Banorte [(2)]	1,114	532	209
Aseguradora (Insurance)	725	471	339
Pensiones (Annuities)	123	49	25
SOFOM and Other Finance Companies	Ps. 391	Ps. 255	Ps. 708
Arrendadora y Factor (Leasing and Factoring)	599	604	616
Almacenadora (Warehouse)	43	43	40
Ixe Automotriz	15	33	30
Fincasa Hipotecaria [(1)]	-	-	22
Solida Administradora de Portafolios [(3)]	(266)	(425)	-
Other Companies	$1	$1	($62)
Ixe Soluciones	1	1	2
Ixe Servicios [(4)]	-	-	(64)
Holding	(Ps. 153)	Ps. 1,589	Ps. 336
GFNORTE	***Ps. 13,508***	***Ps. 10,888***	***Ps. 8,517***

Million pesos.

(5) For comparability purposes between 2013 and 2012 financial statements, some retroactive changes have been made to the corporate structure of Banco Mercantil del Norte, as include Fincasa Hipotecaria - merged in May 2013 - and the Solida Administradora de Portafolios spin-off – in May 2013 - in the Financial Statements of 2012 of this sector. Therefore, figures and ratios of 2012 presented in the Banking Sector of this Annual Report differ from those presented to the authority in April 2013. **Financial statements as of December 31, 2011 have not been modified, so are not comparable with those of 2013 and 2012.**

(6) As of 1Q12, Afore XXI Banorte is recognized under the equity participation method in Banorte's results; nevertheless, for informative and comparative purposes of this segment's profits, Afore XXI Banorte profits are presented in its corresponding business segment.

(7) On April 26, 2013, it was approved that Banco Mercantil del Norte divested its interest in Solida, through a spin-off, and subsequently absorbed by Ixe Soluciones, in order to consolidate the recovery banking operations. Afterwards, Ixe Soluciones changed its name to Solida Administradora de Portafolios. The merger and spin-off were effective on May 24, 2013. Figures above in 2013 and 2012 correspond to Solida Administradora de Portafolios with these effects.

(8) Previous to the merger with Solida

Comparative analysis: Summary of the years ended December 31, 2013 and 2012 and December 31, 2012 and 2011.

In 2013 GFNORTE reported profits of Ps 13.51 billion, 24% higher vs. 2012. The contribution to accumulated profits in 2013 by business sector was:

Net Income of the **Consolidated Banking Sector** (Banco Mercantil del Norte, Banorte- Ixe Tarjetas, Banorte USA, and the 50% participation in Afore XXI Banorte) amounted to Ps 12.12 billion pesos, 34% higher vs. 2012 as a result of the integration of Ixe Tarjetas and Afore XXI Banorte, as well as a reduction in minority interest due to the payment made to IFC in the fourth quarter of 2013. Profits in this consolidated sector represented 90% of GFNORTE's net income.

Excluding profits generated by Afore XXI Banorte and considering the effect of the Fincasa Hipotecaria merger and the Solida spin-off, the banking sector net income amounted to Ps 10.66 billion, +46% vs. 2012, representing 79% of GFNORTE's net profits.

The **Brokerage Sector** comprised of Casa de Bolsa Banorte Ixe and Operadora de Fondos Banorte-Ixe, reported profits of Ps 649 million, (5%) below YoY as a result of a decrease in operating income, and an increase in operating expenses and income tax. The accumulated profits of this sector represented 5% of GFNORTE's net income.

Net Income for **the Long Term Savings Sector** comprised of Afore XXI Banorte, Insurance and Annuities Companies was Ps 3.58 billion, 65% higher vs. 2012, contributing with Ps 1.96 billion or 15% to the Group´s profits according to the participation in this sector, which represents a YoY increase of 86%. This increase was due to the incorporation of Afore Bancomer's results, an improvement in business dynamics in the Insurance and Annuities companies and to a lesser extent, to the decrease in minority interest as a result of acquiring Generali's 49% participation in the Insurance and Annuities companies in October.

SOFOM and Other Finance Companies comprised of Arrendadora y Factor Banorte, Almacenadora Banorte and Solida Administradora de Portfolios (which was spun-off from Banco Mercantil del Norte to later merge into Ixe Soluciones in May 2013), recorded profits of Ps 391 million in 2013, a 53% increase vs. 2012. The accumulated profit of this sector represented 3% of GFNORTE´s profits.

In 2012, GFNORTE reported profits of Ps 10.89 billion, 28% higher vs. 2011. During 2012, Net Income of the **Consolidated Banking Sector** (Banco Mercantil del Norte, Banorte-Ixe Tarjetas, Banorte USA, and the 50% interest in Afore XXI Banorte) amounted to Ps 9.03 billion, 24% above 2011. Net income in this sector represented 83% of the Financial Group's profits. Excluding profits generated by Afore XXI Banorte and considering the effect of the Fincasa Hipotecaria merger and the Solida spin-off, the banking sector net income amounted to Ps 7.31 billion, +12% vs. 2011, representing 67% of GFNORTE's net profits. The **Brokerage Sector** generated accumulated profits of Ps 681 million, 63% YoY growth, contributing with 6% of GFNORTE´s profits. The **Long Term Savings Sector**, generated profits of Ps 2.17 billion, a YoY increase of 87%; contributing with Ps 1.05 billion or 9.7% of GFNORTE's profits, based on the group's participation in these businesses, representing an increase of 84% vs. 2011. **SOFOM and Other Finance companies**, reported profits of Ps 255 million, which represented 2% of GFNORTE´s Profits.

The following is a breakdown of the most important items of the Income Statement:

Net Interest Income

	2013	2012	2011
Interest Income	65,307	60,773	50,182
Interest Expense	31,065	30,584	24,409
Loan Origination Fees	1,564	1,118	922
Fees Paid	377	286	219
Net Interest Income excluding Insurance and Annuities Co.	**Ps. 35,428**	**Ps. 31,022**	**Ps. 26,477**
Insurance and Annuities-Interest Income	2,564	2,236	1,825
Premium Revenue (Net)	18,026	16,321	15,275
Insurance and Annuities-Interest Expense	14	4	0
Increase in Technical Reserves	9,686	8,708	9,316
Casualty rate, claims and other contractual obligations, net	9,138	8,057	6,092
Insurance and Annuities Net Interest Income (1)	**$1,752**	**$1,788**	**$1,692**
GFNorte's Net Interest Income	**$37,181**	**$32,809**	**$28,169**
Provisions	8,942	6,172	5,438
Net Interest Income Adjusted for Credit Risk	**$28,239**	**$26,637**	**$22,731**
Average Productive Assets	875,366	792,501	689,523
NIM (2)	**4.2%**	**4.1%**	**4.1%**
NIM after Provisions (3)	**3.2%**	**3.4%**	**3.3%**

Million pesos.
1. As of January 2011, the new Accounting Criteria A-2 was implemented for the consolidation of the Insurance and Annuities' companies.
2. NIM (Net Interest Margin) = Annualized Net Interest Margin / Average Productive Assets.
3. Annualized Net Interest Margin adjusted by Loan Loss Provisions / Average Productive Assets.

During 2013**, GFNORTE's Net Interest Income increased 13% YoY,** from Ps 32.81 to Ps 37.18 billion as a result of a combined effect of:

e) A 16% increase in net financial revenues and loan origination fees derived from 6% growth in the loan portfolio, mainly in higher yielding products such as Payroll loans, Credit cards, SMEs and Mortgages.
f) A (2%) decrease in the NII of the Insurance and Annuities Companies due to an increase in technical reserves stemming from growth in premium sales.
g) Cancellation of the debt servicing cost of GFNORTE's US 800 million dollar syndicated loan disbursed in February and paid on July 26.
h) A 100 basis point decrease in the benchmark rate during the year (50 basis points in March, 25 basis points in September and 25 basis points in October).

Net Interest Income excluding the Insurance and Annuities companies presented an accumulated increase of 14%**,** from Ps 31.02 billion to Ps 35.43 billion pesos.

The average NIM for 2013 was 4.2%, a YoY increase of 11 bp, resulting from growth in higher yielding segments (Consumer portfolio represented 14% of the total portfolio at the end of 2013 vs. 11% at the end of 2012).

During 2013, **NIM related to lending activity** increased YoY by 44 basis points to 7.8%, whereas the average NIM **excluding the Insurance and Annuities companies** was 4.3% during 2013, 17 basis points higher vs. the previous year.

During 2012**, GFNORTE's Net Interest Income increased 16% YoY,** from Ps 28.17 to Ps 32.81 billion as a result of:

a) An 18% increase in net financial revenues and loan origination fees derived from the integration of Ixe Grupo Financiero.
b) The acquisition of 50% of Ixe Tarjetas.
c) 15% growth in performing loans, mainly in higher yielding products with greater impact on Net Interest Income such as Payroll, Credit Cards, SMEs and Mortgages.
d) A stable cost of funding due to the 10% YoY growth in Core Deposits and 6% growth in NII of the Insurance and Annuities companies.

Net Interest Income excluding the Insurance and Annuities companies presented an accumulated increase of 17%**,** increasing from Ps 26.48 billion to Ps 31.02 billion.

In 2012, the average Net Interest Margin (NIM) was 4.1%, unchanged vs. 2011, as Average Productive Assets registered similar increases to Net Interest Income.

The NIM only from lending activity was 7.3% in 2012, a YoY decrease of 32 basis points due to the inclusion of Ixe's loan portfolio, which registered a lower margin. The **NIM excluding the Insurance and Annuities companies** was 4.2% in 2012.

Provisions

Provisions charged to results in 2013 totaled Ps 8.94 billion, a 45% YoY increase vs. 2012. This increase is mainly due to provisions created to cover exposures to home developers: URBI, GEO and HOMEX; in addition, the increase is explained by growth in Consumer portfolios which require higher initial provisions under the recently implemented methodology of expected losses, as well as growth in past due loans for the Consumer and SME portfolios as a result of the negative impact of slower economic growth.

The average NIM adjusted for Credit Risks was 3.2% in 2013, a decrease of 14 basis points vs. 2012 due to the increase in provisions registered during the first half of 2013 resulting from the deterioration in the exposures to home developers and in the loan portfolio as a consequence of the negative impact from weaker economic activity.

Loan loss provisions represented 24% of Net Interest Income during 2013, a YoY increase of 5 pp vs. 2012.

Annualized loan loss provisions during 2013 accounted for 2.2% of the average loan portfolio, a YoY increase of 0.53 pp vs. 2012 mainly on the back of higher provisions related to exposures in home development, and to a lesser extent in the Consumer portfolio.

In 2012 Provisions charged to results amounted to Ps 6.17 billion, a YoY increase of 13% vs. 2011; the increase can be attributed to greater commercial, corporate and payroll loan provisions associated mainly with new loan loss reserve requirements in accordance with expected losses, as well as Fincasa asset impairments, deterioration in exposures to some tourist developments in Mexico's northwest, and growth in consumer loans which require higher initial provisions.

The average NIM adjusted for Credit Risk was 3.4% in 2012, a YoY increase of 0.1 pp vs. 2011. **During 2012 Provisions represented 19% of Net Interest Income**, unchanged YoY. **Annualized loan loss provisions in 2012 represented 1.6% of the average loan portfolio**, a YoY reduction of (0.1pp) vs. 2011.

Non-Interest Income

	2013	2012	2011
Fees for commercial and mortgage loans	11	33	50
Fund Transfers	533	479	421
Account Management Fees	1,371	1,240	1,160
Fiduciary	362	384	353
Income from Real Estate Portfolios	811	1,307	1,117
Electronic Banking Services (1)	3,934	3,377	2,444
For Consumer and Credit Card Loans (1)	2,361	2,030	1,418
Fees from IPAB (2)	0	0	0
Fees charged by the Afore (3)	0	0	0
Other Fees Charged (4)	2,622	2,689	2,770
Fees Charged on Services	**12,006**	**11,539**	**9,733**
Fund transfers	50	43	37
Other Fees Paid	3,867	3,437	2,818
Expenses from Real Estate Portfolios	0	0	0
Fees Paid on Services	**3,917**	**3,480**	**2,856**
Net Fees	**8,089**	**8,059**	**6,877**
Foreign Exchange and Metals Valuation	885	1,391	1,182
Securities and Derivatives Trading	2,726	914	1,349
Securities-Fair Value	1,360	1,847	247
Trading Income	**4,971**	**4,152**	**2,778**
Subtotal Other Operating Income (Expense) (5)	1,151	1,058	1,501
Other Products (Expense) net (6)	1,387	615	819
Other Operating Income (Expense) derived from Insurance and Annuities (7)	685	626	494
Other Operating Income and Expenses	**3,223**	**2,300**	**2,814**
Non-Interest Income	**Ps. 16,284**	**Ps. 14,510**	**Ps. 12,469**

Million Pesos.

1. During 2012, Electronic Banking Services and Consumer and Credit Card Fees headings corresponding to 2012 and 2011 were reclassified to reflect the merger of Banorte Ixe Tarjetas, S.A de CV, SOFOM.

2. Includes Fees received by the Recovery Bank and the Bank.

3. In 2012 the deconsolidation of Afore XXI Banorte's figures since 2011 was recognized.

4. Includes fees from letters of credit, transactions with pension funds, warehouse services, financial advisory services, and securities trading by the Brokerage House, among others.

5. As of April 2009, the CNBV issued changes to the main accounting criteria, which require this item to be recorded under Non-Interest Income. The majority of these revenues correspond to recoveries of previously charged-off loans.

6. In January 2011, the CNBV issued changes to accounting criteria in which items previously registered under "Other Income and Expenses, net" after Net Operating Results, are now registered under Non-Interest Income as of that date

. (Criteria D-2).

7. In January 2011, the CNBV issued changes to accounting criteria for consolidating Insurance and the Annuities companies (Criteria A-2).

The following table identifies the sources of Non-Interest Income:

	2013	2012	2011
Services	$7,278	$6,752	$5,760
Recovery	811	1,307	1,117
Trading	4,971	4,152	2,778
Other Operating Income (Expense)	3,223	2,300	2,814
Non-Interest Income	**Ps. 16,284**	**Ps. 14,510**	**Ps. 12,469**

Million Pesos

In 2013, Non-Interest Income amounted to Ps 16.28 billion, 12% higher YoY due to an increase in almost all headings, except real estate portfolio recoveries, as a result of better business dynamics.

During **2012, Non-Interest Income amounted to Ps 14.51 billion**, a 16% YoY increase due to the integration of Ixe and higher Trading, Service Fees and Recoveries revenues.

- **Service Fees**

As a result of the merger of Afore Banorte with Afore XXI in January 2012, the results of Afore XXI Banorte are reported in the results of Banco Mercantil del Norte (which has a 50% stake in the Afore and includes as of 2013 the results from the acquisition of Afore Bancomer) using the equity participation method. Given the change in the way the Afore's results are reported, as of that quarter, income from fees charged by this company is no longer reported in the Services heading. Furthermore, and in accordance with Note 2 - "Relevant Events. Subparagraph c)" of the Audited Financial Statements, it was determined that for comparative purposes with previous years, figures as of December 31, 2011 were modified to reflect the effects of the deconsolidation of Afore XXI Banorte.

During 2013, Service Fees totaled Ps 7.28 billion, an 8% YoY increase due to better business dynamics in the following items:

i) +16% in electronic banking fees due to more business transactions and payroll services,
ii) +16% in consumer loan fees and credit card fees due to the more client transactions and more cardholders,
iii) +11% in Account Management Fees due to more accounts and adjustments in membership fees, and
iv) +11% in fund transfer revenues due to higher volumes.

On the back of the same business dynamics, **Fees Paid increased 13%** driven by higher fees paid on loans, fund transfers, interbank fees, commissions paid to insurance brokers and foreign payment orders.

During 2012, Service Fees amounted to Ps 6.75 billion, a 17% YoY increase, underpinned by better business dynamics:

i) +38% in electronic banking fees due to more users and higher business volumes, reversing the negative impact of 2011 derived from new rules for charging ATM usage and the regulation of other fees,
ii) +43% in consumer and credit card loan fees as a result of more client transactions,
iii) +7% in Account Management fees due to an increase in the number of accounts,
iv) +14% increase in income from fund transfers.

Fees Paid rose 22%, due to business dynamics, resulting in larger interbank fees derived from more credit and debit card transactions among clients, as well as the consolidation of Ixe Banco and Ixe Tarjetas and fees paid to Nacional Financiera in relation to credit guarantees.

- **Trading**

Trading revenues during 2013 totaled Ps 4.97 billion, a 20% YoY growth due to favorable results from securities and derivatives trading by Banorte and the Annuities company, which offset the decline in valuation gains of Banorte, and the less favorable result of foreign exchange transactions.

Trading fees amounted to Ps 4.15 billion in 2012, YoY growth of 49%, due to the integration of IXE's subsidiaries' results and the positive impact of: i) valuation gains of the securities instruments of the annuities company and Banorte; and ii) foreign exchange transaction results.

Other Operating Income (Expense)

	2013	2012	2011
Loan Recovery	1,384	1,234	1,207
Income from foreclosed assets	(145)	(83)	99
Other Operating Income	135	76	296
Other Operating Expense	(223)	(169)	(101)
Subtotal Other Operating Income (Expenses)	**Ps. 1,151**	**Ps. 1,058**	**Ps. 1,501**
Other Products	2,988	2,305	1,625
Other Recoveries	1,312	386	451
Other (Expenses)	(2,912)	(2,075)	(1,258)
Non Operating Income (Expense), net	**Ps. 1,387**	**Ps. 615**	**Ps. 819**
Other Operating Income (Expense) from Insurance and Annuities	**Ps. 685**	**Ps. 626**	**Ps. 494**
Other Operating Income (Expenses)	**Ps. 3,223**	**Ps. 2,300**	**Ps. 2,814**

Million Pesos.

As a result of applying A-2 and D-2 Accounting Criteria, information pertaining to Insurance and Annuities Operations is reported under Other Operating Income (Expense) as well as information previously grouped under Other Products and Expenses, Net.

During 2013, Other Operating Income (Expenses) totaled Ps 3.22 billion, a 40% YoY increase due to:

i) Higher portfolio recoveries, mainly from an infrastructure project and a business investment that occurred during the first quarter 2013 and the third quarter 2013.
ii) An increase in *Other Products* resulting from the cancellation of other debtor accounts, higher interests from loans to employees and leasing revenues.
iii) An increase in combined revenues from previously written-off portfolios and the sale of foreclosed assets.
iv) A 77% increase in *Other Operating Income* on the back of greater cancellations of excess preventive estimates.
v) A 9% increase in income from the Insurance and Annuities companies.

These effects offset the 40% increase in *Other Expenses* generated by more damages, losses and frauds, as well as a higher estimate for irrecoverable losses.

In 2012 Other Operating Income (Expenses) amounted to Ps 2.30 billion, an (18%) YoY decrease, due mainly to**:**

i) A 65% increase in Other Expenses related to more write-downs and frauds.
ii) A (74%) decline in Other Operating Income (in 4Q11 there was a gain from the acquisition of loan portfolios that was not replicated), and fewer cancellations of surpluses in preventive estimates.
iii) Lower revenues from previously written-off proprietary loans and acquired loans recoveries.

These effects were not offset by a 27% increase in fees from the insurance and annuities companies, and a 42% increase in Other Products, the latter mainly resulting from an increase in the valuation of future benefits from securitizations, and gains from the sale of property, furniture and equipment.

- **Recoveries**

Non-Interest Income from Recoveries (including previously written-off proprietary loan portfolio and foreclosed assets classified under "Other Operating Income (Expenses))" **amounted to Ps 3.36 billion in 2013**, an increase of 18% YoY vs. 2012 mainly due to recoveries linked to an infrastructure project and a business investment during the first quarter of 2013 and the third quarter of 2013, which offset the (38%) decrease in real estate portfolio recoveries that include the recognition of income related to investment projects, mainly with home developers currently facing solvency and liquidity problems.

During 2012, Non-Interest Income from Recoveries amounted to **Ps 2.84 billion, decreasing (1%) YoY vs. 2011,** derived from the decrease in revenues from acquired loan portfolio recoveries (15%) and revenues from previously written-off proprietary loan recoveries (12%), which offset a 17% increase in real estate portfolio recoveries, including income from investment projects mainly with homebuilders.

Non Interest Expense

	2013	2012	2011
Personnel	Ps. 13,077	Ps. 10,398	Ps. 9,446
Professional Fees	2,767	2,907	2,172
Administrative and Promotional	4,874	4,899	4,657
Rents, Depreciation & Amortization	3,219	2,954	2,805
Taxes other than income tax non deductible expenses	1,726	1,826	1,296
Contributions to IPAB	1,831	1,610	1,341
Employee Profit Sharing (PTU) (1)	324	940	871
Non Interest Expense	**Ps. 27,818**	**Ps. 25,535**	**Ps. 22,588**

Million Pesos.

(1) As a result of applying new accounting criteria in April 2009 Employee Profit Sharing is registered as a Non Interest Expense.

Non Interest Expenses in 2013 amounted to Ps 27.82 billion, a 9% YoY increase vs. 2012 derived mainly from the strengthening of business areas, the expansion of operating infrastructure and the payment of bonuses and incentives with a higher profit base, which was partially offset by declines in other headings. The increase in expenses occurred in the following items:

i) Ps 2.68 billion in Personnel Expenses (+26%) due to the strengthening of sales forces and the payment of bonuses and incentives with a higher profit base,

ii) Ps 265 million in rents, depreciations and amortizations (+9%) due to the amortization of intangible assets arising from the acquisition of IXE Tarjetas and Afore XXI, the acquisition of new equipment, depreciation of installation charges for the closing of projects and penalty charges for the early termination of leases for branches (both due to the merger of Ixe branches with Banorte branches), the beginning of amortization of related projects capitalized in the Banorte-Ixe merger, leasing agreements related with the IBM contract, the increase in office rents due to inflationary effects, as well as growth in the commercial network, and

iii) Ps 221 million in IPAB contributions (+14%) driven by the YoY growth in liabilities subject to the IPAB fee, mainly deposits.

These increases were partially offset by reductions, among other concepts, in Professional Fees (-5%) due to a reduction in advisory services, adjustments to outsourced personnel payments and benefits, as well as less administrative and promotional expenses in headings such as advertising, various services such as file custody and lower operating expenses of the credit card portfolio.

The Efficiency Ratio during 2013 was 52.0%, (1.9 pp) YoY lower vs. 2012 due to the positive operating leverage obtained in the period.

Non Interest Expense amounted to Ps 25.54 billion in 2012, 13% higher YoY vs. 2011, mainly derived from the integration of Ixe GF and merger-related expenses, as well as growth in the business areas. Growth occurred across all headings, in particular the following:

i) Ps 953 million in Personnel Expenses (+10%) arising from the integration of personnel from Ixe GF subsidiaries, growth in business areas and employee compensation.
ii) Ps 735 million in Professional Fees (+34%) due to more advisory services and business-related transactions, as well as legal fees associated with loan portfolio recovery.
iii) Ps 530 million in Other Taxes and Non Deductible Expenses (+41%), mainly VAT due to higher current expenses, as well as VAT generated by investment flows, and a decrease in the VAT accreditation factor.
iv) Ps 269 million in IPAB Contributions (+20%) due to growth in deposits.
v) Ps 241 million in Administrative and Promotional Expenses (+5%) due to higher operating costs related to more credit and debit card transactions and more reserves for the points program, as well as expenses related to transport of cash by armored vehicles stemming from more ATMs and a bigger transaction volume, the payment of insurance linked to mortgage, car and payroll loan placements, and an increase in current expenses stemming from a larger branch and ATM network.
vi) Ps 150 million in Rents, Depreciations and Amortizations (+5%) due to investments in new furniture and fixtures in buildings (as the Call Center), computer and software equipment and the recognition of the depreciation of finished constructions and the amortization of projects capitalized in the Banorte-Ixe integration, higher office rents due to the effect of inflation, and growth in the commercial network.
vii) A Ps 69 million increase in statutory Employee Profit Sharing (+8%).

The 2012 Efficiency Ratio was 54.0%, (1.6 pp) below 2011's due to positive operating leverage.

Taxes

Income tax during 2013 amounted to Ps 3.56 billion, (14%) lower YoY due to a better use of tax credits during the year. **The effective tax rate and the Employee Profit Sharing in 2013 was 22.8%**, (7.8 pp) lower vs. 30.6% of 2012 due to the use of tax credits originated mainly due to the use of tax credits originated mainly from applying the changes to regulations related to the creation of loan loss reserves for commercial loans and the tax deductibility of pension fund contributions.

During 2012 income tax amounted to Ps 4.13 billion, 21% higher YoY due to the combination of a higher base for the calculation of taxes and a lower deferred tax base as in 2011 excess loan loss reserves from previous years were deducted. **The effective tax rate for 2012 was 30.6%**, 110 basis points below 2011's 31.7%.

Net Income

GFNORTE reported Net Income of Ps 13.51 billion during 2013, 24% higher vs. 2012, due to the positive operating leverage derived from a 13% YoY growth in total income, as well as a lower rate of growth in operating expenses, which combined with the integration of Afore Bancomer's profits in Subsidiaries' results and the use of tax credits, offset higher loan loss provisions mainly due to home developers' loans.. **In 2012 GFNORTE reported Net Income of Ps 10.89 billion,** 28% above vs. 2011 on the back of favorable performance across all business lines and lower growth in expenses, which translated into a positive operating leverage, thus reversing the 2011 trend, along with the inclusion of the results of Ixe GF and Afore XXI Banorte.

During 2013 Financial Group's core earnings (net interest income + net fees excluding portfolio recoveries - operating expenses - provisions) **totaled Ps 7.70 billion**, 2% lower vs. 2012; in **2012 core earnings amounted to Ps 7.86 billion**, 22% higher YoY.

ROE during 2013 was 14.2%, a YoY decrease of 12 bp vs. 2012; whereas, **during 2012 was 14.3%,** a 25 bp increase vs. 2011. **Return on Tangible Equity (ROTE) in 2013, rose to 18.7%**, unchanged vs. the previous year. **During 2012 ROTE increased by 176 bp** vs. 2011.

On the other hand, **ROA during 2013 was 1.4%**, 15 bp higher YoY vs. 2012; whereas during **2012 was 1.3%,** representing a 12 bp increase vs. 2011. **Return on risk-weighted assets (RRWA) in 2013 was 3.0%,** a 34 bp increase vs. 2012; whereas **in 2012 was 2.6%,** increasing by 39 bp vs. 2011.

Performing Loan Portfolio

	2013	2012	2011
Commercial (1)	Ps. 113,795	Ps. 106,257	Ps. 101,467
Consumer	139,715	118,401	98,521
Corporate (1)	75,690	88,237	79,112
Government	95,637	88,294	71,165
Subtotal	**424,837**	**401,190**	**350,265**
Recovery Bank	201	243	292
Total Performing Loans	**Ps. 425,038**	**Ps. 401,432**	**Ps. 350,558**
Past due loans	13,655	8,481	6,949
% NPL Ratio	**3.1%**	**2.1%**	**1.9%**

Million pesos.
1. In this Annual Report, some figures corresponding to 2012 and 2011 in the commercial and corporate loan portfolios differ from those presented in the 2012 Annual Report due to certain reclassifications during the second quarter 2013 in the Commercial Portfolios of Ixe Banco, Arrendadora y Factor Banorte and Fincasa Hipotecaria to be considered as Corporate portfolios according to Banco Mercantil del Norte's classification criteria for the two loan portfolios; reclassification was made retroactively.

Performing Consumer Loan Portfolio

	2013	2012	2011
Mortgage	Ps. 81,833	Ps. 72,365	Ps. 64,275
Car Loans	11,412	10,329	9,353
Credit Cards	20,323	17,524	11,465
Payroll	26,147	18,183	13,428
Consumer Loans	**Ps. 139,715**	**Ps. 118,401**	**Ps. 98,521**

Million Pesos

Total Performing Loans increased 6% YoY, growing by Ps 23.65 billion to Ps 424.84 billion at the close of 2013, excluding the proprietary loans managed by the Recovery Bank. The loan portfolio registered lower growth rates YoY mainly due to the economic slowdown registered in the year and the prepayments made by corporate clients, which were not offset by the origination of new loans in this segment during 2013. In spite of this, the loan portfolio grew at a faster pace than the economy did.

Total Performing Loans grew 15% YoY or Ps 50.93 billion to Ps 401.19 billion at the close of 2012, excluding the proprietary portfolio managed by the Recovery Bank. In 2012 all items in this portfolio presented a sustained growth, as a result of bank strategies to drive loan placements, and an economic environment characterized by greater demand for credit in the industry.

In 2013, portfolio growth by segments was as follows:

I. Individual Loans

Consumer + Mortgage: Increased by Ps 21.31 billion or 18% YoY vs. 2012 **totaling Ps 139.72 billion at the close of 2013** as a result of favorable dynamics in all segments.

Mortgage: Grew by Ps 9.47 billion or 13% YoY **reaching a balance of Ps 81.83 billion**, driven by growth in placement of middle-income mortgage loans, the mortgage program with PEMEX, as well as the reactivation of programs for home improvements, construction, remodeling and payment of liabilities.

Credit Cards: During 2012 Banco Mercantil del Norte acquired 50% of JP Morgan Chase's equity interest in the SOFOM Ixe Tarjetas, and the other 50% of the company owned by Ixe Banco, and its name was subsequently changed to Banorte-Ixe Tarjetas, S.A. de C.V. SOFOM, integrating the business into a single platform. **At the close of 2013 the credit card portfolio amounted to Ps 20.32 billion**, an increase of Ps 2.80 billion or 16% YoY. The increase is due to portfolio management strategies, marketing campaigns for Banorte-Ixe products and more cross-selling to clients.

Payroll: At the close of 2013, the portfolio registered YoY growth of Ps 7.96 billion or 44% **totaling Ps 26.15 billion**, as a result of growth in the number of Banorte-Ixe payroll account holders, which totaled 4.45 million, up by 14% YoY, as well as campaigns to promote the product and strategies to cross-sell to clients through various channels.

Cars: Car loans grew by Ps 1.08 billion pesos, or 10% YoY **amounting Ps 11.41 billion** on the back of more new loans driven by promotional campaigns through various channels, cross-selling to clients and alliances with car dealerships.

II. Loans to Institutions

Commercial: Commercial loans grew by Ps 7.54 billion, or 7% YoY **reaching Ps 113.80 billion**. Growth was on the back of increased placement of business loans, leasing and the reactivation of the Crediactivo product for corporations. **The SME performing portfolio totaled Ps 33.74 billion**, representing a growth of Ps 4.04 billion or 14% YoY.

Corporate: At the close of 2013, corporate loans totaled Ps 75.69 billion, decreasing by (Ps 12.55) billion or (14%) YoY. These reductions can be attributed to the payment or classification to past due of some loans related to home developers, as well as prepayments received from some clients that used the proceeds from capital markets' transactions to settle their liabilities.

Through the subsidiaries Banco Mercantil del Norte, Arrendadora y Factor Banorte and Solida Administradora de Portafolios, GFNORTE has extended loans and participated, through specialized trust operations, in housing development projects. Some of the largest companies in this sector have experienced financial difficulties and three of the largest companies are undergoing a debt restructuring process and have defaulted on their payments. This situation has led to deterioration in the risk profile of these three borrowers. We are currently involved in restructuring negotiations with these companies along with other banks. **As of December 31, 2013, we had a loan exposure of Ps 8.71 billion to Urbi Desarrollos Urbanos, S.A.B. de C.V., Corporacion Geo, S.A.B. de C.V. and Desarrolladora Homex, S.A.B. de C.V**., 1.1% below the previous quarter. These three companies represented 2.0% of our total loan portfolio compared to 2.1% in September 2013. **Ps 7.00 billion are past due,** growing by Ps 1.02 billion in the fourth quarter of 2013. 73% of the loan portfolio is guaranteed, decreasing vs. 80% of the previous quarter. As of December 31, 2013 **Solida had Ps 9.18 billion in land and proprietary investments and Ps 553 million in collection rights,** compared to Ps 8.91 billion and Ps 561 million in the third quarter of 2013.

Government: At the end of 2013, government loans totaled Ps 95.64 billion, representing an increase of Ps 7.34 billion or 8% as a result of ongoing efforts to continue meeting demand for loans in this segment, especially from the Federal Government. Also, the loan portfolio's risk is adequate, as more than 95% of the total portfolio has a fiduciary guarantee (federal budget transfers and local revenues such as payroll tax), and less than 2% of the loans in the portfolio have short-term maturities.

Past Due Loans

At the close of 2013, past due loans amounted to Ps 13.66 billion, 61% higher YoY vs. 2012, mainly due to an increase of past due loans in the corporate portfolio - especially from home developers -, SMEs, credit card, mortgage and payroll loans, derived from the negative impact of the economic slowdown.

The trend in past due balances by segment and, considering the reclassification between commercial and corporate portfolio that took place during 2013 in a retroactie way, is as follows.

Million pesos	2013	Change vs. 2012
Credit Cards	1,278	347
Payroll	628	228
Car loans	187	52
Mortgage	1,087	274
Commercial	3,389	(1,330)
Corporate	7,084	5,661
Government	2	(58)
Total	13,655	5,174

At the end of 2013, **the Past Due Loan Ratio ("PDL") was 3.1%,** 1.0 pp higher YoY vs. 2012, mainly due to more past due loans in all segments, except Commercial and Government.

Excluding the past due loans for the three troubled home developers, the NPL ratio would be 1.5%, 60 basis points below YoY.

Past due Loan Ratios by segment showed the following trends:

	2011	2012	2013
Credit Cards	7.3%	5.0%	5.9%
Payroll	1.7%	2.2%	2.3%
Car loans	1.6%	1.3%	1.6%
Mortgage	1.5%	1.1%	1.3%
Commercial	3.1%	4.3%	2.9%
Corporate	1.8%	1.6%	8.6%
Government	0.0%	0.1%	0.0%
Total	1.9%	2.1%	3.1%

At the end of 2012, past due loans amounted to Ps 8.48 billion, a 22% YoY increase vs. 2011, mainly derived from the increase in past due loans in the Commercial, Payroll and Corporate segments stemming from asset impairments at Fincasa Hipotecaria due to the application of Banorte's past due loan policies to this subsidiary, coupled with the deterioration of commercial loan exposure to tourist developments in the northwest of the country and the maturing process of new consumer loan vintages. **At the end of 2012, the Past Due Loan Ratio was 2.1%,** 0.13 pp above 2011, mainly due to more commercial, corporate and payroll past due loans.

Deposits

	2013	2012	2011
Non Interest Bearing Demand Deposits	Ps. 122,499	Ps. 107,450	Ps. 91,860
Interest Bearing Demand Deposits (1)	132,798	103,968	98,085
Total Demand Deposits (2)	255,297	211,418	189,944
Time Deposits – Retail	129,121	124,255	116,223
Core Deposits	384,418	335,673	306,168
Money Market (3)	59,729	90,073	63,127
Total Banking Sector Deposits	**Ps. 444,148**	**Ps. 425,746**	**Ps. 369,295**
GFNorte's Total Deposits (4)	**Ps. 443,741**	**Ps. 424,325**	**Ps. 370,293**
Third Party Deposits	150,636	111,042	123,918
Total Assets Under Management	**Ps. 594,783**	**Ps. 536,788**	**Ps. 493,213**

Million pesos.

(1) As of 2004, IPAB checking accounts for the deposit of cash collections related to the managed portfolios of Banpais and Bancen are excluded retroactively for comparison purposes. The balances of these accounts for 2011, 2012 and 2013 were Ps 0 million pesos in all cases.

(2) Includes debit cards.

(3) Includes bank bonds. (Customers and Financial Intermediaries).

(4) Includes eliminations between subsidiaries. The eliminations during 2011, 2012 and 2013 were Ps 998 million, (Ps 1,421) million and (Ps 407) million, respectively.

At the close of 2013, GFNORTE's Total Deposits amounted to Ps 443.74 billion, an increase of Ps 19.42 billion or a 5% YoY increase vs. 2012, driven mainly by the efforts to promote Banorte-Ixe's deposit products. In the **Banking Sector, Total Deposits amounted to Ps 444.15 billion**, a 4% increase or Ps 18.40 billion higher YoY, comprised of a 21% increase in Demand Deposits, a 4% increase in Retail Time Deposits and a (34%) decrease in Money Market Deposits.

At the end of 2012, GFNORTE's Total Deposits amounted to Ps 424.33 billion, an increase of Ps 54.03 billion, or 15% higher YoY. In the **Banking Sector**, **Total Deposits amounted to Ps 425.75 billion** an increase of 15% or Ps 56.45 billion YoY. Demand deposits rose 11% YoY, Time Deposits 7%, and Money Market deposits 43%.

Banking Sector

For comparability purposes between 2013 and 2012 financial statements, some retroactive changes have been made to the corporate structure of Banco Mercantil del Norte, as include Fincasa Hipotecaria - merged in May 2013 -and the Solida Administradora de Portafolios spin-off – in May 2013 - in the Financial Statements of 2012 of this sector. Therefore, figures and ratios of 2012 presented in the Banking Sector section of this Annual Report differ from those presented to the authority in April 2013. Financial statements as of December 31, 2011 have not been modified, so are not comparable with those of 2013 and 2012.

The **Consolidated Banking Sector** (comprised of Banco Mercantil del Norte, Ixe Banco, Banorte- Ixe Tarjetas, Banorte USA and 50% of Afore XXI Banorte) **reported net income during 2013 of Ps 12.12 billion, 34% higher** YoY vs. 2012 as a result of the integration of Ixe Tarjetas and Afore XXI Banorte profits, as well as a reduction in minority interest due to the payment made to IFC during 4Q13. Net income in this sector represented 90% of the GFNORTE's net profits

Excluding profits generated by Afore XXI Banorte and considering the effect of the Fincasa Hipotecaria merger and the Solida spin-off, the banking sector net income amounted to Ps 10.66 billion, +46% vs. 2012, representing 79% of GFNORTE's net profits.

Accumulated ROE during 2013 of this sector was 16.4%, 149 basis points higher vs. 2012, whereas **ROA was 1.6%,** 31 basis points higher YoY**.**

Banking Sector's Financial Ratios

	2013	2012	2011
Profitability			
NIM (1)	4.8%	4.5%	4.1%
ROA (2)	1.6%	1.2%	1.1%
ROE (3)	16.4%	14.9%	14.2%
Operation			
Efficiency Ratio (4)	53.7%	55.8%	57.6%
Operating Efficiency Ratio (5)	3.3%	3.2%	3.2%
Liquidity Ratio (6)	103.8%	100.7%	101.0%
Asset Quality			
% PDL Ratio	3.1%	2.1%	1.9%
Coverage Ratio	103.4%	137.1%	143.5%
Growth (7)			
Performing Loan Portfolio (8)	7.4%	16.6%	33.5%
Core Deposits	14.5%	9.6%	28.3%
Total Deposits	4.4%	15.2%	26.1%

(1) Annualized Net Interest Margin / Average Productive Assets.
(2) Annualized earnings as a percentage of the average quarterly assets over the period (without minority interest).
(3) Annualized earnings as a percentage of the average quarterly equity over the period (without minority interest).
(4) Non Interest Expense / Total Income = Net Interest Income + Non-Interest Income
(5) Non Interest Expense / Average Total Assets.
(6) 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).
(7) Growth over the same period last year. 2012 vs. 2011 growth is not comparable.

Consolidated Income Statement – Banking Sector

	2013	2012	2011
= Net Interest Income (NII)	**Ps. 34,685**	**Ps. 30,182**	**Ps. 25,105**
- Provisions	8,788	6,585	5,311
= Net Interest Income Adjusted for Credit Risk	**25,897**	**23,597**	**19,794**
+ Non-Interest Income (1) (2)	13,313	11,651	10,843
- Non-Interest Expenses (3)	25,766	23,347	20,694
= Operating Income	**13,444**	**11,901**	**9,943**
+ Equity in Earnings of unconsolidated Subsidiaries and Associated Companies	1,439	542	158
= INCOME BEFORE INCOME TAX	**14,883**	**12,443**	**10,101**
- Income Tax	2,822	2,975	1,902
- Deferred Income Tax (net)	(61)	477	938
= Taxes (3)	2,761	3,452	2,841
= NET INCOME FROM CONTINUOUS OPERATIONS	**12,122**	**8,991**	**7,260**
- Minority interest	0	34	0
= Net Income	**Ps. 12,122**	**Ps. 9,025**	**Ps. 7,260**

Million Pesos.

(1) As a result of new accounting criteria which came into effect in April 2009, recoveries of previously written-off loans are registered as non-interest income in “Other Operating Income”.

(2) In January 2011, accounting criteria D-2 came into effect requiring items that were previously registered under "Other Income and Expenses, net" after Net Operating Results, to be registered under Non-Interest Income.

(3) As a result of applying new accounting criteria in April 2009, employee profit sharing is registered as a non interest expense.

The following is a breakdown of the most important items of the income statement and the balance sheet. **As Financial Statements of 2012 are not comparable with 2011's, the corresponding analysis to this period will not be made in any item.**

Net Interest Income

	2013	2012	2011
Interest Income	Ps. 55,619	Ps. 52,847	Ps. 46,703
Interest Expense	22,120	23,492	22,271
Loan Origination Fees	1,564	1,112	886
Fees Paid	377	286	213
Net Interest Income	**Ps. 34,685**	**Ps. 30,182**	**Ps. 25,105**
Provisions	8,788	6,585	5,311
Net Interest Income Adjusted for Credit Risk	**Ps. 25,897**	**Ps. 23,597**	**Ps. 19,794**
Average Productive Assets	Ps. 722,830	Ps. 665,877	Ps. 613,405
% Net Interest Margin (NIM) (1)	**4.8%**	**4.5%**	**4.1%**
% NIM after Provisions (2)	**3.6%**	**3.5%**	**3.2%**

Million Pesos.

1) NIM (Net Interest Margin)= Net Interest Income / Average Productive Assets.

2) Net Interest Margin adjusted for Credit Risk / Average Productive Assets.

During 2013, Net Interest Income grew 15% YoY from Ps 30.18 to Ps 34.69 billion and 18% YoY considering only financial revenues and net fees related to loan origination as a result of a 7% growth in performing loans with a better mix, especially in products accretive to Net Interest Income such as payroll, credit card, SMEs and mortgage loans. The average NIM was 4.8% in 2013, 28 basis points higher vs. 2012, explained by greater growth in Net Interest Income vs. Average Productive Assets due to a better loan and funding mix.

Provisions

Provisions charged to results in 2013 totaled Ps 8.79 billion, a 33% increase 2012 mainly due to provisions created to cover exposures to home developers URBI, GEO and HOMEX, as well as due to growth in consumer portfolios that require higher initial provisions derived from the new methodology of expected losses recently adopted and the growth in past due loans in the consumer and SME segments as a result of the negative impact of the economic slowdown. The average NIM adjusted for Credit Risks was 3.6% in 2013, 5 basis points higher vs. 2012.

Non-Interest Income

The following table shows a breakdown of Non-Interest Income:

	2013	2012	2011
Services	Ps. 7,580	Ps. 6,772	Ps. 5,597
Recovery	88	1,307	1,117
Trading	3,021	2,414	1,564
Other Operating Income (Expense)	2,624	1,159	2,565
Non-Interest Income	**Ps. 13,313**	**Ps. 11,651**	**Ps. 10,843**

Million Pesos.

During 2013 Non-Interest Income totaled Ps 13.31 billion, a 14% YoY increase due to higher Services fees, Trading revenues and Other Income.

Non Interest Expense

	2013	2012	2011
Personnel	Ps. 12,569	Ps. 9,978	Ps. 8,803
Professional Fees	2,365	2,329	1,693
Administrative and Promotional	4,230	4,223	4,184
Rents, Depreciation & Amortization	2,992	2,733	2,803
Taxes other than income tax non deductible expenses	1,456	1,561	1,008
Contributions to IPAB	1,831	1,610	1,341
Employee Profit Sharing (PTU) (1)	323	912	861
Non Interest Expense	**Ps. 25,766**	**Ps. 23,347**	**Ps. 20,694**

Million Pesos.

(1) As a result of the application of new accounting criteria as of April 2009, Employee Profit Sharing is registered as a Non Interest Expense.

Non Interest Expense during 2013 amounted to Ps 25.77 billion, 10% higher YoY, mainly due to growth and strengthening of business areas, the expansion of operating infrastructure and the payment of bonuses and incentives with a higher profit base, which was partially offset by decreases in other headings.

The accumulated 2013 Efficiency Ratio was 53.7%, (2.1 pp) below 2012, due to positive operating leverage.

Performing Loan Portfolio

	2013	2012	2011[3]
Commercial [1]	Ps. 107,417	Ps. 101,160	Ps. 93,537
Consumer	139,641	118,315	97,890
Corporate [1]	79,086	87,047	75,266
Government	93,485	86,378	68,328
Subtotal	**419,629**	**392,900**	**335,022**
Recovery Bank	201	243	292
Total Performing Loans [2]	**Ps. 419,830**	**Ps. 393,143**	**Ps. 335,314**
Past due loans	13,317	8,188	6,583
% NPL Ratio	**3.1%**	**2.0%**	**1.9%**

Million Pesos.
(1) For 2013 and 2012 the Commercial Portfolios of Ixe Banco, Arrendadora y Factor Banorte and Fincasa Hipotecaria were reclassified as Corporate portfolios according to Banco Mercantil del Norte's classification criteria for the two loan portfolios;
(2) Balances do not consider GFNORTE's eliminations.
(3) Figures reported in the Banking Sector section of the Annual Report of 2012.

Performing Consumer Loan Portfolio

	2013	2012	2011
Mortgage	Ps. 81,808	Ps. 72,340	Ps. 63,849
Car Loans	11,408	10,325	9,204
Credit Cards	20,323	17,524	11,465
Payroll	26,102	18,126	13,372
Consumer Loans	**Ps. 139,641**	**Ps. 118,315**	**Ps. 97,890**

Million Pesos.

Performing Loans increased 7% YoY, growing from Ps 392.90 billion to Ps 419.63 billion, excluding the proprietary loans managed by the Recovery Bank. The loan portfolio registered lower growth rates YoY mainly due to the economic slowdown registered in the year and the prepayments made by corporate clients, which were not offset by the origination of new loans in this segment during 2013. In spite of this, the loan portfolio grew at a faster pace than the economy.

At the close of 2013, past due loans in the Banking Sector registered a 63% YoY growth, whereas the Banking Sector's Past Due Loan Ratio was 3.1% (including INB past due loans), 1.0 pp higher vs. 2012, mainly due to past due loans related to home developers.

Deposits

	2013	2012	2011
Non Interest Bearing Demand Deposits	Ps. 122,499	Ps. 107,450	Ps. 91,860
Interest Bearing Demand Deposits (1)	132,798	103,968	98,085
Total Demand Deposits (2)	255,297	211,418	189,944
Time Deposits – Retail	129,121	124,255	116,223
Core Deposits	384,418	335,673	306,168
Money Market (3)	59,729	90,073	63,127
Total Banking Sector Deposits	**Ps. 444,148**	**Ps. 425,746**	**Ps. 369,295**
Third Party Deposits	150,636	111,042	123,918
Total Assets Under Management	**Ps. 594,783**	**Ps. 536,788**	**Ps. 493,213**

Million pesos.

(1) As of 2004, IPAB checking accounts for the deposit of cash collections related to the managed portfolios of Banpais and Bancen are excluded, retroactively for comparison purposes. The balances of these accounts to 2011, 2012 and 2013 were Ps. 0 million pesos in all cases.

(2) Includes debit cards.

(3) Includes bank bonds. (Customers and Financial Intermediaries).

At the close of 2013, **Total Deposits** amounted to Ps 444.15 billion, an increase of Ps 18.40 billion or a 4% YoY increase vs. 2012 driven mainly by the efforts to promote Banorte-Ixe's deposit products.

On the other hand, **Core Deposits** rose from Ps 335.67 billion in 2012 to Ps 384.42 billion in 2013 or a 15% YoY increase. This growth was driven mainly by a 21% increase in Demand deposits and a 4% growth in Retail time Deposits.

The balance of **Money Market Deposits at the close of 2013** decreased (34%) YoY.

Brokerage

	2013	2012	2011
Net Income	Ps. 649	Ps. 681	Ps. 418
Shareholders' Equity	2,569	2,785	2,591
Total Assets	116,576	103,344	23,528
Assets Under Management	647,996	667,873	578,762

Million Pesos.

The Brokerage Sector (Casa de Bolsa Banorte Ixe and Operadora de Fondos Banorte-Ixe) reported net income of Ps 649 million during 2013, a (5%) decrease vs 2012 mainly due to a decrease in operating income, and increases in operating expenses and income taxes. The accumulated profit of this sector represented 5% of GFNORTE´s Profits.

During 2012, the Brokerage Sector reported net income of Ps 681 million, a 63% increase vs. 2011. This growth can be mainly attributed to mutual funds managing more client resources, which translated into higher service fees, as well as more revenues from wealth management & private banking, investment banking and structured financing activity.

Assets Under Custody

At the end of 2013, Assets under Management totaled Ps 648 billion, a (3%) YoY decrease, due to a decline in assets held in custody for clients.

At the end of 2012, Assets under Management totaled Ps 667.9 billion, a 15% YoY increase, driven by growth in funds managed by mutual and money market funds.

Long-Term Savings

	2013	2012	2011
Total Long-Term Savings			
Net Income	Ps. 3,576	Ps. 2,169	Ps. 1,157
Stockholders' Equity	29,478	10,641	5,140
Total Assets	96,396	66,690	51,814
Afore			
Net Income	Ps. 2,301	Ps. 1,149	Ps. 443
Stockholders' Equity	24,374	6,216	1,297
Total Assets	25,402	6,889	1,614
AUMs (1) (2)	550,449	246,714	203,216
Insurance-			
Net Income	Ps. 1,097	Ps. 924	Ps. 665
Stockholders' Equity	3,854	3,252	2,701
Total Assets	18,470	16,803	15,921
Annuities			
Net Income	Ps. 178	Ps. 96	Ps. 49
Stockholders' Equity	1,250	1,173	1,142
Total Assets	52,524	42,998	34,279

Million Pesos.

(1) Source: CONSAR December 2013.
(2) AUMs: previous figure reported in 4Q13 (December 2013)= Ps 541.55 billion

Afore (Afore XXI Banorte)

At the end of 2011, the merger of Afore XXI and Afore Banorte took place, in which Banco Mercantil del Norte has a 50% participation. Banco Mercantil del Norte previously held a 51% participation in Afore Banorte Generali and results were consolidated in Banco Mercantil del Norte using the straight line method; however, as it is no longer a majority owner of Afore XXI Banorte, results are now consolidated in the bank using the equity participation method. On January 9, 2013, Afore XXI Banorte completed the acquisition of Afore Bancomer, and so its operations were included as of that date, becoming the largest retirement fund management company in Mexico.

During 2013, Afore XXI Banorte posted a net profit of Ps 2.30 billion, 100% higher YoY as a result of growth in revenues due to more assets under management arising from the acquisition of Afore Bancomer. ROE for Afore XXI Banorte at the close of 2013 was 11.5% and 39.7% excluding goodwill. During 2013, Afore XXI Banorte contributed with 8.2% of the Financial Group's profits.

As of December 2013, assets under management of Afore XXI Banorte amounted to Ps 550 billion (source: CONSAR), a 123% YoY increase vs. 2012. The YoY change is explained by the acquisition of Afore Bancomer.

As of December 2013, Afore XXI Banorte had a 26.6% share of managed funds, ranking as the leader in the market; with 11.60 million managed accounts (this figure does not include 6.33 million accounts managed by Afore XXI with resources deposited in Banco de Mexico), representing 26.0% of the system's total number of accounts, ranking as the leader in the market.

In 2012, Afore XXI Banorte posted a net profit of Ps 1.15 billion, 159% higher YoY, on the back of an increase in managed assets derived from the merger with Afore XXI. ROE for Afore XXI Banorte at the close of 2012 was 39.4%, 17.3 pp higher YoY. As a result of the merger with Afore XXI and efforts to capture new accounts, according to official numbers published by CONSAR, managed funds totaled Ps 246.71 billion, a 21% YoY increase vs. 2011.

Insurance (Seguros Banorte)

On October 4, 2013, the acquisition of Assicurazioni Generali S.p.A.'s 49% minority stake in Seguros Banorte Generali and Pensiones Banorte Generali was finalized, and so as of this date GFNORTE owns 100% of these companies' equity.

During 2013, the Insurance company reported profits totaling Ps 1.10 billion (prior to October 4, 2013, 51% corresponded to GFNORTE, after this date 100% of the results correspond to GFNORTE), 19% above YoY driven by growth in premiums and financial revenues, as well as a decrease in non-interest expenses and the elimination of the 49% minority stake held by Generali, offsetting an increase in damages and claims. Net income represented 5.4% of the Financial Group's profits for 2013.

At the end of 2013, ROE for the Insurance company was 32.5%, 0.4 bp higher vs. 2012.

In 2012 profits amounted to Ps 924 million (51% corresponded to GFNORTE), a 39% YoY increase driven by YoY growth in premiums and financial revenues and trading income, which offset an increase in damages and claims. ROE was 32.1% at the end of 2012, 7 bp higher vs. 2011.

Operations

In the Damages branch, the number of insurance policies issued grew 5% vs. 2012, however there was no YoY growth in issued premiums due to the non-renewal with a governmental entity. When eliminating this non-renewal, YoY growth would have been 26%.

At the close of 2013, there were 247,500 policies in effect, of which 97% were valued under USD 1 million dollars, there were also 213 authorized policies, representing 64% of the issued premiums. In 2013 all technical branches of Damages posted profits, ranking 4 in the Mexican insurance market regarding premiums issued.

All tenders are entitled to 100%, i.e., 100% of the risk is transferred to reinsurers authorized to practice in Mexico, thereby presenting a 20% decrease in the cost of catastrophic coverage, optimizing layers and diversifying participating reinsurers.

Automatic contracts led by Assicurazioni Generali SpA were canceled for the reinsurance of Life and Accidental and Health insurance on December 31, 2013. Conclusion of obligations for the parties was accorded to "run off" for each policy. The portfolio will continue in similar reinsurance frameworks with first class reinsurers, who shall remain responsible for the acquired obligations until the expiration date of said policies.

Regarding to Life Insurance, group insurance for a federal Government was obtained sharing some of the risk with leading reinsurers. This transaction represented a premium of Ps 550 million, the transfered premium was Ps 73 million and recovery of claims amounted to Ps 111 million.

Furthermore, accounts were renewed with two major clients for Accident and Health Insurance, which amounted to a premium of Ps 981 million; these accounts are covered under a scheme of non-proportional reinsurance (XL Catastrophic).

Finally, with respect to Car Insurance, no business was registered in facultative reinsurance for 2013; there is only one Catastrophe contract that is handled jointly with the Damages branch.

The most important new account was with a governmental entity for Ps 62 million for a six-month period, which is held in Retention.

Annuities (Pensiones Banorte)

During 2013, Pensiones Banorte reported profits totaling Ps. 178 million (prior to October 4, 2013, 51% corresponded to GFNORTE, after this date 100% of the results correspond to GFNORTE), increasing by Ps 82 million or 86% YoY vs. 2012, due to an increase in interest income derived from growth in loan placements and in trading revenues, and the elimination of the 49% minority stake held by Generali, offsetting an increase in operating expenses. Accumulated Net income represented 0.9% of the Financial Group’s profits in 2013.

ROE in 2013 for the Annuities company was 14.4%, 6.3 pp higher YoY.

During 2012, profits amounted to Ps 96 million (51% of which corresponded to GFNORTE), an increase of Ps 46 million on 2011, as one-time portfolio write-offs in 2011 did not occurr during 2012, which translated into higher securities’ valuations. ROE for 2012 was 8.1%, 3.4 pp higher YoY.

SOFOM and Other Finance Companies

	2013	2012	2011 [3]
Total SOFOM and Other Finance Companies			
Net Income	Ps. 391	Ps. 255	Ps. 708
Stockholders' Equity	6,116	5,683	3,726
Loan Portfolio	20,296	20,598	22,115
Past Due Loans	424	379	480
Loan Loss Reserves	(531)	(510)	(987)
Total Assets	35,598	31,198	23,056
Leasing and Factoring			
Net Income	Ps. 599	Ps. 604	Ps. 616
Stockholders' Equity	3,209	2,983	2,446
Loan Portfolio	19,732	19,607	16,882
Past Due Loans	210	154	79
Loan Loss Reserves	(312)	(271)	(268)
Total Assets	20,173	20,058	16,814
Warehousing			
Net Income	Ps. 43	Ps. 43	Ps. 40
Stockholders' Equity	271	265	246
Inventories	477	351	43
Total Assets	711	578	277
Ixe Automotriz [1]			
Net Income	Ps. 15	Ps. 33	Ps. 30
Stockholders' Equity	326	311	337
Loan Portfolio	70	703	1,318
Past Due Loans	18	20	66
Loan Loss Reserves	(6)	(5)	(52)
Total Assets	704	863	1,390
Solida Administradora de Portafolios [2]			
Net Income	(Ps. 266)	(Ps. 425)	-
Stockholders' Equity	2,310	2,124	-
Loan Portfolio	494	288	-
Past Due Loans	196	205	-
Loan Loss Reserves	(213)	(234)	-
Total Assets	14,010	9,699	-
Fincasa Hipotecaria			
Net Income	-	-	Ps. 22
Stockholders' Equity	-	-	697
Loan Portfolio	-	-	3,915
Past Due Loans	-	-	335
Loan Loss Reserves	-	-	(667)
Total Assets	-	-	4,575

Million pesos.

(1) Ixe Automotriz was merged into Arrendadora y Factor Banorte, becoming effective since May 7 2013. The results presented correspond to previous periods.

(2) On April 26, 2013, it was approved that Banco Mercantil del Norte divested its interest in Solida, through a spin-off, and subsequently absorbed by Ixe Soluciones, in order to consolidate the recovery banking operations. Afterwards, Ixe Soluciones changed its name to Solida Administradora de Portafolios. The merger and spin-off were effective on May 24, 2013, for comparative effects the amounts reported in 2012 include Solida and Ixe Soluciones

(3) The total for this sector in 2011 according to the audited financial statements of 2012 considers Arrendadora y Factor, Almacenadora, Ixe Automotriz and Fincasa Hipotecaria.

Leasing and Factoring

During 2013 Arrendadora y Factor Banorte reported profits of Ps 599 million, a (1%) YoY decrease vs. 2012, derived from the implementation of the new loan portfolio rating methodology, higher loan loss provisions generated mainly by exposures to home developers and the increase in income taxes. ROE of the Leasing and Factoring Company was 20.3% at the close of 2013, and its net income represented 4.4% of the Financial Group's profits.

At the close of 2013, the Past Due Loan ratio was 1.2% and Coverage ratio was148%; whereas the Capitalization ratio closed at 14.9% considering total risk weighted assets of Ps 21.56 billion.

Arrendadora y Factor Banorte continues ranking first in terms of portfolio size and assets among the 45 companies in this sector, according to the Mexican Association of Leasing Companies, Credit and Factoring (Asociaccion Mexicana de Sociedades Financieras de Arrendamiento, Credito y Factorage, A.C. (AMSOFAC)).

At the end of 2012, Arrendadora y Factor Banorte posted a 2012 profit of Ps 604 million, a (2%) YoY decrease, due to more loan loss provisions derived from higher reserve requirements as a result of an increase in the past due loan portfolio of the factoring company and a change in some clients' credit ratings. Lower profits at this subsidiary can also be attributed to a reduction in financial revenues from the loan portfolio due to a less favorable dollar/peso mix. . ROE of the Leasing and Factoring Company was 22.4% at the close of 2012 and the Past Due Loan Ratio was 0.8%, a 0.3 pp YoY increase vs. 2011.

Warehousing

During 2013, warehousing posted a net income of Ps 43 million, showing a (2%) YoY decline as a result of provisions created due to missing inventory. Almacenadora Banorte's net income represents 0.3% of the Financial Group's profits.

At the close of 2013, the Capitalization Ratio was 7.7% considering total certificates at risk in circulation of Ps 2.82 billion. Almacenadora Banorte ranks 4 among the 18 warehouses of this sector in terms of generated profits.

In 2012, warehousing reported a net income of Ps 43 million, an 8% YoY growth, driven mainly by more revenues related to inventory sales and warehouse preparation.

Ixe Automotriz

Ixe Automotriz was merged into Arrendadora y Factor Banorte, becoming effective since May 7 2013. During 2013, Ixe Automotriz (prior to the merger) net income was Ps. 15 million pesos, a (53%) YoY decrease. Ixe Automotriz accumulated net income represents 0.1% of the Financial Group's profits.

During 2012, the net profit registered for Ixe Automotriz was Ps 33 million, a YoY increase of 11%, on the back of savings generated from synergies with Banorte.

Solida Administradora de Portafolios

On April 26, 2013 it was approved that Banco Mercantil del Norte divested its interest in Solida through a spin-off, and subsequently absorbed by Ixe Soluciones in order to consolidate the recovery banking operations. Afterwards, Ixe Soluciones changed its corporate identity to Solida Administradora de Portafolios. The merger and spin-off became effective on May 24, 2013.

During 2013, Solida Administradora de Portafolios posted a loss of (Ps 266) million, a (37%) YoY decline as a result of the losses registered in 2012.

The Past Due Loan ratio was 39.7% at the close of 2013, lower vs. the 71.0% in 2012. The Coverage ratio was 109%, decreasing vs. the 115% in 2012. The Capitalization ratio at the close of 2013 was 12.4%.

During 2012 reported a loss of (Ps 425) million, including (Ps 922) million from Ixe Soluciones, previous its merger with Solida.

Other Companies

	2013	2012	2011
Ixe Servicios			
Net Income	Ps. 1	Ps. 1	Ps. 2
Stockholders' Equity	24	22	22
Total Assets	32	37	31
Ixe Soluciones			
Net Income	-	-	(Ps. 64)
Stockholders' Equity	-	-	346
Total Assets	-	-	1,397

Million Pesos.

Ixe Servicios

During 2013, Ixe Servicios net income was Ps 1 million pesos. ROE was 5.9% at the close of 2013. The accumulated profit during the year of Ixe Servicios represents 0.01% of GFNORTE´s profits.

In 2012, the Net Income was Ps 1 million pesos and its ROE was 2.7%.

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, 2013 and December 31, 2012, 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 financial ratios, among them, the liquidity ratio (liquid assets / liquid liabilities). Considered within liquid assets are Cash and Due from Banks, Negotiable Instruments and securities held for sale, whereas the liquid liabilities are Demand Deposits, callable interbank loans and with other institutions and short term loans from banks. GFNORTE's liquidity ratio as of the fourth quarter of 2013 was 137.4%, which compares favorably to the 128.4% and 101.8% registered in 2012 and 2011, respectively. On the other hand, Banorte's liquidity ratio as of closing of 2013 was 99.1% and 77.3% in 2012.

Furthermore, the "investment rules for foreign currency transactions and conditions to satisfy within the terms of operations in such currency" designed by the Bank of Mexico for credit institutions, establishes the mechanism to determine the liquidity ratio of liabilities denominated in foreign currency. In accordance with these rules, in 2013 and 2012 GFNORTE generated a monthly average liquidity requirement of USD 104.61 million and USD 78.33 million, respectively, and maintained an average investment in liquid assets of USD 493.06 million and USD 379.01 million, having an average surplus of USD 387.38 million and USD 300.76 million 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:

	2013	2012	2011
Short-term Debt	Ps. 22,380	Ps. 27,923	Ps. 29,118
Long-term Debt:			
Interbank Loans	7,679	7,982	6,330
Other long-term debt (subordinated debt and others)	23,406	24,022	23,496
Total Debt	Ps. 53,465	Ps. 59,926	Ps. 58,944

Million Pesos.

<u>Funding</u>

Our main and most economic source of funding comes from client deposits. On December 31, 2013, GFNORTE's client deposits totaled Ps 433.37 billion (88% of the total funding, considering subordinated debt) a 9% YoY increase vs. 2012; Banorte's client deposits amounted to Ps 435.17 billion.

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, 2013, the balance of repos registered by GFNORTE was Ps 304.02 billion, a 24.6% increase vs. 2012. Furthermore, Banorte registered a balance of Ps 196.04 billion in 2013, a 35.7% increase vs. 2012's balance of Ps 144.52 billion.

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, 2013, GFNORTE's total long term debt maturing in more than one year was Ps 18.00 billion, a 7% decrease vs. Ps 19.46 billion in 2012, this decrease stemmed mainly from the prepayment of the Subordinated Non cumulative & Non-preferred Perpetual Obligation for US 120 billion dollars.

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.

<u>Treasury Policies</u>

The Treasury's General Management is the central unit responsible for balancing GFNORTE's resource needs, monitoring and managing the levels of regulatory reserves, eliminating the interest rate risk from fixed rate loans by hedging and implementing arbitrage strategies.

Cash and securities' investments are kept mainly in Mexican pesos and US dollars.

Regulatory Framework

1. All operations carried out by the Treasury are executed in strict accordance to regulations set by the regulatory authorities of the Banking Institutions such as Bank of Mexico (BANXICO), the CNBV, the SHCP, as well as to those established in the LIC.

2. The Treasury is subject to the policies regarding thresholds and management of liquidity risks set by the Risk Policies Committee in the manual of Risk Management.

Treasury Management

In order to maintain a prudent strategy in the assets and liabilities management through stable funding sources, constitute and maintain liquid assets at optimum levels, the Treasury will monitor the following limits to maintain an appropriate level of liquidity:

1. With the objective to diversify funding sources, the treasury negotiates in various national and international markets.

2. Structure liabilities in such a way so as to avoid the accumulation of maturities that significantly influence the management and control of resources that the Treasury operates.

3. Ensure liquidity in adverse times by managing long term liabilities.

4. Liquid Assets are managed in order to maintain a balanced liquid assets-total assets ratio.

5. Maintain a highly liquid asset inventory to ensure the immediate availability of resources in case of needing additional liquidity.

6. The Treasury has the power to determine and propose to the Risk Policies Committee the transference price for assets and liabilities.

Sources of International Financing - Treasury

Sources of international treasury financing should be monthly classified in a report indicating the sources of available resources, their use and concentration:

1. Public:
    - Checking accounts (via branches network and corporations).

2. Market:
    - Commercial paper.
    - Cross Currency Swaps.
    - Syndicated Loans.
    - Securitizations.
    - Deposit Certificates.

3. National banks and Development Funds:
    - National banks.
    - Funds.

4. Correspondent Banks:
    - Foreign banks.

5. Available lines of credit: (not used)
    - Commercial paper.
    - Correspondent Banks.

a. Through diverse long term financing programs, proposals will be studied, analyzed and implemented, in order to consolidate debt profile.

b. Determine and send the liquidity stress tests results to authorities and the Head of Risk Control simultaneously, so it can be monitored.

c. The Treasury in coordination with the Head of Risk, review permanently liquidity ratio limits set by the Risk Policies Committee and the authorities.

Loan or tax liabilities

See this information in section “c) Report of Relevant Loans” of this Annual Report.

GFNORTE’s Equity

	2013	**2012**	**2011**
Paid-in Capital	14,652	13,072	13,050
Share Subscription Premiums	35,219	18,320	18,006
Subscribed Capital	**Ps. 49,871**	**Ps. 31,392**	**Ps. 31,056**
Capital Reserves	5,811	3,399	3,224
Retained Earnings from prior years	39,303	37,644	30,573
Result from valuation of Securities Available for Sale	667	1,598	188
Result from valuation of instruments for cash flow hedging	(1,420)	(2,493)	(2,537)
Cumulative foreign currency translation adjustment	(1,083)	(547)	(172)
Net Income	13,508	10,888	8,517
Earned Capital	**Ps. 56,786**	**Ps. 50,489**	**Ps. 39,793**
Minority Interest (1)	**2,034**	**6,628**	**5,585**
Total Shareholders’ Equity	**Ps. 108,691**	**Ps. 88,509**	**Ps. 76,434**

Million Pesos.

- Figures of the Minority Interest for 2011, were modified according to the audited figures submitted on February 2013.

GFNORTE's equity increased 23% from Ps 88.51 billion by the end of 2012, to Ps 108.69 billion in 2013, driven mainly by the following factors:

1) An increase in subscribed capital (paid-in capital and share subscription premiums).
2) Higher profits generated during the last 12 months.
3) Higher capital reserves.
4) An increase in the balance of retained earnings from prior years.
5) A lower impact in the result from valuation of instruments for cash flow hedging.

These factors offset the decrease in minority interest, the negative impact of the result from valuation of securities available for sale and the cumulative foreign currency translation adjustment.

Banco Mercantil del Norte's Capitalization Ratio. **[See Note 30 of GFNORTE's 2013 Audited Financial Statements]**

	Dic-13	Dic-12	Dic-11
Tier 1 Capital	58,585	46,696	42,003
Tier 2 Capital	11,034	11,496	8,367
Net Capital	**Ps. 69,619**	**Ps. 58,192**	**Ps. 50,370**
Credit Risk Assets	338,045	297,007	270,972
Market & Operational Risk Assets	122,283	97,522	119,340
Total Risk Assets (1)	**Ps. 460,328**	**Ps. 394,529**	**Ps. 390,312**
Net Capital / Credit Risk Assets	**20.6%**	**19.6%**	**18.6%**
Capitalization Ratio			
Tier 1	12.7%	11.8%	10.8%
Tier 2	2.4%	2.9%	2.1%
Total Capitalization Ratio	**15.1%**	**14.7%**	**12.9%**

Million Pesos.

(1) Without intercompany eliminations.

At the end of 2013, Banorte's Capitalization Ratio (CR) was 15.1% considering credit, market and operational risks, and 20.6% considering only credit risks. The Tier 1 Capital ratio was 11.5%, whereas Tier 1 was 12.7% and Tier 2 was 2.4%. On a YoY basis, the 2013 Capitalization Ratio was 0.4 pp above 2012's as a result of:

1)	Capitalization Initiatives Executed in 2013:	+3.54 pp
2)	Profits Generated during the last 12 months:	+3.06 pp
3)	Net effect of Applying Basel III:	+0.93 pp
4)	Investment in Subsidiaries and Intangibles :	+0.34 pp
5)	Growth of Risk Assets :	-2.52 pp
6)	Investment in Afore Bancomer:	-2.30 pp
7)	Dividends paid in 2013 :	-1.29 pp
8)	Change of Reserves' Methodology:	-0.88 pp
9)	Valuation of Securities Available for Sale and Derivatives:	-0.26 pp
10)	Reserves considered as Tier2 :	-0.25 pp

Ixe Banco's Capitalization Ratio [See Note 26 of 2012 Audited Financial Statements: In 2013 figures are no longer reported given the merger of Ixe Banco into Banco Mercantil del Norte in May 2013]

	Dec-12	Dec-11
Tier 1 Capital	5,686	4,711
Tier 2 Capital	2,483	2,907
Net Capital	**Ps. 8,169**	**Ps. 7,618**
Credit Risk Assets	33,246	35,219
Market & Operational Risk Assets	19,378	14,465
Total Risk Assets (1)	**Ps. 52,624**	**Ps. 49,684**
Net Capital / Credit Risk Assets	**24.6%**	**21.6%**
Tier 1	10.8%	9.5%
Tier 2	4.7%	5.9%
Total Capitalization Ratio	**15.5%**	**15.3%**

Million pesos.
(1) Excluding intercompany eliminations.
(2)

At close of December 2012, the Capitalization Ratio was 15.5% considering market, credit and operational risks, and 24.6% considering only credit risks. The Tier 1 ratio was 10.8% whereas Tier 2 was 4.7%. On a YoY basis, the Capitalization Ratio was 0.2 pp higher in December 2012 as a result of:

1)	Impact of the increase in Stockholders' Equity	+ 0.9pp
2)	Impact of permanent investments in shares during the period	+ 0.9 pp
3)	Growth in risk assets during the period	- 0.9 pp
4)	FX impact on Subordinated Notes	- 0.5 pp
5)	Securitizations that impact net capital	- 0.1 pp
6)	Impact of intangibles and assets that are deferred for over a year	- 0.07 pp
7)	Decrease in overall reserves	- 0.06 pp

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 2013, available cash amounted to Ps 61.98 billion, (9%) below the Ps 68.48 billion registered in December 2012.

GFNORTE's Cash Flow Statement

	2013	2012
Net income	**Ps. 13,508**	**Ps. 10,888**
Items not requiring (generating) resources:		
Depreciation and amortization	1,216	1,148
Technical reserves	9,686	8,708
Other provisions	(757)	2,265
Current and deferred income tax	3,555	4,128
Equity in earnings of unconsolidated subsidiaries and associated companies	(359)	597
	26,849	**27,734**
OPERATING ACTIVITIES:		
Changes in margin accounts	437	(244)
Changes in investments in securities	(69,906)	(15,296)
Changes in debtor balances under repurchase and resale agreements	5,492	(1,865)
Changes in asset position of derivatives	3,456	(2,437)
Change in loan portfolio	(26,132)	(51,380)
Changes in acquired collection rights	(412)	450
Changes in accounts receivable from insurance and annuities, net	(396)	69
Changes in debtor premiums, (net)	90	305
Changes in reinsurance agencies (net) (asset)	(847)	(122)
Changes in receivables generated by securitizations	144	(26)
Change in foreclosed assets	156	(692)
Change in other operating assets	(4,526)	(837)
Change in deposits	19,295	55,653
Change in interbank and other loans	(5,829)	474
Change in creditor balances under repurchase and sale agreements	59,991	271
Collateral sold or pledged	(29)	6
Change in liability position of derivative financial instruments	(2,950)	1,861
Change in technical reserves (net)	799	608
Changes in reinsurance agencies (net) (liability)	(46)	(441)
Change in subordinated debentures	(1,457)	2,933
Change in other operating liabilities	(6,046)	4,103
Change in hedging instruments related to operations	(989)	(248)
Income tax	(5,324)	(1,821)
Net cash flows generated or used from operations	**(8,180)**	**19,058**
INVESTING ACTIVITIES:		
Proceeds on disposal of property, furniture and equipment	2,681	1,335
Payments for acquisition of property, furniture and equipment	(3,939)	(2,798)
Charges on acquisitions of Subsidiaries and associated companies	1,037	-
Payment on acquisitions of Subsidiaries and associated companies	(27,345)	(1,727)
Sale of other permanent investments	(1)	-
Charges for cash Dividends	505	251
Net cash flows generated or used from investment activities	**(27,062)**	**(2,939)**
FINANCING ACTIVITIES:		
Charges for issuance of shares	31,200	-
Dividends paid	(2,911)	(1,240)
Repurchase of shares	437	33
Net cash flow generated or used from financing activities	**28,726**	**(1,207)**
Net (decrease) increase in cash and cash equivalents	(6,516)	14,912
Effects from changes in the value of cash and cash equivalents	14	(85)
Cash and cash equivalents at the beginning of the year	68,480	53,653
Cash and cash equivalents at the end of the year	**Ps. 61,978**	**Ps. 68,480**

Million Pesos.

iii. INTERNAL CONTROL

At Grupo Financiero Banorte, 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 and establishes the general internal control framework for the companies that comprise GFNORTE, as well as the environment in which it must operate in order to provide reasonable security regarding to effectiveness and efficiency of operations, reliability on financial statements and compliance of regulation and 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, Management Committee, Risk Policies Committee (CPR), Audit and Corporate Practices Committee (CAPS), Human Resources Committee and Designation Committee.

B. Management and support areas which are: Unit Risk Management (UAIR), Legal Department and Comptroller, responsible for ensuring that adequate levels of operational risks and compliance with regulation are maintained.

C. Internal Audit, External Audit and Commissary (The Commissary 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 ICS 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 CEO of GFNORTE.

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 due compliance with the external and internal regulations. Code of Conduct that regulates the behavior that each Board member, officer or employee of the Group should assume while performing their activities.

F. Policy and procedure manuals that regulate documentation, recording and liquidation operations that the Institution carries out and establish the control points that should be observed, assuring the separation of functions, clear assignment of responsibilities, safekeeping of information and prevention of unlawful acts.

During 2013, activities related to strengthening control, risk evaluation and management, establishment and monitoring of controls, and assurance of quality information continued developing; including the following:

I. The material entities of GFNORTE (Banco Mercantil del Norte, Casa de Bolsa Banorte Ixe, Arrendadora y Factor Banorte, INB, Banorte-Ixe Tarjetas, Annuities, Insurance and Solida Administradora de Portafolios) submitted their annual report on the operation and status of their Internal Control System and the performance of their functions in this area to CAPS, likewise, this report was submitted by Ixe Banco, Fincasa Hipotecaria (companies merged into Banco Mercantil del Norte in May 2013), Ixe Automotriz (merged into Arrendadora y Factor Banorte in May 2013) and Ixe Soluciones (company merged in May 2013 into Solida, which simultaneously changed its name to Solida Administradora de Portafolios, S.A. de C.V. SOFOM, ER). These reports, coupled with the audited financial statements published by External Auditors, and the reports and findings of the Internal Audit Area and Controller formed the basis for the report submitted by CAPS to the Board of Directors on the status of the Controlling Company's ICS.

II. The Board of Directors analyzed and, at the request of CAPS, ratified its authorization of the basic ICS documents: Code of Conduct, Objectives and Limitations of Internal Control and General Policies for Human and Material Resources, in accordance with external regulation specifications.

III. The various Corporate Governance Committees have had the required financial, economic, accounting and/or legal information for proper decision-making.

IV. The policies and procedures manuals have been updated as per the changes in external regulations, new products, and changes in the Institution's processes or improvements to internal controls. Additionally, there has been continuous follow-up of the improvement actions regarding the observations made by the different members of the ICS.

V. The Supervisory Authorities' requirements have been addressed and the information required by the external regulations has been submitted.

VI. Monitoring of the various business and support processes that make up the operation in GFNORTE through Process and Management Controllers, to report periodically on compliance and identifying opportunity areas for a timely remediation.

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, 2013. (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.

In an inflationary situation, the result of the monetary position corresponding to the valuation result of securities available for sale is recorded in other comprehensive income in 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 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 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 other comprehensive income within stockholders' equity.

In the case of debt instruments that have been authorized for reclassification 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, 2013.

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, 2013 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 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

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. Preventive estimate for credit risk

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 CNBV, internal methodology authorized by the CNBV may also be used.

In the case of consumer, mortgage and commercial loans (excluding loans to financial intermediaries), GFNORTE applies the Provisions for rating the loan portfolio as issued by the CNBV and published in the Official Gazette of the Federation on June 24, 2013. GFNORTE uses the internal methodology authorized by the CNBV for rating commercial loans to financial intermediaries.

On June 24, 2013, the CNBV issued changes to commercial loan rating Provisions (excluding loans to financial intermediaries), 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 rating and calculating the allowance for each type of loan, whereas also allowing credit institutions to classify and calculate allowances based on internal methodologies, when previously approved by the CNBV.

Since June 2001, GFNORTE has the CNBV's approval to apply its own methodology to commercial loans of Banco Mercantil del Norte, S.A. and Arrendadora y Factor Banorte, S.A. de C.V. SOFOM ER, called Internal Risk Classification (CIR Banorte), by these terms, the debtors ratings are determined. CIR Banorte applies to commercial loans with balances equal to or greater than 4 million UDIS or its equivalent in Mexican pesos, and was applied to all the commercial loans (except those granted to State and Municipal Governments and loans intended for investment projects having their own source of payment) up to June 29, 2013. Thereafter, GFNORTE adopted the aforementioned changes in Provisions. Loan classification and reserve allowance are determined based on the rules set by the CNBV.

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.

On July 25, 2013, the CNBV issued Document 111-1/16294/2013, which renewed for a 6-month period, effective as of July 1, 2013, the authorization for such internal commercial loan rating methodology applicable to loans to financial intermediaries.

Commercial loans granted to Financial Intermediaries equal to or greater than 4 million UDIS or their equivalents in Mexican pesos are rated based on the following criteria:

- Debtor's credit quality
- The loans, in relation to the value of the guarantees or the value of the assets in trusts or in "structured" programs, as applicable.

For Commercial loans granted to Financial Intermediaries under 4 million UDIS or their equivalents in Mexican pesos, GFNORTE applied the General Provisions for Credit Institutions in terms of loan portfolio ratings procedure established by the CNBV.

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. 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. This estimate is based on historical collection experience, current trends, loan policy and a percentage of the other accounts receivable according to their seniority. To determine these percentages, historical write-offs of these accounts receivable are checked as well as current trends in the loan quality of its customer base, as well as changes in loan policies.

7. 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, 2013 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.

8. 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 their value is 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 googwill. No indicators of impairment of goodwill have been identified as of December 31, 2013.

9. Income Taxes (ISR), Business Flat Tax (IETU) and Employee Statutory Profit-Sharing (PTU)

The provisions for ISR, IETU 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.

As explained in Note 29, on December 11, 2013, the decree was published reforming, adding and repealing various provisions of the Income Tax Law that went into effect on January 1, 2014. Other provisions were established through which the income tax rate for 2014 will be 30% and the Business Flat Tax Law was repealed.

10. Technical Reserves

The CNSF 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, 2013 are reasonably acceptable based on their obligations, within the parameters established by the actuary, 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 7 “Technical Reserves” in the Insurance Circular published in the DOF on December 13, 2010.

11. 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.

12. Labor Obligations

The determination of GFNORTE’s obligations and labor costs depend on the selection of certain estimates used by actuaries in calculating such amounts. These estimates are described in greater detail in Note 25 of the annual financial statements, consolidated to December 31, 2013. This Note includes expected yields on assets of retirement plans, the discount rate and the rate of growth in the costs of labor remuneration. The estimates depend on economic conditions in Mexico.

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 of Galaz, Yamazaki, Ruiz Urquiza, S. C. haS audited GFNORTE's Financial Statements, therefore there has been no change in external auditors for the last nine fiscal years, likewise 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.

In 2013, GFNORTE hired a firm of external auditors at a total cost of Ps. 893 thousand, 67.5% of this cost corresponding to the auditing services for the financial statements and the rest to additional services.

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 certain other services which are approved by the Board 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 (Law of Credit Institutions), loans granted to related parties of Credit Institutions cannot surpass the established limit of 50% of the basic part of the net capital.

In GFNORTE as of December 31, 2013, 2012 and 2011, the amount of loans granted to third parties is as follows:

Institution granting the loan	**2013**	**% of the limit**	**2012**	**% of the limit**	**2011**	**% of the limit**
Banorte	Ps. 6,778	24.1%	Ps. 11,536	50.3%	Ps. 12,732	59.8%
Ixe Banco	-	-	1,787	68.6%	1,732	81.8%
	Ps. 6,778		**Ps. 13,326**		**Ps. 14,464**	

Million Pesos.

The granted loans are under the 100% limit set forthby the LIC.

In 2013 the amount of loans granted by Ixe Banco is not reported given its merger into Banco Mercantil del Norte in May 2013.

As of December 31, 2012 and 2011, the payable balance of Afore XXI Banorte is Ps. 1 million and Ps. 2 million, respectively.

Banorte

As of **December 31, 2013**, total portfolio of related party loans under Article 73 of the LIC, was **Ps. 6.78 billion** (including Ps. 399 million in "CC" Credit Letters, which are registered in memorandum accounts), representing 1.6% of the Banorte's total loan portfolio (excluding the balance of CC and Support to Federal Government Housing Debtors). Of the total related loans, Ps. 5.01 billion were loans granted to clients linked to members of the Board of Directors; Ps. 937 million were granted to clients linked to shareholders and Ps. 831 million were linked to companies related to GFNORTE.

According with Article 73 of the LIC, the balance of Banorte's loan portfolio for individuals and corporations at closing of **December 2013 was 24.1%** of the limit set by Banxico which was the equivalent of 50% of the basic part of net capital.

Related parties loans have been granted with market conditions and rated in accordance with the policies, procedures and rating systems applicable to the rest of Banorte's loan portfolio based on the general provisions applicable to credit institutions with regard to rating of loan portfolios issued by CNBV and the internal methodology authorized by CNBV, to rate borrowers in the commercial loan portfolio. 99% of the related party loans were rated in category "A", and the majority of these loans were classified as commercial loans.

As of December 31, 2012, the total portfolio of related party loans under Article 73 of the LIC, was **Ps. 11.54 billion** (including Ps. 485 million in "CC" Credit Letters, which are registered in memorandum accounts), representing 3.2% of the Banorte's total loan portfolio (excluding the balance of CC and Support to Federal Government Housing Debtors). Of the total related loans, Ps. 4.59 billion were loans granted to clients linked to members of the Board of Directors; Ps. 1.17 billion were granted to clients linked to shareholders and Ps. 5.77 billion were linked to companies related to GFNORTE.

According with Article 73 of the LIC, the balance of Banorte's loan portfolio for individuals and corporations at closing of December 2012 was 50.3% of the limit set by such legal provision, which was the equivalent as of that date to 50% of the basic part of net capital.

Related parties loans have been granted with market conditions and rated in accordance with the policies, procedures and rating systems applicable to the rest of Banorte's loan portfolio based on the general provisions applicable to credit institutions with regard to rating of loan portfolios issued by CNBV and the internal methodology authorized by CNBV, to rate borrowers in the commercial loan portfolio. 100% of the related party loans were rated in category "A", and the majority of these loans were classified as commercial loans.

Ixe Banco

In 2013 the amount of loans granted by Ixe Banco is not reported given its merger into Banco Mercantil del Norte in May 2013.

As of December 31, 2012, the total portfolio of related party loans under Article 73 of the LIC, was Ps. 1.79 billion, representing 6.1% of the Ixe Banco's total loan portfolio (excluding the balance of Credit Letters). Of the total related loans, Ps. 627 million were loans granted to clients linked to members of the Board of Directors; Ps. 1.02 billion were granted to clients linked to shareholders and Ps. 139 million were linked to companies related to GFNORTE.

According with Article 73 of the LIC, the balance of Ixe Banco's loan portfolio for individuals and corporations at closing of December 2012 was 68.6% of the limit set by such legal provision which was the equivalent as of that date to 50% of the basic part of net capital.

Related parties loans have been granted with market conditions and rated in accordance with the policies, procedures and rating systems applicable to the rest of Ixe Banco's loan portfolio based on the general provisions applicable to credit institutions with regard to rating of loan portfolios issued by CNBV and the internal methodology authorized by CNBV, to rate borrowers in the commercial loan portfolio. 100% of the related party loans were 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, 2013, 2012 and 2011, GFNORTE's participation in the equity of its consolidated subsidiaries is as follows:

	2013	2012	2011
Banco Mercantil del Norte, S. A. and Subsidiary	97.50%	92.72%	92.72%
Arrendadora y Factor Banorte, S. A. de C. V. SOFOM, ER	99.99%	99.99%	99.99%
Almacenadora Banorte, S. A. de C. V.	99.99%	99.99%	99.99%
Seguros Banorte Generali, S. A. de C. V.*	99.99%	51.00%	51.00%
Pensiones Banorte Generali, S. A. de C. V.*	99.99%	51.00%	51.00%
Casa de Bolsa Banorte Ixe, S. A. de C. V. (formerly Ixe Casa de Bolsa)	99.99%	99.99%	99.99%
Operadora de Fondos Banorte Ixe (formerly Ixe Fondos)	99.99%	99.99%	99.99%
Ixe Servicios, S. A. de C. V.	99.99%	99.99%	99.99%
Solida Administradora de Portafolios, S.A. de C.V., SOFOM ER (formerly Ixe Soluciones)	96.76%	99.99%	99.99%
Fincasa Hipotecaria, S. A. de C. V. SOFOM, ER and Subsidiary**	-	99.99%	99.99%
Ixe Banco, S. A.**	-	99.99%	99.99%
Ixe Automotriz, S. A. de C. V. SOFOM, ER and Subsidiary***	-	99.99%	99.99%
Casa de Bolsa Banorte, S. A. de C. V. and Subsidiary	-	-	99.99%
Banorte-Ixe Tarjetas, S. A. de C. V. SOFOM, ER	-	-	50.00%

*The change of names to Seguros Banorte, S. A. de C. V. and Pensiones Banorte, S. A. de C. V. is in course.
**Subsidiary merged into Banco Mercantil del Norte in May 2013.
*** Subsidiary merged into Arrendadora y Factor Banorte in May 2013.

Sale of portfolios among related parties (nominal values)

In February 2003 Banorte sold Ps. 1.93 billion of its own portfolio (with interest) to its subsidiary Solida at a price of Ps. 378 million. Of this transaction, Ps. 1.89 billion were 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 2012 and 2013:

	Mexican pesos			Foreign Currency			Total		
Type of portfolio	**Aug 02**	**Dec 12**	**Dec 13**	**Aug 02**	**Dec 12**	**Dec 13**	**Aug 02**	**Dec 12**	**Dec 13**
Performing Loan Portfolio									
Commercial	Ps. 5	Ps. -	Ps. -	Ps. 5	Ps. -	Ps. -	Ps. 10	Ps. -	Ps. -
Mortgage	54	13	8	-	-	-	54	13	8
Total	**59**	**13**	**8**	**5**	**-**	**-**	**64**	**13**	**8**
Past-due portfolio									
Commercial	405	300	302	293	109	112	698	409	414
Consumer	81	72	72	-	-	-	81	72	72
Mortgage	1,112	282	258	-	-	-	1,112	282	258
Total	**1,598**	**654**	**632**	**293**	**109**	**112**	**1,891**	**763**	**744**
Total portfolio	**1,657**	**667**	**640**	**298**	**109**	**112**	**1,955**	**776**	**752**
Allowance for loan losses[1]									
Commercial	326	300	302	246	109	112	572	409	414
Consumer	77	72	72	-	-	-	77	72	72
Mortgage	669	288	258	-	-	-	669	288	258
Total allowance for loan loss	**Ps. 1,072**	**Ps. 660**	**Ps. 632**	**Ps. 246**	**Ps. 109**	**Ps. 112**	**Ps. 1,318**	**Ps. 769**	**Ps. 744**

Million Pesos

(1) Allowances required based on the classification methodology applied in Banorte that maintained a 99.99% equity interest in Solida from January to April 2013, and during 2012.

As of December 31, 2013 and 2012, the composition of the Holding's loan portfolio without subsidiaries, is as follows:

	Mexican pesos		Foreign Currency		Total	
Type of portfolio	**Dec 13**	**Dec 12**	**Dec 13**	**Dec 12**	**Dec 13**	**Dec 12**
Commercial loans	Ps. 267,511	Ps. 240,749	Ps. 19,291	Ps. 16,722	Ps. 286,802	Ps. 257,471
Consumer loans	38,380	25,180	-	-	38,380	25,180
Mortgage loans	80,628	69,735	1	-	80,629	69,735
Performing Loan Portfolio	**386,519**	**335,664**	**19,292**	**16,722**	**405,811**	**352,386**
Commercial loans	10,327	4,530	168	559	10,495	5,089
Consumer loans	962	584	-	-	962	584
Mortgage loans	1,352	1,030	-	-	1,352	1,030
Past-due portfolio	**12,641**	**6,144**	**168**	**559**	**12,809**	**6,703**
Total portfolio	**399,160**	**341,808**	**19,460**	**17,281**	**418,620**	**359,089**
Allowance for loan losses	11,432	7,783	345	471	11,777	8,254
Net portfolio	**Ps. 387,728**	**Ps. 334,025**	**Ps. 19,115**	**Ps. 16,810**	**Ps. 406,843**	**Ps. 350,835**
Preventive Loan Loss Reserves					**91.94%**	**123.14%**
% of past-due portfolio					**3.06%**	**1.87%**

Million Pesos.
2012 figures are according to the Quarterly Report as of December 2012.

c) MANAGERS AND SHAREHOLDERS

Board of Directors

The Board of Directors of Grupo Financiero Banorte, S. A. B. de C. V. is made up of 15 Proprietary Members, and if the case, by their respective Alternates, of which 10 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 always 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.

The Board of Directors appointed for the 2013 fiscal year by the Annual General Ordinary Shareholders' Meeting held on April 26, 2013, comprises the following members:

NAME	POSITION	WITH THE COMPANY SINCE	PROFESSIONAL BACKGROUND
Guillermo Ortiz Martinez	Chairman of the Board of Directors Proprietary Related Member	February 2011	• Chairman of the Board of Directors of Banco Mercantil del Norte, S. A. • Chairman of the External Panel for the Review of the Fund's Risk Management Framework at the International Monetary Fund (IMF). • Founder of the Guillermo Ortiz y Asociados, S. C. advisory firm. • He was Governor of Banco de Mexico, Secretary of Finance and Public Credit (SHCP), Secretary of Communications and Transportation and Chairman of the Board of Directors of the Bank for International Settlements (BIS).
Graciela Gonzalez Moreno	Proprietary Patrimonial Member	April 2013	• She is accountant, graduated from the Universidad Labastida in Monterrey, N.L. Since September 1988 until 2010, participated as founding partner and member of the Asociacion Gilberto, A.C. Board of Directors, being Vice-president of it from 2007 to 2010. She is daughter of Roberto Gonzalez Barrera, sister of Bertha Gonzalez Moreno, Juan Gonzalez Moreno and Roberto Gonzalez Moreno.

NAME	POSITION	WITH THE COMPANY SINCE	PROFESSIONAL BACKGROUND
Manuel Saba Ades	Proprietary Independent Member	July 2011	• Chairman of the Board of Directors of Grupo Casa Saba, S.A.B. de C.V. • He is member of the Board of Grupo Xtra Textil S.A. de C.V. • He was member of the Board of Directors of: Casa de Bolsa Finamex, Estudios Mexicanos Telemundo, Banco Serfin, Banca Promex and Valores Finamex, as well as the Chairman of the Executive Committee of Grupo Kosa (Celanese), and former member of the Board of Ixe Grupo Financiero, S.A.B. de C.V.
Alfredo Elias Ayub	Proprietary Independent Member	April 2012	• CEO of the Comision Federal de Electricidad (Mexican Federal Electricity Commission, CFE),CEO of Aeropuertos y Servicios Auxiliares (Airports and Auxiliary Services, ASA), and held several positions in the Ministry of Energy. • He was member of the Alumni Council of Harvard University Business School, Chairman of the Development Board at the Anahuac University and the Mexico Foundation at Harvard.
Herminio Blanco Mendoza	Proprietary Independent Member	April 2005	• Chairman and CEO of Soluciones Estrategicas. • Member of the Board of Directors of Banco Latinoamericano de Exportaciones, Bladex. • Member of the Board of Directors of Cydsa, S. A. • He was Mr. Lakshimi Mittal's advisor (Chairman and CEO of Mittal Steel), Secretary of Commerce and Industrial Development and Chief Negotiator of the North American Free Trade Agreement (NAFTA).
Eduardo Livas Cantu	Proprietary Independent Member	April 1999	• He is an Independent Financial Advisor, Member of the Board of Directors of Gruma and Gimsa. • He was a member of the Board of the Executive Committee of Gruma and he was Chief Corporate Officer of Gimsa and Gruma.
Patricia Armendariz Guerra	Proprietary Independent Member	April 2009	• CEO of Credipyme, S.A. de C.V. • Chairman of Valores Financieros, S.A. (International Financial Consultancy).
Armando Garza Sada	Proprietary Independent Member	July 2011	• He is Chairman of the Board of Directors of Grupo Alfa, S.A.B. de C.V. • He is member of the Board of: Banco de Mexico (Regional Board), Deutsche Bank (Latin-American Advisory Board), Femsa, Frisa, Liverpool, Proeza, member of the Advisory Board of Stanford University

NAME	POSITION	WITH THE COMPANY SINCE	PROFESSIONAL BACKGROUND
			Business School, and member of the Board of Stanford University. • He was Developement Director of Alfa, S.A.B. de C.V. • He was CEO of Selther, Polioles, Sigma and Versax, among others.
Hector Reyes Retana	Proprietary Independent Member	July 2011	• Independent Advisor of Banco del Ahorro Nacional y Servicios Financieros, S.N.C. • He founded the state organism "ProMexico, Inversion y Comercio" • He was the CEO of Banco Nacional de Comercio Exterior, S.N.C (Bancomext) and Director of International Operations of Banco de Mexico (Banxico). • In the private sector, he was CEO of Grupo Financiero Mifel and Banca Mifel, and was Vicepresident of the Mexican Banking Association (ABM) • Independent Advisor of Consupago, S.A. de C.V.
Juan Carlos Braniff Hierro	Proprietary Independent Member	July 2011	• He is Chairman of the Board and CEO of Capital I, Fondos de Inversion Inmobiliaria. • He was Vicepresident of the Board of Directors of Grupo Financiero BBVA Bancomer, and Chairman of the Insurance, Annuities and Afore Bancomer Boards, also was Member of the Credit, Risk and Audit Committee.Furthermore, was member of the Board of Directors of Femsa, Aeromexico, Maizoro, Hoteles Presidente Intercontinental, and former Member of the Compensation Committee of Ixe Grupo FInanciero, among others.
Miguel Aleman Magnani	Proprietary Independent Member	April 2013	• He is Executive Chairman of Interjet, Chairman of Grupo Aleman, Honorary Member of Grupo Casa SABA and was Vice-Chairman of the Board of Directors of Grupo Televisa, S.A.
Alejandro Burillo Azcarraga	Proprietary Independent Member	April 2013	• He is Chairman of the Board of Directors of Grupo Pegaso, strategic partner in 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, and BBVA Bancomer Servicios, S.A.
Juan Antonio Gonzalez Moreno	Proprietary Patrimonial Member	April 2004	• He is Chairman of the Board and CEO of Gruma. He has been Managing Director of Gruma Asia and Oceania, Senior Vice-president of Special Projects of Gruma Corporation, Chairman of the Board and CEO of CarAmigo EE.UU., Vice-chairman of Central and East Regions of

NAME	POSITION	WITH THE COMPANY SINCE	PROFESSIONAL BACKGROUND
			MissionFoods, Chairman and Vice-chairman of sales of Azteca Milling and Managing Director of GIMSA.
Alejandro Valenzuela del Rio	Proprietary Related Member	October 2007	• CEO of Grupo Financiero Banorte S.A.B. de C.V. since April 2008. In the same Group he has held the positions of Managing Director of Institutional Relations, Treasury and Investor Relations. • He was Managing Director of the European Aeronautic Defense and Space Company (EADS). • Member of the Board of Directors of the Laredo National Bank. • In the public sector, he was Director of International Relations and Foreign Affairs of Banco de Mexico, Chief of Staff to the Minister and Managing Director of International Financial Affairs at the Ministry of Finance and Public Credit. Spokesman of the same Ministry.
Jesus O. Garza Martinez	Alternate Related Member	April 2012	• Managing Director of Segment and Channel of Banco Mercantil del Norte, S.A.
Alejandro Hank Gonzalez	Alternate Patrimonial Member	April 2013	• He holds a bachelor's degree in Business Administration by Universidad Iberoamericana in Mexico City.
David Villarreal Montemayor	Alternate Patrimonial Member	October 1993	• CEO and major shareholder of Artefactos Laminados, S. A. de C.V. • He is part of the Board of Directors 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 and Business Developer Advisor for SISMEX, Sistemas Mexicanos S.A. de C.V.
Alberto Saba Ades	Alternate Independent Member	July 2011	• Vice-chairman of the Board of Directors of Grupo Saba, S.A.B. de C.V. • CEO of Grupo Xtra, S.A. de C.V.
Isaac Becker Kabacnik	Alternate Independent Member	April 2002	• Chairman of Becker e Hijos, S.A. de C.V. and of Becktel, S.A. de C.V.
Manuel Aznar Nicolin	Alternate Independent Member	March 2007	• Partner at the offices of Kuri Breña, Sanchez Ugarte y Aznar, S.C.
Adrian Sada Cueva	Alternate Independent Member	April 2013	• CEO of Vitro since March 2013. He also was Managing Director of Containers in the same Group.
Everardo Elizondo Almaguer	Alternate Independent Member	April 2010	• Founder and Director of the Graduate School of the Faculty of Economics, University of Nuevo Leon. He is Professor at the Instituto Tecnologico y de Estudios

NAME	POSITION	WITH THE COMPANY SINCE	PROFESSIONAL BACKGROUND
			Superiores de Monterrey (ITESM) in the Faculty of Economics and Public Administration. • He was Director of Economic Studies of Grupo Industrial Alfa (currentlly Alfa Group). • He founded the Consulting Agency Index, Economia Aplicada S.A. • He was Deputy Governor of Banco de Mexico.
Ramon A. Leal Chapa	Alternate Independent Member	July 2011	• CFO of Alfa Corporativo • Planning Director of Vitro.
Julio Cesar Mendez Rubio	Alternate Independent Member	July 2011	• CEO of Soluciones Especializadas Confianza, S.A. DE C.V., Sofom E.N.R. • He was Deputy Managing Director of Credit of Banco Nacional de Comercio Exterior.
Guillermo Mascareñas Milmo	Alternate Independent Member	July 2011	• Associate Director of Alpha Patrimonial, S.A. de C.V.
Lorenzo Lazo Margain	Alternate Independent Member	April 2013	• CEO of Aleman Velasco y Asociados S.C. and member of the Consultive Board of "Mexico Cumbre de Negocios". Chairman of the Board of L.L. & M.M. Consultores S.C.
Alejandro Orvañanos Alatorre	Alternate Independent Member	April 2013	• CEO of Grupo Pegaso. He was CEO of Caribevision Television Network, Director of Operations of Grupo Pegaso and Deputy CEO of Movistar.
Enrique Castillo Sanchez Mejorada	Alternate Related Member	July 2011	• He is member of the Board of Directors of Grupo Industrial Herdez and Grupo Embotelladoras Unidas (Geupec). • Chairman of Capital Investments of GFNORTE. • He was Chairman of the Board of Directors of Ixe Grupo Financiero and Managing Director of Wholesale Bank of Ixe Grupo Financiero, S.A.B. de C.V. • He was Director of Banco Nacional de Mexico, Casa de Bolsa Banamex, S.A. and Nacional Financiera. He worked in Inverlat Casa de Bolsa, S.A, was CEO of Grupo Financiero Invermexico, S.A. de C. V. as well asCEO of Credit Suisse First Boston.
Jose Marcos Ramirez Miguel	Alternate Related Member	July 2011	• Managing Director Wholesale Bank and Casa de Bolsa Banorte Ixe. • Managing Director Wholesale Bank of Grupo Financiero Santander.

*Last October 9 2013, it was informed to the CNBV that Jose Guadalupe Garza Montemayor left the board, who until that date was Proprietary Patrimonial Member of Grupo Financiero Banorte and Banco Mercantil del Norte Boards.

It is informed through this Annual Report that the Annual Ordinary General Shareholders' Meeting was held on April 25, 2014, among the resolutions was the approval of the Board of Directors for the fiscal year 2014, which will be comprised by the following members after the meeting's minutes are formalized:

NAME	POSITION	WITH THE COMPANY SINCE	PROFESSIONAL BACKGROUND
Guillermo Ortiz Martinez	Chairman of the Board of Directors Proprietary Related Member	February 2011	• Chairman of the Board of Directors of Banco Mercantil del Norte, S. A. • Chairman of the External Panel for the Review of the Fund's Risk Management Framework at the International Monetary Fund (IMF). • Founder of the Guillermo Ortiz y Asociados, S. C. advisory firm. • He was Governor of Banco de Mexico, Secretary of Finance and Public Credit (SHCP), Secretary of Communications and Transportation and Chairman of the Board of Directors of the Bank for International Settlements (BIS).
Graciela Gonzalez Moreno	Proprietary Patrimonial Member	April 2013	• She is accountant, graduated from the Universidad Labastida in Monterrey, N.L. Since September 1988 until 2010, participated as founding partner and member of the Asociacion Gilberto, A.C. Board of Directors, being Vice-president of it from 2007 to 2010. She is daughter of Roberto Gonzalez Barrera, sister of Bertha Gonzalez Moreno, Juan Gonzalez Moreno and Roberto Gonzalez Moreno.
David Villarreal Montemayor	Proprietary Patrimonial Member	October 1993	• CEO and major shareholder of Artefactos Laminados, S. A. de C.V. • He is part of the Board of Directors 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 a Financial and Business Developer Advisor for SISMEX, Sistemas Mexicanos S.A. de C.V.
Everardo Elizondo Almaguer	Proprietary Independent Member	April 2010	• Founder and Director of the Graduate School of the Faculty of Economics, University of Nuevo Leon. He is Professor at the Instituto Tecnologico y de Estudios Superiores de Monterrey (ITESM) in the Faculty of Economics and Public Administration. • He was Director of Economic Studies of Grupo Industrial Alfa (currentlly Alfa Group). • He founded the Consulting Agency Index, Economia Aplicada S.A. • He was Deputy Governor of Banco de Mexico.

NAME	POSITION	WITH THE COMPANY SINCE	PROFESSIONAL BACKGROUND
Alfredo Elias Ayub	Proprietary Independent Member	April 2012	• CEO of the Comision Federal de Electricidad (Mexican Federal Electricity Commission, CFE),CEO of Aeropuertos y Servicios Auxiliares (Airports and Auxiliary Services, ASA), and held several positions in the Ministry of Energy. • He was member of the Alumni Council of Harvard University Business School, Chairman of the Development Board at the Anahuac University and the Mexico Foundation at Harvard.
Herminio Blanco Mendoza	Proprietary Independent Member	April 2005	• Chairman and CEO of Soluciones Estrategicas. • Member of the Board of Directors of Banco Latinoamericano de Exportaciones, Bladex. • Member of the Board of Directors of Cydsa, S. A. • He was Mr. Lakshimi Mittal's advisor (Chairman and CEO of Mittal Steel), Secretary of Commerce and Industrial Development and Chief Negotiator of the North American Free Trade Agreement (NAFTA).
Adrian Sada Cueva	Proprietary Independent Member	April 2013	• CEO of Vitro since March 2013. He also was Managing Director of Containers in the same Group.
Patricia Armendariz Guerra	Proprietary Independent Member	April 2009	• CEO of Credipyme, S.A. de C.V. • Chairman of Valores Financieros, S.A. (International Financial Consultancy).
Armando Garza Sada	Proprietary Independent Member	July 2011	• He is Chairman of the Board of Directors of Grupo Alfa, S.A.B. de C.V. • He is member of the Board of: Banco de Mexico (Regional Board), Deutsche Bank (Latin-American Advisory Board), Femsa, Frisa, Liverpool, Proeza, member of the Advisory Board of Stanford University Business School, and member of the Board of Stanford University. • He was Developement Director of Alfa, S.A.B. de C.V. • He was CEO of Selther, Polioles, Sigma and Versax, among others.
Hector Reyes Retana y Dahl	Proprietary Independent Member	July 2011	• ndependent Advisor of Banco del Ahorro Nacional y Servicios Financieros, S.N.C. • He founded the state organism "ProMexico, Inversion y Comercio" • He was the CEO of Banco Nacional de Comercio Exterior, S.N.C (Bancomext) and Director of International Operations of Banco de Mexico (Banxico). • In the private sector, he was CEO of

NAME	POSITION	WITH THE COMPANY SINCE	PROFESSIONAL BACKGROUND
			Grupo Financiero Mifel and Banca Mifel, and was Vicepresident of the Mexican Banking Association (ABM) • Independent Advisor of Consupago, S.A. de C.V.
Juan Carlos Braniff Hierro	Proprietary Independent Member	July 2011	• He is Chairman of the Board and CEO of Capital I, Fondos de Inversion Inmobiliaria. • He was Vicepresident of the Board of Directors of Grupo Financiero BBVA Bancomer, and Chairman of the Insurance, Annuities and Afore Bancomer Boards, also was Member of the Credit, Risk and Audit Committee.Furthermore, was member of the Board of Directors of Femsa, Aeromexico, Maizoro, Hoteles Presidente Intercontinental, and former Member of the Compensation Committee of Ixe Grupo FInanciero, among others.
Miguel Aleman Magnani	Proprietary Independent Member	April 2013	• He is Executive Chairman of Interjet, Chairman of Grupo Aleman, Honorary Member of Grupo Casa SABA and was Vice-Chairman of the Board of Directors of Grupo Televisa, S.A.
Alejandro Burillo Azcarraga	Proprietary Independent Member	April 2013	• He is Chairman of the Board of Directors of Grupo Pegaso, strategic partner in 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, and BBVA Bancomer Servicios, S.A.
Juan Antonio Gonzalez Moreno	Proprietary Patrimonial Member	April 2004	• He is Chairman of the Board and CEO of Gruma. He has been Managing Director of Gruma Asia and Oceania, Senior Vice-president of Special Projects of Gruma Corporation, Chairman of the Board and CEO of CarAmigo EE.UU., Vice-chairman of Central and East Regions of MissionFoods, Chairman and Vice-chairman of sales of Azteca Milling and Managing Director of GIMSA.
Alejandro Valenzuela del Rio	Proprietary Related Member	October 2007	• CEO of Grupo Financiero Banorte S.A.B. de C.V. since April 2008. In the same Group he has held the positions of Managing Director of Institutional Relations, Treasury and Investor Relations. • He was Managing Director of the European Aeronautic Defense and Space Company (EADS). • Member of the Board of Directors of the Laredo National Bank. • In the public sector, he was Director of

NAME	POSITION	WITH THE COMPANY SINCE	PROFESSIONAL BACKGROUND
			International Relations and Foreign Affairs of Banco de Mexico, Chief of Staff to the Minister and Managing Director of International Financial Affairs at the Ministry of Finance and Public Credit. Spokesman of the same Ministry.
Jesus O. Garza Martinez	Alternate Related Member	April 2012	• Managing Director of Segment and Channel of Banco Mercantil del Norte, S.A.
Alejandro Hank Gonzalez	Alternate Patrimonial Member	April 2013	• He holds a bachelor's degree in Business Administration by Universidad Iberoamericana in Mexico City.
Jose Maria Garza Treviño	Alternate Independent Member	April 2014	• 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-chairrman 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. • Participated on the Advisory Boards of HSBC Northeast, BBVA Northeast and NAFINSA.
Alberto Halabe Hamui	Alternate Independent Member	April 2014	• Deputy Managing Director of Inmobiliaria IHM S.A. de C.V. since 2007, 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 Committees of St. Regis Mexico and Banorte's Metropolitan Regional Board, furthermore, he was Member of the Board of Directors in Microfinanciera Finsol.
Isaac Becker Kabacnik	Alternate Independent Member	April 2002	• Chairman of Becker e Hijos, S.A. de C.V. and of Becktel, S.A. de C.V.
Manuel Aznar Nicolin	Alternate Independent Member	March 2007	• Partner at the offices of Kuri Breña, Sanchez Ugarte y Aznar, S.C.
Eduardo Livas Cantu	Alternate Independent Member	April 1999	• He is an Independent Financial Advisor, Member of the Board of Directors of Gruma and Gimsa. • He was a member of the Board of the Executive Committee of Gruma and he was Chief Corporate Officer of Gimsa and Gruma.

NAME	POSITION	WITH THE COMPANY SINCE	PROFESSIONAL BACKGROUND
Roberto Kelleher Vales	Alternate Independent Member	April 2014	• Currently, he is Shareholder, Vice-chairman and CEO of Inmobilia Desarollos. • Adviser of the Volkswagen National Dealers Association. • He was Chairman of the Volkswagen National Dealers Association, and was Adviser of the Mexican Association of Car Dealers.
Ramon A. Leal Chapa	Alternate Independent Member	July 2011	• CFO of Alfa Corporativo • Planning Director of Vitro.
Julio Cesar Mendez Rubio	Alternate Independent Member	July 2011	• CEO of Soluciones Especializadas Confianza, S.A. DE C.V., Sofom E.N.R. • He was Deputy Managing Director of Credit of Banco Nacional de Comercio Exterior.
Guillermo Mascareñas Milmo	Alternate Independent Member	July 2011	• Associate Director of Alpha Patrimonial, S.A. de C.V.
Lorenzo Lazo Margain	Alternate Independent Member	April 2013	• CEO of Aleman Velasco y Asociados S.C. and member of the Consultive Board of "Mexico Cumbre de Negocios". Chairman of the Board of L.L. & M.M. Consultores S.C.
Alejandro Orvañanos Alatorre	Alternate Independent Member	April 2013	• CEO of Grupo Pegaso. He was CEO of Caribevision Television Network, Director of Operations of Grupo Pegaso and Deputy CEO of Movistar.
Juan Antonio Gonzalez Marcos	Alternate Patrimonial Member	April 2014	
Jose Marcos Ramirez Miguel	Alternate Related Member	July 2011	• Managing Director Wholesale Bank and Casa de Bolsa Banorte Ixe. • Managing Director Wholesale Bank of Grupo Financiero Santander..

According with Article Thirty-three of the Corporate By-laws, the functions and faculties of the Board of Directors are:

I. To establish general strategies to guide the Group and the individuals who control it.

II. To monitor the management and direction of the Group and the individuals who control it, considering their relevance in the financial, administrative and legal situation of the Group, as well as the performance of the relevant directors.

III. To approve, with prior opinion of the Audit and Corporate Practices Committee:

a) Policies and limitations for the use of the Group’s capital and for the individuals who control it on behalf of related parties.

b) Each individual transaction with related parties that the Group or individuals with control carry out. The following transactions do not require the approval of the Board of Directors as long as they adhere to the policies and limits established by the Board: 1. Transactions in amounts with insignificant relevance for the Group and the individuals who control it, 2. Transactions carried out by the Group and the companies that it controls or over which it has significant influence, or among them, only when: i) they are ordinary or normal business transactions; ii) they are carried out at market prices or supported by ratings qualified by external specialists. 3. Transactions with employees, only if carried out under the same conditions as with any client or as a result of general labor benefits.

c) Unusual or non-recurring transactions executed in the course of a fiscal year by the Group or individuals in control, either simultaneously or successively and considered to be, by their characteristics, a single operation or, the amount represents, based on figures corresponding to the closing of the previous quarter in any of the following cases: 1. The acquisition or alienation of goods with a value equal or superior to 5% of the consolidated assets of the Group. 2. The acquisition of guarantees or assumption of liabilities for an amount equal or superior to 5% of the Group's consolidated assets. Investments in debt or bank investments are exempted when they are carried out in accordance with the policies established by the Board of Directors. Transaction waivers for amounts less than that mentioned in this paragraph can be delegated to the Audit and Corporate Practices Committee.

d) The appointment, election and if the case, dismissal of the Group's CEO and his remuneration, as well as the policies for the designation and remuneration of the other relevant officers.

e) Policies for granting mutuals, loans or any type of credit or guarantees to related parties.

f) Exemptions, enabling a Board member, relevant officer or individual with control to take advantage of business opportunities for themselves or on behalf of a third party that correspond to the Group or individuals with control or those with significant influence. Exemptions for transactions for amounts less than that mentioned in paragraph c) of this section, can be delegated to one of the Group's committees in charge of audit or corporate practices which is included in the Stock Market Law.

g) Limitations with regards to internal control and internal audit of the Group and controlling individuals.

h) Accounting policies of the Group, adjusted to known accounting principles or those issued by the CNBV of general character.

i) Financial statements of the Group.

j) The hiring of individuals to conduct external audits and if the case, additional or complementary services.

When the Board of Directors' resolutions are not in agreement with the opinions of the corresponding Committee, such Committee must instruct the CEO to disclose this situation to investors through the stock exchange in which shares of the Group are traded, and adapting itself to the terms and conditions of the internal regulations established by that stock exchange.

IV. To present to the General Shareholders' Meeting held at the end of each fiscal year, the following: a) The annual report on the activities of the Audit and Corporate Practices Committee; b) The report prepared by the CEO in accordance with the law, accompanied by an external auditor's finding; c) The Board of Directors' opinion on the content of the CEO's report referred to in the previous parenthesis; d) The report referred to in Article 172, paragraph b) of the General Law of Mercantile Societies establishing the main policies and accounting and information principles to follow in the preparation of financial information; e) The report on those activities and operations in which there could have been intervention in accordance to that foreseen in the applicable legislation.

V. Follow up on the main risks that the Group and its controlling individuals are exposed to, based on the information presented by the Committees, the CEO and external auditors, as well as accounting systems, internal control and internal audit, registration, filing or information, all of which can be carried out by the Audit and Corporate Practices Committee.

VI. Approve communication and information policies with shareholders and the market, as well as with the Board of Directors and relevant officers, to comply with legal regulations.

VII. Determine the necessary actions to correct any identified irregularities and implement the corresponding corrective measures.

VIII. Establish the terms and conditions to which the CEO must adhere in exercising his power in acts of dominion.

IX. Order the CEO to publicly disclose any material event to his knowledge.

X. Represent the Group with corporations and individuals, as well as administrative and legal authorities or authorities of any other nature, whether municipal, state or federal, as well as local or federal labor authorities, the different Secretaries of State, Federal Tax Tribunal, IMSS, regional offices and other dependents of the same Institute and referees or arbitrators, with the authority to deal with cases and collections, conferred with the most ample general abilities referred to in the first paragraph of Article 2554 of the Civil Code for the Distrito Federal, and with the special abilities that require special mention in accordance with the sections I, II, III, IV, V, VI VII and VIII of Article 2587 of the aforementioned legal document, by which, in an unlimited manner, they will be able to:

a) To settle and commit to in arbitration.
b) To come between and desist in all types of trials and resources.
c) To initiate Habeas Corpus trials or desist from them.
d) To present and ratify arraignments and penal quarrels and to meet their requirements; and to desist them.
e) To be co-council for the Federal or local District Attorney.
f) Grant pardons in penal procedures.
g) Explain or absolve positions in all types of trials, including labor trials, with the understanding however, that only those individuals designated by the Board of Directors have the ability to absolve them in accordance with the terms of Section X of this Article, which completely excludes them from the Rights enjoyed by other officials or directors of the Group.
h) Obtain foreclosed goods, transfered goods, present bids at auctions, refuse, and receive payments.

XI. Appear before any labor authority whether administrative or jurisdictional, local or federal; acting within the procedural policies or corresponding legal procedures, from the reconciliation stage to final execution; and to celebrate all types of agreements within the terms of Articles 11, 787 and 876 of the Federal Labor Law.

XII. Management of businesses and corporate assets with the most ample general authority within the terms of Article 2554, paragraph two of the aforementioned Civil Code for the Distrito Federal.

XIII. Issue, subscribe to, grant, accept, endorse or guarantee by endorsement loan securities within the terms of Article 9 of the General Law of Securities and Loan Operations;

XIV. Open and close bank accounts on behalf of the Group, as well as make deposits and draw against them, and appoint people with signing authority.

XV. Exercise acts of disposition and domain regarding the Group's goods, or its real or personal rights, under the terms of paragraph three of Article 2554 of the aforementioned Civil Code and with the special abilities pointed out in sections I, II and V of Article 2587 of the legal classification referred to.

XVI. Grant general or special powers, always reserving the use of said authority, as well as revoking the powers granted.

XVII. Establish rules for the structure, organization, integration, functions and abilities of the Board of Directors' Executive Commission, Regional Councils, Internal Committees and the necessary work commissions; to appoint members; and set their remuneration.

XVIII. Formulate an internal work code.

XIX. Grant the necessary powers to officials indicated in the previous section or to any other persons, and revoke said granted powers; while observing all the applicable laws, delegate its powers and in the CEO, or some powers to one or several of the Board Members, or to Alternates that it designates, so that they exercise those powers in the business or businesses and under the terms and conditions that the Board of Directors establishes.

XX. Delegate the Group's legal representation to the person or persons considered suitable, granting signing power and conferring them with ample general powers for disputes and collections, as referred to in the first paragraph of Article 2554 of the Civil Code and with the special Powers that require expressed mention according to Sections III, IV, VI, VII and VIII of Article 2587 of the legal body so that they can:

a) Present themselves as the Group's legal representatives in any administrative, labor, judicial procedure or process, or any other and make all types of instances, and specifically; articulate or absolve positions on behalf of the Group, converge in the conciliatory period, before the reconciliation meetings and arbitration; intervene in the respective diligences; and to celebrate all types of agreements with employees.
b) Carry out all the other legal acts referred to in Section I of this Article.
c) Substitute powers and faculties without reducing their own, and to grant and revoke mandates.

XXI. Resolve acquisition related situations, liens or transmissions of shares owned by the Group and issued by other societies.

XXII. In general, to have all the necessary faculties to carry out the management entrusted and consequently carry out all the acts and operations, legal and material, directly or indirectly, related to the social objective defined in the Article Three and the complementary activities established in the Fourth Article of these By-Laws, without limitation. The references of this Article to the precepts of the Civil Code for the Distrito Federal are understood to correlate with the Civil Codes of the entities in which the mandate is exercised.

The Board of Directors will be responsible to monitor the execution of the agreements of the Shareholders' Meetings, which could be carried out through the Audit Committee that conducts the audits which this Law refers to.

Shareholders 2013

According to the shareholder listings prepared for the Ordinary General Shareholders' Meeting held on December 20, 2013, Board Members and the main officials in the Group with over 1% participation in the Group's shares are distributed as follows:

BOARD MEMBERS	No. OF SHARES
David Villarreal Montemayor, representing the shareholdings o Alicia Rebeca Montemayor Garcia de Villarreal	46,810,533

According to the shareholder listings prepared for the Ordinary General Shareholders' Meeting held onDecember 20, 2013, the names of the 10 main shareholders of GFNORTE are:

State Street Bank and Trust Co. (Through various funds)
JP Morgan Chase Bank (Through various funds)
Banco Invex SA Trust 1204
The Bank of New York Mellon (Through various funds)
Banco Santander (Mexico), S.A. Institucion de Banca Multiple, Grupo Financiero Santander (On behalf of third parties)
Citigroup (Through various funds)
CBNY Global Custody-Secore BR910 (Through various funds)
Banco Nacional de Mexico, S.A.
Brown Brothers Harriman and Co. NY (Through various funds)
BNP Paribas Securities Services and BNP Paribas Arbitrage (Through various funds)

The following Support Committees for the Board of Directors and the CEO are updated as of December 31, 2013:

Support committees for GFNORTE's Board of Directors

The established support Committees for the Board of Directors of GFNORTE are the:

1. Management Committee
2. Risk Policies Committee (CPR)
3. Audit and Corporate Practices Committee (CAPS)
4. Advisory Board
5. Human Resources Committee
6. Designation Committee

Which are made up of Board members and in some of them, officers of the institution. Moreover, there are Regional Boards that serve as consultative and advisory bodies for the Chairman of the Board of Directors.As well as the Talent Development Committee, which supports the talent development in GFNORTE. The Board is responsible for authorizing Committees' bylaws and evaluating management annually.

MANAGEMENT COMMITTEE

Objective: To make decisions on strategic matters for the Institution and to follow up on the general state of the Institution and its most relevant matters.

Frequency of sessions: The Chairman of GFNORTE's Board of Directors calls the sessions.

MEMBERS		
Guillermo Ortiz Martinez	Chairman of the Board of Directors	Chairman
Alejandro Valenzuela del Rio	GFNORTE's CEO	Coordinator
Rafael Arana de la Garza	COO	Member
Jose Marcos Ramirez Miguel	MD Wholesale Banking and Casa de Bolsa Banorte Ixe	Member
Luis Fernando Orozco Mancera	MD Asset Management	Member
Manuel Romo Villafuerte	MD Consumer Products	Member
Jesus O. Garza Martinez	MD Segment and Channel	Member
Fernando Solis Soberon	MD Long Term Savings	Member
Hector Avila Flores	MD Legal	Member

Integration:

Quorum: Four members must be present, always including the Chairman and GFNORTE's Chief Executive Officer.

Decisions are adopted with unanimous votes of those present.

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 Integral Management of Risks, 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, limitations and policies for the Integral Management of Risks, as well as modifications to the same.
    b. Global limitations for the different types of risk considering consolidated risk, broken down by business unit or risk factor, taking into account what is established in Articles 79 to 85 of the applicable Regulations of General Character for Credit Institutions, published in the Diario Oficial (second section) on December 2, 2005.
    c. Mechanisms for the implementation of corrective measures.
    d. Special cases or circumstances in which specific or global limitations could be exceeded.

2. To approve:
    a. Specific limitations for discretionary risks, as well as tolerance levels for non-discretionary risks.
    b. Methodology and procedures to identify, measure, monitor, limit, control, inform and disclose the different types of risk, as well as their modifications.
    c. Models, parameters and scenarios to carry out the rating, measurement and control of risks that the Integral Risk Management Unit (UAIR) proposes
    d. Methodologies for the identification, rating, measurement and control of risks for new operations, products and services that the Institution seeks to offer on the market.
    e. Corrective measures proposed by the UAIR.
    f. The technical evaluation of the aspects of the UAIR referred to in Article 77 of the applicable Regulations Of General Character for Credit Institutions, published by the Diario Official (second section) on December 2, 2005, for presentation to the Board of Directors and the CNBV, as well as the report resulting from the technical evaluation.
    g. The manuals for the UAIR, in accordance with the objectives, limitations and policies established by the Board of Directors referred to in the last paragraph of Article 78 of the applicable Regulations of General Character for Credit Institutions, published by the Diario Official (second section) on December, 2005.
    h. The appointment or removal of the responsible for the UAIR, which must be ratified by the Board of Directors.

3. Inform the Board of Directors about:
    a. The risk exposure assumed by the Group and the possible negative impact, the non-observance of established exposure limits and risk tolerance levels, on a quarterly basis at least.
    b. The corrective measures implemented in accordance with the UAIR's proposal.

4. Review at least once a year:
    a. The specific limits for discretionary risks, as well as the tolerance levels for non-discretionary risks.
    b. Methodologies and procedures to identify, measure, monitor, limit, control, inform and disclose the different types of risk, as well as their modifications.
    c. Models, parameters and scenarios that will be used to carry out the rating, measurement and control of risks that the UAIR proposes.

The Risk Policies Committee must at all times, ensure that all personnel involved in risk taking have knowledge of the global and specific limits for discretionary risks, as well as the tolerance levels for non-discretionary risks.

Frequency of the sessions: Should hold monthly sessions. All sessions and resolutions should be properly recorded and signed by all attendants.

Integration:

MEMBERS	
Eduardo Livas Cantu (Chairman)	Proprietary Independent Member
Alfredo Elias Ayub	Proprietary Independent Member
Juan Carlos Braniff Hierro	Proprietary Independent Member
Hector Reyes- Retana y Dahl	Proprietary Independent Member
Manuel Aznar Nicolin	Alternate Independent Member
Everardo Elizondo Almaguer	Alternate Independent Member
Alejandro Valenzuela del Rio	Proprietary Related Member and GFNORTE's CEO
Manuel Antonio Romo Villafuerte	MD Consumer Products
Fernando Solis Soberon	MD Long Term Savings
Gerardo Zamora Nañez	MD Leasing & Factoring, and Warehouse
Jose Marcos Ramirez Miguel	MD Wholesale Banking and Casa de Bolsa Banorte Ixe
Luis Fernando Orozco Mancera	MD Asset Management and MD Solida Administradora de Portafolios
David Aaron Margolin Schabes (Secretary)	MD Risk Management
Hector Avila Flores (invited) (without vote)	MD Legal
Jesus O. Garza Martinez (invited) (without vote)	MD Segment and Channel
Jose Armando Rodal Espinosa (invited) (without vote)	MD Business and Corporate
Rafael Arana de la Garza (invited) (without vote)	COO
Carlos Eduardo Martinez Gonzalez (invited) (without vote)	MD Government
Martha Elena Navarrete Villarreal (invited) (without vote)	MD Internal Audit

Quorum: Two Proprietary Board Members, GFNORTE’s CEO 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 GFNorte’s Board of Directors in monitoring the management, performance and execution of the Group’s businesses and of their controlling individuals, considering the relevance that these have in the financial, administrative, and legal situation of the Group; as well as in the execution of the agreements approved in the General Shareholders’ Meeting.

Functions and Faculties:

I. Regarding Corporate Practices:

a. Provide the Board of Directors with an opinion on matters of concern in accordance with the applicable legislation.
b. Solicit the opinion of independent experts for cases it considers necessary, in order to perform appropriately or when acting in accordance to applicable legislation.
c. Convene Shareholders’ Meetings and request the inclusion of topics considered important in the agenda of those Meetings.
d. Support the Board of Directors in the elaboration of reports to be presented at the Shareholders’ Meetings.
e. Other functions established by law or provided in the Group's by-laws, according to the applicable legislation.
f. Define and update the structure of share incentive plans for the institution’s executives.

II. Regarding Audit:

a. Provide the Board of Directors with an opinion on matters of concern in accordance to the applicable legislation.
b. Evaluate the performance of corporations providing external audit services, such as analyzing the findings, opinions and reports prepared by the external auditor. To do so, the Committee may require the presence of the aforementioned auditor whenever considered convenient, without prejudice of meeting at least once a year.
c. Discuss the Group's financial statements with the individuals responsible of their elaboration and revision, and based on that, recommend or oppose their approval to the Board of Directors.
d. Inform the Board of Directors of the state of the internal control and internal audit systems of the Group or corporations that control them, including any detected irregularities, if the case.
e. Prepare an opinion on the CEO's report and submit it to the Board of Directors for its consideration and later presentation to the Shareholders' Meeting, based on the external auditor's findings, among other factors. This opinion should at least point out:
    1. If the accounting and information policies and criteria followed by the Group were appropriate and sufficient, considering the particular circumstances of the situation.
    2. If these policies and criteria were applied consistently in the information presented by the CEO.
    3. If, as a consequence of numbers 1 and 2, the information presented by the CEO reasonably reflects the financial situation and results of the Group.
f. Support the Board of Directors in the preparation of the reports to be presented to the Shareholders' Meeting.
g. Check that operations referred to in Number 3 of Article 33 of the Corporate By-Laws, as well as those indicated by the applicable legislation, are carried out according to the law and By-Laws and the policies derived from thereof.
h. Solicit the opinion of independent experts in such cases where it is judged to be convenient, for the appropriate performance or when in accordance with the applicable legislation.
i. Require relevant officers and other employees of the Group or corporations that it controls, reports regarding the elaboration of financial and of any other type of information that it considers necessary for the execution of their duties.
j. Investigate the possible non-fulfillment of duties by those with knowledge of operations, operational limitations and policies, internal control, internal audit and accounting registration system, either of the Group or of controlled corporations through an examination of documentation, registrations and other proof or evidence, to the extent necessary to fulfill this supervision.
k. 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.
l. 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 its corporations.
m. Inform the Board of Directors of any important irregularities detected related to the execution of their duties and if the case, of the corrective measures taken or proposed.
n. Convene a Shareholders' Meeting and request that pertinent topics be included in the agenda.
o. Monitor that the CEO executes the adopted resolutions of the Shareholder Meetings and of the Group's Board of Directors according to the instructions dictated by Shareholders' Meeting or the Board of Directors.
p. Supervise the establishment of mechanisms and internal controls that allow verification that the acts and operations of the Group and its corporations, adhere to the applicable provisions, as well as to implement methodologies that facilitate the revision of the above-mentioned execution.
q. Other functions established by law or provided in the Group's by-laws, according to the legally assigned functions.

Responsibilities:

The Chairman of the CAPS must prepare an annual report on the activities that correspond to this Committee and must present it to GFNorte's Board of Directors. This report must consider the following points, at least:

I. Regarding Corporate Practices:

a. Observations regarding the performance of relevant officers.
b. Operations with related parties, during the fiscal year reported, detailing the specifics of significant operations.
c. Integral compensation or remuneration packages for individuals referred to in Article 28, Section III, paragraph d) of the Stock Market Law (LMV).
d. Waivers granted by the Board of Directors in terms stipulated in Article 28, Section III, paragraph f) of the LMV.
e. Responsibilities related to the share incentive plan for executives of Banco Mercantil del Norte:
    1. Designate the officers eligible for the incentive plan (beneficiaries).
    2. Establish the participation granted to beneficiaries, terms and form of payment of the incentive plan.
    3. Authorize the number of shares assigned to the incentive plan that will be purchased by the Trust.
    4. Interpret, manage, modify and if the case, propose to the Board of Directors of Banco Mercantil del Norte, S. A. the termination of the incentive plan.
    5. Take any necessary actions for the efficient and timely execution of the incentive plan.
    6. Inform the Board of Directors on relevant matters concerning the institution's incentive plan.

II. Regarding Audit:

a. The state of the internal control and internal audit system of the Group and its corporations and the description of any deficiencies and deviations, if the case, as well as aspects that require improvement, considering the opinions, reports, official statements and findings of the external audit, as well as the reports issued by the independent experts that extended their services during the period covered by the report.
b. The mention and follow-up of preventive and corrective measures implemented based on the results of investigations related to non-adherence to guidelines, operation and accounting registration policies by either the Group or its corporations.
c. Evaluation of the corporation's performance providing the external audit service as well as the external auditor in charge of it.
d. The description and assessment of any additional or complementary services provided by the corporation conducting the external audit, as well as those provided by independent experts.
e. The main results of revisions to the financial statements of the Group and of its corporations.
f. The description and effects of the modifications to accounting policies approved during the period covered in the report.
g. The measures taken because of observations considered significant, by shareholders, Board Members, relevant officers, employees or any third party, regarding accounting, internal controls and topics related to internal or external audits, or, arising from accusations of management irregularities.
h. Follow-up on the resolutions adopted by the Shareholders' Meetings and the Board of Directors.

To prepare the reports referred to by this legal precept, as well as that of the opinions pointed out in Article 42 of the LMV, the CAPS should listen to the relevant officers; in the event that there is a difference of opinion, such differences will be reported in those mentioned reports and opinions.

Frequency of sessions: The CAPS can hold sessions as many times as necessary, having the capacity to summon meetings, the President of the Board of Directors, 25% of the Board Members, the CEO, or the Chairman of this Committee.

Integration:

The Audit and Corporate Practices Committee (CAPS) is comprised exclusively of independent members, with a minimum of three and not more than five members of the Board of Directors, appointed by the Board of Directors, at the proposal of the Chairman of this body.

The Chairman of the CAPS is appointed or removed from his position exclusively by the General Shareholders' Meeting and cannot chair the Board of Directors. The Secretary of the Committee is appointed by the same Committee.

The Committee records its sessions, and the records of each session are signed by those individuals acting as Chairman of the session and Secretary of the Committee.

MEMBERS		
Hector Reyes-Retana y Dahl	Proprietary Independent Member	Chairman
Herminio Blanco Mendoza	Proprietary Independent Member	Member
Manuel Aznar Nicolin	Alternate Independent Member	Member
Patricia Armendariz Guerra	Proprietary Independent Member	Member
Julio Cesar Mendez Rubio	Alternate Independent Member	Member
Isaias Velazquez Gonzalez	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, from among the Committee members, to take his place in his absence. The proposals put forth will be approved with the majority of votes of those members present, with the Chairman's vote being the deciding vote in the event of a tie.

OTHER AUDIT COMMITTEES

Audit Committee for Banco Mercantil del Norte (Banorte)

Objective: To support the Board of Directors of Banco Mercantil del Norte in the definition and update of the Internal Control System's (ICS) objectives and the guidelines for their implementation; as well as in their verification and evaluation. The Audit Committee will follow-up on activities of Internal and External Audit, as well as of the Institution's Internal Controllership, keeping the Board of Directors informed of the performance of the aforementioned activities.

The Committee will also supervise that financial information and accounting are prepared in accordance with the guidelines and dispositions that the Institutions are subject to, as well as applicable accounting principles.

Authority: The Audit Committee has the authority to:

I. Propose to the Board of Directors for approval:

1. The Internal Control System (ICS) that the Institution needs to function properly, as well as upgrades. Purposes of the ICS are:
    a. Ensure that operation mechanisms are in accordance with strategies and objectives of the Institution that allow the prediction, identification, management, follow-up and evaluation of the risks that can arise from its objectives, in order to minimize the possible losses that can be incurred.
    b. To define the functions and responsibilities of the corporate bodies.
    c. To have financial, economic, accounting, legal and administrative information that is complete, correct, precise, integral, reliable and timely.
    d. To permanently cooperate in adherence to applicable regulations.
2. The appointment of the Institution's Internal Auditor.
3. The appointment of the External Auditor, and additional services resulting from the audited financial statements that, in their case, they will provide.
4. The Institution's Code of Conduct, prepared by the General Management.
5. Changes, if the case, to accounting policies relating to the registration, rating of items of the financial statements, and the presentation and disclosure of information of the Institution, so that it is complete, correct, precise, reliable and timely, prepared by the General Management in accordance with the applicable regulations, or by its own Committee considering the opinion of the General Management.
6. The by-laws and norms that will govern the functions of the Audit Committee, to be sent later on to the CNBV.

7. All matters that in accordance with provisions, should be authorized by the Board of Directors, will be presented directly by the Committee.

To directly approve:

1. The manuals considered relevant for the operation of the Institution, prepared by the CEO.
2. The by-laws of Internal Audit's function.
3. With prior opinion of the CEO, the annual work program of Internal Audit.
4. The applicable methodology and policies to review the quality of internal control of main operations, called Models of Risk Evaluation (MER).
5. The direct recruiting of independent specialists, within their areas of responsibility, subject to the corporate policies of the Institution.

The Audit Committee can also meet with the Board of Directors, high officers of the Financial Group, the Internal Auditor, External Auditor, Authorities and Investors, as well as request information directly or indirectly from those responsible for any area of the organization and summon them to their sessions.

To convene extraordinary sessions, when considered necessary.

To know and evaluate jointly with the General Management, the corrective and preventative measures related to the flaws or deviations in the Internal Control System (ICS).

Responsibilities:

Financial Statements:

1. Propose for approval by the Board of Directors, the accounting policies related to the registration, rating of items in the financial statements and presentation and disclosure of information of the Institution, so that it is complete, correct, precise, reliable, timely and serves in decision making. In any event, the Committee will also be able to propose changes that it considers necessary to these policies, considering the opinion of the General Management.
2. 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.
3. To review with Management and the Internal and External Auditors, the opinion of the annual financial statements, before their presentation to regulatory authorities.
4. To supervise that the financial and accounting information is formulated in accordance with the applicable guidelines and dispositions, as well as with applicable accounting principles.
5. To 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.

Internal Control:

1. Propose for approval by the Board of Directors:
    a. The objectives and guidelines for their implementation, prepared by the General Management, of the Internal Control System (ICS) that the Institution needs to function properly, as well as updates.
    b. The Institution's Code of Conduct, prepared by the General Management.
2. Approve operation manuals that are required for the Institution to function properly, prepared by the General Management, and to review and monitor with the support of Internal Audit that these adhere to the ICS approved by the Board of Directors.
3. To review, in coordination with the General Management, at least once a year or when significant changes exist, the operating manuals and Code of Conduct of the Institution.
4. To permanently have a current up-to-date registration of the ICS objectives and guidelines for their implementation, as well as operating manuals, prepared by those responsible for the function of Internal Controllership.
5. To review with the support of Internal and External Audits, the application of the Internal Control System, evaluating efficiency and effectiveness.

6. To inform the Board of Directors, at least once a year, on the situation of the ICS of the Institution. The report should at least contain the following:
    a. Flaws, deviations or aspects of the ICS that require improvement, considering the reports and the internal and external auditor's opinions respectively, as well as those of Internal Controllership.
    b. Mention and follow-up of the implementation of preventive and corrective measures resulting from observations made by CNBV and the results of the internal and external audits, as well as the ICS evaluation carried out by the Committee.
    c. Evaluation of the performance of Internal Controllership and Internal Audit functions.
    d. Evaluation of the external auditor's performance, as well as of the quality of the audit and the reports it elaborates, in fulfillment of the applicable general dispositions, including observations made by the CNBV.
    e. Significant aspects of the ICS that could affect the performance of the Institution’s activities.
    f. Results of the audit review, reports, opinions and the external auditor's official statements.

Internal Audit:

1. To propose, for ratification by the Board of Directors, the appointment of the individual responsible for Internal Audit.
2. Monitor at all times, the independence of Internal Audit regarding the other units of the Financial Group; and to inform the Board of Directors in the event of any lack of independence.
3. Approve:
    a. The by-laws of Internal Audit functions.
    b. Internal Audit’s annual work program, with the General Director’s previous opinion.
    c. The recruitment of services for the external evaluation of the quality of Internal Audit functions.
4. To review, at least once a year or when required by the CNBV, that the Internal Audit program performs in accordance with the appropriate standards in quality in accounting and internal control matters, and that the activities of Internal Audit are carried out with effectively.
5. To ensure receiving from the Internal Auditor, a quarterly written report on management’s results; notwithstanding that the Internal Auditor shall immediately report the detection of any flaw or deviation deemed significant or relevant.
6. To ensure that Internal Audit follows-up on the relevant detected flaws or deviations to oversee that they are appropriately corrected and that the report which contains this information is at all times available to the Board of Directors and competent financial authorities.
7. To know and evaluate the results of the internal and external evaluations on quality of Internal Audit functions, and in their case to follow-up on the implementation of recommendations made.
8. To review and evaluate, at least once a year, the organizational structure, capabilities and the adequacy of resources assigned to the area of Internal Audit for the performance of its functions, and approve the actions required to ensure greater effectiveness in the fulfillment of its goals and objectives.
9. To coordinate the Internal Auditor's activities with those of the External Auditor.
10. To meet regularly with the Internal Auditor on any matter that the Committee deems necessary.

External Audit:

1. Propose for approval by the Board of Directors the appointment of the External Auditor, the scope of his functions and terms of employment, according to established policies and applicable external provisions, as well as provide any additional services to audit the financial statements if required.
2. Confirm and review the independence of external auditors by obtaining statements from them, and for any service they provide.
3. 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.
4. Coordinate the activities of the External Auditor with the Internal Auditor.
5. Meet regularly with the External Auditor to discuss any matters that the Committee deems necessary.

Internal Controllership:

1. Follow-up on the activities of the internal auditor of the institution, keeping the Board of Directors informed

on the performance of these activities.
2. Know and assess the report of management prepared by the internal auditor, at least every six months.

Compliance:

1. Monitor that policies, procedures and operations in the manuals of operation are consistent with the laws and other regulations and administrative provisions, as well as internal control guidelines approved by the Board of Directors.
2. Obtain the opinion of the internal auditor on proper compliance with laws and other applicable regulations and administrative provisions.
3. Review the results of inspections conducted by supervisory agencies.

Information and others:

1. Report annually to the Board of Directors on significant irregularities identified during the exercise of their functions, and propose appropriate, corrective actions to be implemented.
2. Review the different reports of Internal and External Audit to be presented to the Board of Directors. All matters which under the prudential dispositions of internal control should be authorized by the Board of Directors, must be presented directly by the Audit Committee.
3. Receive and review the written annual report of the CEO to the Audit Committee, about the performance of the activities related to internal control, as well as the functioning of the ICS as a whole.
4. Comment on transactions with related parties referred to Article 14 Bis 3 of the Securities Exchange Act in Section IV paragraph d), and if necessary propose the hiring of independent specialists, to express their opinion with respect to these transactions.
5. Propose for approval by the Board of Directors, the Audit Committee by-laws, revised as necessary and to confirm annually that all the responsibilities outlined in these by-laws are carried out.
6. The Audit Committee, in the performance of its duties, shall establish the necessary procedures for its overall performance. In any case, members of the Committee shall take as a basis for their activities, the information prepared by the internal and external auditors as well as General Management.
7. Annually, the Audit Committee will self-assess its performance and that of each of its members, reporting the results to the Board of Directors.

Integration:

The Audit Committee is comprised of at least three and not more than five members of the Board of Directors, of which at least one should be independent, and appointed by the Board of Directors. Members will be selected for their capacity and professional prestige and at least one of the members must be someone who, for their knowledge and development, has ample experience in finance and/or audit and internal control.

The Audit Committee must be chaired by an independent board member. In the event of the President's absence in any session, members should appoint the person who should chair over that session from among the independent members.

In no case members of the Audit Committee can be officers or employees of the same Institution.

Participating as permanent guests, with the right to a voice but without a vote, are the CEO of the Financial Group, the Managing Director of Corporate Affairs and those responsible for the functions of Legal Affairs, Risks, Administration, Internal Controllership and Internal Audit. The Chairman of the Committee can also summon any other person, when considered appropriate, due to the nature of the topic to be discussed, or to carry out his deliberations.

The Committee should have a secretary who is responsible for the minutes of the respective sessions, and who can be a member of the Committee or not.

If necessary, members of the Audit Committee should receive appropriate training and periodic information in areas related to:

- Finance.
- Processes for releasing financial information.
- New accounting and financial information preparation standards.
- Environment and evolution of the financial sector.
- Key controls in systems, processes and information.
- Concepts of risk.

MEMBERS		
Hector Reyes-Retana y Dahl	Proprietary Independent Member	Chairman
Herminio Blanco Mendoza	Proprietary Independent Member	Member
Manuel Aznar Nicolin	Alternate Independent Member	Member
Patricia Armendariz Guerra	Proprietary Independent Member	Member
Julio Cesar Mendez Rubio	Alternate Independent Member	Member
Isaias Velazquez Gonzalez	Secretary	Not Member

Frequency of sessions: The Audit Committee should hold at least a quarterly session, duly recording approved resolutions and the minutes of each session which must be signed by each of the participating members, 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. Resolutions will be approved with a majority vote of the members present, with the Chairman holding the deciding vote in the event of a tie. The person responsible for the function of Internal Audit and the CEO of the Institution may submit to the Committee for its consideration matters to be included in the agenda.

Audit Committee for Casa de Bolsa Banorte Ixe

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 of the Committee shall be selected for their ability and professional prestige, who by their knowledge and development have extensive experience in the area of finance, audit and internal control.

Those who are invited with the right to voice but without vote, are the Managing Director of the Brokerage House (Casa de Bolsa), those responsible for the functions of internal audit, legal, management, risks, internal auditor as well as the External Auditor, Commissioner, Policy Controller and, in general, any person summoned by the Committee whose presence is considered appropriate given the nature of the issues discussed.

The Committee must have a Secretary, who will be responsible for recording the sessions and following- up on the resolutions made at such meetings; and who may be a member of the same Committee or a third party.

The information on the material in question must be prepared and submitted in advance for all sessions of the Committee.

All meetings and resolutions of the Committee, without exception, must be duly recorded in detailed minutes signed by each of the participating members, as well as those invited to the session in question.

MEMBERS		
Manuel Aznar Nicolin	Proprietary Independent Member	Chairman
Alejandro Valenzuela Del Rio	Proprietary Member	Member
David Aaron Margolin Schabes	Proprietary Member	Member
Juan Pedro Meade Kuribreña	Secretary	Not 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 and Faculties:

As a best practice, the Insurance and Annuities' Boards of Directors approved in January 2014 the creation of an Audit Committee as a surveillance body of those companies.

The main topics the CA-SAP serves currently are related with: Internal Control System, Financial Information disclosure, Control and Compliance functions (including Internal Comptrollership), Internal Audit, External Audit and Regulatory Controllership.

Integration:

CA-SAP is currently comprised of four Independent Members and a Secretary who is not a member of such.

MEMBERS	
Hector Reyes- Retana y Dahl	Chairman
Patricia Armendariz Guerra	Member
Manuel Aznar Nicolin	Member
Julio Cesar Mendez Rubio	Member
Isaias Velazquez Gonzalez	Secretary

As of April 2015, having an Insurance and Annuities' Audit Committee will be mandatory. This shall modify its By-laws to incorporate new regulatory topics and complement its integration.

ADVISORY BOARD

Objectives and Faculties: The Advisory Board will only function as a consultative and advisory body to the Board of Directors through the Chairman of the Board, its functions are to give opinions and advice to the Board on issues related to the development of the Company, new business opportunities or issues that the Board of Directors' Chairman submits to its consideration.

These opinions will be delivered to the Chairman of the Board of Directors, who may refer them to the Board of Directors.

Frequency of sessions: The Advisory Board meets when convened by its Chairman.

Integration:

The Advisory Board will be constituted up to 10 members, who must have technical quality, honesty and satisfactory credit history, as well as extensive knowledge and experience in the financial, legal or administrative fields, and who may, may not be or have been members of the Board of Directors. The members of the Advisory Board should be elected by the Shareholders' Assembly or by the Board of Directors, as a proposal of its Chairman and Chairman Emeritus.

Members will remain in office for a period of 3 years, with the possibility of being reelected in various occasions (although the Shareholders' Assembly or the Board of Directors may remove any of these members) and will receive the compensation that the Shareholders' Assembly or the Board of Directors establishes.

MEMBERS	
Guillermo Ortiz Martinez	Chairman
Enrique Castillo Sanchez Mejorada	
Rodolfo F. Barrera Villarreal	
Manuel Aznar Nicolin	
Jose G. Garza Montemayor	
Eugenio Clariond Reyes-Retana	
Jacobo Zaidenweber Cvilich	
Isaac Hamui Mussali	

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.

Faculties:

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 bimonthly, being free to meet more or less often, when the issues demand it. In any case, shall meet at least quarterly, as stated in the regulation.

Integration:

The Human Resources Committee must also be integrated by at least two members of the Board of Directors, of which at least one must be independent (who shall preside). The Chairman, listening to the opinion of the GFNORTE's CEO, may appoint alternate members when one member ceases to be part of this Committee. Included in the committee will be the Head of the Integral Risk Management Unit, a representative of the Human Resources area, a representative of the Financial Planning area and a representative of Comptrollership and Internal Control departments, who will participate with voice but without a vote. Furthermore, at least one of the Board Members shall be a person who has extensive experience in risk management or internal control.

MEMBERS		
Herminio Blanco Mendoza	Proprietary Independent Member	Chairman
Everardo Elizondo Almaguer	Alternate Independent Member	Member
David Aaron Margolin Schabes	MD Risk Management	Member
Alejandro Garay Espinosa	MD Corporate Services	Member
Gerardo Valdes Manzano	DMD Human Resources	Member
Rafael Arana de la Garza	COO	Member
Jorge Eduardo Vega Camargo	DMD Comptrollership	Member
Martha Elena Navarrete Villarreal	MD Internal Audit	Member (Voice / w/o vote)
Juan Pedro Meade Kuribreña	ED Institutional Prevention and Control	Secretary Not Member

Quorum: The Committee's resolutions shall be approved by a simple majority of attendees; in case of a tie, the Chairman will have the deciding vote. In the event that the two independent directors oppose any approved resolution, it will be recorded in the session's Minutes that the members did not support that resolution and the matter will be brought to the Board of Directors.

Talent Development Committee

Objective: To be the body responsible for the review and approval for training strategies and talent development for GFNorte staff, including analysis, evaluation and opinion in the approval of Graduate Scholarships (Masters or PhD).

Faculties:

1. Determine the policies and guidelines for granting postgraduate scholarships and authorize exceptions.
2. Approve and update the procedures for granting postgraduate scholarships.
3. Analyze and determine the scholarship applications submitted to each ordinary and extraordinary session of the Committee.
4. Oversee compliance with approved programs for Scholars.
5. Ensure compliance with the obligations of the Scholars as well as GFNORTE's.

Frequency of sessions: Meetings will be held twice a year. Furthermore they can gather extraordinarily.

Integration:

MEMBERS		
Proprietary		**Alternate**
Rafael Arana de la Garza	COO (Chairman)	David Ricardo Suarez Cortazar
Jesus O. Garza Martinez	MD Segment and Channel	Concepcion Gpe. Borjon Shears
Manuel Antonio Romo Villafuerte	MD Consumer Products	Jose Gerardo Aguilar y Maya Verduzco
Jose Marcos Ramirez Miguel	MD Wholesale Banking and Casa de Bolsa Banorte Ixe	Rene Pimentel Ibarrola
Alejandro Garay Espinosa	MD Corporate Services	Jorge Eduardo Vega Camargo
Luis Fernando Orozco	MD Asset Management	Mario Alberto Barraza
Gerardo Valdes Manzano	DMD Human Resources	Jorge Antonio Fuentes Rivera
Juan Pedro Meade Kuribreña	ED Institutional Prevention and Control (Secretary Not Member)	
INVITED		
Martha Navarrete Villarreal	MD Internal Audit	Adriana Elizondo Cordero

Quorum: Sessions of the Committee shall be valid with the participation of the majority of its members.

DESIGNATIONS COMMITEE

Faculties:

1. Propose for approval by the Shareholders' Assembly the appointment of the members of the Company's Board of Directors, as well as the Board members of any of the Financial Groups' subsidiaries.

2. Elaborate an opinion regarding the persons who will hold the position of CEO at the Company and any of the Financial Group's subsidiaries, without prejudice to the faculties assigned to the Audit and Corporate Practices Committee in terms of Article Thirty-three section d) of these bylaws.

3. Propose for approval by the Shareholders' Assembly 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.

4. Propose for approval by the Shareholders' Assembly 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.

Frequency of sessions: The Designation Committee will hold sessions at least once a year or when convened by its Chairman.

Integration:

The Designation Committee will be appointed by the Shareholders' Assembly or by the Board of Directors, it will be constituted by 3 members, who shall be members of the Board of Directors and remain in office for 1 year with possibility of being reelected.

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.

In no case members of the GFNORTE's Board of Directors or of any other entitiy that controls directly or indirectly may be part of the Regional Boards.

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.

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 Operations
2 Technology and Investment
3 Security
4 Central Credit
5 Central Credit Recovery
6 Assets and Liabilities
7 Proprietary Investment Portfolio
8 Communications and Control
9 Fiducary Business
10 Investment Projects
11 Integrity
12 Investments in Managed Portfolios
   1. Parametric Loan
   2. Analysis of Financial Products
   3. Institutional Communication

OPERATIONS COMMITTEE

Mission: To be the body to make strategic decisions related to the critical variables of GFNORTE's business.

Scope: All of GFNORTE's companies.

Functions:
1. To establish strategies for new financial products and services.
2. Based on the Viability Analysis' recommendation: to analyze and evaluate the business concept of strategic projects and if the case, request their evaluation by the Evaluation Group.
3. Make any other strategic decision related with critical variables of the business.

Faculties:
1. Approve the viability of initiatives for new products and services.

Frequency of sessions: When convened by GFNORTE's CEO.

Integrationn:

MEMBERS		
Alejandro Valenzuela del Rio	GFNORTE's CEO	Chairman
Rafael Arana de la Garza	COO	Coordinator
Fausto Jose Hernandez Pintado	Chief Strategic Planning and Value Creation Officer	Secretary
Jesus O. Garza Martinez	MD Segment and Channel	
Carlos Eduardo Martinez Gonzalez	MD Government	
Alejandro Garay Espinosa	MD Corporate Services	
Carla Juan Chelala	MD Marketing	

TECHNOLOGY AND INVESTMENT COMMITTEE

Mission: To be GFNORTE's top body in charge of approving and prioritizing the portfolios of investment projects, as well as budgetary assignments.

Scope: The Technology Committee's scope includes all of GFNORTE's companies.

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 Evaluation Group.
4. Modify, suspend or cancel previously approved projects that present critical deviations, considering the recommendations by the Evaluation Group.
5. Follow up on the results and general benefits of the investment projects' portfolio.
6. Follow up on the implementation of the authorized investment budget.

Faculties:

1. Approve, modify and cancel projects.
2. Assign the budget.
3. Prioritize the portfolio.

Frequency of the sessions: When convened by GFNORTE's CEO.

Integration:

MEMBERS		
Alejandro Valenzuela del Rio	GFNORTE's CEO	Chairman
Rafael Arana de la Garza	COO	Coordinator
Fausto Jose Hernandez Pintado	Chief Strategic Planning and Value Creation Officer	Secretary
Jesus O. Garza Martinez	MD Segment and Channel	
Alejandro Garay Espinosa	MD Corporate Services	
Ignacio Aldonza Goicoechea	MD Technology and Operations	
Javier Beltran Cantu	DMD Material Resources	

Recovery and Continuity Committee

Mission: To be GFNORTE's authorized Committee that, in the event of services' interruption, evaluates the impact of the damage(s), identifies the affected business areas, estimates the recovery time and in the event of a declared disaster, coordinates the renewal of operations. It must inform the Investment and Technology Committees and the CEO.

Scope: Banking Sector, Casa de Bolsa Banorte Ixe, Almacenadora Banorte and Arrendadora y Factor Banorte.

Functions:

1. To 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.
2. To ensure that the different components (Hardware, Software, Communications, etc.) of the Alternate Computer Center are installed and available for a contingency.
3. To ensure the availability and proper functioning of the facilities located in the Alternate Computer Center.
4. Monitor the execution of DRP and BCP.
5. 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.
6. 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.

7. 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 resources and materials, 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.

MEMBERS	
Alejandro Garay Espinosa	MD Corporate Services
Ignacio Aldonza Goicochea	MD Technology and Operations
Jorge Eduardo Vega Camargo	DMD Comptrollership
Laurentina Cepeda Narvaez	D Branches' Processes
Jesus Valdes Fernandez	D Operational Risk Management
Manuel Angles Hernandez	D Process Control
Rafael Flores Birrichaga	D Labor and Syndical Relations
Francisco Garcia Dayo	D Information Technology Audit
Miguel Angel de la Rosa Rios	D Business Continuity
Apolonio Perez Ramirez	D Regulatory Provisions Control
Bernardo Castro Villagrana	ED Infrastructure
Eduardo Martinez Ham	D Infrastructure
Javier Beltran Cantu	DMD Material Resources
Luis Gerardo Valdes Manzano	DMD Human Resources
Eduardo Vazquez Villegas	DMD Operations
Edmundo Braulio Quintero	D Protection and Security
Gerardo Mejia Zacarias	D Comptrollership
Jesus O. Garza Martinez	MD Segment and Channel
Rafael Cordova Puon	DD Strategic Alignment
Gerardo Delgadillo Ramos	M Regulatory Provisions
Ricardo Nuñez	DD Technological Infrastructure
Eduardo Güemez Zurita	D General Services
Rogelio Aaron Lazaro	DD Operational Risk
Jose Alfredo Merlos Hernandez	DD Audit
Epigmenio Treto	DD Technical Security
Humberto Velasco Mena	DD Comptrollership (Bpp)
Ernesto Aguilar Pruneda	DD IT Operations (Insurance and Annuities)
Raul Sandoval Galicia	M IT Operations
Ricardo Elizondo Elizondo	D Management and Information Control
Cesar Augusto Ramirez Severo	DD Internal Control - Technology
Samuel Molina Hernandez	DD Systems (B-Generali)

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.

Scope: Body with direct dependence on GFNORTE's General Management, its decisions are of general application to all entities that comprise 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 held 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
Juan Pedro Meade Kuribreña	ED Institutional Control and Prevention	Secretary
Hector Avila Flores	MD Legal	
Luis Gerardo Valdes Manzano	DMD Human Resources	
Martha Elena Navarrete Villarreal	MD Internal Audit	
Ricardo Morales Gonzalez	ED Information Security	

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.

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.

Frequency of sessions: Every fifteen days or as frequently as required.

Integration:

MEMBERS	
Alejandro Valenzuela Del Rio	Chairman and Coordinator
Luis Fernando Orozco Mancera	Alternate Coordinator
David Aaron Margolin Schabes	Alternate Coordinator
Rafael Hinojosa Cardenas	Alternate Coordinator and Secretary
Heleodoro Ruiz Santos	Alternate Coordinator
Jose Armando Rodal Espinosa	
Victor Antonio Roldan Ferrer	
Rafael Arana de la Garza	
Carlos Eduardo Martinez Gonzalez	
Territorial Directors	
Manuel Antonio Romo Villafuerte	Alternate
Jesus O. Garza Martinez	Alternate
Sergio Garcia Robles Gil	Alternate
Carlos Rafael Arnold Ochoa	Alternate
Legal Representatives (Banorte and Ixe)	Invited (without vote)
Audit Representatives	Invited (without vote)

CENTRAL CREDIT RECOVERY COMMITTEE

Objectives: The integration of these Committees aims to take advantage of members' experience and knowledge of the national and regional economic situations, as well as the different borrowers being attended by the Asset Recovery Business, so that the resolution of proposals presented to them are carried out in an objective and appropriate manner.

Functions: Resolve cash settlements, restructurings and payments in kind or conversions of debt to equity, that could imply or not debt cancellations or removals, as well as sell of assets, or any other considered clients' recovery proposals that are under management of the Asset Recovery Business

Integration:

PROPRIETARY MEMBERS	
Luis Fernando Orozco Mancera	Coordinator
Sergio Garcia Robles Gil	Coordinator
David Aaron Margolin Schabes	Coordinator
Jose Armando Rodal Espinosa	Coordinator
Rafael Hinojosa Cardenas	Coordinator
Mario A. Barraza Barron	Coordinator
Carlos Rafael Arnold Ochoa	Coordinator
Gerardo Zamora Nañez	
Rafael Flores Birrichaga	
Mario Rodriguez Santacruz	
Sergio Deschamps Ebergenyi	
Arturo Manuel Guerra Anzaldua	
Armando Melgar Samperio	
Arturo Covarrubias Zamora	
Rodolfo Fuentes Moreno Carlota Hinojosa Salinas	Secretary without vote
Juan Pedro Meade Kuribreña	Without vote
Martha Elena Navarrete Villarreal	Without vote
ALTERNATE MEMBERS	
Alejandro Valenzuela del Rio	Coordinator
Juan Gilberto Guasco Godinez	
Carlos Martinez Gonzalez	
Gerardo Salazar Muro	
Rosa Martha Nuñez Escamilla	Secretary without vote
Horacio Antonio Diaz Vasquez	Secretary without vote
Blanca Deyanira Garcia Reyes	Secretary without vote
Elizabeth Berenice Williams Cantu	Secretary without vote

ASSETS AND LIABILITIES COMMITTEE

Functions:

1. Maintain and increase the productivity of the Bank through management of the net interest income.
2. Review, validate and if necessary homologate the fees and price policies of various products and services offered by the Bank.
3. Analyze, evaluate and determine the parameters and/or conditions to launch new programs, products and services and/or modifications to existing ones, required by the Operations Committee and/or the Evaluation Group.
4. Analyze the evolution of net interest income of the Bank and other subsidiaries.
5. Monitor the evolution of the Bank's balance sheet.
6. Monitor the impact of interest rate variations on the balance sheet.
7. Establish productivity parameters for business areas.
8. Monitor the adequate utilization of the Group's capital.

9. Review that trading activities (pesos and dollars) of the bank are according to their global strategies.
10. Evaluate and authorize transactions with assets (financial and non-financial) among entities controlled or managed by the Group where there are no minority interest associates, in all modes (purchase/sale, assignment, etc.).
    - Operations may be considered when:
        - They generate an improvement in the financial ratios of GFNORTE's entities.
        - They prevent or minimize deterioration in GFNORTE's financial structure.
        - They prevent or minimize commercial or property damage to clients for reasons attributable to GFNORTE and/or its officials.
    - Must have the following characteristics to proceed with their operation:
        - They must comply with the official provisions and the internal regulations.
        - They must be carried out at market price when an external reference exists (price or pit evaluator etc.), in case that is not defined, the market value should be consulted with the external auditor for asset valuation, following at all times the accounting criteria that apply in the situation, with the prior recommendation of the Accounting area.
        - They must have the approval of the Deputy Managing Director of Risk Management to ensure they do not exceed GFNORTE's risk limits.
        - They must have the authorization or if the case, No Objection from the corresponding Credit Committee.
        - They must have the "No Objection" of the RPC in case there is a negative wealth effect on GFNORTE, which must be previously validated by the areas of Comptrollership and Accounting.
        - If the case, the operation must involve risk lines granted to entities of the Group - this must be reported to the executive or area responsible for serving GFNORTE's subsidiaries, so they carry out the corresponding changes in the credit covers with respect to risks authorized in each subsidiary.

Frequency of sessions: Meetings are held at least once a month; the Secretary is responsible to coordinate the agenda and convene sessions.

Integration:

MEMBERS		
Alejandro Valenzuela de Rio	GFNORTE's CEO	With veto power
Carlos Alberto Arciniega Navarro	MD Treasury	With voice and vote (coordinator)
Jose Marcos Ramirez Miguel	MD Wholesale Banking and Casa de Bolsa Banorte Ixe	With voice and vote
Jesus O. Garza Martinez	MD Segment and Channel	With voice and vote
Manuel Antonio Romo Villafuerte	MD Consumer Products	With voice and vote
Rafael Arana de la Garza	COO	With voice and vote
Alejandro Garay Espinosa	MD Corporate Services	With voice and vote
David Aaron Margolin Schabes	MD Risk Management	With voice and vote
Heleodoro Ruiz Santos	DMD Risk Management	With voice
Martha Elena Navarrete Villarreal	MD Internal Audit	With voice
Jorge Eduardo Vega Camargo	DMD Comptrollership	With voice
Adan Jorge Peña Guerrero	ED Balance Sheet Management	With voice (Secretary)
Business and Territorial Directors	Wholesale Banking/ Retail Banking	With voice

PROPRIETARY INVESTMENT PORTFOLIO COMMITTEE

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 trading of financial instruments.
3. To follow-up on the Balance Sheet and to define strategies for risk in proprietary investment portfolios proposed by the business areas that manage those portfolios.
4. Review and evaluation of 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 parameters and define remedial liquidation measures if certain cases (without a secondary market, low securitization, etc).

Frequency of sessions: Meetings shall be held 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:

MEMBERS		
Jose Marcos Ramirez Miguel	MD Wholesale Banking and Casa de Bolsa Banorte Ixe	With voice and vote(Coordinator)
Alejandro Eric Faesi Puente	MD Markets & Institutional Sales	With voice and vote Alternate Coordinator)
Carlos Alberto Arciniega Navarro	MD Treasury	With voice and vote
David Aaron Margolin Schabes	MD Risk Management	With voice and vote
Heleodoro Ruiz Santos	DMD Risk Management	With voice and vote
Ignacio Saldaña Paz	D Investments – Long-term savings	With voice and vote
Fausto Jose Hernandez Pintado	Chief Strategic Planning and Value Creation Office	With voice and vote
Jorge Arturo Garcia Pares	DMD Money Market	
Vacancy	MD Insurance and Annuities- Long-Term Savings	With voice and vote*
Vacancy	D Annuities Technical - Long-Term Savings	With voice and vote*
Jacaranda Alicia Nava Villarreal	D Derivatives	
Julio A. Sepulveda Elizondo	D Risk	With voice and vote*
Manuel Ignacio Chavez Peon	Alternate Independent Member Operadora	With voice and vote
Alejandro Aguilar Ceballos	MD Operadora de Fondos Banorte	With voice
Audit Representative		With voice
Risk Representative		With voice
Legal Representative		With voice
Miguel Angel Arenas Lopez	Comptrollership	With voice(Secretary)

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 Banco Mercantil del Norte, S. A., 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 Banco Mercantil del Norte, S. A. 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 Banorte 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 held permanently every first and third Wednesday of the month.

Integration:

MEMBERS		
Proprietary		**Alternate**
Hector Avila Flores	MD Legal(Chairman)	Federico Santos Cernuda
David Aaron Margolin Schabes	MD Risk Management	Heleodoro Ruiz Santos
Jorge Eduardo Vega Camargo	DMD Comptrollership	Gerardo Mejia Zacarias
Carlos Eduardo Martinez Gonzalez	MD Government	David Alberto Salazar Vite
Jose Armando Rodal Espinosa	MD Business and Corporate	Juan Carlos Tamariz
Javier Rodriguez Flores	D Fiduciary	Cristina Leonor Guerrero Sarre
Juan Pedro Meade Kuribreña	ED Institutional Prevention and Control (Secretary Not Member)	
INVITED		
Gerardo Amando Diaz Valdez	ED Subsidiaries and Banking Audit Operations Invited	Silvia Lazaro Lazaro
Javier Marquez Diez-Canedo	Advisor	

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		
Alejandro Valenzuela del Rio	GFNORTE's CEO	Chairman / Coordinator
Jose Marcos Ramirez Miguel	MD Wholesale Banking and Casa de Bolsa Banorte Ixe	Alternate Coordinator
Luis Fernando Orozco Mancera	MD Asset Management	Alternate Coordinator

MEMBERS		
David Aaron Margolin Schabes	MD Risk Management	Alternate Coordinator
Rafael Hinojosa Cardenas	DMD Credit Management	Coordinator
Rafael Arana de la Garza	COO	Secretary
Arturo Monroy Ballesteros	MDM Investment Banking & Structured Financing	
Legal Representative		Invited (without vote)
Audit Representative		Invited (without vote)
Solida or investment vehicle representative		Invited (without vote)

INTEGRITY COMMITTEE

Objective: Align the security and control efforts of the information under a preventive approach, defining new strategies, policies, processes and procedures; aiming to solve security problems that affect the Institution's assets or represent risks of embezzlement by third parties or employees, ensuring the integrity, reliability and timeliness of the information.

Scope: The objectives, functions, members and frequency of the Integrity Committee's sessions are generally applicable to GFNORTE and subsidiaries.

Functions:

1. Define an integral strategy for the security of information.
2. Identify threats and vulnerabilities, and assess their impact.
3. Evaluate the risk of system and critical information loss.
4. Establish objectives, define policies and procedures.
5. Foster a culture of information security.
6. Monitor, measure and report the risks affecting the security of information.
7. Create special committees in order to follow up and attend special risk situations or problems related to information security matters.

These functions are directed towards technological mitigation or prevention measures, as well as to decide about the programs and projects aimed to safely store the integrity of information security.

Frequency of the sessions: The meetings are carried out quarterly, with the possibility of extraordinary meetings at the request of any proprietary member.

Integration:

MEMBERS		
David Aaron Margolin Schabes	MD Risk Management	Coordinator
Ignacio Aldonza Goicoechea	MD Technology and Operations	
Guillermo Güemez Sarre	Executive Leader – Transformational Services	
Jesus O. Garza Martinez	MD Segment and Channel	
Heleodoro Ruiz Santos	DMD Risk Management	
Federico Santos Cernuda	DMD Legal Wholesale Banking	
Jorge Eduardo Vega Camargo	DMD Comptrollership	
Luis Gerardo Valdes Manzano	DMD Human Resources	
Hector Abrego Perez	DMD Alternate Channels	
Francisco Garcia Dayo	D Information Technology Audit	(Without vote)
Alberto Vega Balderas	DD Risk Managment – Long-term savings	Permanently invited
Cesar Alberto Gonzalez Rodriguez	D IT Security and Technology Management	Permanently invited
Jesus Valdes Fernandez	D Operational Risk Management	Secretary

Information Security Group

Mission: Provide orientation to the Integrity Committee on information security to maintain and improve confidentiality, integrity and availability of sensitive information in Grupo Financiero Banorte.

Scope: All the companies comprising GFNORTE.

Objective: Evaluate and recommend strategies to prevent incidents of risk or loss in accordance with the guidelines for the protection of sensitive information applicable to the companies that comprise GFNORTE. If necessary, support and ensure the establishment of remediation plans for incidents of risk or loss with respect to sensitive information held by any of the companies comprising GFNORTE.

Functions:

1. Review the most important initiatives in the area of information security to provide advice and support for the implementation of the same.

2. Assess the major risks in order to identify and propose action.

3. Present the most relevant Information Security incidents, in order to educate the Organization on the protection of information assets.

4. Analyze information security policy proposals as a result of reforms, derogations or additions to regulatory provisions applicable to the financial sector.

5. Assess the effectiveness of established controls in the area of Information Security.

6. Review the efficiency of the Information Security program.

7. Promote an organizational culture in information security.

Integration:

MEMBERS		
Ricardo Morales Gonzalez	ED IT Security	Chairman
Cesar Augusto Ramirez Severo	DD Technology - Internal Control	Secretary
Gerardo Mejia Zacarias	D Comptrollership and Expenditures	Permanent Member
Francisco Salvador Garcia Dayo	ED IT Audit	Permanent Member
Jesus Valdes Fernandez	D Operational Risk Management	Permanent Member
Ricardo Elizondo Elizondo	D Management and Information Control	Permanent Member
Cesar Alberto Gonzalez Rodriguez	D IT Security and Technology Management	Permanent Member

Committee for Fraud Prevention of Credit and Debit Cards

Objective: Align security and information control efforts related to the operations of different checking products, under a prevention approach, defining new strategies, policies, processes or procedures, aiming to solve security problems that affect the institutional patrimony or signify risk of embezzlement by third parties or employees, providing that the information is integral, reliable and timely.

Functions: The Committee must:

1. Define an integral Information Security strategy.
2. Identify threats and vulnerabilities, assess impact.
3. Assess the risk of loss of critical information and systems.
4. Establish objectives, define policies y procedures.
5. Foster a culture of information security.
6. Monitor measure and report risks that affect the security of information.

7. Create special work meetings to follow-up on and attend situations of risk or problematic issues related to IT security

These functions aim to mitigate or take preventive measures mainly of a technological nature, as well as to decide on programs and projects to safeguard the integrity of information security.

Frequency of sessions: The frequency of sessions of this Committee will vary, depending on the special circumstances of credit and/or debit card fraud or at the specific request of any Proprietary Member.

The Committee will convene as much as the Integrity Committee deems necessary.

Integration:

MEMBERS		
David Aaron Margolin Schabes	MD Risk Management	Coordinator
Ignacio Aldonza Goicochea	MD Technology and Operations	
Jesus O. Garza Martinez	MD Segment and Channel	
Heleodoro Ruiz Santos	DMD Risk Management	
Federico Santos Cernuda	DMD Legal Wholesale Banking	
Jorge Eduardo Vega Camargo	DMD Comptrollership	
Luis Gerardo Valdes Manzano	DMD Human Resources	
Hector Abrego Perez	DMD Alternate Channels	
Carlos Javier Zambrano Elizondo	DMD Individuals	
Roberto Galarza Sacramento	DMD SME Segment	
Francisco Garcia Dayo	D Information Technology Audit	(Without Vote)
Eduardo Vazquez Villegas	DMD Operations	Permanently invited
Rafael Valencia Gonzalez	D Fraud Prevention	Permanently invited
Jesus Valdes Fernandez	D Operational Risk Management	Secretary

Committee for Fraudulent Check Prevention

Objective: Align security and information control efforts related to the operations of different checking products, under a prevention approach, defining new strategies, policies, processes or procedures, aiming to solve security problems that affect the institutional patrimony or signify risk of embezzlement by third parties or employees, providing that the information is integral, reliable and timely.

Scope: The objectives, functions, members and frequency of sessions of the Committee for Fraudulent Check Prevention are applied to Banco Mercantil del Norte.

Functions: To achieve its objective the Committee must fulfill the following functions related to checking products:

1. Define an integral Information Security Strategy.
2. Identify threats and vulnerabilities, assess impact.
3. Assess the risk of loss of critical information and systems.
4. Establish objectives, define policies and procedures.
5. Foster a culture of information security.
6. Monitor, measure and report risks affecting the security of information.
7. Create special work meetings to follow-up on and attend situations of risk or problematic issues related to IT security

These functions aim to mitigate or take preventive measures mainly of a technological nature, as well as to decide on programs and projects to safeguard the integrity of information security.

Frequency of sessions: The frequency of sessions of this Committee will vary, depending on the special circumstances of fraudulent checks or at the specific request of any Proprietary Member.
The Committee will convene as much as the Integrity Committee deems necessary.

MEMBERS		
David Aaron Margolin Schabes	MD Risk Management	Coordinator
Jesus Valdes Fernandez	D Operational Risk Management	Secretary
Ignacio Aldonza Goicochea	MD Technology and Operations	
Jesus O. Garza Martinez	MD Segment and Channel	
Heleodoro Ruiz Santos	DMD Risk Management	.
Federico Santos Cernuda	DMD Legal Wholesale Banking	
Jorge Eduardo Vega Camargo	DMD Comptrollership	
Luis Gerardo Valdes Manzano	DMD Human Resources	
Hector Abrego Perez	DMD Alternate Channels	
Carlos Javier Zambrano Elizondo	DMD Individuals	
Roberto Galarza Sacramento	DMD SME Segment	
Francisco Garcia Dayo	D Information Technology Audit	(Without Vote)
Eduardo Vazquez Villegas	DMD Operations	
Concepcion Gpe. Borjon Shears	DMD Branches and Clients Management	
Roel Mariano Perez	DD Special Affairs	

INVESTMENTS IN MANAGED PORTFOLIOS COMMITTEE

Functions:

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

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		
Jose Marcos Ramirez Miguel	MD Wholesale Banking and Casa de Bolsa Banorte Ixe	With voice and vote(Coordinator)
Rene Gerardo Pimentel Ibarrola	MD Asset Managment and Business Development	With voice and vote(Alternate)
Juan Pedro Meade Kuribreña	ED Institutional Prevention and Control	With voice and vote
Alejandro Aguilar Ceballos	MD Operadora de Fondos Banorte	With voice and vote
Javier Diaz de Leon Opitz	D Debt Investment	With voice and vote
Diego Tarrats Guerrero	DD Investiment in Equities	With voice and vote
Carlos Alberto Arciniega Navarro	MD Treasury	With voice and vote
David Aaron Margolin Schabes	MD Risk Management	With voice and vote
Heleodoro Ruiz Santos	DMD Risk Management	With voice and vote*
Ignacio Saldaña Paz	D Investments – Long-term savings	With voice and vote

MEMBERS		
Fausto Jose Hernandez Pintado	Chief Strategic Planning and Value Creation Officer	With voice and vote
Alejandro Eric Faesi Puente	MD Markets & Institutional Sales	With voice and vote
Audit Representative		Voice
Risk Representative		Voice
Legal Representative		Voice
Miguel Angel Arenas Lopez	Comptrollership	Voice (Secretary)

PARAMETRIC LOAN COMMITTEE

Objetive: 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 are carried out quarterly, or when convened by the Chairman or Secretary. Furhermore, it can meet extraordinarily.

Integration:

MEMBERS	
David Aaron Margolin Schabes	MD Risk Management (Chairman)
Heleodoro Ruiz Santos	DMD Risk Management
Rafael Hinojosa Cardenas	DMD Credit Management
Jesus O. Garza Martinez	MD Segment and Channel
Manuel Antonio Romo Villafuerte	MD Consumer Products
Rafael Arana de la Garza	COO
Carla Juan Chelala	MD Marketing
Mario Alberto Barraza Barron*	DMD Consumer Collections
Enrique Argüelles Illoldi	ED Consumer Credit Risk
INVITED	
Carlos Javier Zambrano Elizondo	DMD Middle-Masive Segment
Roberto Galarza Sacramento	DMD SME Segment
Jose Federico Garcia Cruz	DMD Affluent Segment
Jorge Eduardo Vega Camargo	DMD Comptrollership
Hector Avila Flores	MD Legal
Martha Elena Navarrete Villarreal	MD Audit
Juan Pedro Meade Kuribreña	ED Institutional Prevention and Control (Secretary Not Member)
* In the meetings where collection strategies are considered, the presence of the DMD Consumer Collections will be nessesary.	

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 are carried out quarterly, or when convened by the Chairman or Secretary. Furhermore, it can meet extraordinarily.

Integration:

MEMBERS	
David Aaron Margolin Schabes	MD Risk Management (Chairman)
Gabriel Casillas Olvera	MD Economic Analysis
Heleodoro Ruiz Santos	DMD Risk Management
Fausto Jose Hernandez Pintado	Chief Strategic Planning and Value Creation Officer
Federico Santos Cernuda	DMD Legal Wholesale Banking
Arturo Monroy Ballesteros	MDM Investment Banking & Structured Financing
Ursula Wilhelm Nieto	DMD Planning and Business Management
Jorge Eduardo Vega Camargo	DMD Comptrollership
Adan Jorge Peña Guerrero	ED Balance Sheet Management
Oscar Guadalupe Vela Hinojosa	D Market Risk
INVITED	
Representative	Audit
Juan Pedro Meade Kuribreña	ED Institutional Prevention and Control (Secretary Not Member)

INSTITUTIONAL COMMUNICATION COMMITTEE

Objective: To foster a comprehensive communication strategy that includes all key players both inside and outside of the institution.

Functions:

1. Encourage and assure staff spreading the results of business strategies at all levels.
2. Validate plans, strategies and institutional media.
3. Establish and empower work commissions to carry out the plans, projects and commitments of institutional communication.
4. Prioritize campaigns and messages to be spread to staff every two months.
5. Assessment of the impact of communication.
6. Appoint those responsible for the content of the institutional communication
7. Approval of the annual budget for institutional communication.

Frequency of sessions: Meetings shall be held every months, or if the case when convened by the Chairman or Secretary. Furtheremore, it can meet extraordinarily depending on the risk or importance of a particular case.

Integration:

MEMBERS	
Alejandro Valenzuela	GFNORTE's CEO (Chairman)
Alejandro Garay Espinosa	MD Corporate Services
Rafael Arana de la Garza	COO
Jesus O. Garza Martinez	MD Segment and Channel
Manuel Romo Villafuerte	MD Consumer Products
Jose Marcos Ramirez Miguel	MD Wholesale Banking and Casa de Bolsa Banorte Ixe
Carla Juan Chelala	MD Marketing
Hector Avila Flores	MD Legal
Martha Elena Navarrete	MD Internal Audit
Mayra Hernandez Gonzalez	CD Social Responsability
David Aaron Margolin Schabes	MD Risk Management
Jorge Eduardo Vega Camargo	DMD Comptrollership
Luis Gerardo Valdes Manzano	DMD Human Resources
David Ricardo Suarez Cortazar	CFO and Head of Investor Relations
Fausto Jose Hernandez Pintado	Chief Strategic Planning and Value Creation Officer
Javier Salgado Muñoz	DMD Branches and Clients
Concepcion Gpe. Borjon Shears	Sumando Project Leader
Ayax Carranza Segura	ED Communications and Institutional Relations
Horacio Cortes	EVP Corporate Services de INB
Mayte Duck Hernandez	D Corporate Coordination and Management
Jose Carlos Torres Garcia	Sindicate General Secretary
Felipe Duarte Olvera	MD Client Experience
Juan Pedro Meade Kuribreña	ED Institutional Prevention and Control (Secretary Not Member)

Main Officers to December 2013

Name	Years with the company	Current Position	Age	Maximum Level of Education	Main executive positions at other companies
Alejandro Valenzuela del Rio	10.2	GFNORTE's CEO	52	PhD in Economics	European Aeronautic Defense and Space Company (EADS); The Laredo National Bank (Member of the Board); Banxico; SHCP.
Jesus O. Garza Martinez	14.4	MD Segment and Channel	57	Masters in Financial Administration	BBV, Casa de Bolsa Probursa and Valores Finamex
Carlos Eduardo Martinez Gonzalez	14.7	MD Government	50	Public Accountant	Grupo Financiero Serfin
Jose Armando Rodal Espinosa	20.7	MD Business & Corporate	44	Chemical Engineer Administrator	ITESM
Luis Fernando Orozco Mancera	10.0	MD Asset Recovery	59	Master in Business Administration	Citibank Mexico
Fernando Solis Soberon	6.5	MD Long-Term Savings	52	Masters and PhD in Economy	Grupo Nacional Provincial, Grupo Bal, CONSAR, Comision Nacional de Seguros y Fianzas
Samuel J. Munafo (2)	2.0	MD Inter National Bank	64	Postgradute studies in American Bankers Association Commercial Lending	The Clyde Savings, Indiana Lawrence Bank, Community First Bank & Trust and First Financial Bancorp in Ohio
Rafael Victorio Arana de la Garza	2.3	COO	62	Electric Mecanical Engineer	Managing Director of HSBC's Retail Banking Latin America and the Caribbean. Deputy Managing Director of HSBC Mexico.
Alejandro Eric Faesi Puente	3.4	MD Markets and Institutional Sales	44	Master in Finance	JP Morgan Grupo Financiero
Guillermo Guemez Sarre	3.4	Executive Leader – Transformational Services	46	Computer Systems' Engineer	Servicios Administrativos Wal-Mart
Carlos Alberto Arciniega Navarro	20.4	MD Treasury	53	Master in Business and Finance	Empresas La Moderna
Sergio Garcia Robles Gil	19.2	MD Corporate Affairs	53	Master in Business Administration	Fina Consultores (Consultancy)
Alejandro Garay Espinosa	4.8	MD Corporate Services	50	Attorney at Law	Banco de Mexico

Name	Years with the company	Current Position	Age	Maximum Level of Education	Main executive positions at other companies
Hector Martin Avila Flores	4.2	MD Legal	46	Attorney at Law	Red de Universidades SC (SC Universities)
Carla Juan Chelala	6.2	MD Marketing	44	Master in Marketing and Advertising	Grupo Financiero HSBC
Sergio Deschamps Ebergenyi	16.1	Northern Territorial Director	59	Bachelor in Business Administration	Banca Serfin
Andres Emmanuel Aymes Ansoleaga	4.6	Southern Territorial Director	43	Bachelor in Economics	Financiero
Humberto Luna Gale	7.9	Northern Territorial Director	51	Electric Mecanical Engineer	Santander Serfin
Juan Carlos Cuellar Sanchez	28.7	Western Territorial Director	51	Master in Executive Management	BANCAM
Alfonso Paez Martinez	15.9	Central Territorial Director	48	Master in Executive Management	Casa de Bolsa Abaco and Casa de Bolsa Probursa
Roberto Francisco Ayala Ramos	15.0	Border Territorial Director	54	Master in Business and Finance	Bancrecer, Banco del Atlantico, Banco Mexicano Somex
Hector Guijarro Avila	20.3	Isthmus Territorial Director	51	Public Accountant	Partido Revolucionario Institucional (political party)
Arturo Valdes Villaseñor	17.2	Northwestern Territorial Director	53	Masters in Administration	Bank Center of Monterrey
Jorge Luis Molina Robles	19.7	Penninsular Territorial Director	57	Civil Engineer	Government of the State of Chiapas
Alberto Salvador Lopez	11.6	Southern Territorial Director	50	Bachelor in Actuary	Seguros Bancomer, S. A., Banca Promex, Banco del Atlantico
Ma. Del Socorro Bermudez	32.5	Western Territorial Director	49	Electronic Engineer	
Gabriel Casillas Olvera	1.6	MD Economic Analysis	38	PhD in Economics	J. P. Morgan Chase & Co.
Jose Marcos Ramirez Miguel	3.1	MD Wholesale Bank and Casa de Bolsa Banorte Ixe	50	Bachelor in Actuary	Grupo Financiero Santander
Victor Antonio Roldan Ferrer (1)	2.8	MD of Transactional Banking	46	Bachelor in Informatics	Ixe Grupo Financiero / Banco Santander
Ricardo Velazquez Rodriguez (1)	2.8	MD International Banking and Financial Institutions	37	Bachelor in Economics and MBA	Ixe GF
Luis Ernesto Pietrini Sheridan (1)	2.8	MD of Private Banking and Wealth Management	42	Bachelor in Adminitration with specialization in Finance	Ixe GF / Vector Mex Inc

Name	Years with the company	Current Position	Age	Maximum Level of Education	Main executive positions at other companies
Rene Pimentel Ibarrola (1)	2.8	MD Asset Management and Business Development	41	Bachelor in Economics	Ixe GF
Manuel Antonio Romo Villafuerte (1)	2.8	MD Consumer Products	48	Bachelor in Adminitration and Masters in Economics.	Ixe GF / Banco Nacional de Mexico
Gerardo Rodriguez Chabolla (1)	2.8	Territorial Director Ixe Regionals	44	Bachelor in Marketing	Dinners Club, Citibank, BBVA Bancomer, Santander.
Francisco Jose Archivaldo Rodriguez Giacinti (1)	2.8	MD Ixe Metropolitan	56	Physicist	Santander, Bancomext
David Ricardo Suarez Cortazar	8.7	CFO and Head of Investor Relations	42	Bachelor in Business and Finance, Masters in Economic Policy	IMSS, IFC, SHCP.
Ignacio Aldonza Goicoechea	0.8	MD Technology and Operations	53	Industrial Engineer, Master in Economics and Business Management	BBVA Bancomer.
Fausto Jose Hernandez Pintado	5.0	Chief Strategic Planning and Value Creation Officer	43	Bachelor in Economics, Masters in Finance	Goldman Sachs, AON Re, PEMEX, Visa International, Barclays Bank y SHCP.
Martha Elena Navarrete Villarreal	3.2	MD Internal Audit	44	MBA	CNBV.
David Aaron Margolin Schabes	1.0	MD Risk Management	56	Bachelor in Actuarial Science, Masters in Operations Research	Banco de Mexico
Concepcion Gpe. Borjon Shears	20.8	Sumando Project Leader	44	Masters in Management, Specialty in Senior Management	
Jose Antonio Murillo Garza	0.5	MD Analytics	44	Bachelor and PhD in Economics	Banco de Mexico, FMI
Ayax Carranza Segura	7.2	MD Communications and Institutional Relations	44	Bachelor in Economics, Masters in Science, with Specialty in Business Management	SEP, GRUMA.

(1) Ixe GF's employee; Position in Banorte officially occupied in April 2011
(2) Samuel J. Munafo has been employed by INB since January 2012.

Compensations and Benefits

The total amount of compensations and benefits paid to GFNORTE's main officers in 2013 was approximately Ps 352.8 million.

Compensations and Benefits are as follows:

- **Fixed Compensation:** Salary.

- **Annual Bonus Plan for 2013:**

  The scheme for business areas evaluates budget performance of the profit for that particular business, as well as an evaluation of individual performance, considering the achievement of each participant's goals and objectives. Furthermore, the bonus is also adjusted based on operational risk evaluations carried out by the Internal Audit Department.

  Eligible personnel of staff areas are 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.

- **Banorte's Long Term Incentive Plans:**

  Stock Options:

  > The long term scheme for incentives consists of assigning to Directors designated by the Compensation Committee, a stock options package through a trust with a vesting period of 3 years having right in 100%. Participants will be entitled to exercise one third of the package each year; purchasing the shares at the price with which they were originally acquired by the trust and their right to acquire those shares expires after 6 years.
  >
  > The gains for the executive will be the difference between the strike price, the price originally determined by the trust, and the share's exercise price at the time they exercise their rights.

- **Vacations:** From 10 to 30 working days 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 with 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.

- **Food Vouchers:** Non-executive employees are given food vouchers equivalent to 10% of their monthly salary; the amount is subject to a legal limit of one month's minimum wage according to the Economic Area in question**.**

- **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 is 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) that are pension benefits for past services accumulated to date. The maximum monthly contribution is 10% of the gross nominal wage (5% employee and 5% company).The total amount accumulated by GFNORTE in pension, retirement or similar plans for the company's main officers amounts to Ps 59.0 million.

d) CORPORATE BY-LAWS AND OTHER AGREEMENTS

In 2006 the by-laws 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 by-laws 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.

Banco del Centro, S, A. was spun-off from Grupo Financiero Banorte due to its merger with Banco Mercantil del Norte, S. A., 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 S. A. de C.V. was also spun-off from Grupo Financiero Banorte, due to its merger with Banco Mercantil del Norte, S. A., 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 to Regulate Financial Groups (LRAF), to change the Group's participation in the financial entities that conform it, including the financial subsidiaries of Ixe Grupo Financiero; 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 By-Laws 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 By-Laws. 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 By-Laws 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 Statutory Responsibility Agreement: Fincasa Hipotecaria, S. A. de C.V., Sociedad Financiera de Objeto Multiple, Entidad Regulada, Grupo Financiero Banorte; Ixe Soluciones, S. A. de C. V., SOFOM, Entidad Regulada, Grupo Financiero Banorte; Ixe Fondos, S. A. de C. V., Sociedad Operadora de Sociedades de Inversion, Grupo Financiero Banorte; Ixe Automotriz, S. A. de C. V., SOFOM, Entidad Regulada, Grupo Financiero Banorte; Ixe Casa de Bolsa, S. A. de C. V.; Grupo Financiero Banorte; and Ixe Banco, S.A., Institucion de Banca Multiple, Grupo Financiero Banorte.

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 By-laws 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 By-laws, in order to exclude Casa de Bolsa Banorte, S.A. de C.V., as integrated entity of Grupo Financiero Banorte, S.A.B. de C.V, given its merger with Ixe Casa de Bolsa, S.A. de C.V.

On January 22, 2013, the Extraordinary General Shareholders' Meeting approved to modify Article Second of the By-laws, in order to i) exclude Ixe Automotriz, S.A. de C.V., as an integrated entity of Grupo Financiero Banorte, S.A.B. de C.V., as a result of its merger with Arrendadora y Factor Banorte, S.A. de C.V., 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 By-laws, in order: i) exclude Ixe Banco, S.A. and Fincasa Hipotecaria, S.A. de C.V. 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.,

It is important to point out that both the LRAF Groups 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 must inform the Ministry of Finance and Public Credit within 3 business days of such acquisition or transfer.

- Any individual or company can acquire through one or various simultaneous transactions, the control of series “O” shares of the company, in the understanding that such transactions must be previously approved by the Ministry of Finance and Public Credit, hearing the opinion of the National Banking and Securities Commission when they exceed more than 5% of such equity.

- The authorization of the Ministry of Finance and Public Credit is required for any group of people to acquire, directly or indirectly, through one or various simultaneous or successive transactions of any nature, the control of the company, which is understood as acquiring more than 30% or more of the shares representing paid in capital, having control of the Shareholders’ Assembly, be in a position to name the majority of the Board of Directors’ members or to control the company through any other means.

- 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 National Banking and Securities Commission and the public in the cases established by generally applicable dispositions issued by the Commission, of the acquisition or disposal of these securities within the stated timeframe established by the Commission.

The current By-laws 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. 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.

  If the aforementioned is not followed, whoever acquires these shares, will not be able to exercise the corporate rights inherent to those shares and will not be taken into consideration to determine quorum at Shareholders’ Meetings.

- 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.

- Anyone with the intention of acquiring holdings that represent 30% or more of the company’s equity, will be obligated to make a public bid for 100% of the shares, and only in the case that after the bid for 100% of the shares they retain a percentage equal to or less than 50% of the shares, they must seek approval from the Board to exercise the corporate rights of such shares.

- 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. In this case, corporate rights are not lost for not notifying nonetheless it will be taken into consideration for Board’s prior approval or denial to acquire the percentages previously mentioned.

Aiming to protect minority shareholders, the following rights are established:

- Shareholders who represent at least 5% of the equity can directly exercise civil responsibility action against managers in the terms established by applicable legislation.

- Shareholders with voting rights, including limited or restricted rights, which individually or jointly make up 10% of the company's equity, will have the right to designate or revoke in the General Shareholders' Assembly a member to the Board of Directors. Such designation can only be revoked by the remaining shareholders when the nomination of all other proposed shareholders is also revoked, in which case the substituted persons cannot be nominated for that position for 12 months following the date of being revoked.

- Shareholders with voting rights, including limited or restricted rights, which individually or jointly make up 10% of the company's equity will have the right to request the Chairman of the Board or of the Committees which conduct corporate practices and audit functions, to convene a General Shareholders' Assembly at any time, without having to follow the percentage stipulated in article 184 of the Law of Mercantile Societies.

- Shareholders with voting rights, including limited or restricted rights, with at least 10% of shares represented in an Assembly can request the postponement of voting on any matter which they consider not being properly informed about, under the terms and conditions indicated in the applicable legislation.

- Shareholders with voting rights, including limited or restricted rights, that represent at least 20% of equity, will be able to judicially oppose the resolutions of the General Assemblies in which they have voting rights, under the terms and conditions indicated in the applicable legislation.

The corporate by-laws stipulate the company's faculties to purchase its shares under the terms of the Mexican Stock Market Law.

Shares representing the company's equity will be made up ordinary portion and additional shares.

Both "O" and "L" series will be freely subscribed; the latter will be issued for an amount of up to forty percent of ordinary equity with prior authorization by the CNBV, and will have limited voting and other corporate rights. Foreign entities that exercise authority functions cannot participate in any form in the company's equity. Domestic financial entities also cannot participate, including those that are part of the group, unless when acting as institutional investors under the terms established in the Law to Regulate Financial Groups.

To install and vote the resolutions of Extraordinary Meetings to resolve matters related to Series "L" shares, regulations related to General Ordinary Shareholders' Meetings established by the Law of Mercantile Societies apply.

To install and vote on resolutions of the General Shareholders' Meetings, ordinary or extraordinary, the dispositions established in the Law of Mercantile Societies 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 Stock Market Law, as established in fraction IV of article 22 of this legislature.

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 5,387,086 ADRs were in circulation at closing of 2013. 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.

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 and minimum 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
31/12/2009	51.00	13.04	47.84	2.33	16.16	5,447,834	1,367,406,400
31/12/2010	60.80	41.25	58.86	2.58	16.91	4,951,769	1,247,845,700
31/12/2011	60.64	37.80	42.32	1.39	9.80	5,692,451	1,434,497,700
31/12/2012	84.99	42.40	83.45	2.37	16.20	5,626,429	1,417,860,174
31/12/2013	101.07	68.98	91.36	2.38	17.44	7,662,952	1,923,400,944

*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 Operated
	Maximum	Minimum	Close		
31/12/2009*	19.47	11.72	18.35	5,831	291,540
31/12/2010	24.68	16.00	23.49	7,481	1,324,149
31/12/2011	25.90	13.95	15.17	10,130	2,542,513
31/12/2012	33.29	15.46	32.51	7,839	1,912,727
31/12/2013	40.58	26.08	35.04	14,417	3,633,034

* Listed as of June 2009.

XNOR (Euros) – Latibex*

Date	Euros			Volume of Shares (Daily Average)	Total Volume Operated
	Maximum	Minimum	Close		
31/12/2009*	2.62	1.60	2.51	50,767	3,604,470
31/12/2010	3.72	2.30	3.54	15,437	2,855,790
31/12/2011	3.77	2.07	2.39	11,352	2,179,597
31/12/2012	5.06	2.36	4.88	14,286	2,457,264
31/12/2013	6.50	3.95	5.04	14,944	3,810,757

* Listed as of June 2009.

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
31/03/2012	58.20	42.40	56.98	1.81	13.44	5,590,353	352,192,237
30/06/2012	69.49	55.89	69.15	2.13	15.30	6,348,265	393,592,422
30/09/2012	76.25	65.26	72.76	2.16	15.29	5,138,119	333,977,718
31/12/2012	84.99	69.81	83.45	2.37	16.17	5,453,190	338,097,797
31/03/2013	101.07	83.50	98.68	2.72	18.27	4,918,251	290,176,793
31/06/2013	99.29	68.98	76.72	2.13	13.90	6,332,008	405,248,527
30/09/2013	89.99	71.80	81.73	1.85	15.48	11,629,142	755,894,257
31/12/2013	98.19	78.31	91.36	2.38	17.44	7,493,355	472,081,367
31/03/2014	97.00	80.31	87.83	2.19	16.76	6,420,279	404,477,569

*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 Operated
	Maximum	Minimum	Close		
31/03/2012	23.09	15.46	22.27	10,956	646,375
30/06/2012	25.90	20.94	25.90	6,982	432,909
30/09/2012	28.81	24.49	28.37	4,662	289,023
31/12/2012	33.29	26.59	32.51	8,925	544,420
31/03/2013	40.58	32.94	40.32	15,600	935,973
30/06/2013	40.30	26.08	29.85	14,212	909,537
30/09/2013	35.58	28.21	31.14	19,844	1,269,986
31/12/2013	37.60	29.92	35.04	8,087	517,538
31/03/2014	37.08	30.21	33.80	15,345	966,736

XNOR (Euros) – Latibex

Date	Euros			Volume of Shares (Daily Average)	Total Volume Operated
	Maximum	Minimum	Close		
31/03/2012	3.51	2.36	3.35	8,305	166,103
30/06/2012	4.02	3.32	4.02	7,440	171,124
30/09/2012	4.69	3.97	4.36	15,852	1,030,349
31/12/2012	5.06	4.18	4.88	17,026	1,089,688
31/03/2013	6.50	4.91	6.25	14,528	900,733
30/06/2013	6.33	4.00	4.63	13,079	823,963
30/09/2013	5.30	3.95	4.73	14,445	953,376
31/12/2013	5.40	4.30	5.04	17,698	1,132,685
31/03/2014	5.16	4.11	4.57	4,684	131,154

Monthly performance of shares during the last 6 months:

GFNORTEO (Pesos) – BMV

Date	Maximum	Minimum	Close	Volume of Shares (Daily Average)	Total Volume Operated
30/09/2013	88.90	80.00	81.73	6,698,071	133,961,417
31/10/2013	85.49	80.28	83.28	5,734,224	131,887,150
30/11/2013	90.05	78.31	89.62	7,665,083	153,301,662
31/12/2013	98.19	88.60	91.36	9,344,628	186,892,555
31/01/2014	97.00	84.20	84.42	5,939,173	130,661,814
28/02/2014	88.51	80.51	86.03	6,429,955	122,169,147
31/03/2014	88.29	80.31	87.83	6,893,028	151,646,608

GBOOY (Dollars) – ADRs

Date	Dollars per ADR			Volume of Shares (Daily Average)	Total Volume Operated
	Maximum	Minimum	Close		
30/09/2013	34.51	29.81	31.14	10,428	208,568
31/10/2013	32.97	30.81	31.75	5,384	123,842
30/11/2013	34.38	29.92	34.16	6,824	136,470
31/12/2013	37.60	33.63	35.04	12,249	257,226
31/01/2014	37.08	31.67	31.67	15,047	315,994
28/02/2014	33.46	30.21	32.42	20,561	390,652
31/03/2014	33.80	30.31	33.80	11,308	260,090

XNOR (Euros) – Latibex

Date	Euros			Volume of Shares (Daily Average)	Total Volume Operated
	Maximum	Minimum	Close		
30/09/2013	5.00	4.60	4.73	16,235	340,932
31/10/2013	4.80	4.35	4.70	16,318	375,307
30/11/2013	4.99	4.30	4.90	16,727	351,263
31/12/2013	5.40	4.85	5.04	20,306	406,115
31/01/2014	5.16	4.60	4.60	7,409	88,902
28/02/2014	4.65	4.45	4.65	3,333	10,000
31/03/2014	4.57	4.11	4.57	2,481	32,252

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.".

Alejandro Valenzuela del Rio
Chief Executive Officer of Grupo Financiero Banorte, S. A. B. de C.V.

David Ricardo Suarez Cortazar
Chief Financial Officer

Hector Avila Flores
Managing Director of Legal Affairs

"El suscrito manifiesta 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., por los ejercicios terminados el 31 de diciembre de 2013 y 2012 fueron dictaminados con fecha 20 de febrero de 2014 de acuerdo con las Normas Internacionales de Auditoría. De igual manera, los estados financieros correspondientes al ejercicio terminado el 31 de diciembre de 2011 fueron dictaminados con fecha del 27 de febrero de 2013, de conformidad con las Normas Internacionales de Auditoría.

Asimismo, manifiesta que ha leído el presente reporte anual y basado en su lectura y dentro del alcance del trabajo de auditoría realizado, no tiene conocimiento de errores relevantes o inconsistencias en la información que se incluye y cuya fuente provenga de los estados financieros 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, el suscrito no fue contratado, y no realizó procedimientos adicionales con el objeto de expresar su opinión respecto de la otra información contenida en el reporte anual que provenga de los estados financieros dictaminados."

Galaz, Yamazaki, Ruiz Urquiza, S.C.
Firma Miembro de Deloitte Touche Tohmatsu Limited

CPC Fernando Nogueda Conde
Auditor Externo

CPC Fernando Cerda Martínez
Apoderado Legal

23 de abril de 2014

8. ANNEXES

a) AUDIT AND CORPORATE PRACTICES COMMITEE REPORT

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

In accordance with Article 43 of the Stock Market Law (LMV), the Audit and Corporate Practices Committee presents its annual report of activities carried out during the 2013 fiscal year.

The contents of this report will refer to Grupo Financiero Banorte (GFNORTE) and to the following relevant entities: 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 Generali, S.A. de C.V. and Pensiones Banorte Generali, S.A. de C.V.

I. With regard to Audit:

a) With regard the status of the Internal Control System and Internal Audit of GFNORTE and of its relevant entities, as well as the deficiencies and deviations, the following elements were taken into consideration:

1. Annual reports on the Internal Control activities of the relevant entities, elaborated by their Managing Directors.
2. Reports from Internal and Normative Comptrollers of some relevant entities containing their opinion about the performance of the ICS.
3. Internal Audit’s opinion about the status of the ICS of the relevant entities.
4. Reports on deficiencies and relevant findings of GFNorte and its Subsidiarie, presented by Internal Audit and the follow up of the corrective measures.
5. Reports of the External Auditor about its observations on Internal Control and the audited financial statements of GFNorte and its Subsidiaries.
6. Reports on inspection visits by the corresponding Authorities.
7. Reports from Commissioners of the relevant entities.
8. Reports from other Audit Committees on relevant events and minutes of their meetings.
9. Internal Audit’s reports on its activities and compliance with its work program, and the results of its quality assurance program.
10. Reports from Human Resources and Internal Audit Committees on the consistency in the application of the Compensation System.

Considering the aforementioned elements, and as a result of the surveillance labor carried out by the Committee, it is informed that the ICS of GFNorte and of its relevant entities in general terms works adequately, and no deficiencies or deviations that could significantly affect them significantly were detected.

In regards to the Internal Audit performance, this area has mantained independent, complied reasonably with its work program in accordance with best practices and supervised the efficient implementation of actions to correct findings and identified areas of opportunity

b) No significant breach to the operational guidelines and policies or to the accounting registries of GFNorte and of its relevant entities was presented. The identified opportunity areas were informed to the responsible persons, and measures were taken to address them, for which there is a follow-up system to ensure due implementation.

c) Regarding the performance evaluation of the entity providing the external audit services, it is informed that during the performance of its activities and in its relationship with the Management and the Committee, the quality of the firm Galaz, Yamazaki, Ruiz Urquiza, S. C. (member of Deloitte Touche Tohmatsu) has been confirmed, as well as the designated Auditor.

Likewise, it is considered that the contents of their findings and reports are valuable and useful in supporting the activities of this Committee, and their results and opinions do not present discrepancies with management.

d) With respect to the description and the assessment of additional or complementary services provided by the External Auditor, it is informed that their hiring was approved in order to review the transference prices in intercompany operations, and the sustainability report, to determine some local taxes and to perform a comparative analysis with the best practices of the accounting process.

   Derived from the corporate restructuration carried during the period, their hiring was approved to audit the merged companies' financial statements, as well as the fiscal effects of such operation, and as a part of the equity issuance, the limited review of the financial statements until March 31, 2013 and of the prospectus.

   Furthermore, their hiring was approved to asses the compliance of the regulations in the comprehensive risk management process at Insurance and Annutities, and to review the process of activation of credit cards, while the committee ensured there is no conflict of interest in the provision of these services.

   Independent experts were hired to carry out goodwill deterioration tests for GFNORTE and some subsidiaries, to assess the quality of the main borrowers of some relevant entities, to review the technical aspects of the comprehensive risk management process and to evaluate the anti-money laundering and anti-terrorism financing processes.

e) A review was made of the financial statements of GFNorte and its Subsidiaries for the year ended December 31, 2013 and the External Auditor's report, confirming that they were prepared in all material aspects in accordance with the applicable accounting rules. Therefore, their approval was recommended to the Board. The Committee also conducted a quarterly review of the interim financial statements.

f) With respect to changes to policies and accounting criteria used during the fiscal year, we inform that modifications were made to comply with changes to the applicable provisions, which are detailed in Note 4 "Main Accounting Policies" of GFNorte's financial statements, which contain a detailed explanation of the afore-mentioned modifications and their effects.

   It is worth mentioning that during 2013 the CNVB modified the rating methodology of the commercial portfolio, with an effect of Ps. 3.87 billion reflected in equity.

g) No relevant observations were made by shareholders, board members, directors, employees or any third party during the year with respect to accounting, internal controls or internal and external audits or complaints about irregularities. We can inform that in accordance with best practices there is an anonymous complaints system which the Committee follows up.

h) With respect to the follow-up to Shareholders' and Board of Directors' Meetings, there were no requests to the Committee to follow up any agreement.

i) The Committee carried out among other relevant activities, reviewing the granting and management of loans to homebuilders; and the investment projects and the assets received as a payment by them; and the loans to State and Municipality Governments, as well as reviewing the process of commercial loan portfolio.

   In regards to the strategic alliance of GFNorte and IBM, the project "Sumando Valor al Cliente" was presented to the Committee. Such project requires changes to the processes, systems and organization structure, while at all times, trying to keep an adequate ICS.

   According to internal policies, the service proposals of three external auditing firms were evaluated for a possible rotation of the External Auditor. It was decided to propose the Board of Directors to keep on working with the Galaz, Yamazaki, Ruiz Urquiza, S. C. firm (member of Deloitte Touche Tohmatsu).

   The identified effects of the financial and fiscal reforms were reviewed, and the actions that the Management is taking for its adequate fulfillment.

II. In terms of Corporate Practices:

Regarding the observations about the performance of the relevant directors of the Human Resources Committee, during the period no cases of directors acting away from the established policies were presented.

a) The Board of Directors approved the operations with related oarties, and as of December 31, 2013, the loans granted through Banco Mercantil del Norte to related parties amounted to Ps. 6.78 billion. Intercompany operations took place at market prices – which were verified by the External Auditor who did not report any relevant findings.

No unusual or non-recurring operations were observed during the period, requiring the Board's approval.

b) Regarding the Remuneration Packages of the CEO and relevant officers, there is an approved Compensation System, approved by this Board of Directors. Such system divides those compensations in ordinary and extraordinary, and includes rules to deferr such compensation depending on the established risk indicators and on the fulfillment of the policies. According to the reports of the Human Resources and Internal Audit Committees, such fulfillment took place in a consistent manner along the period.

c) Finally, during this period, the Board of Directors did not grant any exemption to members of the Board or to relevant directors in order to take advantage of business opportunities.

Sincerely,

Hector Reyes Retana y Dahl
Chairman of the Audit and Corporate Practices Committee
Grupo Financiero Banorte

b) AUDITED FINANCIAL STATEMENTS

Independent Auditors' Report to the
Board of Directors and Stockholders
of Grupo Financiero Banorte, S.A.B. de C.V. and Subsidiaries

We have audited the accompanying consolidated financial statements of Grupo Financiero Banorte, S.A.B. de C.V. and Subsidiaries (the Financial Group), which comprise the consolidated balance sheets as of December 31, 2013 and 2012, the consolidated statements of income, changes in stockholders' equity and cash flows for the years then ended, as well as a summary of the significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements.

Management is responsible for the reasonable preparation and fair presentation of these consolidated financial statements in accordance with the accounting criteria set forth by the National Banking and Securities Commission (the Commission) in the "General Provisions Applicable to Banking Institutions" (the Provisions), and for such the internal controls as Management deems necessary to enable a preparation of the consolidated financial statements free from material misstatement, whether due to fraud or error.

Auditors' Responsibility.

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with the International Audit Standards. Those standards require that we comply with the ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence supporting the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Financial Group's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion about the effectiveness of the Financial Group's internal control. An audit also includes an assessment of the suitability of the accounting policies that were applied and reasonability of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position Grupo Financiero Banorte, S.A.B. de C.V. and Subsidiaries as of December 31, 2013 and 2012, and their financial performance and their cash flows for the years then ended, in accordance with the accounting practices prescribed by the Commission.

Other Matters.

As explained in Note 11, during 2013, the Commission issued modifications to the accounting criteria and to the methodologies for rating commercial loans. The Commission's criteria stipulates that the effect of the change in the methodology for commercial loans was recorded under "Past years' results" in stockholders' equity for Ps. 3,872 million.

The accompanying consolidated financial statements have been translated into English for the convenience of readers.

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

CPC Fernando Nogueda Conde
Recorded in the General Administration
of Federal Tax Audit Number 13204

February 20, 2014

GRUPO FINANCIERO BANORTE, S.A.B. DE C.V. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2013 AND 2012
(In millions of Mexican pesos)

ASSETS	2013	2012
CASH AND CASH EQUIVALENTS	**Ps. 61,978**	**Ps. 68,480**
MARGIN SECURITIES	**59**	**496**
INVESTMENTS IN SECURITIES		
Trading securities	232,926	123,233
Securities available for sale	85,031	115,291
Securities held to maturity	96,730	106,850
	414,687	**345,374**
DEBTOR BALANCES UNDER REPURCHASE AND RESALE AGREEMENTS	**202**	**5,695**
DERIVATIVES FINANCIAL INSTRUMENTS		
For trading purposes	14,799	18,065
For hedging purposes	55	201
	14,854	**18,266**
VALUATION ADJUSTMENTS FOR ASSET HEDGING	**158**	**174**
PERFORMING LOAN PORTFOLIO		
Commercial loans		
Business loans	184,624	186,061
Financial institutions' loans	4,863	8,434
Government loans	95,636	88,293
Consumer loans	57,883	46,036
Mortgage loans	82,032	72,608
TOTAL PERFORMING LOAN PORTFOLIO	**425,038**	**401,432**
PAST-DUE LOAN PORTFOLIO		
Commercial loans		
Business loans	10,473	6,138
Financial institutions' loans	-	4
Government loans	2	60
Consumer loans	2,093	1,467
Mortgage loans	1,087	812
TOTAL PAST-DUE LOAN PORTFOLIO	**13,655**	**8,481**
LOAN PORTFOLIO	**438,693**	**409,913**
(Minus) Allowance for loan losses	(14,289)	(11,734)
LOAN PORTFOLIO, net	**424,404**	**398,179**
ACQUIRED COLLECTION RIGHTS	**3,522**	**3,109**
TOTAL LOAN PORTFOLIO, net	**427,926**	**401,288**
ACCOUNTS RECEIVABLE FROM INSURANCE AND ANNUITIES, net	**1,281**	**885**
PREMIUM RECEIVABLES, net	**3,047**	**3,137**
ACCOUNTS RECEIVABLE FROM REINSURANCE, net	**3,563**	**2,715**
RECEIVABLES GENERATED BY SECURITIZATIONS	**738**	**883**
OTHER ACCOUNTS RECEIVABLE, net	**21,703**	**23,097**
MERCHANDISE INVENTORY	**477**	**351**
FORECLOSED ASSETS, net	**2,781**	**2,939**
PROPERTY, FURNITURE AND EQUIPMENT, net	**12,033**	**11,986**
PERMANENT STOCK INVESTMENTS	**14,205**	**5,170**
OTHER ASSETS		
Other assets, deferred charges and intangible assets	**27,096**	**25,631**
TOTAL ASSETS	**Ps. 1,006,788**	**Ps. 916,567**

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 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 Balance Sheet dates above.

As of December 31, 2013, the stockholders' equity amounts to Ps. 9,696 (nominal value).

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	2013	2012
DEPOSITS		
Demand deposits	Ps. 254,219	Ps. 211,171
Time deposits		
General public	179,146	187,055
Money market	4,971	21,533
Senior debt issued	5,405	4,566
	443,741	**424,325**
INTERBANK AND OTHER LOANS		
Demand loans	2,974	295
Short-term loans	19,406	27,628
Long-term loans	7,679	7,982
	30,059	**35,905**
TECHNICAL RESERVES	**62,207**	**51,722**
CREDITOR BALANCES UNDER REPURCHASE AND RESALE AGREEMENTS	**304,021**	**244,031**
COLLATERAL SOLD OR PLEDGED		
Repurchase or resale agreements (creditor balance)	**8**	**36**
DERIVATIVES FINANCIAL INSTRUMENTS		
For trading purposes	14,827	17,632
For hedging purposes	3,500	4,606
	18,327	**22,238**
ACCOUNTS PAYABLE TO REINSURERS, net	**759**	**805**
OTHER ACCOUNTS PAYABLES		
Income tax	794	1,786
Employee profit sharing	339	738
Creditors from settlements of transactions	4,282	8,413
Sundry creditors and other payables	12,936	15,029
	18,351	**25,966**
SUBORDINATED DEBENTURES	**18,001**	**19,455**
DEFERRED TAXES, net	**200**	**978**
DEFERRED CREDITS AND ADVANCED COLLECTIONS	**2,423**	**2,597**
TOTAL LIABILITIES	**898,097**	**828,058**
STOCKHOLDERS' EQUITY		
PAID-IN CAPITAL		
Common stock	14,652	13,072
Additional paid-in capital	35,219	18,320
	49,871	**31,392**
OTHER CAPITAL		
Capital reserves	5,811	3,399
Retained earnings from prior years	39,303	37,644
Result from valuation of securities available for sale	667	1,598
Result from valuation of instruments for cash flow hedging	(1,420)	(2,493)
Cumulative foreign currency translation adjustment	(1,083)	(547)
Net income	13,508	10,888
	56,786	**50,489**
MINORITY INTEREST	**2,034**	**6,628**
TOTAL STOCKHOLDERS' EQUITY	**108,691**	**88,509**
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**Ps. 1,006,788**	**Ps. 916,567**

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CFO

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GRUPO FINANCIERO BANORTE, S.A.B. DE C.V. AND SUBSIDIARIES
CONSOLIDATED INCOME STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012
(In millions of Mexican pesos)

	2013	**2012**
Interest income	Ps. 69,434	Ps. 64,127
Premium revenue, net	18,027	16,321
Interest expense	(31,456)	(30,874)
Increase in technical reserves	(9,686)	(8,708)
Casualty rate, claims and other contractual obligations, net	(9,138)	(8,057)
NET INTEREST INCOME	**37,181**	**32,809**
Provisions for loan losses	(8,942)	(6,172)
NET INTEREST INCOME AFTER ALLOWANCE FOR LOAN LOSSES	**28,239**	**26,637**
Commission and fee income	12,006	11,539
Commission and fee expense	(3,917)	(3,480)
Brokerage revenues	4,971	4,152
Other operating income (expenses)	3,223	2,300
Non-interest expense	(27,818)	(25,535)
	(11,535)	**(11,024)**
OPERATING INCOME	**16,704**	**15,613**
Equity in earnings of unconsolidated subsidiaries and associated companies	1,130	590
INCOME BEFORE INCOME TAX	**17,834**	**16,203**
Current income tax	(3,671)	(3,653)
Deferred income taxes, net	116	(475)
	(3,555)	**(4,128)**
INCOME BEFORE NONCONTROLLING INTEREST	**14,279**	**12,075**
Minority interest	(771)	(1,187)
NET INCOME	**Ps. 13,508**	**Ps. 10,888**

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, 2013 AND 2012
(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, 2012	**Ps. 13,050**	**Ps. 18,006**	**Ps. 3,224**	**Ps. 30,573**	**Ps. 188**	**(Ps. 2,537)**
TRANSACTIONS APPROVED BY STOCKHOLDERS:						
Issuance (repurchase) of shares	22	314	-	4	(307)	-
Transfer of prior year's result	-	-	-	8,517	-	-
Creation of reserves as per General Stockholders' meeting on April 27, 2012	-	-	175	(175)	-	-
Dividend declared at the General Stockholders' meeting on:						
February 17, 2012	-	-	-	(395)	-	-
April 27, 2012	-	-	-	(419)	-	-
October 11, 2012	-	-	-	(426)	-	-
Total transactions approved by stockholders	**22**	**314**	**175**	**7,106**	**(307)**	**-**
COMPREHENSIVE INCOME:						
Net income	-	-	-	-	-	-
Result from valuation of securities available for sale	-	-	-	-	1,717	-
Effect of subsidiaries, affiliates and mutual funds	-	-	-	(35)	-	-
Result from valuation of instruments for cash flow hedging	-	-	-	-	-	44
Total comprehensive income	**-**	**-**	**-**	**(35)**	**1,717**	**44**
Minority interest	-	-	-	-	-	-
Balances, December 31, 2012	**13,072**	**18,320**	**3,399**	**37,644**	**1,598**	**(2,493)**
TRANSACTIONS APPROVED BY STOCKHOLDERS:						
Issuance of shares	1,566	29,634	-	-	-	-
Transfer of prior year's result	-	-	-	10,888	-	-
Creation of reserves for share repurchase	-	-	2,412	(2,412)	-	-
Share repurchase	14	153	-	(39)	309	-
Dividend declared at the General Stockholders' meeting on October 11, 2012 and paid on:						
January 31, 2013	-	-	-	(426)	-	-
April 23, 2013	-	-	-	(426)	-	-
July 23, 2013	-	-	-	(426)	-	-
Dividend declared at the General Stockholders' meeting on October 14 and December 20, 2013 and paid on:						
October 23, 2013	-	-	-	(544)	-	-
December 31, 2013	-	-	-	(1,089)	-	-
Acquisition of Banorte shares from IFC	-	(3,747)	-	-	-	-
Acquisition of Minority interest of Seguros Banorte Generali & Pensiones Banorte Generali	-	(8,891)	-	-	-	-
Total transactions approved by stockholders	**1,580**	**17,149**	**2,412**	**5,526**	**309**	**-**
COMPREHENSIVE INCOME:						
Net income	-	-	-	-	-	-
Result from valuation of securities available for sale	-	-	-	-	(1,240)	-
Effect of subsidiaries, affiliates and mutual funds	-	(250)	-	5	-	-
Result from valuation of instruments for cash flow hedging	-	-	-	-	-	1,073
Modification in loan rating rules	-	-	-	(3,872)	-	-
Total comprehensive income	**-**	**(250)**	**-**	**(3,867)**	**(1,240)**	**1,073**
Minority interest	-	-	-	-	-	-
Balances, December 31, 2013	**Ps. 14,652**	**Ps. 35,219**	**Ps. 5,811**	**Ps. 39,303**	**Ps. 667**	**(Ps. 1,420)**

These Statements of Changes in Stockholders' 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 Stockholders' 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				
	Cumulative foreign currency translation adjustment	**Net income**	**Total majority interest**	**Total minority interest**	**Total stockholders' equity**
Balances, January 1, 2012	**(Ps. 172)**	**Ps. 8,517**	**Ps. 70,849**	**Ps. 5,585**	**Ps. 76,434**
TRANSACTIONS APPROVED BY STOCKHOLDERS:					
Issuance (repurchase) of shares	-	-	33	-	33
Transfer of prior year's result	-	(8,517)	-	-	-
Creation of reserves as per General Stockholders' meeting on April 27, 2012	-	-	-	-	-
Dividend declared at the General Stockholders' meeting on:					
February 17, 2012	-	-	(395)	-	(395)
April 27, 2012	-	-	(419)	-	(419)
October 11, 2012	-	-	(426)	-	(426)
Total transactions approved by stockholders	**-**	**(8,517)**	**(1,207)**	**-**	**(1,207)**
COMPREHENSIVE INCOME:					
Net income	**-**	10,888	10,888	-	10,888
Result from valuation of securities available for sale	-	-	1,717	-	1,717
Effect of subsidiaries, affiliates and mutual funds	(375)	-	(410)	-	(410)
Result from valuation of instruments for cash flow hedging	-	-	44	-	44
Total comprehensive income	**(375)**	**10,888**	**12,239**	**-**	**12,239**
Minority interest	-	-	-	1,043	1,043
Balances, December 31, 2012	**(547)**	**10,888**	**81,881**	**6,628**	**88,509**
TRANSACTIONS APPROVED BY STOCKHOLDERS:					
Issuance of shares	-	-	31,200	-	31,200
Transfer of prior year's result	-	(10,888)	-	-	-
Creation of reserves for share repurchase	-	-	-	-	-
Share repurchase	-	-	437	-	437
Dividend declared at the General Stockholders' meeting on October 11, 2012 and paid on:					
January 31, 2013	-	-	(426)	-	(426)
April 23, 2013	-	-	(426)	-	(426)
July 23, 2013	-	-	(426)	-	(426)
Dividend declared at the General Stockholders' meeting on October 14 and December 20, 2013 and paid on:					
October 23, 2013	-	-	(544)	-	(544)
December 31, 2009	-	-	(1,089)	-	(1,089)
Acquisition of Banorte shares from IFC	-	-	(3,747)	-	(3,747)
Acquisition of Minority interest of Seguros Banorte Generali & Pensiones Banorte Generali	-	-	(8,891)	(2,340)	(11,231)
Total transactions approved by stockholders	**-**	**(10,888)**	**16,088**	**(2,340)**	**13,748**
COMPREHENSIVE INCOME:					
Net income	**-**	13,508	13,508	-	13,508
Result from valuation of securities available for sale	-	-	(1,240)	-	(1,240)
Effect of subsidiaries, affiliates and mutual funds	(536)	-	(781)	-	(781)
Result from valuation of instruments for cash flow hedging	-	-	1,073	-	1,073
Modification in commercial loan rating rules	-	-	(3,872)	-	(3,872)
Total comprehensive income	**(536)**	**13,508**	**8,688**	**-**	**8,688**
Minority interest	-	-	-	(2,254)	(2,254)
Balances, December 31, 2013	**(Ps. 1,083)**	**Ps. 13,508**	**Ps. 106,657**	**Ps. 2,034**	**Ps. 108,691**

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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, 2013 AND 2012
(In millions of Mexican pesos)

	2013	2012
Net income	**Ps. 13,508**	**Ps. 10,888**
Items not requiring (generating) resources:		
Depreciation and amortization	1,216	1,148
Technical reserves	9,686	8,708
Other provisions	(757)	2,265
Current and deferred income tax	3,555	4,128
Equity in earnings of unconsolidated subsidiaries and associated companies	(359)	597
	26,849	**27,734**
OPERATING ACTIVITIES:		
Changes in margin accounts	437	(244)
Changes in investments in securities	(69,906)	(15,296)
Changes in debtor balances under repurchase and resale agreements	5,492	(1,865)
Changes in asset position of derivatives	3,456	(2,437)
Change in loan portfolio	(26,132)	(51,380)
Changes in acquired collection rights	(412)	450
Changes in accounts receivable from insurance and annuities, net	(396)	69
Changes in debtor premiums, (net)	90	305
Changes in reinsurance agencies (net) (asset)	(847)	(122)
Changes in receivables generated by securitizations	144	(26)
Change in foreclosed assets	156	(692)
Change in other operating assets	(4,526)	(837)
Change in deposits	19,295	55,653
Change in interbank and other loans	(5,829)	474
Change in creditor balances under repurchase and sale agreements	59,991	271
Collateral sold or pledged	(29)	6
Change in liability position of derivative financial instruments	(2,950)	1,861
Change in technical reserves (net)	799	608
Changes in reinsurance agencies (net) (liability)	(46)	(441)
Change in subordinated debentures	(1,457)	2,933
Change in other operating liabilities	(6,046)	4,103
Change in hedging instruments related to operations	(989)	(248)
Income tax	(5,324)	(1,821)
Net cash flows (used in) provided by operating activity	**(8,180)**	**19,058**
INVESTING ACTIVITIES:		
Proceeds on disposal of property, furniture and equipment	2,681	1,335
Payments for acquisition of property, furniture and equipment	(3,939)	(2,798)
Charges on acquisitions of Subsidiaries and associated companies	1,037	-
Payment on acquisitions of Subsidiaries and associated companies	(27,345)	(1,727)
Sale of other permanent investments	(1)	-
Charges for cash Dividends	505	251
Net cash flows used in investment activity	**(27,062)**	**(2,939)**
FINANCING ACTIVITIES:		
Charges for issuance of shares	31,200	-
Dividends paid	(2,911)	(1,240)
Repurchase of shares	437	33
Net cash flow provided by (used in) financing activity	**28,726**	**(1,207)**
Net (decrease) increase in cash and cash equivalents	(6,516)	14,912
Effects from changes in the value of cash and cash equivalents	14	(85)
Cash and cash equivalents at the beginning of the year	68,480	53,653
Cash and cash equivalents at the end of the year	**Ps. 61,978**	**Ps. 68,480**

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

The main activity of the Financial Group's subsidiaries is to carry out financial transactions that include rendering full-banking services, brokerage activities, leasing, factoring, general warehousing services, annuities (pensions) and providing life insurance & casualty insurance, as well as acquiring, disposing of, managing, collecting and, in general, any form of negotiation 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, 2013.

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 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 30, 2014 meeting in accordance with the responsibility assigned to this Organ.

2 – SIGNIFICANT EVENTS DURING THE YEAR

a) Acquisition of Afore Bancomer through Afore XXI Banorte

On January 9, 2013, Afore XXI Banorte finalized the acquisition of Administradora de Fondos para el Retiro Bancomer, S.A. de C.V. (Afore Bancomer) for USD 1,735 million, of which USD 1,600 million corresponds to the price paid by Afore XXI Banorte and USD 135 million corresponds to Afore Bancomer's excess capital.

Of the price paid by Afore XXI Banorte, Banco Mercantil del Norte, S.A., Institucion de Banca Multiple, Grupo Financiero Banorte (Banorte) contributed with 50% of the amount and the Mexican Institute of Social Security (IMSS) contributed with the other 50%. The amount given by Banorte to Afore XXI Banorte to pay Grupo BBVA was Ps. 11,117, using Banorte's available liquid funds. The Financial Group implemented several capital regenerating mechanisms to neutralize the short term impact on Banorte's Capitalization ratio due to this acquisition.

b) Capitalization Ratio Strengthening Measures

As mentioned in subsection a) of this Note, as a result of the purchase of Afore Bancomer, Banorte's pro-forma capitalization ratio, pursuant to Basel III requirements, decreased approximately 13.3% (projected at the close of January 2013). The Financial Group has continued to meet the capitalization levels pursuant to the Commission's rules. However, the Financial Group maintains capitalization levels ample enough to cover its growth, and, therefore it implemented some measures to strengthen its capital ratio.

As part of the aforementioned measures, the General Stockholders' Meeting, held on February 14, 2013, agreed to raise Banorte's shareholders' equity by Ps. 10,200. This capital was subscribed by the Financial Group with funds obtained by engaging a loan with other financial intermediaries, as per the authorizations granted by Banco de Mexico in Official Document No. S33-001-8078 dated February 14, 2013 and by the Commission's Document No. 312-3/12664/2013 dated March 12, 2013.

The entire amount of the loan, i.e. USD 800 –approximately Ps. 10,200 at the exchange rate in effect at the time- was used by the Financial Group to purchase Afore Bancomer. The term of the loan was for 364 days at a 3-month LIBOR rate plus 0.80% (equivalent to TIIE -0.02% - considering the benefit of the coverage engaged to cover the exchange rate and interest rate risks that may arise from such operation).

In February 2013, Afore XXI Banorte declared a payment of dividends of Ps. 950 and a Ps. 2,000 reduction in capital; resulting in a positive impact for Banorte of Ps. 1,475 to strengthen its capital ratios.

On July 26, 2013, the Financial Group paid the total amount of this syndicated loan. The funds for such payment were obtained in the Primary Global Equity Offering mentioned later in this Note.

As a result of the above initiatives, Banorte's ICAP was 15.12% as of December 31, 2013.

c) Mergers and Spin-offs

On December 19, 2012, the Financial Group submitted a request to the Commission and the Ministry of Finance and Public Credit (SHCP) for their authorization to implement a disinvestment plan by which Banorte would withdraw its investment in Solida Administradora de Portafolios, S.A. de C.V. (Solida) and simultaneously carry out the merger of Banorte as the acquiring company with Ixe Banco, S.A, Institucion de Banca Multiple, Grupo Financiero Banorte (Ixe Banco) and Fincasa Hipotecaria, S.A. de C.V. Sociedad Financiera de Objeto Multiple, Entidad Regulada, Grupo Financiero Banorte (Fincasa) as the acquired corporations.

The spin-off and mergers were authorized by the Commission in Document No. 210-27564/2013 dated April 15, 2013 to become effective on May 24, 2013; and by Banco de Mexico in Document No. S33-001-8665 dated May 7, 2013.

As part of this corporate restructuring process, in the General Stockholders' Meeting held on April 26, 2013, Banorte's stockholders approved the disinvestment of its share in Solida by means of a spin-off, and the subsequent merger of Ixe Soluciones, S.A. de C.V., Sociedad Financiera de Objeto Multiple, Entidad Regulada, Grupo Financiero Banorte (Ixe Soluciones). After this merger, Ixe Soluciones changed its company name to Solida Administradora de Portafolios, S.A. de C.V., Sociedad Financiera de Objeto Multiple, Entidad Regulada, Grupo Financiero Banorte (Solida). The merger became effective on May 24, 2013.

The approved disinvestment plan was made as per the following terms:

(i) Spin off Banorte, creating a new corporation (the Spun-off Corporation); leaving Banorte as the spinning-off company to continue carrying out the activities reserved to full-service banking institutions (the Spin-off).

(ii) As a result of the Spin-off, Banorte's assets, consisting of all of Solida's capital stock shares, were invested in the Spun-off Company.

(iii) A merger was conducted of the Spun-off Company, as the acquired corporation, with Solida, the acquiring company, by which the latter assumed the rights and obligation of the former; and

(iv) Solida, as the acquired corporation, was merged with Ixe Soluciones (the acquiring corporation), by which the latter assumed the rights and obligations of the former.

On August 14, 2012, the Financial Group submitted to the Commission and the Ministry of Finance and Public Credit (SHCP) its request for their authorization for the merger of Ixe Automotriz, S.A. de C.V., Sociedad Financiera de Objeto Multiple, E.R. Grupo Financiero Banorte (Ixe Automotriz) as the acquired company, with Arrendadora y Factor Banorte, S.A. de C.V, Sociedad Financiera de Objeto Multiple, Entidad Regulada, Grupo Financiero Banorte as the acquiring corporation.

The Ministry of Finance and Public Credit (SHCP) gave its authorization in Document No. UBVA\DGABV\015\2013 dated May 7, 2013, to become effective on May 1, 2013.

d) Payment in Full of the Permanent Subordinated Debenture

In August 2013, Banorte exercised its right to the option of payment in full of the Non-Preferred, Non-Cumulative Callable Perpetual Subordinated Debenture (as of February 2012) for USD 120 million, registered on the Luxemburg Stock Exchange. This debt was issued on February 26, 2007 by Ixe Banco, S.A., and given the Ixe Banco – Banorte merger in May, Banorte assumed each and every one of the obligations derived thereof.

e) Primary global stock offer

With the Board of Directors and Stockholders' Meeting's authorization on July 3, 2013, the Financial Group determined the pricing of its primary global offering. The number of subscribed shares in this offer was 389,018,940 at Ps. 71.50/share, for a total of Ps. 27,815 million, approximately USD 2,183 million, excluding the over-allotment option.

Furthermore, on July 19, 2013, the domestic and international underwriters announced their intention to exercise fully the over-allotment options granted by the Financial Group by acquiring 58,352,841 additional ordinary shares.

All the shares in the offer were paid on July 22, 2013. The funds obtained from the offering of 447,371,781 ordinary shares, equivalent to Ps. 31,987 or approximately USD 2,500 million, were delivered fully to the Financial Group, deducting the expenses involved in the offer itself.

f) Acquisition of Assicurazioni Generali's minority interest in Insurance and Annuities

Based on the binding agreement on October 4, 2013, the Financial Group acquired the minority interest of the equity representative common shares of Seguros Banorte Generali, S.A. de C.V. (Seguros Banorte Generali) and Pensiones Banorte Generali, S.A. de C.V. (Pensiones Banorte Generali), held by Assicurazioni General S.P.A. (Grupo Generali), who owned 49% of the shares in each company. The Federal Competition Commission (CFC) issued no objection to this operation as per Document SE-10-096-2013-483 dated August 7, 2013. The Ministry of Finance and Public Credit (SHCP) made known its acquiescence by means of Document number 366-III-574/13, issued on September 24, 2013.

The total amount of the operation was USD 858 million, USD 637 million for the purchase of Seguros Banorte Generali and USD 221 million for the acquisition of Pensiones Banorte Generali.

The book value of the minority interest in both companies was USD 178 million; therefore the surplus price paid was USD 680 million, recorded as a share sales premium within stockholders equity, as it was a transaction between stockholders.

g) Purchase of the stake of International Finance Corporation (IFC) in Banorte and in the Financial Group

In March 2013, the Financial Group signed an agreement with IFC to liquidate the capital investment made in Banorte in November 2009.

The Financial Group made an initial cash payment of Ps. 2, 135, funded through the dividends paid by its subsidiaries. Moreover, on December 6, 2013, the Financial Group paid off to IFC its stake, equivalent to

54,364,887 shares of the Financial Group, with a cash payment amounting to Ps. 4,349 with proceeds from the Global Public Offering held in July 2013; thereby the IFC does not longer have any patrimonial interest in the Financial Group or any of its subsidiaries.

h) Loans in the home development sector

The Financial Group has granted loans to three of the major home developers in the country that are undergoing through financial difficulties. Currently, they are in process of restructuring their debt and have failed making their payments. This situation has deteriorated the risk profile of these three debtors. Currently, the Financial Group, along with other loan institutions, are negotiating refinancing options.

As of December 31, 2013, the Financial Group's loans to these companies totals Ps. 8,712, which represents 2% of the total loan portfolio, of which Ps. 6,995 are past-due. Of the total loans 73% are guaranteed.

As explained in Note 4, the regulating methodologies to rate these types of loans, dictate that the provisions for such loans be determined based on the estimated regulatory loss over the next twelve months.

Additionally, the Financial Group has Ps. 9,175 in investment and land projects and includes Ps. 553 in collection rights.

i) Tax reform

As explained in Note 29, on November 1, 2013, the Union Congress passed several amendments to the tax laws that became effective in January 2014. These amendments include changes in the Income Tax Law, Added Value Law, and the Tax Code. Furthermore, the Business Flat Tax Law and the Cash Deposit Tax Law were repealed.

3 – BASIS OF PRESENTATION

Monetary unit of the consolidated financial statements

The consolidated financial statements and notes as of December 31, 2013 and 2012 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, 2013 and 2012, Grupo Financiero Banorte, S.A.B. de C.V.'s consolidated subsidiaries and its equity ownership is as follows:

	2013	2012
Banco Mercantil del Norte, S.A. and Subsidiaries	97.50%	92.72%
Arrendadora y Factor Banorte, S.A. de C.V. SOFOM, ER	99.99%	99.99%
Almacenadora Banorte, S.A. de C.V.	99.99%	99.99%
Seguros Banorte Generali, S.A. de C.V.	99.99%	51.00%
Pensiones Banorte Generali, S.A. de C.V.	99.99%	51.00%
Ixe Banco, S.A.*	-	99.99%
Casa de Bolsa Banorte Ixe, S.A. de C.V. (formerly Ixe Casa de Bolsa)	99.99%	99.99%
Operadora de Fondos Banorte Ixe (formerly Ixe Fondos)	99.99%	99.99%
Ixe Servicios, S.A. de C.V.	99.99%	99.99%
Ixe Automotriz, S.A. de C.V. SOFOM, ER and Subsidiary*	-	99.99%
Fincasa Hipotecaria, S.A. de C.V. SOFOM, ER and Subsidiary*	-	99.99%
Solida Administradora de Portafolios, S.A. de C.V., SOFOM ER (formerly Ixe Soluciones)	96.76%	99.99%

* Subsidiary merged in May 2013 as detailed in Note 2.

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

In order to consolidate the financial statements of Banorte USA, 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 assets and liabilities, b) historical rate for stockholders' equity, and c) weighted average rate of the period for income, costs and expenses. The conversion effects are presented in the Financial Group's stockholders' equity.

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 2013 and 2012, 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 cumulative conversion effect; the result from valuation of cash flow hedging instruments; and the change in credit card loan rating methodology.

4 – SIGNIFICANT ACCOUNTING POLICIES

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

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

Changes in accounting policies

As of January 1, 2013, the Financial Group adopted changes regarding the following NIFs:

NIF B-8, Consolidated or combined financial statements
NIFC-7, Associated investments, joint businesses and other permanent investments

At the date these financial statements were issued, these new standards had no effect on the Financial Group's financial information.

INIF 20, Accounting effects from the 2014 Tax Reform.

It specifically has to do with the accounting registration of the items included in the Tax Reforms that became effective in 2014 and are related to profit taxes and PTU.

On July 5, 2012, the Official Gazette of the Federation published the Resolution that modifies the General Provisions Applicable to Banking Institutions (the Provisions) regarding the updating of accounting criteria B-10 "Trusts" (B-10) and C-5 "Consolidation of Entities with a Specific Purpose" (C-5).

The main changes to criteria B-10 are that the valuation of the property held in trust recognized in memorandum accounts will be made pursuant to the accounting criteria for banking institutions except in the case of property held in trust of the trusts that so request it, and, if applicable, obtain and maintain their assets recorded in the National Securities Registry; in which case, said assets shall be valued based on the accounting standards the Commission establishes for such purpose in its general provisions applicable to securities issuers and other stock market participants.

The main changes to Circular C-5 state that for the consolidation of the Specific Purpose Entity (EPE), the consolidating entity shall abide by the stipulations of NIF B-8 "Consolidated or combined financial statements"; therefore the EPE's financial statements to consolidate shall be drawn up based on the same accounting criteria and, in the case of transactions of the same nature, the same accounting policies as the consolidating entity. In the opposite case or when the Commission expressly provides, the EPE shall use the accounting criteria or policies different from those applicable to the consolidating entity. The EPE's financial statements that are used for the consolidation shall be modified to make them consistent with those of the consolidating entity.

Recognition of the effects of inflation in the 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 2013 and 2012 was 12.31% and 12.12%, respectively. Therefore, the Mexican economy is considered as non-inflationary, for both years. However, assets, liabilities and stockholders' equity as of December 31, 2013 and 2012 include the restatement effects recorded up until December 31, 2007.

The Mexican inflation rates for the years ended December 31, 2013 and 2012 were 3.78% and 3.91%, 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 Mexico at the Consolidated Balance Sheet date.

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.

In an inflationary situation, the result of the monetary position corresponding to the valuation result of securities available for sale is recorded in other comprehensive income in stockholders' equity.

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.

Derived from the December 2012 reclassification and according to the Commission's criteria B-2, "Investments in Securities", Banorte may not classify securities acquired as of that date and up to December 31, 2014 in the category of securities held to maturity.

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 Sheets 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 Mexico to enter into these types of transactions. Regarding corporate customers, a preauthorized credit line by National Credit Committee must be granted or liquid guarantees must be given through a securitized collateral contract before entering into these types of transactions. Medium and small sized companies and individuals must provide liquid guarantees established in securitized collateral contracts with this type of transactions.

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

Forward and futures contracts

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

The derivatives are presented in a specific item of the assets or liability depending on whether their fair value (as a consequence of the rights and/or obligations it establishes) corresponds to the debtor balance or creditor balance

Such debtor or creditor balances in the Consolidated Balance Sheets are offset when the Financial Group has the contractual right to offset the stated amount, the intention of liquidating the net amount or to realize the asset and cancel the liability simultaneously.

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

Option contracts

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

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

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

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

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

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

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

Swaps

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

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

Management's risk policies regarding hedging contracts to protect the Financial Group's Consolidated Balance Sheets is 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 hedging transactions based on the following guidelines:

- A cash flow hedging transaction is recorded as follows:

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.

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 of the CNBV. 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 discounts 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 and, 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.

In the case of consumer mortgage and commercial loans (excluding loans to financial intermediaries), the Financial Group 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. The Financial Group uses the internal methodology authorized by the Commission for rating commercial loans to financial intermediaries.

On June 24, 2013, the Commission issued changes to commercial loan rating Provisions (excluding loans to financial intermediaries). 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 rating and calculating the allowance for each type of loan, whereas also allowing credit institutions to classify and calculate allowances based on internal methodologies, when previously approved by the Commission.

Since June 2001, the Financial Group has the Commission's approval to apply its own methodology to commercial loans, called Internal Risk Classification (CIR Banorte). CIR Banorte applies to commercial loans to financial intermediaries with balances equal to or greater than 4 million UDIS or its equivalent in Mexican pesos, and was applied to all the commercial loans (except those granted to State and Municipal Governments and loans intended for investment projects having their own source of payment) up to June 29, 2013. Thereafter, the Financial Group adopted the aforementioned changes in Provisions. Loan classification and reserve allowance are determined based on the rules set by the Commission. This methodology is explained below.

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.

On July 25, 2013, the Commission issued Document 111-1/16294/2013, which renewed for a 6-month period, effective as of July 1, 2013, the authorization for such internal commercial loan rating methodology applicable to loans to financial intermediaries.

Commercial loans granted to financial intermediaries equal to or greater than 4 million UDIS or its equivalent in Mexican pesos are rated based on the following criteria:

- Debtor's credit quality
- The loans, in relation to the value of the guarantees or the value of the assets in trusts or in "structured" programs, as applicable.

The commercial loan segment includes loans granted to business groups and corporations, state and municipal governments and their decentralized agencies, as well as financing to companies of the financial services sector.

The Financial Group applied the internal risk classification methodology, CIR Banorte, authorized by the Commission, to rate debtors in loans to financial intermediaries; whereas for the rest of the commercial loans the Financial Group applied the procedure established by the Commission

When evaluating a debtor's credit quality with the CIR Banorte method, the following risks and payment experiences are classified specifically and independently:

Risk criteria	Risk factors
1. Financial risk	1. Financial structure and payment capacity
	2. Financing sources
	3. Management and decision-making
	4. Quality and timeliness of financial information
2. Industry risk	5. Positioning and market in which debtor participates
	- - Target markets
	- - Risk acceptance criteria
3. Borrower's experience	6. Borrower's experience
4. Country risk	7. Country risk

Each of the risk factors is analyzed using descriptive evaluation tables, the result of which indicates the borrower's rating. This, in turn, is standardized with the risk degrees established by the Commission.

CIR Banorte	Risk level description	Commission classification equivalent
1	Substantially risk free	A1
2	Below minimal risk	A2
3	Minimum risk	A2
4	Low risk	B1
5	Moderate risk	B2
6	Average risk	B3
7	Risk requiring management attention	C1
8	Potential partial loss	C2
9	High loss percentage	D
10	Total loss	E

For commercial loans below 4 million UDIS or its equivalent in Mexican pesos to financial intermediaries, the

Financial Group applied the general provisions applicable to credit institutions for rating the loan portfolio as issued by the Commission.

General description of rules established by the Commission

The 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 that the estimate of such loss evaluates the probability of 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 of 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

- Non-revolving consumer loan – depends on the number of outstanding payments.
- 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 that non-compliance is considered.

The Commission's rules for rating commercial loan debtors in loans to financial intermediaries, with commitments under 4 million UDIS or the equivalent in Mexican pesos, indicated that the rating should be based on the number of months elapsed as of the first default and, if applicable, the actual and personal guarantees received.

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 be done by analyzing the risk of projects in the construction stage and operation evaluating the work's over-cost and the project's cash flows.

Acquired loan portfolios

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, net

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.

On December 31, 2013, 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, 2013, the premiums over 45 days old that have not been cancelled amounted to Ps. 457. 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.

Securitizations 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.

Merchandise inventory

This is comprised mainly of corn, wheat and steel, 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, 2013, 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 (ISR), Business Flat Tax (IETU) and Employee Statutory Profit-Sharing (PTU)

The provisions for ISR, IETU and PTU are recorded in the results of the year in which they are incurred. Deferred taxes are recognized if, based on financial projections, the Financial Group expects to incur ISR or IETU, and records the deferred tax it will pay. The Financial Group will record deferred ISR or IETU, corresponding to the tax it will pay. 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.

As explained in Note 29, on December 11, 2013, the decree was published reforming, adding and repealing various provisions of the Income Tax Law that went into effect on January 1, 2014. Other provisions were established through which the income tax rate for 2014 will be 30% and the Business Flat Tax Law was repealed.

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 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, 2013 and 2012.

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

The CNSF 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 the Financial Group on December 31, 2013 are reasonably acceptable based on their obligations, within the parameters established by the actuary, 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 7 “Technical Reserves” in the Insurance Circular published in the DOF on December 13, 2010.

1) Current risk reserve:

The determination of reserves for life insurance transactions is performed according to actuarial formulas considering the characteristics of the policies in effect, which were reviewed and approved by the CNSF.

To value these technical reserves, the following demographic suppositions were used:

- For individual life insurance - Mexican experience study 91-98 CNSF 2000-1.
- For group life insurance - Mexican experience study 91-98 CNSF 2000-G.

The current risk reserve is valued as per the following:

I) Life insurance policy in effect for one year or less:

The value of future obligations for the payment of claims and benefits derived from the policies in effect is determined using the valuation method registered at the CNSF and, if applicable, the value of expected future revenues from net premiums is subtracted. This value is compared with the non-accrued risk premium of the policies in effect in order to obtain the sufficiency factor that will be applied to calculate the current risk reserve in each type of insurance policy operated by the Financial Group.

This reserve is obtained by multiplying the non-accrued risk premium of the policies in effect by the corresponding sufficiency factor. Under no circumstances can the sufficiency factor be less than one. Additionally, the current risk reserve is added to the non-accrued portion of administrative expenses.

The allowance for administrative expenses is calculated as the non-accrued part that corresponds to the portion of the annual premium of the policies in effect at the time of the valuation. The administrative expenses percentages established in the technical notes of each plan are used, both in the case of individual life insurance and for each policy in effect.

II) Life insurance policies in effect for over one year:

The current risk reserve is evaluated according to the actuarial method to determine the minimum reserve amount, only if this method renders an amount greater than the sufficiency method recorded in the technical note authorized by the CNSF.

For insurance policies over one year old, and in the specific case in which the premium payment period is less than the number of years the policy will be in effect, the amount of the balanced administration expense expected to be incurred each year that the policies are in effect is determined by subtracting the current administrative expense value from the expected premiums. The provision is determined by accruing administrative expense amounts that were deducted from the premiums, reduced from administration expenses.

The current risk reserves of the policies in effect for accident, health and damage insurance are determined as follows:

Such reserves are recorded and valued by applying the actuarial methods based on the generally accepted standards that the Financial Group had already registered before the CNSF pursuant to the latter's general provisions issued for such purposes.

This reserve represents the amount of the non-accrued premium minus the relative acquisition costs, and will serve to fulfill any possible obligations the Financial Group might face given the stand-alone risk of the policies in effect, considering the sufficiency factor and the administrative expenses.

To determine the sufficiency factor, a comparison will be made between the expected value of future claims and benefits payments, according to the valuation method registered before the CNSF, and the non-accrued risk premium of the policies in effect.

The Financial Group has recorded before the CNSF, in a technical note that specifies the actuarial methods which will constitute and value the current risk reserve on a monthly basis for damage, accident and health policies.

For earthquake and/or volcanic eruption risk coverage, the current risk reserve is calculated with 100% of the withheld risk premium in effect.

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 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.

f) Reserve for claims pending valuation – This reserve corresponds to the expected value of future payments of damage, accident, and health claims that were reported during the year in question or prior years that may be paid in the future. The exact amount of such claims is unknown because there is either no valuation on them or the possibility of future additional payments derived from a previously valued claim.

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 a defined contribution pension plan. 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".

The 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.

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 Mexico. 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.

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 grated to clients that not disposed.

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

Casa de Bolsa Banorte Ixe

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.

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.

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 Sheets, 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-Generali

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 income at the time of issuance except for the policies that the Insurer agrees with the insured, where the right policy is fractionated 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.

Solida 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.

5 - CASH AND CASH EQUIVALENTS

As of December 31, 2013 and 2012, this line item was composed as follows:

	2013	2012
Cash	Ps. 15,848	Ps. 15,190
Banks	45,955	44,911
Other deposits and available funds	175	8,379
	Ps. 61,978	**Ps. 68,480**

"Banks" is represented by cash in Mexican pesos and US dollars converted at the exchange rate issued by Banco de Mexico of Ps. 13.0843 and Ps. 12.9658 as of December 31, 2013 and 2012, respectively, and is made up as follows:

	Mexican pesos		Denominated in US dollars		Total	
	2013	2012	2013	2012	2013	2012
Call money	Ps. 5,998	Ps. 6,101	Ps. 3,794	Ps. 8,946	Ps. 9,792	Ps. 15,047
Deposits with foreign credit institutions	-	-	7,236	432	7,236	432
Domestic banks	227	517	-	-	227	517
Banco de Mexico	28,581	28,598	119	317	28,700	28,915
	Ps. 34,806	**Ps. 35,216**	**Ps.11,149**	**Ps. 9,695**	**Ps. 45,955**	**Ps. 44,911**

As of December 31, 2013 and 2012, the Financial Group had made monetary regulation deposits of Ps. 28,581 and Ps. 28,598, respectively.

As of December 31, 2013 and 2012, the total sum of restricted cash and cash equivalents is Ps 39,510 and Ps 52,028, respectively. This includes monetary regulation deposits, futures placed in the domestic and foreign market, call money and contracted transactions pending settlement in 24 and 48 hours.

The interbank loans are documented and accrued at an average rate of return of 0.432% and 0.446% in USD and 0.25% and 0.20% in pesos, as of December 31, 2013 and 2012, respectively.

On December 31, 2013, “Other deposits and available funds” include Ps. 28 in gold and silver coins, Ps. 120 immediately collectible checks pending liquidation in a 3-day period, and Ps. 27 in remittances. In 2012, it includes Ps. 6,670 for funds due to be received in 24 and 48 hours, Ps. 49 in gold and silver coins, Ps. 59 immediately collectible checks pending liquidation in a 3-day period, and Ps. 6 in remittances.

The exchange rates used for the conversion of gold and silver coins (Centenarios and Troy ounces, respectively) was Ps. 387.622 and Ps. 274.77, per unit, respectively, in 2013; and Ps. 528.572 and Ps. 410.37, per unit, respectively, in 2012.

6 - INVESTMENTS IN SECURITIES

a. Trading securities

As of December 31, 2013 and 2012, trading securities are as follows:

	2013				2012
	Acquisition cost	**Accrued interest**	**Valuation increase (decrease)**	**Book value**	**Book value**
CETES	Ps. 2,722	Ps. 3	Ps. -	Ps. 2,725	Ps. 4,177
Bonds	8,705	19	(10)	8,714	64,137
Development Bonds	72,259	120	35	72,414	4,483
Savings Protection Bonds (BPAS)	111,547	783	(80)	112,250	21,023
UDIBONOS	4,991	9	(6)	4,994	1,163
Negotiable certificates	-	-	-	-	487
Bank securities	5,537	8	12	5,557	8,697
EUROBONDS	217	2	5	224	333
Securitization certificates	23,289	33	13	23,335	18,102
Treasury notes	64	-	-	64	4
Other securities	1,871	4	(2)	1,873	109
Shares	-	-	-	-	409
Investment funds	828	-	(52)	776	109
	Ps. 232,030	**Ps. 981**	**(Ps. 85)**	**Ps. 232,926**	**Ps. 123,233**

During 2013 and 2012, the Financial Group recognized under “Brokerage Revenues” a profit of Ps. 1,401 and Ps. 1,360, respectively, for the fair value valuation of these instruments.

As of December 31, 2013 and 2012, there are Ps. 228,270 and Ps. 111,894, respectively, in restricted trading securities associated mainly with repurchase operations.

b. Securities available for sale

As of December 31, 2013 and 2012, securities available for sale were as follows:

	2013				2012
	Acquisition cost	**Accrued interest**	**Valuation increase (decrease)**	**Book value**	**Book value**
US Government Bonds	Ps. 10,018	Ps. 27	(Ps. 453)	Ps. 9,592	Ps. 14,057
CETES	412	-	-	412	-
Bonds	606	1	(61)	546	7,132
Development Bonds	3,472	9	(1)	3,480	26,305
Savings Protection Bonds (BPAS)	43,146	337	51	43,534	35,784
Bank securities	232	-	(24)	208	1,831
Shares	234	-	190	424	-
Corporate bonds	102	2	3	107	1,313
EUROBONDS	11,696	253	418	12,367	10,216
Investment funds	6,936	-	340	7,276	8,518
Securitization certificates	7,099	22	(104)	7,017	9,363
Other securities	58	-	10	68	772
	Ps. 84,011	**Ps. 651**	**Ps. 369**	**Ps. 85,031**	**Ps. 115,291**

As of December 31, 2013 and 2012 there are Ps 64,590 and Ps 78,024, respectively, in restricted securities available for sale, mainly associated with securities repurchasing transactions.

c. Securities held to maturity

As of December 31, 2013 and 2012, securities held to maturity are as follows:

Medium and long-term debt instruments:

	2013			2012
	Acquisition cost	**Accrued interest**	**Book value**	**Book value**
Government bonds- support program for Special Federal Treasury Certificates	Ps. 860	Ps. -	Ps. 860	Ps. 828
Bonds	2,416	7	2,423	969
Development Bonds	398	1	399	1,305
CETES	99	1	100	1
Savings Protection Bonds (BPAS)	20,837	116	20,953	40,479
UDIBONOS	42,309	53	42,362	32,777
Bank securities	3,984	940	4,924	4,930
EUROBONDS	771	15	786	784
Securitization certificates	22,636	481	23,117	24,709
Other securities	804	2	806	68
	Ps. 95,114	**Ps. 1,616**	**Ps. 96,730**	**Ps. 106,850**

As of December 31, 2013 and 2012, there are Ps. 30,988 and Ps. 35,351, respectively, in restricted trading securities associated mainly with repurchase operations.

As of December 31, 2013, the maturities of the securities (expressed at their acquisition cost), are as follows:

	One year or less	More than one and up to 5 years	More than 5 and up to 10 years	More than 10 years	Total
Government bonds-support program for Special Federal Treasury Certificates	Ps. -	Ps. -	Ps. -	Ps. 860	Ps. 860
Bonds	200	1,869	58	289	2,416
Development Bonds	-	398	-	-	398
CETES	99	-	-	-	99
Saving Protection Bonds (BPAS)	17,555	3,281	-	-	20,836
UDIBONOS	102	-	-	42,207	42,309
Bank securities	1,694	618	1,157	516	3,985
EUROBONDS	-	65	677	29	771
Securitization certificates	2,035	5,705	1,155	13,741	22,636
Other securities	299	468	-	37	804
	Ps. 21,984	**Ps. 12,404**	**Ps. 3,047**	**Ps. 57,679**	**Ps. 95,114**

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, 2013 and 2012 were as follows:

		2013		
		Fair value in millions		
Type of collateral:	**Instrument category**	**Pesos**	**Denominated in US dollars**	**Euros**
Cash	-	Ps. -	306	-
UMS	Available for sale	-	30	6
PEMEX bonds	Available for sale	-	145	128
		Ps. -	**481**	**134**

		2012		
		Fair value in millions		
Type of collateral:	**Instrument category**	**Pesos**	**Denominated in US dollars**	**Euros**
Cash	-	Ps. 136	337	-
PEMEX bonds	Held to maturity	-	25	-
PEMEX bonds	Available for sale	-	53	45
		Ps. 136	**415**	**45**

As of December 31, 2013 and 2012, the Financial Group had no securities received as collateral.

As of December 2013 and 2012, interest income amounted to Ps. 16,436 and Ps. 14,125, respectively.

Concept	2013	2012
Trading securities	Ps. 10,364	Ps. 7,663
Securities available for sale	3,919	2,919
Securities held to maturity	2,153	Ps. 3,543
	Ps. 16,436	**Ps. 14,125**

e. Impaired Securities

The objective evidence that a security 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.

The amount recorded for the impairment of securities available for sale and held to maturity as of December 31, 2013 and 2012 was:

Concept	2013	2012
Securities available for sale	Ps. 16	Ps. -
Securities held to maturity	25	121
	Ps. 41	**Ps. 121**

During 2013 and 2012, accrued interest income from impaired instruments was Ps. 2 and Ps. 2, respectively.

7 - CREDITOR BALANCES UNDER REPURCHASE AND RESALE AGREEMENTS

As of December 31, 2013 and 2012, the creditor balance in repurchase transactions consist of:

Acting as seller of securities

Instrument	2013	2012
CETES	Ps. 1,543	Ps. 2,288
Development Bonds	73,697	47,830
Bonds IPAB	24,538	5,786
Quarterly IPAB bonds	88,168	79,258
Semi-annual IPAB bonds	56,584	54,401
10-year bonds	-	224
20-year bonds	8,745	9,929
UDIBONOS	4,821	774
10-year UDIBONDS	-	100
Negotiable CEBUR	-	5,948
Government securities	**258,096**	**206,538**
Promissory Notes	307	572
CEDES	2,670	5,214
Bank bonds	-	-
CEBUR Bank	22,043	21,084
Bank securities	**25,020**	**26,870**
Private paper	-	6,563
Short-term CEBUR	20,820	4,060
Mortgage certificates	85	-
Private securities	**20,905**	**10,623**
	Ps. 304,021	**Ps. 244,031**

With the Financial Group acting as the vendor, accrued premiums were charged to the results of operations as of December 31, 2013 and 2012 totaled Ps. 16,583 and Ps. 15,499, respectively, which are presented in the “Interest Expenses” heading.

During 2013, 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	2013 Repurchase agreement from debtors	2013 Received, sold collateral in repurchase	2013 Debit difference	2013 Credit difference	2012 Repurchase agreement from debtors	2012 Received, sold collateral in repurchase	2012 Debit difference	2012 Credit difference
CETES	Ps. 2,000	Ps. 2,000	Ps. -	Ps. -	Ps. -	Ps. -	Ps. -	Ps. -
Development Bonds	10,642	10,642	-	-	4,756	4,756	-	-
Bonds IPAB	8,167	8,167	-	-	9,446	9,446	-	-
Quarterly IPAB bonds	34,628	34,428	200	-	18,925	18,925	-	-
Semi-annual IPAB bonds	11,582	11,582	-	-	16,548	10,859	5,689	-
UDIBONOS	-	-	-	-	581	581	-	-
10-year bonds	-	-	-		194	194	-	-
20-year bonds	500	500	-	-	-	-	-	-
Government securities	**67,519**	**67,319**	**200**	**-**	**50,450**	**44,761**	**5,689**	**-**
CEDES	100	100	-	-	701	701	-	-
Bank bonds	-	-	-	-	70	70	-	-
Securitized bank certificates	10	10	-	-	5,270	5,275	-	5
Bank securities	**110**	**110**	**-**	**-**	**6,041**	**6,046**	**-**	**5**
Private paper	-	-	-	-	1,025	1,040	-	15
Short-term CEBUR	5,145	5,151	2	8	3,272	3,283	5	16
Private securities	**5,145**	**5,151**	**2**	**8**	**4,297**	**4,323**	**5**	**31**
	Ps. 72,774	**Ps. 72,580**	**Ps. 202**	**Ps. 8**	**Ps. 60,788**	**Ps. 55,130**	**Ps. 5,695**	**Ps. 36**

With the Financial Group acting as the purchaser, accrued premiums charged to the results of operations as of December 31, 2013 totaled 2012 for Ps. 5,417 and Ps. 6,206, respectively, which are presented in the "Interest Income" heading.

During 2013, repurchase transactions carried out by the Financial Group in its capacity as purchaser ranged in term from 1 to 364 days

By December 31, 2013, the amount of securities corresponding to guarantees granted and received in repurchase transactions that involved the transfer of property totaled Ps. 305,749 and Ps. 143,033, respectively, and by December 31, 2012, the totals were Ps. 263,453 in guarantees granted and Ps. 113,194 in guarantees received.

8 - DERIVATIVE FINANCIAL INSTRUMENTS

The 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, 2013, 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, 2013 and 2012, the Financial Group's derivatives positions held for trading purposes are as follows

Asset position	2013	2012
Futures		
TIIE-rate futures	Ps. -	Ps. 3
Forwards		
Foreign currency forwards	144	152
Options		
Foreign currency options	1	-
Interest rate options	542	599
Swaps		
Interest rate swaps	12,784	15,682
Exchange rate swaps	1,328	1,629
Total trading	**14,799**	**18,065**
Options		
Interest rate options	1	6
Swaps		
Interest rate swaps	53	-
Exchange rate swaps	1	195
Total hedging	**55**	**201**
Total position	**Ps. 14,854**	**Ps. 18,266**

Liability position	2013	2012
Futures		
TIIE-rate futures	Ps. -	Ps. 5
Forwards		
Foreign currency forwards	96	137
Options		
Foreign currency options	5	-
Interest rate options	365	396
Swaps		
Interest rate swaps	12,794	15,599
Exchange rate swaps	1,567	1,495
Total trading	**14,827**	**17,632**
Swaps		
Interest rate swaps	1,665	2,642
Exchange rate swaps	1,835	1,964
Total hedging	**3,500**	**4,606**
Total position	**Ps. 18,327**	**22,238**

The following are notional bonds in different currencies, depending on the type of product, by December 31, 2013:

Trading Instruments

Instrument	MXN	USD	EUR
TIIE-rate futures	Ps. 39,753	$-	$-
Foreign currency forwards	25,288	1,928	2
Foreign currency options	499	-	-
Interest rate options	132,664	256	-
Foreign currency swaps (receiving leg)	18,398	994	20
Foreign currency swaps (paying leg)	12,339	1,468	20
Interest rate swaps (receiving leg)	840,093	10,402	-
Interest rate swaps (paying leg)	840,093	10,402	-

Hedging Instruments

Instrument	MXN	USD	EUR
Interest rate options	Ps. 9,750	$-	$-
Foreign currency swaps (receiving leg)	8,062	70	-
Foreign currency swaps (paying leg)	868	541	114
Interest rate swaps (receiving leg)	29,422	-	-
Interest rate swaps (paying leg)	29,422	-	-

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 2014 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, 2013 is USD 415,000 thousand and EUR 45,000 thousand, and as of December 31, 2012 it was USD 415,000 thousand and EUR 45,000 thousand. Futures transactions are made through recognized markets, and as of December 31, 2013 they represent 5% of the nominal amount of all the derivatives' operations contracts; the remaining 95% correspond to option and swap transactions in OTC markets.

As of December 31, 2013 and 2012, the collateral was comprised mainly of cash, CETES, ITS BPAS, PEMEX bonds, UMS bonds and bank bonds restricted under the categories of trading, held to maturity and securities available for sale. The restriction maturity date for this collateral is from 2013 to 2031. Their fair value is shown in Note 6 d).

As of December 31, 2013 and 2012, the Financial Group had no instruments received as collateral in derivative transactions.

During 2013 and 2012, the net earnings from the valuation and realization of derivative financial instruments were Ps. (792) and Ps. 496, 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. 40.

As of December 31, 2013 and 2012, the main positions hedged by the Financial Group and the derivatives designated to cover such positions are:

Cash flow hedging

The Financial Group has cash flows hedges as follows:

- Forecast funding using TIIE rate, Caps and Swaps.
- Recorded liabilities in Mexican pesos using TIIE rate Swaps.

- Recorded assets in foreign currency using Cross Currency Swaps.
- Recorded liabilities in foreign currency using Cross Currency Swaps.

As of December 31, 2013, there are 44 hedge files related to hedging transactions. Their effectiveness ranges between 85% 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, 2013, 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, 2013, 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
Forecast Funding	Ps. 1,429	Ps. 4,304	Ps. 10,422	Ps. 1,894
Liabilities denominated in UDIs	23	8	-	-
Assets denominated in USD	8	28	126	51
Liabilities denominated in USD	556	240	5,718	2,877
Assets denominated in Euros	108	5	453	2,829
	Ps. 2,124	**Ps. 4,585**	**Ps. 16,719**	**Ps. 7,651**

The fair value of the instruments designated as cash flow hedging, recognized in overall earnings in stockholders equity on December 31, 2013 and 2012 totaled Ps. (1,420) and Ps. (2,493), respectively. Furthermore, Ps. 75 and Ps. 77, respectively, were reclassified from stockholders' equity to results.

The gains recognized in derivatives financial instruments' results designated for trading were Ps. 67 and Ps. 351, on December 31, 2013 and 2012, respectively.

On November 30, 2012, IXE Banco voluntarily revoked the fair value hedging on loans (mortgage, PyME and factoring). Therefore the adjustment to the book value for loan valuation attributable to interest rate risk is linearly amortized in the period's results up to the termination date of the hedged item (January 2027). The fair value of the hedged loan on the hedging revocation date was Ps. 176. At the close of December 2013, the amortization of the loan's valuation was Ps. 16.

Trading derivatives and hedging derivatives: the loan risk is minimized through 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 flow hedging instruments	Net change in period	Reclassified to income
Balance, January 1, 2007	(Ps. 58)	Ps. -	Ps. -
Balance, December 31, 2007	(Ps. 308)	(Ps. 250)	Ps. -
Balance, December 31, 2008	(Ps. 1,567)	(Ps. 1,259)	Ps. 18
Balance, December 31, 2009	(Ps. 1,394)	Ps. 173	Ps. 47
Balance, December 31, 2010	(Ps. 2,114)	(Ps. 720)	Ps. 42
Balance, December 31, 2011	(Ps. 2,935)	(Ps. 821)	Ps. 15
Balance, December 31, 2012	(Ps. 2,785)	Ps. 150	Ps. 75
Balance, December 31, 2013	(Ps. 1,541)	Ps. 660	Ps. 77

9 - LOAN PORTFOLIO

As of December 31, 2013 and 2012, the loan portfolio by loan type is as follows:

	Performing loan portfolio		Past-due loan portfolio		Total	
	2013	2012	2013	2012	2013	2012
Commercial loans						
Denominated in domestic currency						
Commercial	Ps. 150,945	Ps. 156,279	Ps. 10,415	Ps. 5,620	Ps. 161,360	Ps. 161,899
Rediscounted portfolio	6,971	5,603	-	-	6,971	5,603
Denominated in USD						
Commercial	25,766	23,501	58	518	25,824	24,019
Rediscounted portfolio	942	678	-	-	942	678
Total commercial loans	**184,624**	**186,061**	**10,473**	**6,138**	**195,097**	**192,199**
Loans to financial institutions	4,863	8,434	-	4	4,863	8,438
Consumer loans						
Credit card	20,323	17,524	1,278	934	21,601	18,458
Other consumer loans	37,560	28,512	815	533	38,375	29,045
Mortgage loans						
Denominated in domestic currency	80,305	70,794	988	769	81,294	71,563
Denominated in USD	1,388	1,642	43	33	1,431	1,675
Denominated in UDIS	339	172	55	10	394	182
Government loans	95,636	88,293	2	60	95,638	88,353
	240,414	**215,371**	**3,182**	**2,343**	**243,596**	**217,714**
Total loan portfolio	**Ps. 425,038**	**Ps. 401,432**	**Ps. 13,655**	**Ps. 8,481**	**Ps. 438,693**	**Ps. 409,913**

Restructured loans

The restructured loans on December 31, 2013 and 2012 that modified their terms and rates are shown below:

	2013		2012	
	Performing	Past-due	Performing	Past-due
Commercial loans				
Business loans	Ps. 2,618	Ps. 873	Ps. 4,065	Ps. 864
Financial institutions' loans	31	-	1	-
Government loans	8,852	-	-	-
Consumer loans	6	3	32	16
Mortgage loans	38	29	37	48
	Ps. 11,545	**Ps. 905**	**Ps. 4,135**	**Ps. 928**

As of December 31, 2013, past-due loans showed the following periods of delinquency:

	From 1 to 180 days	From 181 to 365 days	From 366 to 2 years	More than 2 years	Total
Commercial loans					
Business loans	Ps. 3,191	Ps. 6,253	Ps. 592	Ps. 439	Ps. 10,475
Consumer loans	2,007	79	4	3	2,093
Mortgage loans	575	500	12	-	1,087
	Ps. 5,773	**Ps. 6,832**	**Ps. 608**	**Ps. 442**	**Ps. 13,655**

As of December 31, 2012, past-due loans showed the following periods of delinquency:

	From 1 to 180 days	From 181 to 365 days	From 366 to 2 years	More than 2 years	Total
Commercial loans					
Business loans	Ps. 2,694	Ps. 931	Ps. 382	Ps. 2,195	Ps. 6,202
Consumer loans	1,225	235	5	2	1,467
Mortgage loans	374	374	7	57	812
	Ps. 4,293	**Ps. 1,540**	**Ps. 394**	**Ps. 2,254**	**Ps. 8,481**

Past-due loan movements for the years ended on December 31, 2013 and 2012 are shown below:

	2013	2012
Balance at the beginning of the year	Ps. 8,481	Ps. 6,949
Liquidations	(4,514)	(1,638)
Write-offs*	(7,333)	(3,212)
Renewals	(945)	(401)
Discounts	(435)	(116)
Foreclosures	(169)	(639)
Loan portfolio sales	(933)	(872)
Transfers to performing loans	(3,086)	(2,573)
Transfers from performing loans	22,559	11,060
Merger of Ixe companies	17	-
Fluctuation from foreign exchange rate	13	(77)
Year-end balance	**Ps. 13,655**	**Ps. 8,481**

* Corresponds to 100% of reserved loans.

As of December 31, 2013, the balance of deferred loan origination fees was Ps. 2,130, and the amount recorded in results was Ps. 1,544. Furthermore, the deferred balance of costs and expenses associated with initial loan originations was Ps. 832, and the amount recorded in results was Ps. 389. As of December 31, 2012, the balance of deferred loan origination fees was Ps. 2,061, and the amount recorded in results was Ps. 1,064. Furthermore, the deferred balance of costs and expenses associated with initial loan originations was Ps. 885, and the amount recorded in results was Ps. 532. 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, 1.7 years; b) financial institutions, 2.9 years; c) mortgage, 18.7 years; d) government loans, 2.5 years; and e) consumer, 5.6 years.

During the periods ended on December 31, 2013 and 2012, the balance of written off loans that had been fully reserved as past-due loans was Ps. 6,034 and Ps. 3,212, respectively.

On December 31, 2013 and 2012, revenues from recoveries of previously written-off loan portfolios were Ps 1,194 and Ps 1,100, respectively.

Customer insurance policies that the Financial Group includes as part of the loan portfolio correspond to car insurance; the rest of the insurance policies are not recorded in the Consolidated Balance Sheets and are collected when the loan amortization is charged to the customer. The amount of financed car insurance policies by December 31, 2013 and 2012 is Ps. 30 and Ps. 21, respectively.

The loans granted per economic sectors as of December 31, 2013 and 2012, are shown below:

	2013		**2012**	
	Amount	**Concentration percentage**	**Amount**	**Concentration percentage**
Private (companies and individuals)	Ps. 195,096	44.47%	Ps. 192,199	46.89%
Financial institutions	4,862	1.11%	8,438	2.06%
Credit card and consumer	59,977	13.67%	47,503	11.59%
Mortgage	83,119	18.95%	73,420	17.91%
Government loans	95,639	21.8%	88,353	21.55%
	Ps. 438,693	**100%**	**Ps. 409,913**	**100%**

<u>Special accounting treatment for hurricanes “Ingrid” and “Manuel” flooding aid program granted by Banco Mercantil del Norte, S.A.</u>

Given the negative impact of the floods caused by hurricanes “Ingrid” and “Manuel”, the Financial Group has decided to assist in the economic recovery of the affected regions declared disaster areas in the Official Gazette of the Federation by the Ministry of Government, by implementing various support programs to the debtors, as per the following:

Support for mortgage, car, payroll and small and medium business (crediactivo –PyMEs) loans, consisting of:

- <u>Mortgage loan.</u> Facilities to cover up to 3 mortgage loan payments with a personal loan granted for an amount equal to 3 installments, with terms of 36 and 48 months at the client’s discretion, at the same rate as the Mortgage Loan and without an opening fee.
- <u>Car loans.</u> Deferral of up to three monthly installments, which are relocated to the end of the loan term thereby extending the original term 7 additional months.
- <u>Payroll loans.</u> Deferral of up to three monthly installments, which are relocated to the end of the loan term thereby extending the original term.
- <u>Crediactivo.</u> Clients may defer the payment of 3 monthly installments by formalizing an agreement. These deferred payments are relocated to the end of the loan term without affecting the original term. That is, the customer will have to pay twice the normal monthly installment during the last three months of the loan term.

By virtue of the above, the Commission issued a special accounting standard in document number P065/2013 applicable to the Financial Group from September 13, 2013 to January 14, 2014, authorizing the Financial Group not to consider as restructured loans those in effect on September 13, 2013, whose principal and interest payments were deferred, as per Circular B-6 paragraph 26, “Loan Portfolio”, and to keep them as performing loans for the term stated in the plan. Therefore, those loans are considered performing loans to determine the allowance for loan losses.

If such special standards had not been authorized, the Financial Group would have presented the following loan amounts in the December 31, 2013 Consolidated Balance Sheet:

PERFORMING LOAN PORTFOLIO	
Commercial loans	
Business loans	Ps. 184,624
Financial institutions' loans	4,863
Government loans	95,636
Consumer loans	57,883
Mortgage loans	82,032
TOTAL PERFORMING LOAN PORTFOLIO	**425,038**
PAST-DUE LOAN PORTFOLIO	
Commercial loans	
Business loans	10,473
Financial institutions' loans	-
Government loans	2
Consumer loans	2,094
Mortgage loans	1,087
TOTAL PAST-DUE LOAN PORTFOLIO	13,656
LOAN PORTFOLIO	**438,694**
(Minus) Allowance for loan losses	(14,290)
LOAN PORTFOLIO, net	**424,404**
ACQUIRED COLLECTION RIGHTS	3,522
TOTAL LOAN PORTFOLIO, net	**Ps. 427,926**

Moreover, the period´s net income would have been Ps 13,508 as a result of the additional Ps 0.178 in allowance for loan losses that would have been created if such support had not been provided to the borrowers.

The amount of deferred payments from consumer loans derived from the plans as of December 31, 2013 totals Ps. 0.45.

Special accounting treatment for hurricanes "Ingrid" and "Manuel" flooding aid program granted by Banorte Ixe Tarjetas, S.A. de C.V.

Given the negative impact of the floods caused by hurricanes "Ingrid" and "Manuel", the Financial Group has decided to assist in the economic recovery of the affected regions declared disaster areas in the Official Gazette of the Federation by the Ministry of Government, by implementing various support programs to the debtors, as per the following:

- Credit card. The required minimum payment will not be due and payable for up to three months, only the normal interest will be charged, and no penalties will be applied during such period.

By virtue of the above, the Commission issued a special accounting standard in document number P066/2013 applicable to the Financial Group from September 13, 2013 to January 14, 2014, authorizing that the loans that were restructured or renewed with the 120 calendar days following the date of the disaster not be considered as past-due as per paragraph 83 of the accounting principles. Such period is not to exceed 3 months.

As of December 31, 2013, the Financial Group had not yet granted the aforementioned aids. Therefore the authorized special accounting standard has not been applied.

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 recovered fully (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. Based on their reserve percentage, the commercial loans rating D and E risk degrees are as follows:

	2013	**2012**
Distressed portfolio	**Ps. 12,359**	**Ps. 3,121**
Performing	2,305	-
Past-due	10,054	-
Total rated portfolio	**Ps. 471,379**	**Ps. 439,561**
Distressed portfolio/total rated portfolio	2.62%	0.71%

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, 2013 and 2012, 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.

Below are some of the effects of applying the Agreement that went into effect as of the signing date.

The total amount of Federal Government payment obligations for commercial loans as of December 31, 2013 is Ps. 58, which includes Ps. 56 associated with the conditioned discount portion from loans in Mexican pesos and UDIS; and Ps. 2 associated with the discount applied to those mentioned in number 3.1.2 of Circular 1430.

The obligations of the Federal Government on December 31, 2013 subject to the Agreement are described below:

	Payment date	Amount
Fourth amortization	June 1, 2014	Ps. 28
Fifth amortization	June 1, 2015	28
		Ps. 56

A monthly financial cost is incorporated to each amortization as of the day following the Cut-off Date and up to the close of the month prior to each payment date. The rate for January 2012 is the arithmetic average of the annual rate of return based on the 91-day CETES discount issued in December 2011, and for the subsequent months the 91-day future CETES rate of the previous month as published by Proveedor Integral de Precios, S.A. on the business day after the Cut-off Date, or that of the nearest month contained in said publication, taken on a 28-day return term, then dividing the resulting rate by 360 and multiplying the result by the number of days effectively elapsed during the period it is accrued, capitalized on a monthly basis.

An analysis of the allowance for loan losses for the loans included in the Agreement is detailed below:

	2013
Initial balance	Ps. 19
Financial Group support	67
Discounts and write-offs	14
Reserves reclassification	(9)
Contribution to settle fiduciary liability	1
Final balance	**Ps. 92**

During 2013 and 2012, Ps. 11 and Ps. 9, respectively, were recognized in earning for support to punto final and GFNorte (plan for outlays in asset recovery) for loans off the program.

The maximum amount the Financial Group would absorb for loans not susceptible to the Early Termination program and that would be entitled to the discount benefits program is Ps. 14.

Ps. 97 were used to repurchase Special CETES; the remaining balance not repurchased by the Federal Government as of December 31, 2013 was Ps. 860 with maturities between 2017 and 2027.

The Financial Group recognized in 2010 Ps. 330 as an allowance for loan losses and Ps. 56 in deferred taxes as a result of terminating the Trusts.

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:

	2013						
		Required allowances for losses					
Risk category	**Loan portfolio**	**Business**	**Government**	**Financial institutions' loans**	**Consumer portfolio**	**Mortgage portfolio**	**Total**
Exempted portfolio	Ps. 58	Ps. -	Ps. -	Ps. -	Ps. -	Ps. -	Ps. -
Risk A1	294,901	651	262	95	299	81	1,388
Risk A2	76,002	289	270	142	254	43	998
Risk B1	23,551	162	70	-	631	10	873
Risk B2	19,316	161	-	-	539	16	716
Risk B3	26,706	376	341	-	297	8	1,022
Risk C1	6,890	232	3	-	226	41	502
Risk C2	5,600	203	17	-	489	76	785
Risk D	16,021	4,424	-	-	1,479	292	6,195
Risk E	2,401	487	-	-	949	104	1,540
Unclassified	(66)	-	-	-	-	-	-
	Ps. 471,380	**Ps. 6,985**	**Ps. 963**	**Ps. 237**	**Ps. 5,163**	**Ps. 671**	**Ps. 14,018**
Less: recorded allowance	-						**Ps. 14,289**
Reserve supplement*	**Ps. 471,380**						**Ps. 271**

*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.

	2012				
		Required allowances for losses			
Risk category	**Loan portfolio**	**Commercial portfolio**	**Consumer portfolio**	**Mortgage portfolio**	**Total**
Exempted portfolio	Ps. 87	Ps. -	Ps. -	Ps. -	Ps. -
Risk A	73,350	-	26	168	194
Risk A1	178,598	846	-	-	846
Risk A2	97,155	913	-	-	913
Risk B	29,023	-	1,005	217	1,222
Risk B1	39,106	794	382	-	1,176
Risk B2	10,915	81	682	-	763
Risk B3	2,445	273	-	-	273
Risk C	3,105	-	914	186	1,100
Risk C1	391	105	-	-	105
Risk C2	714	320	-	-	320
Risk D	2,064	408	1,005	6	1,419
Risk E	2,689	2,491	184	18	2,693
Unclassified	(81)	-	-	-	-
	Ps. 439,561	Ps. 6,231	Ps. 4,198	Ps. 595	Ps. 11,024
Less: recorded allowance					**Ps. 11,734**
Reserve supplement*					**Ps. 710**

The reserves supplement conforms to the provisions to cover 100% of the past-due interest and for the effects of inquiries in the credit bureau, a total of Ps. 133 was recorded, and in 2013 they include the recognition of Ps. 577 in the loan portfolio quality impairment derived from unforeseen factors in the rating methodologies.

The total portfolio balance used as the basis for the classification above includes amounts related to credit commitments, which is recorded in memorandum accounts.

As of December 31, 2013 and 2012, the estimated allowance for loan losses is determined based on portfolio balances at those dates.

As of December 31, 2013 and 2012, the allowance for loan losses represents 105% and 138%, 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, 2013 and 2012.

Modification in commercial loan rating standards

On June 24, 2013, the Commission published a resolution that modified the provisions regarding the commercial loan rating methodology. The resolution modifies the current model of reserves based on public ratings in order to establish a methodology by which the portfolio in question is rated and covered based on the expected losses for the next 12 months considering the probability of default, severity of the loss and exposure to non-compliance by each client.

The ruling became effective on June 25, 2013 and may be applied as of said date but no later than December 31, 2013 for loans granted to individuals with a business activity, business entities and decentralized government agencies, without considering loans to financial intermediaries to which the new methodology cannot be applied until January 2014.

Abiding by said ruling, the Financial Group decided to apply such methodology with figures up to June 30, 2013. Consequently, the Financial Group recognized Ps. 3,953 (Ps. 3,872 net of minority interest) in “Prior Years' Earnings” in Stockholders' Equity, which correspond to the initial cumulative effect of applying the new rating methodologies to commercial loans, not including loans to financial intermediaries, which were adopted until January 2014, as per the Commission's rules.

The amount of allowances for loan losses for the Financial Group's commercial loans amounted to Ps. 8.382, and the reserve for said loans considering the methodology in effect prior to this ruling totaled Ps. 4,986, both with figures as of June 30, 2013.

Pursuant to the regulation in effect, as of December 31, 2013 the Financial Group rated the commercial (except loans to financial intermediaries and 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.

Type of Loan	Exposure to Default	Weighted Probability of Non-compliance	Weighted Severity of Loss
Commercial*	Ps. 241,918	10.8%	28.0%
Mortgage	81,715	3.0%	26.8%
Non-revolving consumer	38,179	9.3%	65.1%
Revolving Consumer loan	29,350	11.5%	84.0%

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

Additionally, the Financial Group used personal guarantees to cover the loan risk in the commercial loan rating. Such guarantees amount to Ps. 42,422.

Movements in allowance for loan losses

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

	2013	2012
Balance at the beginning of the year	Ps. 11,734	Ps. 9,944
Increase charged to results	8,717	8,594
Discounts and write-offs	(8,988)	(5,287)
Rebates granted to housing debtors	(11)	(12)
Consolidation of IXE Tarjetas	-	446
Loan portfolio sales	(1,118)	(2,040)
Effect of the new loan rating methodology	3,952	16
Other	3	73
Year-end balance	**Ps. 14,289**	**Ps. 11,734**

As of December 31, 2013, the net amount of preventive loan loss reserves charged to the Consolidated Income Statement totals Ps. 8,942, and Ps. (228) to other income or expenses, and Ps. 3 for foreign exchange fluctuations. These amounts charged to results are made up of Ps. 8,717 credited directly to the estimate. As of December 31, 2011, the net amount of preventive loan loss reserves charged to the consolidated Income Statement totals Ps. 6,172 and are presented net of items recorded in Other income or expenses from the operation (Ps. 52) and due to the variation of the USD ($1) exchange rate and eliminations from intercompany operations Ps. 2,475; said amount affected the results for Ps. 8594 credited directly to the estimate.

12 - ACQUIRED COLLECTION RIGHTS

As of December 31, 2013 and 2012, the acquired collection rights are comprised as follows:

Valuation Method	2013	2012
Cash Basis Method	Ps. 1,012	Ps. 1,181
Cost Recovery Method	2,415	1,822
Interest Method	95	106
	Ps. 3,522	**Ps. 3,109**

As of December 31, 2013 and 2012, derived from applying the valuation methods (described in Note 4), the Financial Group recognized income from credit asset portfolios of Ps. 584, coupled with the respective amortization of Ps. 278, the effects were recognized under the “Other income” heading in the Consolidated Income Statement. For the year ended December 31, 2012, the Financial Group recognized income of Ps. 698, coupled with the respective amortization of Ps. 482.

As of December 31, 2013 and 2012, derived from applying the valuation methods (described in Note 4), Solida recognized income from credit asset portfolios of Ps. 786, coupled with the respective amortization of Ps. 557, the effects were recognized under the “Other income” heading in the Consolidated Income Statement. For the year ended December 31, 2012, the Financial Group recognized income of Ps. 793, together with the respective amortization of Ps. 286.

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 information of current events, 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.

As of December 31, 2013, the Financial Group recognized impairment for Ps. 51,282 in the Acolman real estate development.

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:

	2013	2012
Liability	Ps. 113	Ps. 84
Maritime and transportation	76	36
Fire	109	117
Automobile	1,070	1,016
Various	480	862
Accidents and health	357	430
Life	287	167
Pensions	68	75
	2,560	**2,787**
Federal public administration agencies' indebtedness	487	350
	Ps. 3,047	**Ps. 3,137**

14 – ACCOUNTS RECEIVABLE FROM REINSURANCE

This item is made up as follows:

	2013	2012
Insurance and annuities	Ps. 1,057	Ps. 666
Reinsurers' participation for pending claims	1,739	1,249
Reinsurers' participation for current risk	760	791
Other participations	7	9
	Ps. 3,563	**Ps. 2,715**

15 - OTHER ACCOUNTS RECEIVABLE, NET

This item is made up as follows:

	2013	2012
Loans to officers and employees	Ps. 2,210	Ps. 1,999
Debtors from liquidation settlements	2,138	4,433
Debtors from cash collateral	4,010	4,508
Real estate property portfolios	1,303	1,789
Fiduciary rights*	11,162	6,813
Sundry debtors in Mexican pesos	422	2,842
Sundry debtors in foreign currency	716	824
Other	135	198
	22,096	**23,406**
Allowance for doubtful accounts	(393)	(309)
	Ps. 21,703	**Ps. 23,097**

* In most cases, the Financial Group has the preferred capital of the trusts, which were constituted to build real estate developments. 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.

Loans to officers and employees mature in 2 to 30 years and accrue interest at a 6% to 10% rate.

16 - FORECLOSED ASSETS, NET

As of December 31, 2013 and 2012, the foreclosed assets balance is as follows:

	2013	2012
Moveable property	Ps. 654	Ps. 705
Real estate property	3,177	2,971
Goods pledged for sale	69	33
	3,900	**3,709**
Allowance for losses on foreclosed moveable assets	(328)	(106)
Allowance for losses on foreclosed real estate assets	(761)	(651)
Allowance for losses on assets pledged for sale	(30)	(13)
	(1,119)	**(770)**
	Ps. 2,781	**Ps. 2,939**

As of December 31, 2013, the aging of the reserves for foreclosed assets is made up as follows:

Concept / Months	12 to 18	18 to 24	More than 24	Total
Moveable property	Ps. 9	Ps. 135	Ps. 184	Ps. 328

Concept / Months	12 to 24	24 to 30	30 to 36	36 to 42	42 to 48	More than 48	Total
Real estate property	Ps. 101	Ps. 72	Ps. 35	Ps. 30	Ps. 37	Ps. 486	Ps. 761
Goods pledged for sale	-	2	-	1	-	27	30
	Ps. 101	**Ps. 74**	**Ps. 35**	**Ps. 31**	**Ps. 37**	**Ps. 513**	**Ps. 791**

17 - PROPERTY, FURNITURE AND EQUIPMENT, NET

This item is made up as follows:

	2013	2012
Furniture and equipment	Ps. 9,633	Ps. 9,651
Property intended for offices	6,747	6,238
Installation costs	4,347	4,041
	20,727	**19,930**
Less - Accumulated depreciation and amortization	(8,694)	(7,944)
	Ps. 12,033	**Ps. 11,986**

The depreciation recorded in the results of 2013 and 2012 was Ps. 931 and Ps. 1,061, respectively.

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

	Useful Life
Transportation equipment	4 years
Computer equipment (except ATMs)	4.7 years
Computer equipment (ATMs)	7 years
Furniture and equipment	10 years
Real estate	From 4 to 99 years

18 - PERMANENT STOCK INVESTMENTS

Investment in unconsolidated subsidiaries and associated companies are valued according to the equity method, as detailed below:

	Share %	2013	2012
Afore XXI-Banorte, S.A. de C.V.	50%	Ps. 13,514	Ps. 4,434
Transporte Aereo Tecnico Ejecutivo, S.A. de C.V.	45.33%	-	246
Concesionaria Internacional Anzalduas, S.A. de C.V.	40%	57	79
Internacional de Inversiones, S.A.P.I. de C.V.	5.62%	105	90
Servicios Banorte Generali, S. A. de C.V.	33%	-	14
Capital I CI-3, S.A.P.I. de C.V.	50%	28	12
Comercial Banorte Generali, S.A. de C.V.	33%	-	6
Maxcom Telecomunicaciones S.A.B. de C.V.	8.31%	250	-
Controladora PROSA, S.A. de C.V.	19.73%	50	47
Sociedades de Inversion IXE Fondos (Mutual Funds)	Various	86	126
Banorte Mutual funds	Various	13	14
Other	Various	102	102
		Ps. 14,205	**Ps. 5,170**

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.

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. 200) and (Ps. 978) as of December 31, 2013 and 2012, respectively, as detailed below:

	2013			2012		
	Temporary Differences	Deferred Effect		Temporary Differences	Deferred Effect	
		ISR	Employee Profit Sharing PTU		ISR	Employee Profit Sharing PTU
Temporary Differences - Assets						
Allowance for loan losses	Ps. 3,519	Ps. 1,075	Ps. -	Ps. 2,303	Ps. 700	Ps. -
Tax loss carry forwards	3,726	1,119	-	2,952	885	-
Surplus preventive allowances for credit risks over the net tax limit	220	66	-	1,002	300	103
Excess of tax over book value of foreclosed and fixed assets	2,011	594	-	1,971	569	56
PTU	319	96	-	692	208	83
Fees collected in advance	2,780	834	-	953	288	31
Accounting provisions	1,660	500	-	646	197	61
Financial instruments valuation	655	197	-	-	-	-
Other assets	1,299	376	-	350	112	1
Total assets	**Ps. 16,189**	**Ps. 4,857**	**Ps. -**	**Ps. 10,869**	**Ps. 3,259**	**Ps. 335**

	2013			2012		
	Temporary Differences	Deferred Effect		Temporary Differences	Deferred Effect	
		ISR	Employee Profit Sharing PTU		ISR	Employee Profit Sharing PTU
Temporary Differences - Liabilities						
Unrealized loss in securities available-for-sale	Ps. -	Ps. -	Ps. -	Ps. 252	Ps. 88	Ps. -
Excess of tax over book value of foreclosed and fixed assets and expected payments	9	3	-			
Portfolios acquired	2,442	718	-	1,120	330	91
Capitalizable projects' expenses	1,985	596	-	1,514	445	107
Provisions	464	130	-			
Contributions to pension funds	3,742	1,123	-	3,239	908	270
Intangible assets	1,762	499	-	1,826	517	-
Deferred from the IXE purchase method	1,317	395	-	366	110	-
Other	5,305	1,593	-	5,574	1,674	34
Total deferred liabilities	**17,026**	**5,057**	**-**	**Ps. 13,891**	**Ps. 4,072**	**Ps. 502**
Net accumulated asset	**(Ps. 837)**	**(Ps. 200)**	**Ps. -**	**(Ps. 3,022)**	**(Ps. 811)**	**(Ps. 167)**
Deferred tax, net			**(Ps. 200)**			**(Ps. 978)**

As discussed in Note 29, as of January 1, 2010 and up to December 31, 2013, the applicable income tax rate is 30%. Pursuant to the provisions of NIF D-4, "Incomes Taxes", and INIF 8, "Effects of the Business Flat Tax", based on financial forecasts, the Financial Group adjusted their balances based on the rates likely to be in effect at the time of their recovery. Additionally, they made forecasts for the IETU and compared it to ISR, and concluded that the Financial Group and subsidiares will continue to pay ISR. Thus no change was made to the deferred tax calculations.

On December 11, 2013, a decree was published reforming, adding and repealing various provisions of the Income Tax Law that went into effect on January 1, 2014. Other provisions were established through which the income tax rate for 2014 will be 30%, and the Business Flat Tax Law was repealed.

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, a net amount of Ps 128 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:

	2013	2012
Net asset forecast from labor obligations and savings fund	Ps. 3,860	Ps. 3,664
Other amortizable expenses	8,856	7,100
Accumulated amortization of other expenses	(1,001)	(489)
Goodwill	15,381	15,356
	Ps. 27,096	**Ps. 25,631**

As of December 31, 2013 and 2012, Goodwill is as follows:

	2013	2012
Ixe Grupo Financiero, S.A.B. de C.V.	Ps. 11,537	Ps. 11,537
INB Financial Corp.	2,842	2,816
Banorte-Ixe Tarjetas, S.A. de C.V., SOFOM, ER	727	727
Uniteller Financial Services	254	252
Generali Mexico Compañia de Seguros, S.A.	21	23
Royal Sun Alliance Pensiones (Mexico), S.A. de C.V.	-	1
	Ps. 15,381	**Ps. 15,356**

As mentioned in Note 4, goodwill is not amortized and is subject to annual impairment tests. No impairment to goodwill value was detected as of December 31, 2013 and 2012.

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 Mexico, establishes the mechanism for determining the liquidity coefficient of liabilities denominated in foreign currency.

In accordance with such regime, during 2013 and 2012 the Financial Group generated a liquidity requirement of USD 104,607 thousand and USD 78,326 thousand, respectively, and held investments in liquid assets of USD 493,062 thousand and USD 379,005 thousand, representing a surplus of USD 387,375 thousand and USD 300,764 thousand, respectively.

Core Deposits

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

	2013	2012
Demand deposits		
Non-interest Bearing Checking accounts:		
Cash deposits	Ps. 111,486	Ps. 99,059
Checking accounts in US dollars for individual residents on the Mexican border	990	909
Demand deposits accounts	8,945	7,558
Interest Bearing Checking accounts:		
Other bank checking deposit	58,018	43,885
Savings accounts	3	411
Checking accounts in US dollars for individual residents on the Mexican border	1,487	1,512
Demand deposits accounts	73,290	57,837
	254,219	**211,171**
Time deposits		
General public:		
Fixed-term deposits	40,126	36,189
Retail time deposits	50,689	71,367
Promissory note with interest payable at maturity PRLV primary market for individuals	85,524	76,779
PRLV primary market for business entities	2,556	2,321
Foreign residents deposits	21	23
Provision for interest	230	376
	179,146	**187,055**
Money market:		
Fixed-term deposits		-
Over the counter promissory notes	4,675	19,624
Provision for interest	296	1,909
	4,971	**21,533**
	184,117	**208,588**
Senior debt issued	**5,405**	**4,566**
	Ps. 443,741	**Ps. 424,325**

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:

	2013				2012			
Foreign exchange	**1Q**	**2Q**	**3Q**	**4Q**	**1Q**	**2Q**	**3Q**	**4Q**
Mexican pesos and UDIS	0.53%	0.51%	0.58%	0.53%	0.56%	0.56%	0.52%	0.52%
Foreign Currency	0.03%	0.03%	0.03%	0.03%	0.03%	0.03%	0.03%	0.03%
Banorte USA (INB)								
Demand deposits accounts	0.05%	0.04%	0.01%	0.01%	0.05%	0.04%	0.05%	0.05%
Money market	0.06%	0.04%	0.04%	0.04%	0.10%	0.09%	0.08%	0.07%

Time deposits:

	2013				2012			
Foreign exchange	**1Q**	**2Q**	**3Q**	**4Q**	**1Q**	**2Q**	**3Q**	**4Q**
General public								
Mexican pesos and UDIS	3.52%	3.29%	3.28%	2.97%	3.61%	3.62%	3.53%	3.58%
Foreign Currency	0.59%	0.63%	0.61%	0.57%	0.61%	0.61%	0.55%	0.61%
Money market	4.51%	4.28%	4.16%	3.83%	4.97%	4.82%	4.72%	4.79%
Banorte USA (INB)	0.34%	0.35%	0.35%	0.35%	0.41%	0.39%	0.38%	0.36%

As of December 31, 2013 and 2012, the terms set for these deposits are as follows:

	2013			
	From 1 to 179 years	**From 6 to 12 months**	**More than 1 year**	**Total**
General public				
Fixed-term deposits	Ps. 14,011	Ps. 988	Ps. 740	Ps. 15,739
Retail time deposits	151,666	1,485	69	153,220
Promissory note with interest payable at maturity PRLV primary market for individuals	8,396	478	975	9,849
PRLV primary market for business entities	-	-	-	-
Foreign residents deposits	21	-	-	21
Provision for interest	275	37	5	317
	174,369	**2,988**	**1,789**	**179,146**
Money market:				
Fixed-term deposits				
Promissory notes	-	-	4,675	4,675
Provision for interest	-	-	296	296
	-	**-**	**4,971**	**4,971**
Senior debt issued	**-**	**-**	**5,405**	**5,405**
	Ps. 174,369	**Ps. 2,988**	**Ps. 12,165**	**Ps. 189,522**

	2012			
	From 1 to 179 years	From 6 to 12 months	More than 1 year	Total
General public				
Fixed-term deposits	Ps. 25,310	Ps. 4,768	Ps. 6,111	Ps. 36,189
Retail time deposits	71,034	333	-	71,367
Promissory note with interest payable at maturity PRLV primary market for individuals	76,066	639	74	76,779
PRLV primary market for business entities	2,046	36	239	2,321
Foreign residents deposits	16	2	5	23
Provision for interest	312	32	32	376
	174,784	**5,810**	**6,461**	**187,055**
Money market:				
Fixed-term deposits				
Promissory notes	-	-	19,624	19,624
Provision for interest	-	-	1,909	1,909
	-	**-**	**21,533**	**21,533**
Senior debt issued			**4,566**	**4,566**
	Ps. 174,784	**Ps. 5,810**	**Ps. 32,560**	**Ps. 213,154**

22 - INTERBANK AND OTHER LOANS

The loans received from other banks as of December 31, 2013 and 2012 are as follows:

	Mexican pesos		Denominated in USD		Total	
	2013	2012	2013	2012	2013	2012
Immediately due						
Domestic banks (Call money)	Ps. 2,974	Ps. 295	Ps. -	Ps. -	Ps. 2,974	Ps. 295
	2,974	**295**	**-**	**-**	**2,974**	**295**
Short-term:						
Banco de Mexico	-	7,000	-	-	-	7,000
Commercial banks	9,628	2,424	66	67	9,694	2,491
Development banks	2,539	12,333	427	2,189	2,966	14,522
Public trusts	6,069	3,336	672	208	6,741	3,544
Provision for interest	1	65	4	6	5	71
	18,237	**25,158**	**1,169**	**2,470**	**19,406**	**27,628**
Long-term						
Commercial banking	4,469	1,131	-	-	4,469	1,131
Development banking	-	2,224	97	522	97	2,746
Public trusts	2,953	3,893	160	212	3,113	4,105
Provision for interest	-	-	-	-	-	-
	7,422	**7,248**	**257**	**734**	**7,679**	**7,982**
	Ps. 28,633	**Ps. 32,701**	**Ps. 1,426**	**Ps. 3,204**	**Ps.30,059**	**Ps.35,905**

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

The average interest rates are shown below:

	2013				2012			
Foreign exchange	**1Q**	**2Q**	**3Q**	**4Q**	**1Q**	**2Q**	**3Q**	**4Q**
Call money								
Mexican pesos and UDIS	4.35%	3.75%	3.80%	3.44%	4.52%	4.45%	4.47%	4.45%
Other bank loans								
Mexican pesos and UDIS	4.71%	4.46%	4.64%	4.31%	4.89%	4.71%	4.59%	4.60%
Foreign Currency	2.34%	1.49%	2.08%	1.54%	1.80%	2.10%	2.05%	2.45%

Banorte USA liabilities accrue interest at an average rate of 0.71% and 0.67% as of December 2013 and 2012, respectively. Moreover, the Arrendadora y Factor Banorte, S.A. de C.V. loans accrue an average interest rate of 4.92% and 5.68% in Mexican pesos and 1.93% and 1.96% in U.S. dollars as of December 31, 2013 and 2012, respectively.

23 - TECHNICAL RESERVES

This item is made up as follows:

	2013	2012
Current risk:		
Life	Ps. 51,510	Ps. 42,356
Accidents and health	1,009	988
Damages	2,716	2,517
	55,235	45,861
Contractual obligations:		
Claims and expirations	2,415	2,037
Unreported claims	1,780	1,358
Dividends on policies	417	381
Insurance funds under management	2	11
Security premiums	264	230
	4,878	4,017
Contingency:		
Catastrophic risk	616	510
Contingencies	984	801
Special	494	533
	2,094	1,844
	Ps. 62,207	**Ps. 51,722**

24 - SUNDRY CREDITORS AND OTHER PAYABLES

This item is made up as follows:

	2013	2012
Cashier and certified checks and other negotiable instruments	Ps. 1,715	Ps. 2,379
Provision for employee retirement obligations and saving fund	239	655
Provisions for other obligations	3,868	4,880
Deposits under guardianship	415	375
Visa Travel Money Card	410	313
Withholding taxes	761	230
End of month deposits and collects yet to apply	1,880	1,699
Other	3,648	4,496
	Ps. 12,936	**Ps. 15,029**

25 - EMPLOYEE RETIREMENT OBLIGATIONS

In 2012, Ixe Banco, Casa de Bolsa Banorte Ixe, Ixe Fondos, Fincasa Hipotecaria, Ixe Automotriz, Banorte Ixe Tarjetas and Ixe Fleet transferred their personnel to the Financial Group. They receive the same benefits the Financial Group gives its own personnel. Therefore as of the transfer date, the Financial Group is responsible for covering the obligations regarding pension plans, seniority premium, severance pay and medical service for the transferred personnel.

The effect of this transfer was Ps. 74 and it is part of the liabilities recorded by the Financial Group as per the actuarial calculation determined as of December 31, 2012.

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, 2013 and 2012, related to the Defined Benefit Pension Plan, seniority premiums and retiree medical coverage, determined by independent actuaries, is analyzed below:

	2013			
	Pension plan	**Seniority premiums**	**Medical services**	**Total**
Projected benefit obligation (PBO)	(Ps. 1,020)	(Ps. 221)	(Ps. 2,918)	(Ps. 4,159)
Fund market value	1,517	390	3,999	5,906
Funded status	497	169	1,081	1,747
Unrecognized prior service cost	4	1	221	226
Unrecognized actuarial losses	528	12	1,234	1,774
Net projected asset	**Ps. 1,029**	**Ps. 182**	**Ps. 2,536**	**Ps. 3,747**

	2012			
	Pension plan	**Seniority premiums**	**Medical services**	**Total**
Projected benefit obligation (PBO)	(Ps. 951)	(Ps. 231)	(Ps. 2,779)	(Ps. 3,961)
Fund market value	1,433	323	3,489	5,245
Funded status	**482**	**92**	**710**	**1,284**
Unrecognized prior service cost	-	1	232	233
Unrecognized actuarial losses	462	14	1,215	1,691
Net projected asset	**Ps. 944**	**Ps. 107**	**Ps. 2,157**	**Ps. 3,208**

The Financial Group has a net prepayment (net prepaid asset) of Ps 3 generated by transferring personnel from Solida Administradora de Portafolios, SA de CV (Solida) to Banorte. Moreover, as of December 31, 2013, a separate fund amounting to Ps. 5,906, (Ps. 5,245 in 2012) has been set aside to meet the above-mentioned obligations, in accordance with NIF D-3 and is recorded under "Other assets".

For the years ended December 31, 2013 and 2012, the net periodic pension cost is as follows:

	2013	2012
Service cost	Ps. 234	Ps. 114
Interest cost	282	252
Expected return on plan assets	(381)	(383)
Amortizations of unrecognized items:		
Transition obligation	-	85
Profits (actuarial losses)	63	-
Variations in assumptions	-	68
Plan modifications	11	-
Cost for immediate recognition of P/(G)	(10)	-
Effect of personnel transfer	-	18
Net periodic pension cost	**Ps. 199**	**Ps. 154**

The rates used in the calculation of the projected benefit obligation and return on plan assets as of December 31, 2013 and 2012, are shown below:

Concept	2013 Nominal	2012 Nominal
Discount rate	8.75%	7.25%
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%	7.25%

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

Concept	2013	2012
Defined and projected benefit obligations	(Ps. 244)	(Ps. 264)
Transition obligation	-	-
Net projected liability	**(Ps. 244)**	**(Ps. 264)**

For the years ended December 31, 2013 and 2012, the net periodic pension cost is as follows:

Concept	2013	2012
Service cost	Ps. 35	Ps. 23
Interest cost	17	15
Transition obligation	-	20
Variations in assumptions	-	29
Effect of personnel transfer	-	56
Cost / (income) for immediate recognition of P/(G)	123	-
Net periodic pension cost	**Ps. 175**	**Ps. 143**

The balance of the employee retirement obligations presented in this Note refers to the Financial Group's Defined Benefit Pension Plan (previous 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, 2013 and 2012, equivalent to Ps. 1,758 and Ps. 1,499, respectively, which is recorded under "Other assets" and is equivalent to the recorded plan liability.

26 - SUBORDINATED DEBENTURES

As of December 31, 2013 and 2012, the subordinated debentures in circulation are as follows:

	2013	2012
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.	Ps. 3,200	Ps. 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	2,750
Preferred subordinated nonconvertible debentures, BANORTE 09 maturing in March 2019, paying interest at the 28-day TIIE rate plus 2%, payable in 130 periods of 28 days each.	2,200	2,200
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.	2,617	2,593
Preferred subordinated nonconvertible debentures, Q BANORTE 08-U maturing in February 2028, paying interest at a 4.95% annual rate.	2,262	2,179
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.	1,570	1,556
Perpetual non preferred subordinated nonconvertible debentures IXEGA66 260299, denominated in US dollars, at an interest rate of 9.75%, payable quarterly.	-	1,556
Subordinated debentures, maturing in June 2034, denominated in US dollars, at a 3-month LIBOR interest rate plus 2.75%.	135	134
Preferred subordinated debentures maturing in April 2034, denominated in US dollars, at a 3-month LIBOR interest rate plus 2.72%.	135	134
Accrued interest	132	153
	Ps. 18,001	**Ps. 19,455**

The costs related to these debentures are amortized using the straight-line method over the term of the debt. The amortization charged to results was Ps. 11 and Ps. 4 in 2013 and 2012, 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 50% of the basic part of its net capital.

For the years ended December 31, 2013 and 2012, the amount of the loans granted to related parties were as follows:

Institution granting the loan	2013	% of the limit	2012	% of the limit
Banorte	Ps. 6,778	24.1%	Ps. 11,536	50.3%

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

As of December 31, 2012, the receivable balance of Afore XXI-Banorte is Ps. 1.

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 Solida 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 Solida since August 2002 and for the years of 2013 and 2012:

	Mexican pesos			Foreign Currency			Total		
Type of portfolio	**Aug 02**	**Dec 12**	**Dec 13**	**Aug 02**	**Dec 12**	**Dec 13**	**Aug 02**	**Dec 12**	**Dec 13**
Performing loan portfolio									
Commercial	Ps. 5	Ps.-	Ps. -	Ps. 5	Ps. -	Ps. -	Ps. 10	Ps. -	Ps. -
Mortgage	54	13	8	-	-	-	54	13	8
Total	**59**	**13**	**8**	**5**	**-**	**-**	**64**	**13**	**8**
Past-due loan portfolio									
Commercial	405	300	302	293	109	112	698	409	414
Consumer	81	72	72	-	-	-	81	72	72
Mortgage	1,112	282	258	-	-	-	1,112	282	258
Total	**1,598**	**654**	**632**	**293**	**109**	**112**	**1,891**	**763**	**744**
Total portfolio	**Ps. 1,657**	**Ps. 667**	**Ps. 640**	**Ps. 298**	**109**	**112**	**Ps.1,955**	**776**	**Ps.752**
Allowance for loan losses (1)									
Commercial	326	300	302	246	109	112	572	409	414
Consumer	77	72	72	-	-	-	77	72	72
Mortgage	669	288	258	-	-	-	669	288	258
Total allowance for loan loss	**Ps. 1,072**	**Ps. 660**	**Ps. 632**	**Ps. 246**	**Ps. 109**	**Ps. 112**	**Ps. 1,318**	**Ps. 769**	**Ps. 744**

(1) Allowances required based on the classification methodology applied in the Financial Group that maintained a 99.99% equity interest in Solida during 2013 and 2012.

As of December 31, 2013 and 2012, the composition of the Financial Group's loan portfolio excluding its subsidiaries is as follows:

	Mexican pesos		Foreign Currency		Total	
Type of portfolio	**Dec 13**	**Dec 12**	**Dec 13**	**Dec 12**	**Dec 13**	**Dec 12**
Commercial loans	Ps. 267,511	Ps. 226,763	Ps. 19,291	Ps. 18,920	Ps. 286,802	Ps. 245,683
Consumer loans	38,380	23,296	-	-	38,380	23,296
Mortgage loans	80,628	66,978	1	-	80,629	66,978
Performing loan portfolio	**386,519**	**317,037**	**19,292**	**18,920**	**405,811**	**335,957**
Commercial loans	10,327	3,931	168	417	10,495	4,348
Consumer loans	962	555	-	-	962	555
Mortgage loans	1,352	1,033	-	-	1,352	1,033
Past-due loan portfolio	**12,641**	**5,519**	**168**	**417**	**12,809**	**5,936**
Total portfolio	**399,160**	**322,556**	**19,460**	**19,337**	**418,620**	**341,893**
Allowance for loan losses	11,432	7,192	345	461	11,777	7,653
Net portfolio	**Ps. 387,728**	**Ps. 315,364**	**Ps.19,115**	**Ps.18,876**	**Ps. 406,843**	**Ps. 334,240**
Allowance for loan losses					**91.94%**	**128.93%**
% of past-due portfolio					**3.06%**	**1.74%**

28 - INFORMATION BY SEGMENT

The main operations and balances per concept and/or business segment in the Consolidated Balance Sheets and the Consolidated Income Statements are comprised as follows:

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

	2013					
	Interest		**Fees**		**Total**	
	MXP	**F.E.**	**MXP**	**F.E.**	**MXP**	**F.E.**
Cash and cash equivalents	Ps. 1,325	Ps. 4	Ps. -	Ps. -	Ps. 1,325	Ps. 4
Margin securities	13	-	-	-	13	-
Investment in securities	16,239	197	-	-	16,239	197
Securities repurchasing and loans	5,417	-	-	-	5,417	-
Hedging transactions	2,302	-	-	-	2,302	-
Commercial loans	20,984	383	1,050	20	22,034	403
Mortgage loans	8,261	119	299	-	8,560	119
Consumer loans	12,097	5	193	2	12,290	7
Other	524	-	-	-	524	-
	Ps. 67,162	**Ps. 708**	**Ps. 1,542**	**Ps. 22**	**Ps. 68,704**	**Ps. 730**

	2012					
	Interest		**Fees**		**Total**	
	MXP	**F.E.**	**MXP**	**F.E.**	**MXP**	**F.E.**
Cash and cash equivalents	Ps. 1,504	Ps. 3	Ps. -	Ps. -	Ps. 1,504	Ps. 3
Margin securities	14	-	-	-	14	-
Investment in securities	13,854	272	-	-	13,854	272
Securities repurchasing and loans	6,206	-	-	-	6,206	-
Hedging transactions	2,798	-	-	-	2,798	-
Commercial loans	21,725	421	671	18	22,396	439
Mortgage loans	7,253	148	238	-	7,491	148
Consumer loans	8,656	7	184	1	8,840	8
Other	154	-	-	-	154	-
	Ps. 62,164	**Ps. 851**	**Ps. 1,093**	**Ps. 19**	**Ps. 63,257**	**Ps. 870**

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:

	2013	2012
Banking sector:		
Net income	Ps. 12,122	Ps. 9,025
Stockholders' equity	77,926	65,879
Total portfolio	433,147	399,078
Past-due loan portfolio	13,317	8,188
Allowance for loan losses	(13,765)	(11,224)
Total net assets	787,916	729,275
Brokerage sector:		
Net income	649	681
Stockholders' equity	2,569	2,785
Portfolio balance	647,996	667,873
Total net assets	116,576	103,344
Long Term Saving Sector		
Net income	3,576	2,169
Stockholders' equity	29,478	10,641
Total net assets	96,396	66,690
Other finance companies sector:		
Net income	391	255
Stockholders' equity	6,116	5,683
Total portfolio	20,296	20,598
Past-due loan portfolio	424	379
Allowance for loan losses	(531)	(510)
Total net assets	Ps. 35,598	Ps. 31,198

c. The trading results for the years ended December 31, 2013 and 2012 are as follows:

	2013	2012
Valuation results		
Trading securities	Ps. 1,468	Ps. 1,360
Decrease in securities	(41)	(156)
Derivatives financial instruments	(65)	643
Total valuation results	**1,362**	**1,847**
Trading results		
Trading securities	1,155	800
Securities available for sale	871	260
Securities held to maturity	1	15
Derivatives financial instruments	697	(161)
Total securities' trading results	**2,724**	**914**
Spot foreign currency	1,105	1,362
Foreign currency valuation	(220)	29
Minted metals trading	5	7
Minted metals valuation	(6)	(7)
Total foreign currency trading results	**885**	**1,391**
Total trading results	**3,609**	**2,305**
Total trading results	**Ps. 4,971**	**Ps. 4,152**

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

Economic sector	2013	%	2012	%
Agriculture	Ps. 6,666	1.6%	Ps. 6,567	1.6%
Commerce	41,397	9.7%	43,765	10.9%
Construction	31,813	7.5%	36,944	9.2%
Manufacturing	23,985	5.6%	23,300	5.8%
Mining	254	0.1%	590	0.1%
Services	13,167	3.1%	4,504	1.1%
Financial and real estate services	36,680	8.6%	42,791	10.7%
Transportation	11,231	2.6%	12,581	3.1%
Government	95,580	22.5%	88,207	22.0%
INB Commercial	8,754	2.1%	7,308	1.8%
Mortgage	82,033	19.3%	72,608	18.1%
Credit card	20,362	4.8%	17,524	4.4%
Other consumer loans	37,517	8.8%	28,570	7.1%
Leasing	7,163	1.7%	6,578	1.6%
Factoring	8,187	1.9%	9,099	2.3%
Government aids	58	-%	87	-%
Fair value adjustment	191	-%	409	0.1%
	Ps. 425,038	**100.0%**	**Ps. 401,432**	**100.0%**

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

Economic sector	2013	%	2012	%
Agriculture	Ps. 250	1.8%	Ps. 479	5.6%
Commerce	1,121	8.2%	1,164	13.7%
Construction	7,885	57.8%	2,376	28.0%
Manufacturing	507	3.7%	395	4.7%
Mining	2	-%	1	-%
Services	332	2.4%	194	2.3%
Financial and real estate services	78	0.6%	59	0.7%
Transportation	100	0.7%	1,320	15.6%
Government	2	-%	60	0.7%
INB Commercial	1	-%	66	0.8%
Mortgage	1,087	8.0%	812	9.6%
Credit card	1,278	9.4%	932	11.0%
Other consumer loans	815	6.0%	555	6.5%
Leasing	61	0.4%	34	0.4%
Factoring	148	1.1%	60	0.7%
Government aids	-	-%	-	-%
Fair value adjustment	(12)	(0.1%)	(26)	(0.3%)
	Ps. 13,655	**100.0%**	**Ps. 8,481**	**100.0%**

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

	2013								
	Geographical location								
Product	Monterrey	Mexico City	West	Northwest	Southeast	East	Treasury and other	Foreign	Total
Non-interest bearing checking accounts	Ps. 19,416	Ps. 41,453	Ps. 9,475	Ps. 13,015	Ps. 13,842	Ps. 7,787	Ps. 279	Ps. -	Ps. 105,267
Interest-bearing checking accounts	11,083	59,314	6,433	9,425	15,376	3,418	403	-	105,452
Savings accounts	-	1	-	-	-	2	-	-	3
Current account Ps. and pre-established	4,428	8,988	2,456	4,387	4,348	2,871	226	-	27,704
Non-interest bearing demand deposits, USD	1,036	2,752	283	2,180	568	401	(9)	5,420	12,631
Interest bearing demand deposits, USD	1,862	2,572	372	2,280	369	1,170	(1)	5,019	13,643
Savings accounts in USD	-	-	-	-	-	-	-	383	383
Retail time deposits	13,438	44,664	9,059	10,343	13,891	8,713	690	-	100,798
Time deposits, USD	3,198	3,322	1,399	1,391	645	1,154	18	7,938	19,065
Customers Money market	17,659	15,536	5,089	4,575	2,608	4,864	271	-	50,602
Financial intermediaries	-	-	-	-	-	-	4,268	3,925	8,193
Total deposits	**Ps. 72,120**	**Ps. 178,602**	**Ps. 34,566**	**Ps. 47,596**	**Ps. 51,647**	**Ps. 30,380**	**Ps. 6,145**	**Ps. 22,685**	**Ps. 443,741**

	2012								
	Geographical location								
Product	Monterrey	Mexico City	West	Northwest	Southeast	East	Treasury and other	Foreign	Total
Non-interest bearing checking accounts	Ps. 16,063	Ps. 26,621	Ps. 8,216	Ps. 11,372	Ps. 11,440	Ps. 6,817	Ps. 305	Ps. -	Ps. 80,834
Interest-bearing checking accounts	9,093	28,283	4,639	7,786	12,382	2,854	225	-	65,262
Savings accounts	-	1	-	-	-	1	-	-	2
Current account Ps. and pre-established	3,814	7,334	2,142	3,882	3,827	2,745	140	-	23,884
Non-interest bearing demand deposits, USD	1,105	1,443	437	1,605	296	347	-	5,718	10,951
Interest bearing demand deposits, USD	1,919	1,809	437	2,184	332	1,018	-	5,671	13,370
Savings accounts in USD	-	-	-	-	-	-	-	408	408
Retail time deposits	11,755	29,514	8,233	9,188	12,186	7,883	2,150	-	80,909
Time deposits, USD	2,678	4,165	1,303	1,591	733	1,154	17	10,149	21,790
Customers Money market	21,768	17,098	6,593	5,414	4,982	6,364	153	-	62,372
Financial intermediaries	-	-	-	-	-	-	20,894	3,890	24,784
IXE Banco:									
Demand deposit									16,336
Time deposits									23,423
Total deposits	**Ps. 68,195**	**Ps. 116,268**	**Ps. 32,000**	**Ps. 43,022**	**Ps. 46,178**	**Ps. 29,183**	**Ps. 23,884**	**Ps. 25,836**	**Ps. 424,325**

29 - TAX ENVIRONMENT

In 2013 and 2012, the Financial Group was subject to ISR and IETU.

ISR

Income tax (ISR) is calculated considering certain inflation effects as taxable or deductible, pursuant to the Revenue Law of the Federation published on December 17, 2012. The ISR rate was 30% for 2013 and 2012.

Conciliation of the accounting and fiscal results

The principal items affecting the determination of the current tax expense of the Financial Group were the annual adjustment for inflation, the nondeductible amount of the allowance for loan losses exceeding 2.5% of the average loan portfolio and the valuation of financial instruments.

Employee Profit Sharing PTU

The Financial Group determines employee statutory profit sharing based on the criteria established in the guidelines set forth by the Mexican Constitution.

Business Flat Tax IETU

Revenues, as well as deductions and certain tax credits, are determined based on cash flows generated for each period. The rate is 17.5% for 2013 and 2012. The Asset Tax Law was abrogated upon enactment of LIETU; however, under certain circumstances, asset taxes paid in the ten years prior to the year in which ISR is paid, may be refunded, according to the terms of the law. As of December 31, 2013, the Financial Group has no recoverable asset taxes.

Based on financial projections, pursuant to the provisions in INIF-8, the Financial Group found that it will essentially pay ISR, therefore acknowledging only the deferred ISR.

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

	2013	2012
Legal rate	30%	30%
Provisions	-%	-%
Allowance for loan losses	(5%)	(6%)
Tax inflation	(1%)	-%
Non-tax accounting write-offs	5%	3%
Contribution to pension fund	(1%)	-%
Book profit on real and foreclosed property sales	(1%)	-%
Loan recoveries	(2%)	-%
Investment projects recoveries	(1%)	-%
Other entries	(3%)	(1%)
Effective rate	**21%**	**26%**

Tax reform

The Tax Reform contemplates several changes in its provisions that, although they have no direct impact on the Financial Group, they do 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 is Banorte. Some of the main changes in the Tax Reform are: Business Flat Tax (IETU) was repealed, uniform Value Added Tax nationwide at 16%, and the new Income Tax Law that has important implication for Banorte. Some of these are:

30% Income Tax Rate

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 now 30%.

10% Income Tax on Dividends

A new 10% tax is to be 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.

Overall Allowance for loan losses

According to the repealed income tax law, the Financial Group could deduct from taxes the loan reserves in an amount equivalent to 2.5% of the loan portfolio. Now according to the tax reform, this deduction of loan reserves will be replaced by the deduction of write-offs (art. 27 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. However, the addendum for 2014 states that write-offs on loans originated prior to January 1, 2014 cannot be deducted. This eliminates any possibility of minimizing the impact of the non-deductibility of the loan reserves. The addendum also eliminated the possibility of deducting losses from bad debts associated with the portfolio originated prior to 2014, which limits its sale to the Financial Group’s affiliates. Given the above, the Banking guild, through the Association of Bank of Mexico is holding meetings with the authorities to clarify the application of these provisions.

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 the Financial Group’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 Commission.

30 - STOCKHOLDERS’ EQUITY

At the Stockholders’ Ordinary General Meeting held on January 22, 2013, it was agreed to distribute cash dividends and pay them in January, April and July 2013, for Ps. 426, Ps. 426 and Ps. 426, respectively.

At the Stockholders’ Ordinary General Meeting held on October 14, 2013, it was agreed to distribute cash dividends and pay them in October 2013,January, April and July 2014, for Ps. 544, Ps. 544, Ps. 544 and Ps. 544, respectively.

The December 20, 2013 General Stockholders Meeting agreed to modify the First Resolution adopted in the October 14, 2013 meeting, so as to pay the dividends scheduled for payment in January and April 2014, on December 31, 2013. The fourth and last payment will be made on July 23, 2014 as agreed in the October 2013 meeting.

Pursuant to the authorizations granted by the Board of Directors and the Stockholders' Meeting, the Financial Group made a Global Public Offer of shares last July. All the shares in the offer were paid on July 22, 2013. The funds obtained from the offering 447,371,781 ordinary shares, equivalent to Ps. 31,987, were delivered in their entirety to the Financial Group, deducting the expenses involved in the offer itself.

The Financial Group's shareholders' common stock as of December 31, 2013 and 2012 is comprised as follows:

	Number of shares with a nominal value of Ps. 3.50	
	2013	**2012**
	Paid-in Capital	**Paid-in Capital**
"O" Series	2,773,729,563	2,326,357,782

	Historical Amounts	
	2013	**2012**
	Paid-in Capital	**Paid-in Capital**
"O" Series	Ps. 9,696	Ps. 8,116
Restatement in Mexican pesos through December 2007	4,956	4,956
	Ps. 14,652	Ps. 13,072

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 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, 2013, the legal reserve is Ps. 2,620 and represents 18% 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.

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.

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, 2013 sent to Banco de Mexico to review is shown below.

The capitalization ratio of Banorte as of December 31, 2013 was 15.12% of total risk (market, credit and operational), and 20.60% 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, 2013	
Tier 1 common equity prior to regulatory adjustments.	Ps. 77,859
Goodwill (net of applicable deferred profit taxes)	1,582
Other intangibles different from mortgage service right (net of applicable deferred profit taxes)	3,404
Result from valuation of instruments for cash flow hedging	(1,460)
Benefits on the remainder in securitization transactions	934
Investments in its own shares	316
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 Institution owns over 10% of the capital stock issued (amount over the 10% threshold)	21,383
National regulatory adjustments	(1,138)
Total regulatory adjustments to Tier 1 common equity	**25,021**
Tier 1 common equity (CET1)	**52,839**
Additional Tier 1 equity (AT1)	5,746
Tier 1 Equity (T1 = CET1 + AT1)	**58,585**
Capital instruments issued directly, subject to gradual elimination of Tier 2 equity Reserves	10,412 622
Tier 2 equity (T1 = CET1 + AT1)	**11,034**
Total capital (TC = T1 + T2)	**Ps. 69,619**

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. 46,564	Ps. 3,725
Floating rate securities' transactions in Mexican pesos	14,967	1,197
Real interest rate or UDI denominated securities' transactions in Mexican pesos	1,680	134
Transactions in domestic currency with a yield rate referenced to the increase in the General Minimum Wage.	4,309	345
Transactions in domestic currency with a yield rate referenced to the increase in the General Minimum Wage.	24	2
Nominal interest rate foreign exchange denominated securities' transaction in Mexican pesos	1,334	107
Positions in shares or whose yield is indexed to the price of a share or group of shares	2,012	161
Total	**Ps. 70,890**	**Ps. 5,671**

Assets subject to credit risk

Concept	Risk Weighted Assets	Capital requirement
Group II (weighted at 20%)	Ps. 15	Ps. 1
Group III (weighted at 10%)	424	34
Group III (weighted at 20%)	7,651	612
Group III (weighted at 23%)	271	22
Group III (weighted at 50%)	13,531	1,083
Group IV (weighted at 20%)	6,508	521
Group V (weighted at 10%)	10,802	864
Group V (weighted at 50%)	11,420	914
Group V (weighted at 115%)	131	10
Group V (weighted at 150%)	4,727	378
Group VI (weighted at 50%)	20,639	1,651
Group VI (weighted at 75%)	3,888	311
Group VI (weighted at 100%)	70,208	5,610
Group VII_A (weighted at 20%)	3,787	303
Group VII_A (weighted at 50%)	1,155	92
Group VII_A (weighted at 100%)	98,006	7,840
Group VII_A (weighted at 115%)	1,731	139
Group VII_A (weighted at 150%)	549	44
Group VIII (weighted at 125%)	7,736	618
Group IX (weighted at 100%)	45,784	3,663
Securitizations with a Risk Degree of 1 (weighted at 20%)	657	53
Securitizations with a Risk Degree of 2 (weighted at 50%)	3,809	305
Securitizations with a Risk Degree of 3 (weighted at 100%)	2,887	231
Securitizations with a Risk Degree of 4, 5, 6 or Non-rated (weighted at 1250%)	1,902	152
Sum	**Ps. 318,218**	**Ps. 25,451**
For permanent shares, furniture and real property, and advance payments and deferred charges	19,827	1,586
Total	**Ps. 338,045**	**Ps. 27,037**

Assets subject to operational risk:

	Risk Weighted Assets	Capital requirement
Total	**Ps. 51,393**	**Ps. 4,111**

Management

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.

Currently we have various sources of liquidity in domestic and foreign currency, including checking accounts and time deposits from our customers, in addition to access to debt and equity markets.

31 - FOREIGN CURRENCY POSITION

As of December 31, 2013 and 2012, the Financial Group holds certain assets and liabilities in foreign currency, mainly US dollars, converted to the exchange rate issued by Banco de Mexico at Ps. 13.0843 and Ps. 12.9658 per USD 1.00, respectively, as shown below:

	Thousands of US dollars	
	2013	**2012**
Assets	6,501,152	7,114,673
Liabilities	6,104,201	6,600,029
Net asset position in US dollars	**396,951**	**514,644**
Net asset position in Mexican pesos	**Ps. 5,194**	**Ps. 6,673**

32 - POSITION IN UDIS

As of December 31, 2013 and 2012, the Financial Group holds certain assets and liabilities denominated in UDIS, converted to Mexican pesos based on the current conversion factor of Ps. 5.058731 and Ps. 4.874624, per UDI, respectively, as shown below:

	Thousands of UDIS	
	2013	**2012**
Assets	1,285,865	520,514
Liabilities	454,783	459,606
Net asset position in UDIS	**831,082**	**60,908**
Net asset position in Mexican pesos	**Ps. 4,204**	**Ps. 297**

33 - EARNINGS PER SHARE

Earnings per share is 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, 2013 and 2012 are shown below:

	2013			2012
	Net Income	**Weighted share average**	**Earnings per share**	**Earnings per share**
Net income per share	Ps. 13,508	2,526,142,988	Ps. 5.3472	Ps. 4.6802

34 - RISK MANAGEMENT (unaudited)

Authorized bodies

To ensure adequate risk management of the Financial Group, as of 1997, the Financial Group's Board of Directors created the Risk Policies Committee (CPR), whose purpose is to manage the risks to which the Financial Group is exposed, and ensure that the performance of operations adheres to the established risk management objectives, guidelines, policies and procedures.

Furthermore, the CPR provides oversight on the global risk exposure limits approved by the Board of Directors, and also approves the specific risk limits for exposure to different types of risk.

The CPR is comprised of Proprietary Members of the Board of Directors, the CEO of the Financial Group, the Managing Directors of the Financial Group's entities, the Managing Director of Comprehensive Risk Management and the Managing Director of Audits, who have the right to speak but not to vote.

To adequately carry out its duties, the CPR performs the following functions, among others:

1. Propose for the approval of the Board of Directors:

    - The objectives, guidelines and policies for comprehensive risk management.
    - The global limits for risk exposure.
    - The mechanisms for implementing corrective measures.
    - The special cases or circumstances in which the global and specific limits may be exceeded.

2. Approve and review at least once a year:

    - The specific limits for discretionary risks, as well as tolerance levels for nondiscretionary risks.
    - The methodology and procedures to identify, measure, oversee, limit, control, report and disclose the different kinds of risks to which the Financial Group is exposed.
    - The models, parameters and scenarios used to perform the valuation, measurement and control of risks proposed by the Comprehensive Risk Management Unit.

3. Approve:
    - The methodologies for identification, valuation, measurement and control of risks of the new operations, products and services which the Financial Group intends to introduce into the market.
    - The corrective measures proposed by the Comprehensive Risk Management Unit.
    - The manuals for comprehensive risk management.
    - The technical evaluation of Comprehensive Risk Management aspects.

4. Assign and remove the person responsible for the Comprehensive Risk Management Unit, who is ratified by the Board of Directors.
5. Inform the Board, at least every quarter, of the exposure to risk and its possible negative effects, as well as follow up on limits and tolerance levels.
6. Inform the Board of the corrective measures implemented.

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

The function of the UAIR is to identify, measure, oversee, limit, control, report and disclose the different kinds of risk exposures, which are the responsibility of the Office of Risk Management (DGAR).

The DGAR reports to the CPR in compliance with the requirements set forth in the Commission's circular, the "General Risk Management Rules Applicable to Credit Financial Groups", in relation to the independence of the different business areas.

The DGAR focuses Comprehensive Risk Management efforts with methodologies for:

- Credit Risk Management
- Operating Risk Management
- Market Risk Management
- Liquidity and Capital Management
- Credit Management

The primary objectives of the DGAR are summarized as follows:

- Provide the different business areas with clear rules that facilitate their understanding so as to minimize risks and ensure that they are within the parameters established and approved by the Board of Directors and the Risk Policy Committee.
- Establish mechanisms to follow-up on risk-taking within the Financial Group, ensuring that they are preventive as much as possible, and supported by advanced systems and processes.
- Standardize risk measurement and control.
- Protect the Financial Group's capital against unexpected losses from market movements, credit losses and operating risks.
- Develop valuation methods for the different types of risks.
- Establish procedures for portfolio optimization and loan portfolio management.

The Financial Group has segmented risk assessment and management into the following areas:

Credit Risk: Volatility of revenues due to the creation of provisions for impairment of loans and potential credit losses derived from non-payment by a borrower or counterparty.

Market Risk: Volatility of revenues due to changes in the market, which affect the valuation of the positions from transactions involving assets, liabilities or generating contingent liabilities, such as: interest rates, exchange rates, price indexes, etc.

Liquidity Risk: Potential loss derived from the impossibility of renewing or contracting debt under normal conditions for the Financial Group, due to the anticipated or forced sale of assets at unusual discounts to meet its obligations.

Operational Risk: Loss resulting from inadequate or failed processes, personnel, internal systems or external events. This definition includes Technological Risk and Legal Risk. Technological Risk includes 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, whereas Legal Risk involves the potential loss from penalties for noncompliance with legal and administrative regulations or the issuance of adverse final court rulings in relation to the operations performed by the Financial Group.

Credit risk

Risk that customers, issuers or counterparties fail to meet their payment obligations; therefore, adequate risk management is essential to maintain a high quality loan portfolio.

The Financial Group credit risk management objectives are as follows:

- Improve the quality, diversification and composition of the loan portfolio to optimize the risk-return ratio.
- Provide senior management with reliable and timely information to support decision-making in credit matters.
- Provide the business departments with clear and sufficient tools to support credit placement and follow up.
- Support the creation of economic value for shareholders by means of efficient credit risk management.
- Define and constantly update the regulatory framework for credit risk management.
- Comply with the credit risk management reporting requirements established by the relevant authorities.
- Perform risk management in accordance with best practices; implementing models, methodologies, procedures and systems based on the latest international advances.

Individual credit risk

The Financial Group segments the loan portfolio into two large groups: consumer and corporate portfolios.

Individual credit risk for the consumer portfolio is identified, measured and controlled by means of a parametric system (scoring) which includes models for each of the consumer products: mortgage, automotive, payroll credit, personal and credit card.

Individual risk for the corporate portfolio is identified, measured and controlled by means of Target Markets, Risk Acceptance Criteria and Banorte Internal Risk Rating (CIR Banorte).

Target Markets and Risk Acceptance Criteria are tools which, coupled with the Internal Risk Rating CIR, are part of the credit strategy of the Financial Group and support to estimate the credit risk level.

Target Markets are activities selected by region and economic activity - supported by economic studies and portfolio behavior analyses - in which the Financial Group is interested in placing loans.

The Risk Acceptance Criteria are parameters which describe the risks identified by industries, facilitating an estimate of the risk involved for the Financial Group in granting a loan to a customer depending on the economic activity which it performs. The types of risks evaluated in the Risk Acceptance Criteria are the financial risk, operational risk, market risk, company lifecycle risk, legal and regulatory risk, credit history and quality of management.

Early Warnings are a set of criteria based on information and indicators of the borrowers and their environment that have been set forth for timely prevention and identification of likely impairment in the loan portfolio, in order to take credit risk mitigating preventive actions in a timely manner.

CIR Banorte is a rating methodology for the borrower which assesses quantitative and qualitative criteria to determine the credit quality. It is applied to commercial loans equal to or greater than an amount equivalent in Mexican pesos to four million investment units (UDIs) on the rating date.

Portfolio credit risk

The Financial Group has designed a portfolio credit risk methodology which, while also including the best and most current international practices regarding to identification, measurement, control and follow up, has been adapted to function within the context of the Mexican financial system.

The credit risk methodology identifies the exposure of all the loan portfolios of the Financial Group, overseeing risk concentration levels based on risk classifications, geographical regions, economic activities, currencies and type of product, for the purpose of identifying the portfolio profile and taking actions to diversify it and maximize profit with the lowest possible risk.

The calculation of loan exposure involves the generation of the cash flow from each of the loans, both in terms of principal and interest, for their subsequent discount. This exposure is sensitive to market changes, and facilitates the performance of calculations under different economic scenarios.

Apart from considering loan exposure, the methodology takes into account the probability of default, the recovery level associated with each customer and the sorting of the borrowers based on the Merton model. The probability of default is the probability that a borrower will not comply with its debt obligations to the Financial Group on the terms and conditions originally agreed. The probability of default is based on the transition matrixes which the Financial Group calculates according to the migration of borrowers to different risk classification levels. The recovery level is the percentage of the total exposure that is expected to be recovered if the borrower defaults on its obligations. The classification of the borrowers based on the Merton model is intended to tie the future behavior of the borrower to credit and market factors on which, using statistical techniques, it has been determined, that the borrower's "credit health" depends.

The primary results obtained are the expected loss and unexpected loss over a one-year time horizon. The expected loss is the median of the distribution of losses of the loan portfolio, which enables a measurement of the average loss expected in the following year due to noncompliance or variations in the credit status of the borrowers. The unexpected loss is an indicator of the loss expected under extreme circumstances, and is measured as the difference between the maximum loss based on the distribution of losses, at a specific confidence level, which in the case of the Financial Group is 95%, and the expected loss.

The results obtained are used as a tool for better decision-making in granting loans and portfolio diversification, in accordance with the global strategy of the Financial Group. The individual risk identification tools and the portfolio credit risk methodology are reviewed and updated periodically to incorporate new techniques that can support or strengthen them.

As of December 2013, the total operating portfolio of Banco Mercantil del Norte, S.A. (Banco Mercantil del Norte) is Ps. 417,867. The expected loss represents 2.1% and the unexpected loss represents 3.3% of the total operating portfolio. The average expected loss was 2.1% for the period between October and December 2013.

The credit exposure of the investments made by Casa de Bolsa Banorte-Ixe was Ps. 113,243 and the expected loss represents 0.00% of such exposure. The average expected loss was 0.01% for the period between October and December 2013.

The total leasing and factoring portfolio of Arrendadora y Factor, including pure leasing, was Ps. 19,732 million. The expected loss represents 1.0% and the unexpected loss represents 3.4% of the total operating portfolio. The average expected loss was 1.0% for the period between October and December 2013.

The total portfolio of Solida Administradora de Portafolios amounts to Ps. 494 million. The expected loss represents 19.6% and the unexpected loss represents 5.4% of the total operating portfolio. The average expected loss was 16.4% for the period between October and December 2013.

The total operating portfolio of Banorte-IXE Tarjetas was Ps. 20,545. The expected loss represents 11.2% and the unexpected loss represents 10.9% of the total operating portfolio. The average expected loss was 11.6% for the period between October and December 2013.

Credit risk of financial instruments

There are specific policies for the origination, analysis, authorization and management of financial instruments to identify, measure, keep track and control credit risk.

The origination policies define the type of financial instruments to operate and how to evaluate the credit quality of different types of issuers and counterparties. Credit quality is assigned by means of a rating obtained by an internal methodology, external rating evaluations or a combination of both. Additionally, there are maximum operating parameters depending on the type of issuer or counterparty, rating and operation type.

The analysis policies include the type of information and variables considered to analyze operations with financial instruments when they are presented for their authorization by the corresponding committee, including information about the issuer or counterparty, financial instrument, destination of the transaction within the Financial Group and market information.

The Credit Committee is the body that authorizes operation lines with financial instruments according to the authorization policies. The authorization request is submitted by the business area and the areas involved in the operation with all the relevant information to be analyzed and, if applicable, authorized by the Committee.

The policy to manage lines in order to operate financial instruments contemplates the procedures for registration, instrumentation, regulation compliance, revision, consumer monitoring, line management and responsibility of the areas and bodies involved in operating financial instruments.

Concentration of credit risk with financial instruments is managed continuously on an individual level, monitoring maximum operational parameters per counterparty or issuer depending on the rating and type of operation. For portfolios there are economic and internal group risk diversification policies in place. Additionally, concentration is monitored by type of counterparty or issuer, size of the financial institutions and where they operate in order to get the right diversification and avoid unwanted concentrations.

Credit risk is measured by means of the rating associated with the issuer, issue or counterpart, which has an assigned degree of risk measured based on two elements:

1) The probability of default by the issuer, issue or counterparty; expressed as a percentage between 0% and 100%, the higher the rating or the lower the rate differential of the instrument vs. the equivalent government bond rate, the lower the probability of delinquency, and vice versa.

2) The severity of the loss with respect to the total operations in the event of default, expressed as a percentage between 0% and 100%. The better the guarantees or credit structure, the lower the severity of the loss, and vice versa. In order to mitigate credit risk and reduce the severity of the loss in case of default, the Financial Group has signed ISDA contracts and netting agreements with its counterparties, which contemplate implementing credit lines and using collateral to mitigate losses as a result of defaults.

As of December 31, 2013, the investment in securities exposure to credit risk for Banorte is Ps 220,548, of which 99.3% has a rating greater than or equal to A-(mex) on the local scale. This places them in investment grade and the three main issuers other than the Federal Government, Semi-Private agencies and Domestic Financial Institutions represent 12% of the basic capital as of September 2013. Additionally, the exposure of investments to 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 2013 has a rating of at least AA-(mex) and is comprised of (term in weighted average, amount in pesos and rate): exchange listed debt certificates and Pemex bonds with a 5-year 9-month maturity for Ps. 14,652 at 3.7%; debt securities of Banco Inbursa with a 2 years maturity for Ps. 5,951 at 3.9%; debt certificates and certificates of deposit and promissory notes of Banco Santander Mexicano with a 7-month maturity for Ps. 3,955 at 2.6%; exchange listed debt certificates and certificates of deposit of Bancomer with a 3-month maturity for Ps. 3,793 at 2.4%; and exchange listed State and Municipal government loan securitization certificates with a 23-year 5-month maturity for Ps. 3,420 at 2.9%

For derivatives, the exposure is (Ps. 3,428), of which 97.5% is rated at least A-(mex) on the local scale, which places them at investment grade; the three main counterparties other than the Federal Government, Semi-Private agencies and Domestic Financial Institutions represent 2% of the basic capital as of September 2013.

For Casa de Bolsa Banorte-Ixe, the credit risk exposure of the investments in securities was Ps. 113,242, of which 99.9% 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 23% of the basic capital as of September 2013. 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 2013 has a rating of at least A+(mex) and is comprised of (term in weighted average, amount in million pesos and interest rate): exchange listed debt certificates of Pemex with a 2-year 1-month maturity for Ps. 1,679 at 3.8%; exchange listed debt certificates of Banco Inbursa with a maturity of 1 year and 11 months for Ps. 1,521 at 4.0%; exchange listed debt certificates of Scotiabank with a 1-year 9-month maturity for Ps. 937 at 4.0%; exchange listed debt certificates of Banco del Bajio with a 3-month maturity for Ps. 401 at 3.3%; Deutsche Bank bonds with a 9-year 5-month for Ps. 362 at 11.5%; and exchange listed debt certificates of CFE with a 6-year 6-month maturity for Ps. 132 at 3.9%. There are no operations for derivatives financial instruments.

Arrendadora and Factor Banorte has no investments in securities nor derivatives financial instruments.

The exposure in investments in securities for Solida Administradora de Portafolios is Ps. 474, all of which are in bank instruments. There are no derivatives financial instruments.

Banorte-IXE Tarjetas has neither investments in securities nor derivatives.

Risk Diversification

In December 2005, the CNBV issued the "General Rules for Risk Diversification in Performing Asset and Liability Transactions Applicable to Credit Institutions".

These regulations require that the Banks perform an analysis of the borrowers and/or loans they hold to determine the amount of their “Common Risk”. Also, the Financial Group must have the necessary documentation to support that a person or group of persons represent a common risk in accordance with the assumptions established under such rules.

In compliance with the risk diversification rules for asset and liability transactions, the following information regarding Banco Mercantil del Norte is provided below (millions of pesos):

Basic capital as of September 30, 2013	**56,322**
I. Financing whose individual amount represents more than 10% of basic capital:	
Credit transactions	
Number	2
Overall amount	16,685
% in relation to basic capital	30%
Money market transactions	
Number	-
Overall amount	-
% in relation to basic capital	-%
Overnight transactions	
Number	1
Overall amount	6,000
% in relation to basic capital	11%
II. Maximum amount of financing with the three largest debtors and common risk groups	**32,355**

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

Stockholders' equity as of September 30, 2013	**3,031**
I. Financing whose individual amount represents more than 10% of stockholders' equity:	
Credit transactions	
Number	10
Overall amount	5,332
% in relation to stockholders equity	176%
II. Maximum amount of financing with the three largest debtors and common risk groups	**4,075**

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

Stockholders' equity as of September 30, 2013	**2,576**
I. Financing whose individual amount represents more than 10% of stockholders' equity (group level):	
Credit transactions	
Number	5
Overall amount	1,669
% in relation to stockholders equity	65%
Money market transactions	
Number	1
Overall amount	474
% in relation to stockholders equity	18%
Overnight transactions	
Number	-
Overall amount	-
% in relation to stockholders equity	-%
II. Maximum amount of financing with the three largest debtors and common risk groups	**1,362**

In compliance with the risk diversification rules for asset and liability transactions, the following information regarding Banorte-IXE Tarjetas is provided below (millions of pesos):

Stockholders' equity as of September 30, 2013	**3,791**
I. Financing whose individual amount represents more than 10% of stockholders' equity (group level):	
Credit transactions	
Number	-
Overall amount	-
% in relation to stockholders equity	-%
Money market transactions	
Number	-
Overall amount	-
% in relation to stockholders equity	-%
Overnight transactions	
Number	-
Overall amount	-
% in relation to stockholders equity	-%
II. Maximum amount of financing with the three largest debtors and common risk groups	**6**

Market risk

Value at risk

The exposure to market risk is determined through the calculation of the Value at Risk ("VaR"). The meaning of the VaR under this method is the potential day loss which could be generated in the valuation of the portfolios at a given date. This methodology is used both for the calculation of market risk and for the establishment and control of internal limits.

The Financial Group applies the nonparametric historical simulation method to calculate the VaR, considering for such purpose a 99% confidence level, using the 500 immediate historical scenarios, multiplying the result by a security factor that fluctuates between 3 and 4 depending on the annual Back Testing results calculated on the previous quarter, considering 10 days to dispose of the risk portfolio in question. These measures ensure that unforeseen volatiles are considered in the main risk factors that affect those portfolios.

The methodology is applied to all the portfolios of financial instruments on and off balance sheet, including money market and treasury transactions, capital, foreign-exchange and derivatives held for trading and hedging purposes, which are exposed to variations in their value due to changes in the risk factors affecting their market valuation (domestic and foreign interest rates, exchange rates and indexes, among others).

The average VaR for financial instruments portfolio was Ps. 4,616 for the last quarter 2013.

	4Q12	**1Q13**	**2Q13**	**3Q13**	**4Q13**
VaR Banorte*	3,288	3,464	3,732	4,473	4,616
Banorte net capital***	58,192	64,622	66,570	67,411	69,619
VaR / net capital Banorte	5.65%	5.36%	5.61%	6.64%	6.63%

* Banorte's Quarterly Average
*** Sum of net capital at the close of the quarter

Also, the average of the VaR per risk factor for the Financial Group's portfolio of securities behaved as follows during the fourth quarter of 2013:

Risk factor	VaR
Domestic interest rate	Ps. 3,944
Foreign interest rate	742
Exchange rate	498
Capital	158
Total VaR	Ps. 4,616

The VaR for each of the risk factors presented is determined by simulating 500 historical scenarios of the variables comprising each of such factors, keeping constant the variables that affect the other risk factors shown. Also, the consolidated VaR for the Financial Group considers the correlations of all the risk factors influencing the valuation of the portfolios, reason why the arithmetical sum of the VaR risk factors does not match the individual amounts.

Operations with derivative products

The Financial Group's individual VaR on a one-day time horizon for each type of trading and hedging derivatives for the fourth quarter of 2013 was:

Trading derivatives	4Q13	4Q12
Futures		
MEXDER rate futures	Ps. 3	Ps. 8
Exchange rate derivatives		
Forwards	122	49
Options	2	-
Interest rate options		
TIIE	6	11
Interest rate swaps (IRS) and exchange rate		
TIIE swaps	55	51
LIBOR swaps	39	36
Cross currency exchange rate swaps	164	175
Total trading derivatives	**391**	**Ps. 330**

Hedging derivatives	4Q13	4Q12
Swaps		
Cross exchange rate swaps for portfolio hedging in USD	Ps. -	Ps. -
Cross currency exchange rate swaps for hedging bonds in USD	171	211
TIIE swaps for hedging obligations in Mexican pesos	4	8
TIIE swaps for hedging promissory note in Mexican pesos	-	190
Interest rate options for hedging fixed rate portfolios	161	-
Total hedging derivatives	**Ps. 336**	**Ps. 409**

To calculate the VaR for each of the derivatives listed, the non-parametric historic simulation method is applied to a 99% level of confidence and a one-day horizon. For instance, the Value at Risk for TIIE Swaps is Ps. 55 million. This means that under normal condition, 99 days out of every 100, the maximum potential loss is Ps. 55 million in one day.

The trading and hedging derivatives' totals are the arithmetic sum of each VaR without considering any correlation among them.

Investment in securities

The Financial Group's individual VaR on a one-day time horizon for each type of trading securities for the fourth quarter of 2013 was:

Trading Securities	**4Q13**	**4Q12**
Floating rate government bonds	Ps. 62	Ps. 17
Fixed rate government bonds	28	45
Zero coupon bank bonds	1	-
Exchange listed debt certificates	79	26
CEDES	-	2
Actual rate bonds	19	1
US treasury bonds	23	3
PEMEX Eurobonds	164	137
UMS	8	58
Bank Eurobonds	19	24
Private company Eurobonds	6	-
Private company Eurobonds dollars	23	10
Total	**Ps. 432**	**Ps. 323**

Securities at maturity	**4Q13**	**4Q12**
Floating rate government bonds	Ps. 7	Ps. 15
Exchange listed debt certificates	33	24
CEDES	-	4
Bank bonds	2	-
PEMEX bonds	7	-
Private company Eurobonds	6	6
Private company Eurobonds dollars	3	-
Total	**Ps. 58**	**Ps. 49**

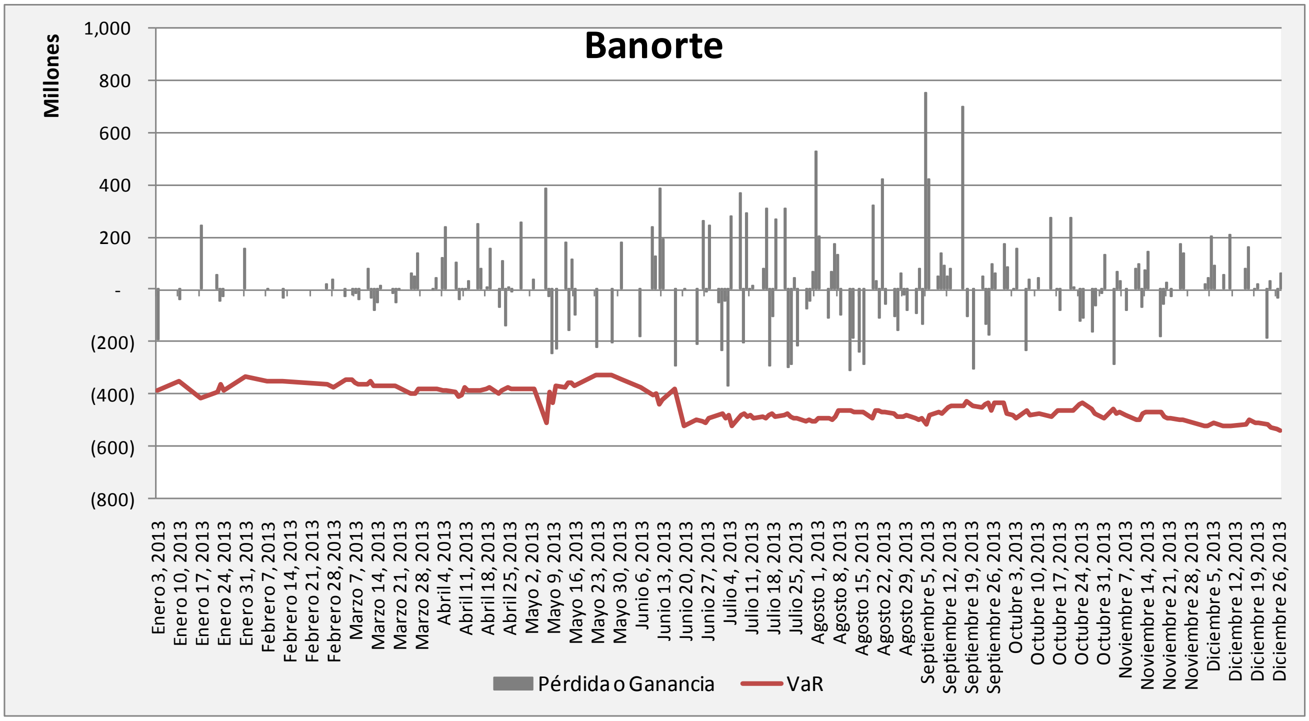
To calculate the VaR for each type of securities listed, the non-parametric historic simulation method is applied to a 99%% level of confidence and a one-day horizon. For instance, the Value at Risk for trading UMS is Ps 8. This means that under normal condition, 99 days out of every 100, the maximum potential loss is Ps. 8 million in one day.

The trading and hedging derivatives' totals are the arithmetic sum of each VaR without considering any correlation among them.

Backtesting analysis

To validate the effectiveness of the measurements of the calculation of the daily VaR as a measurement of market risk, the Backtesting analysis is updated each week. This analysis makes it possible to compare the estimated results through the VaR with the actual results generated.

The BackTesting results for the Financial Group as of December 2013 are as follows:



During 2013 there were no surplus events of the forecast VaR vs. the Actual VaR for the Banorte portfolio.

Sensitivity analysis and tests under extreme conditions

To improve analysis and obtain the impact of any movements in risk factors, sensitivity analyses and tests under extreme conditions are performed periodically. These analyses foresee potential situations in which the Financial Group might suffer extraordinary losses from the valuation of the financial instruments in which it holds positions.

Sensitivity for derivatives' products

Sensitivity analysis on derivative transactions is carried out as follows:

- Estimate gain or loss of the securities valuation in the event of:

- A parallel change of +100 basis points of domestic interest rates
- A parallel change of +100 basis points of foreign interest rates
- A 5% devaluation in the MXP/USD and MXP/EUR exchange rate.

The results may be gains or losses depending on the nature of the derivative.

Trading derivatives	+100 bp domestic rates	+100 bp foreign rates	+5% exchange rate
Futures			
MEXDER futures	(Ps. 34)	Ps. -	Ps. -
Exchange rate derivatives			
Options	-	-	(5)
Forwards	13	(13)	312
Interest rate options			
TIIE	(32)	-	-
LIBOR	-	1	-
Interest rate swaps (IRS) and exchange rate			
TIIE Swaps	(214)	-	-
LIBOR Swaps	-	57	(1)
Cross exchange rate Swaps	(189)	126	(769)
Total trading derivatives	**(Ps. 456)**	**Ps. 171**	**(Ps. 463)**

Hedging derivatives	+100 bp domestic rates	+100 bp foreign rates	+5% exchange rate
Rate swaps and exchange rate			
Cross currency exchange rate swaps for hedging bonds in USD	(Ps. 266)	Ps. 281	(Ps. 394)
TIIE swaps for hedging obligations in Mexican pesos	5	(6)	11
TIIE swaps for hedging promissory note in Mexican pesos	4	-	-
TIIE caps for fixed rate loan hedging	704	-	-
Total hedging derivatives	Ps. -	Ps. -	Ps. -

In the event of any of the above scenarios, the trading securities losses will directly impact the Financial Group's Consolidated Income Statements and capital hedging derivatives.

Based on the above analysis, it can be concluded that the trading derivatives portfolio is exposed mainly to increases in domestic interest rates and exchange rate devaluations. However, the hedging derivatives portfolio is exposed to foreign interest rate increases without considering the gain of the hedged liability.

Sensitivity for securities' trading

Sensitivity analysis on derivative transactions is carried out as follows:

- Estimate gain or loss of the securities valuation in the event of:

- A parallel change of +100 basis points of domestic interest rates.
- A parallel change of +100 basis points of foreign interest rates.
- A 5% devaluation in the MXP/USD and MXP/EUR exchange rate.
- A change of +5 basis points in the spreads of government bonds.
- A change of +50 basis points in sovereign risk.
- A change of +10% in the IPC (Consumer Price Index).

The results may be gains or losses depending on the nature of the instrument.

Trading securities	+100 bp domestic rates	+100 bp foreign rates	+5% exchange rate	+5 bp rate spreads	+50 bp sovereign risk
Floating rate government bonds	(Ps. 222)	Ps. -	Ps. -	(Ps. 208)	Ps. -
Fixed rate government bonds	(179)	-	-	-	-
Zero coupon bank bonds	(19)	-	-	-	-
Exchange listed debt certificates	(75)	-	-	-	-
Actual rate bonds	(112)	-	-	-	-
CEDES	(1)	-	-	-	-
US treasury bonds	-	(81)	51	-	-
PEMEX bonds	-	(517)	366	-	(194)
UMS	-	(3)	24	-	-
Bank bonds in USD	-	(33)	66	-	-
Private company in MXP	(11)	-	-	-	-
Private company Eurobonds	-	(64)	54	-	-
Total	**(Ps. 619)**	**(Ps. 698)**	**Ps. 561**	**(Ps. 208)**	**(Ps. 194)**

Securities held to maturity	+100 bp domestic rates	+100 bp foreign rates	+5% exchange rate	+5 bp rate spreads	+50 bp sovereign risk
Floating rate government bonds	(Ps. 71)	Ps. -	Ps. -	Ps. (7)	Ps. -
Exchange listed debt certificates	(14)	-	-	-	-
Bank bonds in USD	-	(2)	6	-	-
PEMEX bonds	-	(19)	17	-	(10)
Bank bonds in MXP	(12)	-	-	-	-
Private company Eurobonds	-	(7)	8	-	-
Total	**(Ps. 97)**	**(Ps. 28)**	**Ps. 31**	**(Ps. 7)**	**(Ps. 10)**

In the event of any of above scenarios, the trading securities losses will directly impact the Financial Group's Consolidated Income Statements and capital hedging derivatives.

In conclusion, trading securities and securities held to maturity are exposed to domestic interest rate increases, foreign rate increases, interest rate spreads and deterioration of the sovereign risk.

The Brokerage House applies the nonparametric historical simulation method to calculate the Value at Risk (VaR), considering for such purpose a 99% 2-tailed confidence level, using (more / less) 500 immediate historical scenarios, multiplying the result by a security factor that ensures that unforeseen volatiles are considered in the main risk factors that affect those portfolios and is established depending on the behavior of the main risk factors.

The methodology is applied to all the portfolios of financial instruments on and off the Brokerage House's balance sheet, including money market and treasury transactions, capital, foreign-exchange and derivatives, whose value is exposed to variations due to changes in the risk factors affecting their market valuation (domestic and foreign interest rates, exchange rates and indexes, among others).

The portfolio's average VaR for the close of the October-December 2013 quarter is Ps. 278.03:

	4Q12	1Q13	2Q13	3Q13	4Q13
VaR Casa de Bolsa*	207.27	247.47	315.96	275.41	278.03
Overall capital**	2,226	2,495	1,703	1,845	2,053
VaR / Overall capital Banorte	9.31%	9.92%	18.55%	14.93%	13.54%

* Quarterly Average
*** Overall capital at the close of the relevant quarter

Also, the average of the VaR per risk factor for the Brokerage House's portfolio of securities behaved as follows during the fourth quarter of 2013:

Risk factor	VaR
Domestic interest rate	278.06
Capital	0.1
Total VaR	278.03

The VaR for each of the Brokerage House's risk factors presented is determined by simulating 500 historical scenarios of the variables comprising each of such factors, keeping constant the variables that affect the other risk factors shown. Also, the consolidated VaR considers the correlations of all the risk factors influencing the valuation of the portfolios, which is why the arithmetical sum of the VaR per Risk Factor does not match.

Operations with derived products

At the close of December 2013, there were no transactions with derivative products.

Investment in securities

The Brokerage House's individual VaR on a one-day time horizon for each type of securities for the fourth quarter of 2013 was:

Trading Securities	4Q13	4Q12
Floating rate government bonds	$48	$38
Fixed rate government bonds	4	-
Exchange listed debt certificates	7	5
Capital	-	5
Total	**$59**	**$48**

Securities at maturity	4Q13	4Q12
Floating rate government bonds	$-	$1
Exchange listed debt certificates	9	1
Total	**$9**	**$2**

To calculate the VaR for each type of securities listed, the non-parametric historic simulation method is applied to a 99%% level of confidence and a one-day horizon. For instance, the Value at Risk for Variable Rate Government Bonds is Ps. 47.6. This means that under normal condition, 99 days out of every 100 the maximum potential loss is Ps 47.6 in one day.

Backtesting analysis

To validate the effectiveness of the measurements of the calculation of the daily VaR as a measurement of market risk, the Backtesting analysis is updated each week. This analysis makes it possible to compare the estimated results through the VaR with the actual results generated.

The Backtesting results are as follows:

Brokerage House	Obs.	Events
IPC Futures	250	NA
Money Desk	250	-
Casa Bolsa Banorte	250	-

Sensitivity analysis and tests under extreme conditions

To improve analysis and obtain the impact of any movements in risk factors, sensitivity analyses and tests under extreme conditions are performed periodically. These analyses foresee potential situations in which the Brokerage House might suffer extraordinary losses from the valuation of the financial instruments in which it holds positions.

Sensitivity for derivatives' products

To date there are not transactions with derivatives products.

Sensitivity for securities' trading

Sensitivity analysis on derivative transactions is carried out as follows:

- Estimate gain or loss of the securities valuation in the event of:

  - A parallel change of +100 basis points of domestic interest rates
  - A parallel change of +100 basis points of foreign interest rates
  - A 5% devaluation in the MXP/USD and MXP/EUR exchange rate.
  - A change of +5 basis points in the spreads of government bonds
  - A change of +50 basis points in sovereign risk
  - A change of +10% in the IPC (Consumer Price Index)

The results may be gains or losses depending on the nature of the instrument.

Trading securities	**+100 BP domestic rates**	**+100 bp foreign rates**	**+5% exchange rate**	**+5 bp rate spreads**	**+50 bp sovereign risk**	**-10% IPC**
Floating rate government bonds	(Ps. 142)	Ps. -	Ps. -	(Ps. 152)	Ps. -	Ps. -
Fixed rate government bonds	(32)	-	-	-	-	-
Exchange listed debt certificates	(1)	-	-	-	-	-
Total	**(175)**	**Ps. -**	**Ps. -**	**(152)**	**Ps. -**	**Ps. -**

Securities at maturity	**+100 BP domestic rates**	**+100 bp foreign rates**	**+5% exchange rate**	**+5 bp rate spreads**	**+50 bp sovereign risk**	**-10% IPC**
Floating rate government bonds	(Ps. 2)	Ps. -	Ps. -	Ps. -	Ps. -	Ps. -
Exchange listed debt certificates	(16)	-	-	-	-	-
Total	**(Ps. 18)**	**Ps. -**	**Ps. -**	**Ps. -**	**Ps. -**	**Ps. -**

In the event of any of the above scenarios, the losses of the Variable Rate and Capital Government Bonds will directly impact the Brokerage House's income statements.

In conclusion, trading securities and securities held to maturity are exposed to domestic interest rate increases, foreign rate increases, interest rate spreads and impairment of the sovereign risk.

Sensitivity analysis and tests under extreme conditions

To improve analysis and obtain the impact of any movements in risk factors, sensitivity analyses and tests under extreme conditions are performed periodically. These analyses foresee potential situations in which the Brokerage House might suffer extraordinary losses from the valuation of the financial instruments in which it holds positions.

The average VaR for Ixe Tarjetas loans for the fourth quarter of 2013 is Ps. 0.01, which represents +0.0% of the net capital as of December 2013. This risk calculation is provided solely as information. The institution invested its resources in securities repurchasing, promissory notes and same-day checks, which are instruments that do not show any changes in their valuation.

The Historical Simulation methodology with a 500-day history is used to calculate the risk. It's policy to perform estimates with a 98% confidence level with a 10-day horizon. This value is multiplied by a safety factor that varies between 3 and 4, depending on the annual Backtesting results.

Ixe Tarjetas	Total 4 Quarter 2013	
	Average	**Closing**
VaR Balance	**0.006**	**0.013**
Net capital		Ps. 2,992.29
VaR / Net Capital	**-%**	**-%**

The average VaR for Solida's loans for the fourth quarter of 2013 is Ps. 0.01, which represents +0.0% of the net capital as of December 2013. This risk calculation is provided solely as information. The institution invested its resources in securities repurchasing, and same-day checks, which are instruments that do not show any changes in their valuation as there are no associated risk factors subject to market condition variations.

The Historical Simulation methodology with a 500-day history is used to calculate the risk. It is policy to perform estimates with a 98% confidence level at a 10-day horizon. This value is multiplied by a safety factor that varies between 3 and 4, depending on the annual Backtesting results.

Solida	Total 4 Quarter 2013	
	Average	**Closing**
VaR Balance	**0.014**	**0.012**
Net capital		Ps. 2,415.05
VaR / Net Capital	**-%**	**-%**

Liquidity and balance sheet risk

In order to provide a measurement of liquidity risk in the Financial Group and provide follow-up consistently, Banorte relies on the use of financial ratios, which include the Liquidity Ratio (Current Assets/Liquid Liabilities). Liquid assets include cash and cash equivalents, trading securities and securities available for sale. By the same token, liquid liabilities include immediate demand deposits, immediate demand interbank loans and short-term loans. The liquidity ratio at the end of the fourth quarter of 2013 is 99.1%, while the average during the quarter is 104.8%, as shown below:

	End of quarter				
	4Q12	**1Q13**	**2Q13**	**3Q13**	**4Q13**
Liquid assets	150,115	234,779	249,189	267,068	255,285
Liquid liabilities	194,289	191,765	215,252	237,260	257,596
Liquidity ratio	77.3%	122.4%	115.8%	112.6%	99.1%

	Average				
	4Q12	**1Q13**	**2Q13**	**3Q13**	**4Q13**
Liquid assets	164,011	205,270	228,551	254,324	249,265
Liquid liabilities	187,977	189,745	197,362	221,354	237,931
Liquidity ratio	87.3%	108.2%	115.8%	114.9%	104.8%

Average calculation considering the Liquidity Ratio's weekly estimates

To quantify and follow up on the liquidity risk for its dollar portfolio, the Financial Group uses the criteria established by Banco de Mexico for the determination of the Liquidity Ratio. It facilitates an evaluation of the differences between the flows of assets and liabilities in different time periods. The above promotes a healthier distribution of terms for these assets.

Also, to prevent concentration risks in relation to payment terms and dates for the Financial Group, gap analysis is performed to match the resources with the funding sources, which detects any concentration in a timely fashion. These analyses are performed separately by currency (Mexican pesos, foreign currency and UDIS).

Furthermore, balance sheet simulation analyses are prepared for the Financial Group, which provides either a systematic or dynamic evaluation of the future behavior of the balance sheet. The base scenario is used to prepare sensitivity analyses for movements in domestic, foreign and real interest rates. Also, tests are performed under extreme conditions to evaluate the result of extreme changes in interest, funding and exchange rates.

As an evaluation measure of the effectiveness of the simulation model, the projections are periodically compared with actual data. Using these tests, the assumptions and methodology used can be evaluated and, if necessary, adjusted.

The operation with derivatives allows to level the differentials between assets and liabilities in different maturity gaps, minimizing the Liquidity Risk. Considering only the contractual obligations of the different types of hedging and trading swaps that the Financial Group operates, a maturity analysis is found below:

Net position			**Thousands of pesos**
Gap	**Asset position**	**Liability position**	Net
1 month	Ps. 3,829,711	(Ps. 4,017,162)	(Ps. 187,451)
3 months	2,299,918	(2,440,938)	(141,020)
6 months	7,352,718	(7,381,393)	(28,675)
1 year	6,666,076	(6,996,400)	(330,324)
2 years	8,528,818	(9,010,834)	(482,016)
3 years	5,362,859	(5,495,161)	(132,302)
4 years	12,158,345	(12,398,335)	(239,990)
5 years	6,722,917	(7,328,681)	(605,764)
7 years	11,267,215	(10,747,839)	519,376
10 years	7,454,509	(7,128,744)	325,765
15 years	3,331,955	(3,374,123)	(42,168)
20 years	99,347	(88,367)	10,980
> 20 years	72,886	(77,193)	(4,307)
Total	**Ps. 75,147,274**	**(Ps. 76,485,170)**	**(Ps. 1,337,896)**

The liquidity ratio at the end of 4Q13 for Casa de Bolsa Banorte Ixe is 86.23%.

Casa de Bolsa Banorte Ixe	**4Q12**	**4Q13**
Gap accumulated over 1 month (MXP + UDIS)	Ps. 1,362	Ps. 1,095
Liquid assets	1,458	1,770
Overall capital	2,250	2,051
Liquidity vs. net capital	**64.80%**	**86.23%**

The liquidity ratio at the end of 4Q13 for Arrendadora and Factor Banorte is 0.65%.

Casa de Bolsa Banorte Ixe	**USE - December 2013**
Gap accumulated over 1 month (MXP)	(Ps. 2,350)
Gap accumulated over 3 month (MXP)	1,446
Liquid assets	21
Net capital	3,205
Basic capital	3,205
Liquidity vs. net capital	**0.65%**
Liquidity vs. net capital	**0.65%**

The liquidity ratio vs. net capital for Solida Administradora de Portafolios (previously Ixe Soluciones) as of December 31, 2013 is 35.09%.

Solida Administradora de Portafolios (previously Ixe Soluciones)	**USE - December 2013**
Gap accumulated over 1 month (MXP)	(Ps. 2,064)
Gap accumulated over 3 months (MXP)	(5,276)
Liquid assets	847
Net capital	2,415
Basic capital	2,310
Liquidity vs. net capital	**35.09%**
Liquidity vs. net capital	**36.68%**

The liquidity ratio vs. net capital for Banorte Ixe Tarjetas as of December 31, 2013 is 10.63%.

Banorte Ixe Tarjetas	**USE - December 2013**
Gap accumulated over 1 month (MXP + UDIS)	Ps. 4,417
Gap accumulated over 3 month (MXP + UDIS)	4,777
Liquid assets	318
Net capital	2,992
Basic capital	2,992
Liquidity vs. net capital	**10.63%**
Liquidity vs. net capital	**10.63%**

Operational risk

The Financial Group established a formal operational risk department denominated "Operational Risk Management Department" as part of its Risk Management Strategy.

The Financial Group defines operational risk as the potential loss due to failures or deficiencies in internal controls because of errors in operations processing and storing or in data transfer, and adverse administrative and judicial rulings, frauds or theft (this definition includes Technology and Legal risk).

Operations Risk Management has three objectives: a) to enable and support the organization to reach its institutional objectives through operational risk prevention and management; b) to ensure that the existing operational risks and the required controls are duly identified, evaluated and aligned with the organization's risk strategy; and c) to ensure that operational risks are duly quantified in order to assign the proper capital for operational risk.

Operational risk management's cornerstones

I. Policies, objectives and guidelines

The Financial Group has documented the operational risk policies, objectives, guidelines, methodologies and responsible areas.

The Operational Risk Department works closely with the Controller to promote effective Internal Control that defines the proper procedures and controls the mitigation of Operational Risk. The Internal Audit Department follows up on compliance.

The Controller, as part of the Internal Control System, performs the following risk-mitigating activities: a) internal control validation; b) institutional regulations' management and control; c) monitoring of operating process' internal control by means of control indicator reports submitted by the process controllers in the various areas; d) money-laundering prevention process management; e) regulatory provisions controls and follow-up; and f) analysis and assessment of operating processes and projects with the participation of the directors in each process in order to ensure proper internal control.

II. Quantitative and qualitative measuring tools

Operating Losses Database

To record operational loss events, a system is in place 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 actions intended to defraud, illegally seize ownership or evade the regulations, law or policies of the Institution (excluding diversity/discrimination events) involving at least one internal party.

External fraud - Losses derived from actions taken by third parties intended to defraud, illegally seize ownership or evade the law.

Labor relations and job safety - Losses derived from actions inconsistent with laws or employment, health or safety agreements, or which result in the payment of claims for damages to personnel or diversity/discrimination claims.

Customers, products and business practices - Losses derived from negligence or unintentional breaches which prevent compliance with professional obligations with customers (including trust and adaptation requirements or due to the nature or design of a product).

Natural disasters and other events - Losses due to damage or harm to physical assets due to natural disasters or other events.

Business incidences and system failures - Losses derived from incidences in the business and system failures.

Process execution, delivery and management - Losses derived from errors in transaction processing or in process management, as well as relations with counterparties and suppliers.

This historical database provides the statistics of the operating events experienced by the Financial Group in order to be able to determine the respective trends, frequency, impact and distribution. Furthermore, the database will serve to calculate capital requirements for advanced models in the future.

Legal and tax contingencies database

For the recording and follow-up of legal, administrative and tax issues that may arise from adverse unappealable 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 Group's Legal Risk management initiative, legal and tax contingencies are estimated by the attorneys that process the issues based on an internal methodology. This makes possible to create the necessary book reserves to face such estimated contingencies.

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, for which reason a methodology must be in place to manage them within the organization. Consequently, operational risk management is now an institutional policy defined and supported by senior management.

To perform operational 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 Regulations Control are recorded in a risk matrix and processed to eliminate or mitigate them (trying to reduce their severity or frequency) and to define the tolerance levels, as applicable.

III. Calculating capital requirement

Pursuant to the Operational Risk Capitalization Rules, the Financial Group has adopted a Basic Model, which is calculated and reported periodically to the authorities.

IV. Information and reporting

The information generated by databases and the Management Model is processed regularly in order to report the main Operational events detected, trends, identified risks (risk matrix) and the mitigating strategies to the Risk Policy Committee and the Board of Directors. The status of the principal initiatives for Operational risk mitigation implemented by the different areas of the organization is also reported.

Technology risk

It is defined as the potential loss due to damage, interruption, alteration or failures in the use of or dependence on hardware, software, IT systems, applications, networks and any other data distribution channel for rendering services to customers. Technology risk forms an inherent part of operational risk, for which reason its management is performed throughout the entire organization

To address operational risk associated with data integrity, the “Integrity Committee” was created. Its objectives include aligning data security and control efforts under a preventive approach, defining new strategies, policies, processes or procedures and solving data security issues that affect or may affect the Financial Group’s assets.

The Financial Group performs the functions for technology risk management set forth by the Commission under the guidelines established by the institutional regulations and the Integrity Committee. To address the operating risk caused by high impact external events, the Financial Group has a Business Continuity Plan (BCP) and Business Recovery Plan (BRP) based on a same-time data replication system at an alternate computer site. This guarantees the back-up and recovery of critical applications in the event of an operational contingency.

Legal risk

Legal risk is defined as the potential loss due to noncompliance with applicable legal and administrative provisions, adverse administrative and judicial rulings, and imposed penalties.

The legal risk must be measured as an inherent part of operational risk in order to understand and estimate its impact. Therefore, those legal issues which result in actual operating losses in the SMARL system are recorded in the SCERO in accordance with a predetermined classification.

Based on the statistics of the current legal issues and real loss events, the Financial Group 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.

36 - MEMORANDUM ACCOUNTS

	2013	2012
Operations on behalf of third parties		
Banks customers (current accounts)	Ps. 24	Ps. 20
Settlement of customer transactions	(30)	14
Customer securities received in custody	536,300	569,079
Customer repurchase agreements	112,839	99,517
Collateral pledged on account of clients	111,486	89,673
Managed trusts	254	435
Investment banking transactions on account of third parties (net)	83,170	58,698
	Ps. 844,043	**Ps. 817,436**
Proprietary transactions		
Contingent assets and liabilities (unaudited)	Ps. -	Ps. 255
Assets in trust or under mandate (not audited)	205,061	342,466
Managed assets in custody (unaudited)	451,582	405,835
Credit commitments (unaudited)	28,110	38,209
Collateral received	143,033	113,138
Collateral received and sold or given as a pledge	203,074	158,103
Deposits of assets	2,816	2,860
Interest accrued but not charged of past due loans	392	320
	Ps. 1,034,068	**Ps. 1,061,186**

37 - COMMITMENTS

As of December 31, 2013 and 2012, the Financial Group had the following contingent obligations and commitments:

- Other contingent obligations and opening of credits totaling Ps. 28,110 (Ps. 38,464 in 2012), which are recorded in memorandum accounts.

- Certain operating equipment is leased. Total property lease payments for the years ended December 31, 2013 and 2012, were Ps. 115 and Ps. 179, respectively.

38 - CONTINGENCIES

As of December 31, 2013, 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, 2013, the Financial Group has recorded a reserve for contentious matters of Ps. 347 (Ps. 204 in 2012).

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 2013 and 2012, the amount of contributions to the IPAB payable by Banorte and Ixe Banco for fees amounted to Ps. 1,805 and Ps. 1,574, respectively.

40 – NEW ACCOUNTING GUIDELINES

In December 2013, the CINIF decreed a series of Regulations that became effective as of January 1, 2014. The regulations and their main changes are listed below:

The Financial Group is in the process of determining the effects these criteria and regulations may have on its financial information.

NIF C-11 - Stockholders' Equity. The principal changes of these regulations are:

- Circular C-11, paragraph 25, states that in order for advances for future increases in capital be recorded in stockholders' equity, there should be "...a ruling the stockholders' or owners' meeting stating that they will be applied for increases in stockholders' equity in the future..." Additionally, NIF C-11 requires that a price be set per share to be issued for such advances and that it be stipulated that they cannot be reimbursed before being capitalized in order to qualify as stockholders' equity.

- NIF C-11 indicates in general terms when a financial instrument has the necessary features to be considered as capital, other it would be taken as a liability. However the rule specifies that NIF C-12, Financial instruments with liability and capital features, explains how to differentiate between an equity financial instrument and a liability instrument, or between the equity and liability components within a single compound financial instrument. NIF C-11 only includes the rules for financial instruments that are originally recognized as equity.

NIF C-12, Financial instruments with liability and capital features. The principal changes of these regulations are:

- The main feature for a financial instrument to qualify as an equity instrument is that the holder be exposed to the risks and benefits of the entity instead of having the right to collect a fixed amount from said entity.

- The principal change in classifying a redeemable equity instrument, such as a preferred share, is that, by exception, when all the conditions set forth in section 41 of this regulation are met, such as the exercising of the redemption, can be done only until the liquidation of the company so long as there is no other inescapable obligation of payment in favor of the holder, the redeemable instrument is classified as capital.

- The concept of subordination is incorporated, which is a crucial element in this rule, because if the financial instrument has a prior payment or reimbursement before other instruments, it would qualify as a liability given the existing liquidation obligation.

- An instrument may be classified as capital with an option to issue a fixed number of shares at a set fixed price in a currency other than the issuer's working currency, provided that all the shareholders of the same type of capital instrument have the same option in proportion to their shareholding.