Annual Report 2014

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

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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, 2014.

The 2,769,343,914 “O” series shares of Grupo Financiero Banorte, S.A.B. de C.V. in circulation as of December 31, 2014 are traded in the Bolsa Mexicana de Valores (Mexican Stock Exchange) under the symbol "GFNORTEO" and are registered in the National Securities Registry ("RNV").

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

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

This report is available to the public at www.banorte.com/ri, in the route “Financial Information/ Annual Reports/ Circular Unica CNBV 2014 Annual Report”.

Monterrey, N. L. April 30, 2015.

1. GENERAL INFORMATION

a) GLOSSARY OF TERMS AND DEFINITIONS

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

TERM	DEFINITION
ADR's:	American Depositary Receipts
AFOREs:	Retirement Saving Fund s Managers.
Afore Bancomer:	Administradora de Fondos para el Retiro Bancomer, S.A. de C.V.
Afore Banorte:	Banorte Generali, S. A. de C. V., AFORE (prior its merger with Afore XXI).
Afore XXI Banorte:	Afore XXI Banorte, S.A. de C.V. (corporate identity after the Afore Banorte and Afore XXI merger).
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).
bp	Basis points
Capitalization requeriments:	Capital requirements for credit institutions established in the LIC and Circular Unica de Bancos
Casa de Bolsa Banorte:	Casa de Bolsa Banorte, S.A. de C.V., Grupo Financiero Banorte (merged entity with Ixe Casa de Bolsa).
Casa de Bolsa Banorte Ixe:	Casa de Bolsa Banorte Ixe, S.A. de C.V., Grupo Financiero Banorte.
CAPS:	Comite de Auditoria y Practicas Societarias (Audit & Corporate Practices Committe).
CC:	Credit letters.
CDP:	Not-for-profit organization which provides the major environmental divulgation system in the world.
CEBUR:	Certificado Bursatil (Stock Certificate).
CEDES:	Certificados de Deposito a Plazo Fijo (Fixed term Certificate of Deposit).
CETES:	Certificados de la Tesoreria de la Federacion (Mexican Federal Treasury Certificates).
Circular Unica de Bancos	General provisions applicable to credit institutions, published in the Official Gazette

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

TERM	DEFINITION
Ixe Banco:	Ixe Banco, S. A., Institucion de Banca Multiple, Grupo Financiero Banorte (merged in Banco Mercantil del Norte).
Ixe Casa de Bolsa:	Ixe Casa de Bolsa, S.A. de C.V., Grupo Financiero Banorte (changed its corporate identity to Casa de Bolsa Banorte Ixe)
Ixe 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).
LGOAAC:	Ley General de Organizaciones y Actividades Auxiliares del Credito.
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.
OTC:	Over The Counter.
Participaciones federales	Federal Contributions
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.
ROTE	Return on Tangible Equity
RRWA	Return on Risk Weighted Assets
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 en Fondos para el Retiro (Specialized Retirement Savings Fund).
SMEs:	Small and Medium Sized Businesses
SOFOL:	Sociedad Financiera de Objeto Limitado (Restricted Non Banking Financial Institution).
SOFOM:	Sociedad Financiera de Objeto Multiple (Multi-purpose Non Banking Financial Institution).

TERM	DEFINITION
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, 2014 and 2013, published by Galaz, Yamazaki, Ruiz Urquiza, S. C., a member of Deloitte Touche Tohmatsu Limited dated February 19, 2015. For the year ended December 31, 2012, 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 20, 2014.*
- ✓ *During the second quarter of 2014, GFNorte reclassified retroactively, (in order to allow comparisons with 2013 figures), the result for "securities investment valuations" presented by the Insurance and Annuities companies in the Trading Income line to Net Interest Income under the Interest Income line". The above due to this concept corresponds to a recovery mainly caused by the update of the UDI's value of the position titles held to maturity denominated in UDIs for both companies. This reclassification between Trading Income and Net Interest Income amounted to Ps 1.56 billion in 2013. (See Note 4 of the Audited Financial Statements - Significant Accounting Policies – "Changes to the Consolidated P&L statement related to the accounting of the results of investments in securities valuation of the Insurance and Annuities companies"). Figures in 2012 were not modified, so these are not comparable with those of 2013. 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.*
- ✓ *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

	2014	2013	2012
Net Income Grupo Financiero Banorte (GFNorte) (*)	Ps 15,228	Ps 13,508	Ps 10,888
Total Assets GFNorte (*)	Ps 1,097,982	Ps 1,006,788	Ps 916,567
Total Liabilities GFNorte (*)	Ps 973,310	Ps 898,097	Ps 828,058
Stockholders' Equity GFNorte (*)	Ps 124,672	Ps 108,691	Ps 88,509
Stockholders' Equity GFNorte excluding minority interest (*)	Ps 122,922	Ps 106,657	Ps 81,881
INFORMATION PER SHARE			
Net income per share (pesos)	Ps 5.49	Ps 5.35	Ps 4.68
Dividend approved per share (pesos) (1)	Ps 0.9740	Ps 0.7852	Ps 0.732
Book value per share (pesos) (excluding minority interest)	Ps 44.39	Ps 38.45	Ps 35.20
Shares outstanding (millions) (2)	2,773.0	2,526.1	2,326.4
PROFITABILITY RATIOS			
NIM before REPOMO(3)	4.7%	4.4%	4.1%
NIM adjusted for credit risk(3)	3.5%	3.4%	3.4%
NIM adjusted w/o Insurance & Annuities(3)	4.5%	4.3%	4.2%
NIM from loan portfolio(3)	8.2%	7.8%	7.3%
Return on assets (ROA)	1.5%	1.4%	1.3%
Return on equity (ROE)	13.2%	14.2%	14.3%

	2014	2013	2012
OPERATIONS			
Efficiency ratio (4)	48.5%	52.0%	54.0%
Operating efficiency ratio (5)	2.8%	2.9%	2.9%
Liquidity ratio	133.7%	137.4%	128.4%
ASSET QUALITY INDICATORS			
Past due loan ratio	2.9%	3.1%	2.1%
PDL reserve coverage	107.0%	104.6%	138.3%
CAPITALIZATION RATIO			
Banco Mercantil del Norte	15.26%	15.12%	14.75%
Ixe Banco	N.A.	N.A.	15.5%
INFRASTRUCTURE AND EMPLOYEES			
Bank Branches (6)	1,269	1,288	1,316
ATMs (automated teller machines)	7,297	7,035	6,707
Full-time employees	27,898	27,474	26,108
Full-time employees and professional services	27,943	27,549	26,212

(*) Million pesos.

1. Dividends approved by the Shareholders' Assemblies in 2014, 2013 and 2012 were: a 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, the advanced payments regarding the installments of January and April 2014 were authorized to be made on December 31, 2013, the last installment was paid in its original date. Total Dividend decreed in 2014 was Ps 0.9740 per share to be paid in four installments of Ps 0.2435 per share (October 2014, January, April, and July 2015).
2. The 2,773.0 million shares are the accumulated weighted average in 2014; while as of the end of 4Q14 the total amount of outstanding shares totals 2,769.34 million.
3. Derived from the reclassification mentioned in the Note 4 of the Audited Financial Statements, ratios in 2013 have been modified from what was published in the 2013 Annual Report (sent to the authorities in February and April 2014).
4. Non-Interest Expense / (Total Net Income + Non-Interest Income).
5. Non-Interest Expense / Average Total Assets.
6. Includes bank modules and excludes one branch in the Cayman Islands.

Grupo Financiero Banorte's Results

In 2014 GFNorte reported profits of Ps 15.23 billion, 13% higher than in 2013.The contribution to accumulated profits for 2014 by business sector are:

Net Income for the **Consolidated Banking Sector** (Banco Mercantil del Norte, Banorte- Ixe Tarjetas, Banorte USA, and the 50% participation in Afore XXI) rose to Ps 11.94 billion pesos in 2014, (187) million or (2%) lower vs 2013. It is important to note that Operating Income registered a 15% YoY growth, but was affected by higher tax payments due to the implementation of the new tax regulations effective as of January 2014, which resulted in a 71% YoY tax increase. Profits in this sector represent 78% 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 10.53 billion, (1%) vs. 2013, representing 69% of GFNorte's net profits.

Net Income for the **Long Term Savings Sector** comprised of Afore XXI Banorte, Insurance and Annuities Companies was Ps 4.44 billion, 24% higher than in 2013. According to GFNorte's participation in this sector, accumulated profits amounted to Ps 3.22 billion which represents an annual increase of 64% and a 21% of GFNorte´s earnings. This increase was due to better dynamics in the companies that make up this sector, especially Seguros Banorte, as well as the reduction in minority interest resulting from the October 2013 purchase of Generali's 49% stake in the Insurance and Annuities companies, (if GFNorte's stake in these companies was considered at 100%, annual growth would have been 60% for the Insurance company and 55% for the Annuities company).

The **Brokerage Sector** comprised of Casa de Bolsa Banorte Ixe and Operadora de Fondos Banorte-Ixe, reported profits during 2014 of Ps 931 million, 43% higher YoY driven by a higher NII, higher trading revenues and lower Non-Interest Expenses, which offset higher tax payments. The Brokerage Sector's Net Income for 2014 represented 6% of the Financial Group's profits.

SOFOM and Other Finance Companies comprised of Arrendadora y Factor Banorte, Almacenadora Banorte, Solida Administradora de Portafolios and Ixe Servicios, recorded profits of Ps 569 million in 2014, a 45% increase vs. 2013. According to GFNorte's participation in this sector, accumulated profits amounted to Ps 574 million, a 46% increase vs. 2013. The accumulated profit of this sector represented 4% of GFNorte's earnings.

In 2013, GFNorte reported profits of Ps 13.51 billion, 24% higher vs. 2012. During 2013, Net Income of the **Consolidated Banking Sector** amounted to Ps 12.12 billion, 34% above 2012. Net income in this sector represented 90% 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 10.66 billion, +46% vs. 2012, representing 79% of GFNorte's net profits. The **Brokerage Sector** generated accumulated profits of Ps 649 million, (5%) YoY lower vs. 2012, contributing with 5% of GFNorte´s profits. The **Long Term Savings Sector**, generated profits of Ps 3.58 billion, a YoY increase of 65%; contributing with Ps 1.96 billion or 15% of GFNorte's profits, based on the group's participation in these businesses, representing an annual increase of 86%. **SOFOM and Other Finance companies**, reported profits of Ps 392 million According to GFNorte's participation in this sector, representing 3% 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	2014	2013	2012
Banking Sector (1) (2)	$10,526	$10,658	$7,310
Brokerage	$931	$649	$681
Long-Term Savings	$3,215	$1,962	$1,052
Afore XXI Banorte (2)	1,181	1,114	532
Seguros Banorte (Insurance) (3)	1,759	725	471
Pensiones Banorte (Annuities) (3)	276	123	49
SOFOM and Other Finance Companies	$574	$392	$256
Arrendadora y Factor (Leasing and Factoring)	700	599	604
Almacenadora (Warehouse)	45	43	43
Ixe Automotriz (4)	-	15	33
Solida Administradora de Portafolios (5)	(173)	(266)	(425)
Ixe Servicios	2	1	1
Holding	($18)	($153)	$1,589
GFNorte	***$15,228***	***$13,508***	***$10,888***

Million pesos.

1. Figures and ratios of 2012 presented in the Banking Sector of this Annual Report differ from those presented to the authority in April 2013, since some retroactive changes have been made to the corporate structure of Banco Mercantil del Norte, including the merger with Fincasa Hipotecaria and the spin-off of Solida Administradora de Portafolios.
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. As of October 4, 2013, Seguros Banorte and Pensiones Banorte consolidate 100% in Grupo Financiero, due to the acquisition of the 49% minority stake that Assicurazioni Generali S.p.A. had in these companies.
4. Ixe Automotriz was merged into Arrendadora y Factor Banorte, becoming effective since May 7 2013. The results presented correspond to previous periods of that date.
5. Figures showed in the chart corresponding to Solida Administradora de Portafolios include the effect of its spin-off of Banco Mercantil del Norte and its subsequent merger with Ixe Soluciones (both effective as of May 24, 2013), in order to consolidate the recovery banking operations.

Comparative analysis: Summary of the years ended December 31, 2014 and 2013.

Net Interest Income

During 2014**, GFNorte's Net Interest Income grew 14% YoY,** from Ps 38.74 to Ps 44.1 billion as a result of a combined effect of:

a) A 13% increase in net financial revenues and loan origination fees; which increased 11% YoY, mainly because of the growth in the government, corporate and consumer portfolios.
b) Lower funding costs due to growth in core deposits (+14%), mainly Demand Deposits (+18%), which along with other factors, reduced (11%) Interest Expenses. The latter were also reduced by a decrease of 50 bp in the market reference rate during the past 12 months, as well as the August 2013 payment of Ixe's Perpetual Subordinated Obligations issued at 9.75% in dollars, the cancellation of debt servicing of the

USD Ps 800 million syndicated loan pre-paid on July 26, 2013, and the April 21, 2014 prepayment Banorte made for Preferred Non-Convertible Subordinated Obligations in the amount of Ps 2.2 billion with a rate of TIIE + 2.0%.

c) A 43% increase in loan placement fees.
d) A 33% increase in the Net Interest Income of the Insurance and Annuities companies.

Net Interest Income excluding the Insurance and Annuities companies presented an accumulated increase of 12%, from Ps 35.43 billion to Ps 39.68 billion.

The average NIM stood at 4.7% for 2014, 24 bp higher vs. 2013 resulted from GFNorte's growth in productive assets in higher yielding segments (consumer portfolio excluding mortgage, represent 14.5% of the performing loans for 2014, vs. 13.6% at the end of 2013) and a higher valuation impact on the investments of the Annuities company.

During 2014, **NIM related to lending activity** was 8.2%, a YoY increase of 39 bp, while the **average NIM excluding Insurance and Annuities companies** was 4.5% for 2014, a YoY increase of 19 bp.

The **average NIM adjusted for Credit Risks was 3.5% in 2014**, an increase of 8 bp vs. 2013 driven by the growth in net interest income due to a portfolio mix with higher yielding loans, offset by higher provisions**.**

Provisions

In 2014 provisions charged to results totaled Ps 11.20 billion, +25% vs. 2013. This increase resulted from higher reserve requirements in Middle Market Companies, credit exposure to home developers, SMEs, Payroll, Mortgage and Credit Card.

Non-Interest Income

During 2014, Non-Interest Income totaled Ps 16.23 billion, a 10% YoY increase from 15% growth in Service Fees, 29% in Trading Income and 1% in Other Operating Income (Expenses), which offset the decline of (77%) in income from real estate portfolio recoveries.

Non Interest Expense

Non-Interest Expense for 2014 amounted Ps 29.23 billion, a 5% YoY increase (in line with the annual inflation in Mexico, 4.08%) to sustain business growth and expansion of the operational infrastructure, which was partially offset by a decline in other concepts. **The Efficiency Ratio during 2014 was 48.5%** (3.6 pp) lower YoY due to the positive operating leverage achieved in the period.

Taxes

Income tax during 2014 amounted to Ps 5.67 billion, a 59% YoY increase. **The effective tax rate and the Employee Profit Sharing in 2014 was 29.8%**, 7.0 pp higher vs. 22.8% of 2013.

Net Income

GFNorte reported Net Income of Ps 15.23 billion during 2014, **13% higher vs. 2013** due to the positive operating leverage achieved from a 13% YoY growth in total income, lower growth in Operating Expenses, effects that offset increases in credit costs and tax payments. Additionally, it was achieved by lower minority interest resulting from the acquisition of the IFC's stake in Banorte and Generali's participation in the Insurance and Annuities companies, which together with Afore XXI Banorte and the Credit Card SOFOM, posted favorable business dynamics.

ROE for 2014 was 13.2%, decreasing 99 bp vs. the same period of the previous year due to the dilution of the equity offering of last year. **Return on Tangible Equity (ROTE) was 16.4%,** (2.3 bp) less vs. 2013. **ROA for 2014 was 1.5%,** an increase of 5 bp over the same period of the previous year due to the growth in net income as a result of a better mix and return on assets. **RRWA was 3.1% in 2014,** 8 bp higher vs. 2013.

Loan Portfolio

	2014	2013	2012
Commercial	Ps 114,040	Ps 113,795	Ps 106,257
Consumer	158,139	139,715	118,401
Corporate	80,464	75,690	88,237
Government	118,963	95,637	88,294
Subtotal	**471,606**	**424,837**	**401,190**
Recovery Bank	162	201	243
Performing Loan Portfolio	**Ps 471,768**	**Ps 425,038**	**Ps 401,432**
Past due loans	14,294	13,655	8,481
% NPL Ratio	**2.9%**	**3.1%**	**2.1%**

Million pesos.

Total Performing Loans increased 11% YoY, growing by Ps 46.77 billion at the end of 2014 with Ps 471.61 billion, excluding proprietary loans managed by the Recovery Bank. The Loan portfolio has recovered a growth rate similar to levels not seen since the end of 2012 due to the gradual economic recovery and has grown above the national economy. Corporate and Business portfolios (included in the Commercial portfolio) continue to be affected by prepayments from customers (approximately Ps 19 billion in 2014), despite this, during the last quarter, they began to be offset by new loan originations in both sectors to achieve annual growth.

Past Due Loans

During 2014, Past Due Loans were Ps 14.29 billion, 5% higher vs. 2013 as a result of higher delinquencies in Commercial loans (including SMEs), Mortgages, Payroll loans, Credit Cards and Car loans, which were not offset by the significant reduction in Corporate delinquencies. **In 2014, the Past Due Loan Ratio was 2.9%,** (17 bp) lower vs. 2013 due to lower delinquencies in the Corporate, Credit card and Payroll segments.

When excluding the home developers exposure, the PDL Ratio would be 1.8%, 30 bp above the level registered for 2013.

Deposits

	2014	2013	2012
Non-Interest Bearing Demand Deposits	Ps 147,033	Ps 122,499	Ps 107,450
Interest Bearing Demand Deposits	153,249	132,798	103,968
Total Demand Deposits[1]	**Ps 300,282**	**Ps 255,297**	**Ps 211,418**
Time Deposits – Retail	136,127	129,121	124,255
Core Deposits	**Ps 436,409**	**Ps 384,418**	**Ps 335,673**
Money Market[2]	62,287	59,729	90,073
Total Banking Sector Deposits[3]	**Ps 498,697**	**Ps 444,148**	**Ps 425,746**
GFNorte's Total Deposits[4]	**Ps 497,922**	**Ps 443,741**	**Ps 424,325**
Third Party Deposits	149,092	150,636	111,042
Total Assets Under Management	**Ps 647,789**	**Ps 594,783**	**Ps 536,788**

Million pesos.

1. Includes debit cards.
2. Includes bank bonds. (Customers and Financial Intermediaries).
3. For the integration of Total Demand Deposits, see Note 9 of Banco's Mercantil del Norte Audited Financial Statements.
4. Includes eliminations between subsidiaries. The eliminations during 2012, 2013 and 2014 were (Ps 1,421) million, (Ps 407) million, and (Ps 774) million, respectively.

At the end of 2014, GFNorte's Total Deposits amounted to Ps 497.92 billion, a 12% YoY increase of Ps 54.18 billion driven mainly by efforts to promote Banorte - Ixe deposit products, as well as higher account balances of some clients, mainly in Government banking, since the end of 2013. **Total Deposits in the Banking Sector amounted to Ps 498.70 billion, representing a 12% YoY increase or Ps 54.55 billion**, which is composed of an 18% increase in Demand Deposits, 5% in Retail Time Deposits and 4% in Money Market.

Monthly stock performance for the last 6 months:

Date	Maximum	Minimum	Closing	Volume of Shares (Daily Average)	Total Volume
31/10/2014	87.60	81.01	86.39	9,532,130	219,238,987
30/11/2014	87.99	73.89	78.8	14,918,199	283,445,787
31/12/2014	82.70	75.10	81.2	8,149,708	171,143,863
31/01/2015	81.70	72.05	76.07	7,617,366	159,964,689
28/02/2015	82.49	76.01	81.19	6,575,671	124,937,750
31/03/2015	89.89	79.52	88.52	7,199,564	151,190,834

Source: Bloomberg

In Section 2. "a) The Company - Development and History of the Company" of this Annual Report are the Material Events of 2014, as well as those which happened during the first quarter of 2015.

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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, in the market value of our assets and liabilities and / or 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, and some of these 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 at the same pace, 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.

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.

GFNorte complies with current regulations for rating loans, and considers that loans loss provisions can cover expected loan portfolios losses, nevertheless, 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 global financial crisis, macroeconomic trends, political events in Mexico or unexpected events, such scenarios could negatively affect our operations' results.

As of December 31, 2014 and December 31, 2013, the aggregate outstanding principal amount and accrued interest of loans to Banorte's 15 largest clients (including corporate and Mexican government loans) represented 22.4% and 19.7%, 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 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. The rules applicable to loan loss provisions have been modified throughout time.

The Mexican government, in an effort to conform its regulations according to the recommendations issued by the Basel Committee, as of 2009 has implemented new provisions regarding the way Mexican banks must classify loans and determine the loan loss provisions, shifting away from an accrued losses methodology to an expected losses methodology.

The methodologies for loan portfolios were implemented as follows: in 2009 for credit card loans, in 2010 for consumer and mortgage portfolio, in 2011 for government loans, in 2013 for commercial portfolio and in 2014 for financial entities loans. For further information on loan loss provisions refer to section 8:*"Annexes. Subsection c) GFNorte's Audited Financial Statements – Note 11 Allowance for Loan Losses"* of this Annual Report.

In the future, the CNBV could further change accounting regulations for determination of allowances for loan losses, the methodology to measure credit risk or the requirements for loans loss provisions, which could adversely affect GFNorte's or any other subsidiary's results of operations and financial position.

a.4. 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.5. 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, 2014, 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 5.54 billion representing 1.1% of our total loan portfolio, of which Ps 5.43 billion correspond to Banorte, Ps 30 million to Arrendadora y Factor Banorte and Ps 79 million to Solida. Of the loans granted to these companies, Ps 5.42 billion were past due and reserved as of December 31, 2014. 76% of the loan portfolio is guaranteed.

As of December 31, 2014 Solida had Ps 6.11 billion in investment projects.

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

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

One of the main risks Banorte faces as a credit institution is credit risk, that's why the bank is always trying to be updated in widgets and adequate models to value the impact from unfavorable scenarios for the portfolio. However, it is probable that we may not be able to develop a credit risk management system that functions effectively. For example, an important part of Banorte's credit risk management system is 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 non-appropriate measurement of risk exposure, which could materially and adversely affect our results of operations and financial position.

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

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, which may increase our exposure to risk always under the desired risk standards set by the Group; nevertheless, we can't assure the inexistence of a material adverse effect on us.

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

One of our main strategies is to focus on the retail banking sector so we can grow our loan portfolio. The 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.9. 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, 2014 governmental loans amounted to Ps. 117.66 billion, or 24.6% of Banorte's total loan portfolio; whereas, in GFNorte amounted to Ps 118.96 billion or 24.5% of its total loan portfolio. As a result, if the credit quality of Governmental Loans were to deteriorate, either specifically or at a generalized level, this could result in an adverse impact on our financial position and results of operations, and this impact would be in function of the size of the exposures to these entities, the extent of the deterioration in their internal credit ratings assigned according to the methodology approved by the CNBV, and the guarantees of these loans, among other factors. As of December 31, 2014, any non-performing loan balances was registered neither in GFNorte's government sector nor in Banorte's.

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

a.10. Some of GFNorte’s loans to Mexican states and municipalities may be restructured.

State and Municipal governments and credit institutions, including Banorte, have from time to time agreed to the refunding or restructuring of Governmental Loans, in this process, modifications in terms of up to 9 years have been made, reductions in interest rates and prepayment options. As of December 31, 2014, GFNorte has restructured performing loans amounting to Ps. 6.67 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.

On February 5 2015, a positive opinion was published on the draft bill aiming to amend and add several provisions of the Mexican Constitution regarding Financial Discipline for the States and Municipalities, which aims to establish indebtedness limits for federal and municipal entities, as well as various measures on control and transparency. We cannot provide assurance that upon the implementation of such Law, 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 of such restructuring could adversely affect our business, financial condition and results of operations.

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 *participaciones federales* delivered 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 or by economic factors, our results of operations and financial condition could be adversely affected. One of the factors that have recently affected Mexican economy is oil’s low prices; nevertheless the legislation includes compensatory measures to alleviate lower *participaciones federales* delivered to states and municipalities, *participaciones federales* could decrease in 2015.

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 and legislative 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 or legislative 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, in local constitutions, and other federal and state laws (especially in connection with using *participaciones federales* as a source of payment and the use of *participaciones federales* as a public funding investment). In the past, there have been inconsistencies between state law and federal law which have been subject to resolution by the Mexican Supreme Court. Some of these judgments have had an adverse effect on the manner in which Governmental Loans have been granted. We cannot ensure that future judicial interpretations or resolutions will not have an adverse effect on our Governmental Loans.

Moreover, we cannot assure that the financial reform and the Financial Discipline Law for Federal Entities and Municipalities 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* corresponding to states and municipalities may not be subject to attachment or liens, may not be assigned for specific objectives or subject to retention or withholding, except that they may be used to satisfy payment obligations of such states and municipalities whenever, previously and according to the regulation, they comply with the following conditions:

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

The risk that any of the three levels of government may claim privileges, reducing our capacity to sue or recover debts is limited to the constitutional provisions that state the no retroactivity of laws.

In addition, it's worthnoting that 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 or their agencies, so sentences would not be executed against such governments or agencies if tax burden or public goods be constituted as guarantee of our loans. The aforementioned, could adversely affect our financial situation or results of operations of our business; therefore, in such cases, our guarantees must always be private goods.

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

GFNorte is required to classify each loan 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 includes 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.

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, 2014, 97.0% and 97.1% 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) GFNorte's Audited Financial Statements – Note 21 Deposits"* of this Annual Report and s*ection 8 "Annexes. Subsection c) Banorte's Audited Financial Statements – Note 19 Deposits*" of Banorte's Annual Report). 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 these, may arise, which may or may not be resolved in our favor. (*See section 4 "Administration, subsection b)Operations with Related Parties and Conflicts of Interest" of this Annual Report.)*

a.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.

During 2011, 2012, 2013 and 2014, the peso depreciated 13.0%, appreciated 7.0% and depreciated by 0.9% and 12.7%, respectively ,compared to the U.S. dollar. As of the end of February 2015, the peso depreciated 12.5% annually.

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, which manages employee's assets, carries out derivatives transactions (interest rate and foreign exchange futures and forwards, interest rate swaps, equities futures and forwards). 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, Afore Ahorra Ahora and Afore Argos in 2009. Furthermore, in 2011 we significantly expanded our financial group through our merger with Ixe GF, in 2012 we merged our Afore with Afore XXI. In January 2013, we acquired Afore Bancomer, thereby creating the largest pension fund management company in Mexico.

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

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

a.20. We may need additional capital in the future, and may not be able to obtain it on acceptable terms, or at all.

In order for us to grow, remain competitive, enter into new businesses, or meet regulatory capital adequacy requirements, we may require new capital in the future. 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 soundness of a number of European governments, the European sovereign debt crisis, the significant lower oil prices and the uncertainty towards the rates rising 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 for example, maintaining certain levels of capital and reserves for loan losses. As a result, certain of our competitors may have advantages in conducting certain businesses and providing loans and other financial services.

Competition is also likely to increase as a result of the entrance of new participants into the financial services sector derived from the 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 the 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 to our ability to continue offering products and services from third parties.

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

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

a.25. Banorte's increasing focus on individuals 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 10.0%, respectively, as of December 31, 2014, compared to 2.2% and 5.4% as of December 31, 2013. Its worthnoting that during 2014, loan origination for SMEs was reduced driven by the issues in the production chains of home developers and the government; during 2015, we expect the reactivation of this sector. We cannot provide assurance that the levels of non-performing loans and subsequent charge offs will not be materially higher in the future and affect our financial condition and results of operations.

a.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.

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

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

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, CNBV,SHCP, CONSAR and CNSF. (See

Section 2 “The Company, subsection b) Applicable Legislation and Tax Situation – The Mexican Financial System” in this Annual Report). These regulatory authorities have broad powers to adopt regulations and other requirements that affect all aspects of our capitalization, organization and operations, including changes to capital adequacy and reserve requirements, compliance with rules relating to secrecy, the imposition of anti-money laundering measures and the authority to regulate the terms of products, including the interest rates we charge and the fees we collect in exchange for services. Specifically, INB was required to take steps so that the U.S. Office of the Comptroller of the Currency, or OCC, would be in a position to assign satisfactory CAMELS (capital adequacy, asset quality, management, earnings, liquidity and sensitivity to market risk), which are 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, 2014, approximately 25% 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, 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.

At a time when transaction processes have become increasingly complex, with increasing volume, our principal businesses are highly dependent on the ability to timely collect and process a large amount of financial and other information across numerous and diverse markets and products at our various locations or branches.. 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. The opening of new offices and branches requires us to improve our information technology infrastructure, and to maintain and upgrade our software and hardware systems and back office operations.

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

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

a.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, inappropriate or inadequate 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 inappropriate or inadequate 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, improper or inadequate 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 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 to Regulate Financial Groups, we are responsible secondarily and without limitation for performance of the obligations incurred by our subsidiaries as a result of the authorized activities of such subsidiaries, and we are fully responsible for certain losses of such, up to the total amount of our assets. For such purposes, a subsidiary is deemed to have losses if:

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

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

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

a.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 contributed Ps.1.87 billion and Ps.1.80 billion to IPAB during 2014 and 2013, 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 in the 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 and financial risks in Mexico.

During the last six 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:

- Increased regulation of the financial industry, whose compliance may increase our costs and limit our ability to pursue business opportunities. In particular, as a result of the financial reform, which was enacted on January 10, 2014, there are particular provisions to be effective later, based on transitory articles. Likewise, there are many secondary provisions already effective and others pending to be issued by diverse public administration entities; therefore, short and long term effects are uncertain. The Financial Reform has different impacts in GFNorte and its subsidiaries, as it involves adjustments to the bylaws, procedures, operations, policies and contracts. Groups of specialists in each field have been formed to identify and implement such impacts.

The Financial Reform is based on 6 fundamental pillars:

- Creation of new incentives for banks to grant more loans;

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

- The global economic slowdown could result in reduced demand for financial products and services;
- The process we use to estimate losses inherent in credit exposure requires complex judgments, including forecasts of economic conditions and how these economic conditions might impair the ability of borrowers to repay their loans as well as the operational risks we face. The degree of uncertainty concerning economic conditions may adversely affect the accuracy of these estimates, which may, in turn, impact the reliability of the process;
- The derivatives markets and similar operations could impact financial systems and the solvency of its participants; and
- The value of our portfolio of investment securities may be adversely affected.

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

b.2. We are subject to economic and political developments in Mexico that could affect 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, volatility in financial markets, inflation, interest rates, regulation, taxation, social instability and other political, social and economic developments in or affecting Mexico, over which we have no control. 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 GFNorte. 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.

The main economic ratios in Mexico for the lasts years are: in 2011, GDP raised 4.0% and inflation increased 3.8%; in 2012, GDP augmented 4.0% and inflation increased 3.6%; in 2013, GDP increased 1.4% and inflation raised 4.0% and in 2014 GDP increased 2.1% and inflation augmented 4.1%.

Mexico also has had high real and nominal interest rates relative to the U.S. The interest rates on 28 days Mexican government treasury securities (Certificados de la Tesoreria de la Federacion), or CETES, averaged 4.2%, 4.2%, 3.8% and 3.0% for the years ended December 31, 2011, 2012, 2013 and 2014, 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 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. Mexican fiscal reforms could have a negative effect in our clients, affecting negatively our business.

On January 1, 2014 various tax changes came into effect, 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 to our clients, the economy or our business. In addition, the fiscal miscellany replaced the deduction of loan reserves with the deduction of write-offs and eliminated the possibility of deducting losses from bad loans in the transfer to related parties for portfolios originated prior to 2014, which in principle limits the sale of portfolios to GFNorte affiliates. In addition, the new provisions in the Income Tax Law limit the deductibility of some benefits paid to employees including the pension plan, savings fund, employer labor contributions to IMSS, among other concepts. On the other hand, the tax reform provides that individual and corporate taxpayers who have opened an account in their name in financial system entities wilI 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 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 those of disclosure, to maintain our registration with the CNBV through the National Registry of Securities (RNV) and our shares listed on the BMV. If we are not able to comply with such requirements, the listing of our shares in the BMV may be suspended or cancelled, 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 for our common shares may be significantly affected by numerous factors, some of which are beyond our control and may not be directly related to our operating performance. These factors include, among others:

- significant volatility in the market price and trading volume of securities of companies in our sectors or those of our subsidiaries, which are not necessarily related to the operating performance of these companies;
- performance of the banking sector in Mexico;
- changes in earnings or variations in operating results;
- future equity offerings by other financial groups, banks or financial institutions in Mexico;
- changes in the financial recommendation of the fundamental analysts that cover us and our sector;
- operating performance of companies comparable to us or our subsidiaries;
- new laws or regulations or new interpretations of these (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 their market price and could have a dilutive 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 they 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 they will increase over time. Our actual results may differ significantly from the assumptions used by our Board of Directors in recommending dividends to shareholders or in adjusting our dividend policy. Also, there cannot be assurance that our Board of Directors will recommend the payment of dividends to our Shareholders' Meeting or that, if recommended, our shareholders will approve 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 in other jurisdictions. In particular, Mexican law concerning fiduciary duties of Board members and directors is not as comprehensive as in the United States and the criteria applied in the United States to ascertain the independence of corporate directors is different from the criteria applicable under corresponding Mexican laws and regulations.

Although Mexico has enacted rules permitting class actions, there is limited experience in respect of such actions, and the requirements to proceed with and the potential outcomes of such actions are not predictable. As a result, in practice it may be more difficult for our minority shareholders to enforce their rights against us and our Board 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 to Regulate 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**"), entities may be subject to 30% U.S. withholding tax on certain payments they receive, unless they 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. Nevertheless, we and our subsidiaries subject to FATCA (Banco Mercantil del Norte, Banco Mercantil del Norte Division Fiduciaria, Casa de Bolsa Banorte Ixe, Seguros Banorte and Operadora de Fondos Banorte Ixe), are properly signed in the IRS as Foreign Participant Financial Institutions. During the registration process, each of us were assigned a GIIN (Global Intermediary Identification Number) by the IRS, whit it, payments that these companies receive from the USA are not subject to the 30% deduction.

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

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 obligations.

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

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

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

Subordinated 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 obligations.

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

At the moment of issuance, this instrument was rated 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 obligations.

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

At the moment of issuance, this instrument was rated 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.

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 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 obligations.

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

At the moment of issuance, this instrument was rated 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 maintaining 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.

<u>Generic entries</u>: in addition to the securities described above, there were as of December 31, 2014 generic entries for Promissory Notes Settled upon Maturity, Bank Acceptances and Certificates of Deposit.

- Certificate of Deposit (exchange rate MXN/USD FIX-linked): Issuance Banorte 14001 amounting to Ps 1,000 million (10,000,000 certificates with face value of Ps 100 each) issued on November 20, 2014 maturing on March 12, 2015 with a coupon rate of TIIE -0.20 %.

- Certificate of Deposit (exchange rate MXN/USD FIX-linked): Issuance Banorte 14002 amounting to Ps 1,000 million (10,000,000 certificates with face value of Ps 100 each) issued on November 20, 2014 maturing on April 9, 2015 with a coupon rate of TIIE -0.18%.

- Certificate of Deposit (exchange rate MXN/USD FIX-linked): Issuance Banorte 14003 amounting to Ps 1,000 million (10,000,000 certificates with face value of Ps 100 each) issued on November 20, 2014 maturing on May 7, 2015 with a coupon rate of TIIE -0.17%.

- Certificate of Deposit (exchange rate MXN/USD FIX-linked): Issuance Banorte 14004 amounting to Ps 1,000 million (10,000,000 certificates with face value of Ps 100 each) issued on November 20, 2014 maturing on June 4, 2015 with a coupon rate of TIIE -0.16%.

- Certificate of Deposit (exchange rate MXN/USD FIX-linked): Issuance Banorte 14005 amounting to Ps 1,000 million (10,000,000 certificates with face value of Ps 100 each) issued on November 20, 2014 maturing on July 2, 2015 with a coupon rate of TIIE -0.15%.

- Certificate of Deposit (exchange rate MXN/USD FIX-linked): Issuance Banorte 14006 amounting to Ps 1,000 million (10,000,000 certificates with face value of Ps 100 each) issued on December 31, 2014 maturing on August 12, 2015 with a coupon rate of TIIE -0.15%.

- Promissory Notes Settled upon Maturity: Issuance Banorte 15031 amounting to Ps 28.7 million (28,701,723 promissory notes with face value of Ps 1 each) issued on November 20, 2014 maturing on January 19, 2015 with a coupon rate of 3.04%.

- Promissory Notes Settled upon Maturity: Issuance Banorte 15045 amounting to Ps 3.0 thousand million (3,000,243,319 promissory notes with face value of Ps 1 each) issued on November 20, 2014 maturing on January 30, 2015 with a coupon rate of 3.04%.

- Promissory Notes Settled upon Maturity: Issuance Banorte 14525 amounting to Ps 416.7 million (416,697,474 promissory notes with face value of Ps 1 peso each) issued on December 31, 2014 maturing on January 2, 2015 with a coupon rate of 3.00%.

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

<u>INB - Subordinated Preferred and Non-Convertible Obligations maturing in June 2034.</u>

Denominated in USD with a 3 month LIBOR rate plus 2.75% amounting to Ps 152 million.

<u>INB - Subordinated Preferred and Non-Convertible Obligations maturing in April 2034.</u>

Denominated in USD with a 3 month LIBOR rate plus 2.72% amounting to Ps 152 million.

Dual Program of Stock Certificates of Arrendadora y Factor Banorte:

Dual Program of Stock Certificates of up to Ps 3.0 billion, with a Ps 3.0 billion limit for short and long 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 2014, Arrendadora y Factor Banorte had the following existing issuances:

Short-term Stock Certificates (AFBNT 01114)
Peso-denominated issuance amounting to Ps 250 million, issued on September 11, 2014 and maturing on February 26, 2015 with a coupon rate of TIIE 28 days minus -0.11%.

Short-term Stock Certificates (AFBNT 01214).
Peso-denominated issuance amounting to Ps 250 million, issued on September 25, 2014 and maturing on March 12, 2015 with a coupon rate of TIIE 28 days minus -0.11%.

Short-term Stock Certificates (AFBNT 01314).
Peso-denominated issuance amounting to Ps 145 million, issued on October 1, 2014 and maturing on January 22, 2015 with a coupon rate of TIIE 28 days minus -0.11%.

Short-term Stock Certificates (AFBNT 01414).
Peso-denominated issuance amounting to Ps 250 million, issued on October 15, 2014 and maturing on March 26, 2015 with a coupon rate of TIIE 28 days minus -0.10%.

Other financing obtained after December 31, 2014:

a) Short-term Stock Certificates (AFBNT 00115):
   Date Issued: January 22, 2015
   Maturity Date: July 9, 2015
   Amount Issued: Ps 128.3 million
   Coupon Rate: TIIE 28d - 0.11%

b) Short-term Stock Certificates (AFBNT 00215):
   Date Issued: February 26, 2015
   Maturity Date: August 13, 2015
   Amount Issued: Ps 100 million
   Coupon Rate: TIIE 28d - 0.11%

c) Short-term Stock Certificates (AFBNT 00315):
   Date Issued: March 12, 2015
   Maturity Date: August 27, 2015
   Amount Issued: Ps 150 million
   Coupon Rate: TIIE 28d - 0.11%

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

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

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

e) SIGNIFICANT CHANGES TO REGISTERED SECURITIES' RIGHTS

Settlement of Banco Mercantil del Norte's Subordinated Preferred and Non-Convertible Obligation

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 + 2.0%.

f) USE OF PROCEEDS

There is no information to disclose.

g) PUBLIC DOCUMENTS

The Investor Relations and Financial Intelligence Deputy General Direction, in charge of Ursula Wilhelm, is the area responsible for attending analysts and investors. It is located at:

Av. Prolongacion Reforma 1230, 14th Floor
Col. Cruz Manca Santa Fe, Delegacion Cuajimalpa, Mexico, D. F., 05300
Telephone: (5255) 1670-2256
E-mail: ursula.wilhelm@banorte.com or investor@banorte.com

This Annual report is available for the general public in our web page: www.banorte.com/ri in the route "Financial Information/ Annual Reports/ Circular Unica CNBV 2014 Annual Report".

2. THE COMPANY

a) DEVELOPMENT AND HISTORY OF THE COMPANY

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

The main offices are located in:

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

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

GFNorte's most important historical events

GFNorte's origins date back to the founding of **Banco Mercantil de Monterrey** in 1899 and **Banco Regional del Norte** in 1947, both with headquarters in Monterrey, Nuevo Leon, Mexico. These banks merged in January 1986 under the name of **Banco Mercantil del Norte, Sociedad Nacional de Credito**. In 1987, under a Mexican government privatization initiative, the government sold to the public approximately 34% of Banorte's capital stock. In 1990, the Mexican Constitution was amended to permit the re-privatization of Mexican commercial banks; afterwards, the government enacted the 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 and later on, in September of the same year, the SHCP authorized the operations of the Holding company as a financial services provider under the 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. Additionally 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 the 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, 2014, INB had 20 branches. In 2007, Banorte finalized the 100% acquisition of Uniteller, a New Jersey-based remittances company, and in the same year acquired 100% of Motran Services, Inc., another remittances company based in California. Later on, on April 1, 2009, Banorte purchased the remaining 30% of INB Financial Corp. shares.

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

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

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

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

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

Solida Administradora de Portafolios, S.A. de C.V. SOFOM, Entidad Regulada. As a result of this merger Ixe Banco, Fincasa Hipotecaria and Solida ceased to exist.

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

Below is a summary of the main investments tha GFNorte or any of its subsidiaries have held during the last 3 exercises:

Date	Concept	Company
January 16, 2012	Merger	Merger among Afore Banorte and Afore XXI and its respective siefores, thereby creating **Afore XXI Banorte**, Banorte and the IMSS each owning 50% of the entity.
January 9, 2013	Acquisition	Afore XXI Banorte finalized the acquisition of **100% of Afore** Bancomer
October 4, 2013	Acquisition	**GFNorte** finalized the acquisition of the 49% stake in the Insurance and Annuities Companies held by Assicurazioni Generali S.p.A.'s.
2013	Acquisition	During 2013, **GFNorte** acquire the investment IFC held since 2009 in Banco Mercantil del Norte.

Material events in 2014 and First Quarter 2015.

Recent Events. First Quarter 2015.

In the Board of Directos' session held on January 22, 2015, it was approved to appoint **Armando Rodal** as Managing Director of Wholesale Banking, reporting directly to the Group´s CEO.

- **Credit Ratings.**

Standard & Poor´s confirms ratings for Banco Mercantil del Norte and Casa de Bolsa Banorte Ixe

On April 16, 2015**,** Standard & Poor´s confirmed ratings for Banco Mercantil del Norte and Casa de Bolsa Banorte Ixe, all with stable Outlook.

The rating confirmation reflects the strong internal capital generation, business diversification and its strategic direction.

Fitch Ratings confirms ratings for Grupo Financiero Banorte and subsidiaries

On March 20, 2015, Fitch Ratings confirmed ratings for GFNorte, Banorte, Arrendadora y Factor Banorte, Almacenadora Banorte and Casa de Bolsa Banorte Ixe, all the aforementioned with stable outlook.

GFNorte's ratings confirmation reflects the growth and diversification of the business achieved in recent years; while Banorte's ratings confirmation reflects its strengthening, stability, clear and effective strategy of organic growth, income diversification, an adequate financial performance and its capital strength - allowing the entity to position as one of the largest banks in the Mexican banking system -. On the other hand, ratings of the nonbank subsidiaries consider GFNorte´s support and the strategic importance of these entities in the group's strategy.

- **Farmacias Guadalajara became part of our third party correspondents**

On March 2, 2015, Farmacias Guadalajara started to receive Banorte and Ixe credit card payments and transactions under the third party correspondent scheme in its 1,362 stores.

- **Brand Finance – Banking 500**

In February, the independent intangible asset valuation consultancy, Brand Finance, published the results of the tenth edition of the "Banking 500" study, which assesses the 500 most valuable banking brands in the world. This year Banorte ranked in the 138 position, increasing 8 places vs. 2013, and its value amounted to USD $14,339 million.

- **2015 Morningstar Awards**

In February, Operadora de Fondos Banorte Ixe received the award for the second time in a row of Best Aggressive-Mixed Fund in Mexico 2015 by Morningstar.

- **Grupo Financiero Banorte, a leader in climate change transparency**

For second year in a row, GFNorte was included in the Latin American *Climate Disclosure Leadership Index 2014*. We had the second highest score in transparency in Mexico and the Latin American financial sector. This index awards the leading companies in transparency of climate change as they exhaustively disclose high quality information on:

• Measurement, verification and management of their carbon footprint,
• Climate change mitigation strategy,
• Risk management process and results.

Material events in 2014

Events Related to Corporate Governance

During 2014, 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 25, 2014, it was approved that the Board of Directors be comprised of 15 Proprietary 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. Subsequently, on October 22, 2014, as per request from the Gonzalez Moreno's family, one of the main minority shareholders' groups at GFNorte, an Ordinary General Shareholder's Meeting was held, where the following appointments were approved: i) Carlos Hank Gonzalez as Proprietary Member, substituting Graciela Gonzalez Moreno, and ii) Graciela Gonzalez Moreno as Alternate Member substituting Alejandro Hank Gonzalez. Proprietary and Alternate Members of the Board can 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 Annual Ordinary General Shareholders' Meeting held in April 2014, 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.

Subscription of a new Agreement of Shared Responsibilities. On July 4, 2014 an Extraordinary General Shareholders' Meeting was held in which was approved to modify GFNorte's by-laws and celebrate a new Agreement of Shared Responsibilities in order to: i) modify the legal denomination of Seguros Banorte Generali and Pensiones Banorte Generali to Seguros Banorte and Pensiones Banorte, respectively, and ii) modify the Bylaws in order to adapt them to the Decree whereby various provisions in financial matters are reformed, added and repealed, and to the issuance of the Mexican Financial Groups Law published in the Official Gazette (Diario Oficial de la Federacion) on January 10, 2014; furthermore, it was approved the total exchange of shares representing company's equity, so these comply with the requirements set forth in Article Eleventh of the By-laws.

Approval to establish and operate an incentive Plan. In the Ordinary General Shareholders' Assembly held on October 22, 2014 it was approved an incentive Plan (the "Plan") for the employees of the Company and its Subsidiaries to be paid through representative shares of GFNorte's equity according to articles 57, 366 and 367 of the Securities Market Law. The objective of this Plan is to continue aligning the incentives between the management of the Financial Group and its shareholders, granting stock plans to executives as part of their total compensation in order to promote the achievement of the institutions' strategic goals. To operate the Plan, it is required to allocate funds for the acquisition of representative shares of the GFNorte's equity. This may be operated through the share repurchase fund. Additionally, it was approved to delegate to the Human Resources Committee, acting through the Assignations' Committee, the faculty to establish the terms and conditions of the

Plan. Furthermore, certain resolutions agreed formerly by the Board of Directors related to the implementation of the Plan were ratified.

Changes of the Board of Directors and CEO

On November 20, 2014 the Board of Directors held an extraordinary meeting. As part of the agreements, the Board of Directors accepted the resignation of **Guillermo Ortiz Martinez** as Chairman of this governing body. His resignation was effective as of December 31, 2014. The Board approved the substitution of Dr. Ortiz with **Carlos Hank Gonzalez** as Chairman of the Board of Directors, effective as of January 1, 2015. Hank Gonzalez's appointment is subject to ratification by Shareholders' Assembly to be held on April 2015.

Furheremore, the Board of Directors, considering the opinion of the Audit and Corporate Practices Committee approved the resignation of **Alejandro Valenzuela del Rio** as the Financial Group's CEO. Similarly, the Board, hearing the opinion of the CAPS and the Designation's Committee, appointed. **Jose Marcos Ramirez Miguel** as CEO of the Financial Group, effective as of November 20, 2014. Consistent with the above, Alejandro Valenzuela resigned as member of GFNorte's Board of Directors.

Decreed Dividends:

Meetings' Date (decreed dividend)	Amount of Decreed Dividend (pesos per share)	Date of Payment	Comments
October 22, 2014	Ps 0.2435	As of October 31, 2014.	Corresponds to the first of four payments to cover the amount of Ps 0.9740 per share, approved by the Board of Directors on July 24, 2014.
January 21, 2015	Ps 0.2435	As of January 30, 2015	Corresponds to the second of four payments to cover the amount of Ps 0.9740 per share, approved by the Board of Directors on July 24, 2014.
April 24, 2015	Ps 0.4870	The third and fourth disbursements will be paid as of April 30 and July 31, 2015, respectively	It was approved to distribute a cash dividend of Ps. 0.4870 per share, derived from the fiscal net income as of December 31, 2013, and which will be paid in two installments of Ps. 0.2435, against delivery of coupons No. 15 and 16. These dividends correspond to the third and fourth of four payments that will be made for a total amount of Ps. 0.9740 per share, approved by the Shareholders' Meeting in October 2014.

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

1) Financial and Business Structure

- **Follow-up on loan exposure in the housing development sector**

During 2013 and 2014, the three main housing developers in the country continued facing financial difficulties. Consequently they are in the process of restructuring their debts and have been delinquent in their payments. As of December 31, 2014, two of them have been declared bankruptcy with a prior restructuring plan that would allow them to continue operating.

As part of the agreements made with the creditor banks, these companies' funding may be reactivated provided they comply with the terms and conditions of the agreed upon restructuring.

As of December 31, 2014, GFNorte's loan exposure with the three developers was Ps. 5,536 million of which Ps. 5,418 million were past due. According to Management's estimates, the provisions recorded as of December 31, 2014 of Ps. 3,191 million cover GFNorte's potential losses.

- **Prepayment of Subordinated Obligations**

As part of the use of proceeds from the Public Offering carried out in July 2013, on April 21, 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%.

- **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 financial 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 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.

- **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 the investment public that Banorte-Ixe Securities ("BSI") had accepted the terms and conditions of the Letter of Acceptance Waiver and Consent ("AWC") issued by the Financial Industry Regulatory Authority ("FINRA"), document in which FINRA 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 will be 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 is included in the Dow Jones Emerging Markets Sustainability Index**

On September 11, 2014 the Dow Jones Sustainability Indices ("DJSI") announced that GFNorte was included in the Dow Jones Sustainability Index Emerging Markets (DJSI Emerging Markets). This is the first time GFNorte is included and it is the first Mexican financial institution to be considered.

The DJSI methodology – established jointly by S&P Dow Jones Indices and RobecoSAM - aims to include companies across the world that outperform their peers in numerous sustainability metrics; therefore, the annual review involves an integrated assessment of economic, environmental and social criteria with a strong focus on shareholder value.

The 2014 edition of Dow Jones Sustainability Index Emerging Markets is integrated by 86 members from 37 industries and 12 countries, considering that 800 companies were invited to participate. With this award, GFNorte reaffirms its strong commitment to continue working towards strengthening Mexico.

- **Inclusion of GFNorte in the OTCQX30 Index**

On April 9, 2014 BNY Mellon and OTC Markets Group Inc. launched the OTCQX ADR 30 Index ("OTCQX30"), composed by the 30 most relevant ADRs in the market, in terms of market capitalization, volume and liquidity. Some of the companies included are: AXA, Adidas, Roche, among others. GFNorte is one, of only two Mexican companies, included in this index. The inclusion of our Level 1 ADR in this index will provide more visibility and liquidity to our program.

- **Third Party Correspondents**

After obtaining the corresponding authorizations, in September, March and January, 2014 NetPay, Del Sol and Woolworth and Soriana, respectively, joined the third party correspondent network. Through these, Banorte and Ixe clients and accountholder will be able to pay, online and in real time, their credit cards.

Corporate Events

- **GFNorte Investor Day**

On December 1, GFNorte, held its Investor Day in New York City. The event was led by the Chairman of the Board of Directors and the top management of the Financial Group. During the annual meeting, attended by more than 100 financial experts both Mexican and international, the Group's organizational changes were presented; moreover, Banorte's management team presented results of the bank's Transformation Program, which was launched over a year ago. Management also addressed the Group's performance expectations for 2015.

Carlos Hank Gonzalez, Jose Marcos Ramirez Miguel, Rafael Arana de la Garza and other executives of the management team, stated their vision on the development and the challenges that the Group will face in the upcoming years, they also expressed their commitment and dedication towards creating value for the different stakeholders.

2) Accounting Regulations.

- **Changes to GFNorte's Consolidated P&L statement related to the accounting of the results of investments in securities valuation of the Insurance and Annuities companies.**

During 2Q14, GFNorte reclassified the result for "valuations" of investments in securities held by the Insurance and Annuities companies from the Trading Income line to the Net Interest Income line in the consolidated P&L statement. These companies' investments, classified as held to maturity and denominated in UDIs, change in value by reflecting the variation in the value of the UDI (inflation indexed unit of account) for the period.

Previously, GFNorte presented this "securities investment valuations" result in the Trading Income line – under "Fair Valuation of Securities", following the methodology used by Insurance and Annuities companies to present this information in their financial statements. However, given its origin; and, with the intention to standardize the grouping criteria of all operations of the Financial Group's subsidiaries; and, with approval of the External Auditor, this valuation result will now be reported as part of Net Interest Income under the Interest Income line in GFNorte's consolidated P&L Statement. This reclassification was carried out retroactively in order to allow comparisons of prior quarters, impacting by Ps 1.56 billion the Net Interest Income vs. Trading Income.

- **Reclassification of Securities Held To Maturity**

In December 2014, GFNorte reclassified securities held to maturity to securities available for sale, comprised mainly of stock certificates and Eurobonds of private companies amounting to Ps 4.45 billion. The book value of the securities was Ps 4.45 billion, with a market value of Ps 4.40 billion, whereby GFNorte recognized a loss of (Ps 51 million) in its equity.

According to the CNBV's Circular B-2 "Investments in Securities", GFNorte may not classify securities acquired as of that date and up to December 31, 2016 in the category of securities held to maturity. Note 6 of the Audited Financial Statements (Section 8 *"Annexes - b) Audited Financial Statements")* indicates that GFNorte had such instruments held to maturity as of December 31, 2014 and 2013.

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

- **Fitch assigns "High Standards (mex)" Rating to Operadora de Fondos Banorte Ixe as Asset Manager**

On September 22, 2014 Fitch Ratings assigned "High Standards (mex)" Rating to Operadora de Fondos Banorte Ixe ("OBI") as Asset Manager. The outlook is stable.

The rating factors were:

- the strength of its investment platform and operational framework compared to the standards applied by institutional investors in Mexico,
- the broad level of experience of Operadora's management team
- the suitability of the investment process, and
- the importance of OBI as subsidiary of GFNorte.

- **Moody's upgraded various ratings for Banorte with stable outlook and affirmed ratings on Arrendadora y Factor Banorte**

In May 2014 Moody's upgraded Banorte's long and short-term global local currency deposits ratings, as well as the Standalone Baseline Credit Assessment (BCA). Additionally, Moody's upgraded the global and national scale ratings of the subordinated and junior subordinated debt. The outlook is stable.

In raising Banorte's ratings, Moody's considered: a stronger franchise value, earnings diversification, expansion, as well as significant improvements in capitalization and corporate governance. Furthermore, the stable outlook reflects Banorte's opportunities for organic growth and potential improvements in profitability to achieve higher efficiency.

The following ratings were upgraded:

Entity	Scale	Concept	From:	To:
Banorte	Global	Standalone baseline credit assesment	baa2	baa1
		Long-term local currency deposits	A3	A2
		Short-term local currency deposits	Prime-2	Prime-1
		Long-term local currency subordinated debt	Baa3	Baa2
		Long-term local currency subordinated debt program	P(Baa3)	P(Baa2)
		Long-term local currency junior subordinated debt	Ba1 (hyb)	Baa3 (hyb)
		Long-term local currency junior subordinated debt program	(P)Ba1	(P)Baa3
	National	Long-term subordinated debt	Aa2.mx	Aa1.mx
		Long-term subordinated debt program	Aa2.mx	Aa1.mx
		Long-term junior subordinated debt	Aa3.mx (hyb)	Aa2.mx (hyb)
		Long-term junior subordinated debt program	Aa3.mx	Aa2.mx

On May 26 Arrendadora y Factor Banorte's global (A3/P-2) and national (Aaa.mx/MX-1) scale ratings were affirmed.

- **HR ratified long and short term Banorte's ratings and "BANORTE 12" subordinated debt**

On May 29, HR Ratings ratified Banorte's HR AAA and HR+1 Long and Short term ratings, respectively, as well as BANORTE 12 Subordinated Debt with HR AA+. The outlook is stable.

The main factors considered were: the solid financial position reflected in adequate levels of solvency, profitability, liquidity position, improvement in efficiency ratios and an adequate revenue generation from the loan portfolio, which was considered well distributed in terms of geographic location and customers.

- **Standard and Poor's affirmed ratings on Banorte and Casa de Bolsa Banorte Ixe, both with stable outlook.**

On April 30, 2014, Standard & Poor's affirmed Banorte's 'BBB' long-term and 'A-2' short-term global scale and 'mxAAA/mxA-1+' long- and short-term national scale ratings. The rationale was: greater franchise value, lower concentration in government loans, increase to 95% of federal guarantees in government loans, adequate risk position and adequate risk-adjusted capitalization.

Furthermore, affirmed Casa de Bolsa Banorte Ixe's long and short-term national ratings 'mxAAA' and 'mxA-1+', respectively. The outlook is stable.

Additionally, the 'BBB' issue-level rating on Banorte's US $500 million senior unsecured notes due 2015, and 'BB+' issue-level ratings on the US $120 million junior subordinated notes due 2020 were affirmed.

- **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, as a result of 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.

Ratings for GFNorte's subsidiaries Arrendadora y Factor Banorte, Almacenadora Banorte and Casa de Bolsa Banorte Ixe were improved given their core role in GFNorte's strategy and business profile.

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

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

4) Recognitions

- **Banorte is recognized as the "Best Bank in Mexico and Latin America 2014" by LatinFinance and as the "Best Bank in Mexico 2014" by The Banker.**

In November 2014 **The Banker,** through the Financial Times' publication, recognized Banorte as **"Best Bank in Mexico 2014"** for the second time in a row and the 7th since 2005. Furthermore, in October 2014, Banorte was distinguished by **LatinFinance,** the specialized in banking and capital markets magazine, as the **"Best Bank in Mexico and Latin America"**.

Both appointments considered quantitative and qualitative factors such as security, soundness and prudence shown by the institution. They recognized in Banorte its capacity to grow throughout several acquisition and mergers such as the purchase of the remaining Generali's stakes in the Annuities and Insurance companies and its successful mergers with Ixe and Afore BBVA Bancomer, which gave the Group the possibility to increase its market share and meet the financial needs of new customers. They mentioned as well GFNorte's increasing presence in the equities market.

An additional factor for the assessment was the confidence that investors showed by acquiring the issued shares in the Public Offering, which allowed GFNorte to obtain fresh capital for its expansion in mid-2013, stressing that this capital increase was achieved in a context of greater volatility in international markets and economic growth in Mexico below expectations.

- **Banorte, the most valuable brand in the Mexican financial industry, according to Millward Brown**

In September 2014, the firm Millward Brown published the ranking of the top 30 most valuable companies in Mexico through the report BrandZ, in which Banorte was ranked as one of the top ten most valuable companies in the country; and the most valuable in the financial industry.

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

In August 2014, Institutional Investor magazine announced the "Best Latin America Executive Team 2014" rankings, which were based on a survey to 409 buy-side fund managers and 372 sell-side analysts. For the fifth consecutive year, GFNorte's Management and Investor Relations team were chosen among top Mexican companies and Latin American banks.

	Position			
	Latin America		Mexico	
Category	Buy-Side	Sell-Side	Buy-Side	Sell-Side
Best CEO	3°/17	3°/18	1°/54	1°/48
Best CFO	2°/18	1°/16	1°/51	1°/45
Best IR Professional*	3°/42	7°/28	2°/58	12°/60
Best IRTeam	3°/32	2°/27	2°/76	3°/60

*Residual Voting from the CFO category, since as of that date, the new IR team was not designated

- **2014 Morningstar Awards**

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

5) <u>Organizational Changes</u>

During 2014, the following appointments and organizational adjustments were made:

I. <u>Business Areas</u>

In April 2014 **Luis Fernando Orozco Mancera** was appointed Chief Credit Officer and in July 2014 **Carlos Eduardo Martinez Gonzalez** was appointed Managing Director of Retail Banking.

II. <u>Staff Areas</u>

On December 1, 2014, **David Suarez Cortazar**, Chief Financial Officer, left the organization. As of this date, **Rafael Arana de la Garza**, Chief Operating Officer (COO), will continue having oversight over the finance function of the Group and **Ursula Wilhelm Nieto,** Deputy Managing Director of Investor Relations and Financial Intelligence, will maintain responsibility for Investor Relations.

Isaias Velazquez Gonzalez was appointed by Managing Director of Internal Audit as of October 2014.

b) BUSINESS DESCRIPTION

i. MAIN ACTIVITIES

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

Its main activity is to acquire and manage shares issued by entities engaged in the financial services industry and participate supervising their operations according to the LRAF. GFNorte and its Subsidiaries are supervised, depending on their activities, by the CNBV, the CNSF and Banxico; 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:

I. 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:** Serves clients through the branch and ATM network, alternate channels (POSs, third party correspondents, online, telephone and mobile banking) and the Contact Center. Offers services to the segments: individuals, SMEs, preferred and recently to states and municipalities governments (for further detail, see Government Banking in this section). Among the products and services offered are: checking and deposit accounts, credit and debit cards, mortgages, car loans, payroll and personal loans, payroll dispersion accounts, as well as car, home and life insurance.

  ✓ **SME Banking:** Offers financial products and services for small and medium companies constituted as legal entities or individual with business activity, through saving, investment, financing and technology solutions and business insurance. Products and services may be contracted individually or through *Solucion Integral PyME*, which allows to contract and activate several products and services through a unique agreement. Additionally, and as part of a comprehensive offering of added value proposals we include in our *Circulo PyME* website: material topics for SMEs, business tools, campaigns, promotions and a calendar of SME Events, which are spaces to promote financial education as well as to offer Banorte's SME services.

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

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

  ✓ **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). 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.

In 2013, a client-centric banking model was launched, which establishes the role of the Relationship Executive as the central axis to attend all of the customers financial needs.

- ✓ **Transactional Banking**: Offers corporate & middle-market clients and financial institutions a comprehensive model of services for promotion, implementation, after-sales service and cash management solutions aiming to increase cross-selling levels.

  In 2014 we successfully deployed and implemented this model at national scale, positioning Banorte-Ixe as a relevant player in this business.

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

- ✓ **International Banking and Financial Institutions:** Offers products and services to our corporate, middle-market and SME clients with international trade needs. Additionally, the Financial Institutions segment has strategic agreements with financial institutions abroad, which allows our clients to have high level financial and banking services all over the world. Furthermore we provide our clients with investment, financing and treasury solutions.

  Some of the products and services offered are: letters of credit for imports and exports, documentary collections, standbys, financing for letters of credit, international transfers, payment of domestic utilities and remittances.

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

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

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

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

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

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

ii. DISTRIBUTION CHANNELS

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,

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 2014, according to the CNBV, raking third in the system, considering only Financial Groups.

Banorte Branches

Banorte ended 2014 with a network of 1,110 branches throughout 345 locations, decreasing by 7 branches vs. 2013.

Ixe Branches

Ixe branch network as of December 31, 2014, totaled 159 branches located in 37 sites, decreasing by 12 vs. 2013.

According to the “Master Plan of Branches" proposed by GFNorte's management, during 2015 various openings, relocations, expansions and conversions of branches for both brands will be carried out, aiming to get greater efficiencies in the network.

ATMs

ATM network grew 4% YoY from 7,035 branches in 2013 to 7,297 branches at the end of 2014, considering 187 ATMs of the Ixe network. According to CNBV, Banorte-Ixe’s ATM network market share totaled 17% as of December 2014, raking second in the system.

An average of over 7.3 million clients are served monthly through our ATM network, representing a 12% YoY vs. 2013, having carried out more than 587 million transactions during the year, representing an +12% YoY increase.

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

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

Through this channel new services have been launched, for example: to contract Banorte Movil and to renew loans. Furthermore, we already have some ATMs that automate transactions clients make within the branches, such as, cash deposits.

Telephone Banking - Contact Center “Roberto Gonzalez Barrera”

Through the Contact Center our clients may obtain information and advisory of our products and services, activate their cards, carry out transactions and recently, hire insurance services.

During 2014, our telephone banking system attended 53.0 million incoming calls, (+8% vs. 2013) and 16.2 million outgoing calls, (-6% vs. 2013). Aiming to maintain efficiency and quality service levels for our clients we continue implementing surveys to hear the “voice of the customers" and enhance their experience.

SME Centers

As of December 2014 there were 16 specialized offices operating for this segment, unchanged vs. previous year.

Point of Sale Terminals (POSs)

In 2014 POS network reached over 162 thousand, of which more than 28 thousand belong to Ixe network, representing a 15% YoY increase. As of December 2014, we had a 22% market share, ranking second according to the CNBV.

During 2014, the number of transactions reached 224.0 million, a 38% YoY increase, and the amount reached Ps 167.3 billion pesos, a 5% YoY increase, 0.6 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 their account statements, 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 2014, over 1.85 million clients have *Banorte por Internet* or *Ixe Net*, 18% higher vs. 1.57 million in 2013; almost 827 million total transactions were carried out, representing a 17% YoY growth. Moreover, regarding online banking, we served 422,568 accounts, of which 190,825 accounts chose to receive their account statements by e-mail and 153,154 were not mailed, in both cases the Paperless was chosen, representing a 12% and 7% growth, respectively, vs. 2013.

Banorte Movil

Through this mobile financial services platform, we provide a global, efficient, secure and sustainable solution to our clients since it is compatible with the main mobile platforms of smart and low-end phones, besides there is no dependence on mobile telephone service providers.

Through Banorte Movil, we offer Pagomovil Banorte which allows purchasing with a debit or credit card in any e-commerce in Mexico. This service generates a virtual credit card, which allows purchasing online in a secure way, without providing the real information of the credit card. This service is one of its kind in Mexico and avoids, frauds, cloning, double and unrecognized charges.

In 2014, more than 247 thousand clients used the Banorte Movil service, a 29% YoY growth vs. 192 thousand clients in 2013, these clients carried out more than 43 million total transactions, representing a 97% YoY increase.

As of 2014 this service may be contracted in our ATMs network. Furthermore, two new functions were incorporated to this channel: i) payment of telephone (Telmex) and electricity (CFE) bills through a barcode scanner; thus, avoiding manual work, optimizing time and reducing errors and ii) free service of “Notifications” working through Push Messages, this has increased our contact rate of direct communication with clients, placing Banorte as one of the most innovative market participants.

At the end of 2014 we had 208,306 mobile tokens, a 95% 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 counterparts have allowed us to increase our market share and be available for our clients in more suitable schedules.

Banorte has positioned itself as a major player in this market. At the end of 2014, we had 5,400 contact points through 7-Eleven (1,867), Telecomm-Telegrafos (1,676), Extra stores (1,112), Soriana (634), Grupo Control with “Del Sol” and “Woolworth” brands (77) and NetPay (34) representing a 30% increase vs. 4,147 in 2013.

In 2014, total transactions conducted through third party correspondents increased by 44% YoY, going from 5.9 million to 8.5 million.

iii. PATENTS, LICENSES, BRANDS AND OTHER CONTRACTS

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

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

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

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

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

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

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, is effective since 2010.

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

Relevant Contracts:

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

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

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

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

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

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

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

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

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

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

- The contract with Microsoft Licensing GP for the licensing of software signed on December 28, 2011 and expiring on December 27, 2014, at the end of the contract, the service will be renewed with Microsoft

Corporation (same provider that changed its name).

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

- The agreement with EMC Computer Systems 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. signed as of May 1, 2010 for maintenance of electronic infrastructure, all are indefinite.

- Contract signed in October 2009, for satellite connection services for an indefinite period of time to supply satellite connectivity to Banorte's private network with GSAT, 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 support of Oracle Premier Support to SUN-Oracle infrastructure, signed on November 1, 2012, which expired on February 28, 2014. This contract was renewed and is valid from May 23, 2014 to June 30, 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 June 30, 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, 2014 GFNorte had a wide and diversified client portfolio; the largest client represented 4.3% of the total loan portfolio.

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

v. APPLICABLE LEGISLATION AND TAX SITUATION

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

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

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 provisions that govern their supervisory and other powers. Also, these entities continually enact administrative provisions 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; 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) – which was repealed on April 4, 2015 and substituted as of this date by the Insurance and Bonding Law -, the Insurance Contract Law (Ley Sobre el Contrato de Seguro) and other regulatory provisions enacted by the SHCP and the CNSF.

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

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

Retirement Savings System

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

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

Federal Law for Protection of Personal Data Held by Private Persons

The Federal Law for Protection of Personal Data Held by Private Persons (Ley Federal de Proteccion de Datos Personales en Posesion de Particulares) that protects personal data collected, became effective 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 sought to improve disclosure standards as they relate to derivative transactions.

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

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

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

<u>Overall Allowance for loan losses:</u> According to the repealed income tax law, Banorte could deduct from taxes the loan reserves in an amount equivalent to 2.5% of the average balance of the loan portfolio. According to the tax reform, this deduction of loan reserves will be replaced by the deduction of write-offs (art. 27 section XV of the ISR Law), and even though the new law set a "tax ceiling" to prevent the deduction of write-offs that used to be part of the previously deducted 2.5% of the reserves, the non-deducted part of the loans originated in 2013 or earlier are not subject to said ceiling. 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 organized different meetings with the Mexican Tax authorities so as to clarify the implementation of these provisions. Later, on July 4 2014, the Second Resolution on Amendments was published and there was an amendment to rule I.3.22.5 which stated that losses from bad debts, generated after January 1 2014, could be deducted for tax purposes so long as the amount of loss –together with: discounts and write-offs over the loan portfolio, losses from portfolio sales and losses from payments in kind originated after January 1 2014 (in accordance with Article 9, fraction XIV, last paragraph of transitional provisions of the Income Tax Law)- equals the balance of overall allowance for loans losses on December 31 2013. Losses before this time will not be deductible for tax purposes.

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

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

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

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

Our operation as financial group is primarily regulated by the 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 General Insurance Companies Law – which was repealed on April 4, 2015 and substituted as of this date by the Insurance and Bonding 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 submitted 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.

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, according to 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 which are 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 causes:

(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 (“*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 (i) 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, (ii) 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 (iii) 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 (i) 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 (ii) 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 (i) 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, (ii) include in such report any observations mandated by the CNBV and Banco de Mexico, within their respective powers, and (iii) 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: (i) define the concrete actions that it will carry out in order not to deteriorate its capital ratio; (ii) hire the services of external auditors or any other specialized third person for special audits on specific issues; (iii) 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; (iv) substitute officers, members of the board or external auditors with appointed persons occupying the respective positions; or (v) 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 guidelines 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, GFNorte applies the Provisions for portfolio rating as issued by the CNBV and published in the Official Gazette of the Federation on June 24, 2013. GFNorte used up to December 31, 2013, the internal methodology authorized by the CNBV for rating commercial loans to financial entities.

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

Such provisions also establish general methodologies for 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 had the CNBV’s approval to apply its own methodology for commercial loans called Internal Risk Classification (CIR Banorte), by these terms, the debtors ratings are determined. CIR Banorte applied to the total of commercial loans with balances equal to or greater than 4 million UDIS or its equivalent in Mexican pesos (except those granted to Financial Entities, State and Municipal Governments and loans intended for investment projects having their own source of payment) up to June 29, 2013 because as of June 30, 2013 GFNorte adopted the aforementioned changes in Provisions; and until December 31, 2013 it was applied to the loans to Financial Entities equal to or greater than 4 million UDIS or its equivalent in Mexican pesos because accordingly to the regulation, as of January 1, 2014 the modifications to the aforementioned Provisions were adopted. The portfolio ratings and the allowance for loan losses are determined based on the regulation set forth 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 Entities equal to or greater than 4 million UDIS or their equivalents in Mexican pesos were rated up to December 31, 2013 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 up to December 31, 2013 the internal risk classification methodology, CIR Banorte, authorized by the CNBV, to rate debtors in commercial loans to Financial Entities equal to or greater than 4 million UDIS or its equivalent in Mexican pesos; whereas for the rest of the commercial loans and as of January 1, 2014 the loans granted to Financial Entities equal to or greater than 4 million UDIS or its equivalent in Mexican pesos 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	CNBV 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

General description of rules established by the CNBV

The rules for rating the consumer, mortgage and commercial loans (excluding loans intended for investment projects having their own source of payment) 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 (valid up to December 31, 2013) for rating commercial loan debtors in loans to financial entities, 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% of such bank's Tier 1 capital. None of our liabilities to a person or group of persons exceeds the 100% threshold.

Related Party Loans

Pursuant to the Mexican Banking Law, the total amount of the transactions with related parties may not exceed 35.0% 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 GFNorte 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 suspicious transactions to the SHCP, through the CNBV; and in Banorte's case, additionally reports of dollar transactions, transfers and cashier's checks.

- 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. See section 4 "Administration - Support Committees to GFNorte's Management" in this Annual Report.

- 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.

It is important to mention that credit institutions may exchange information of their clients and users transactions, exclusively on those cases aiming to strengthen the measures to prevent and detect transactions that could be considered illicit. The exchange may be carried out among authorized financial entities, accordingly to an information exchange agreement, the SHCP, through the CNBV must be aware of the exchanged information.

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 or its equivalent, as well as the country(s) that assigned it; (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, additionally 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, Moreover, a weekly report must be submitted to the CNBV regarding cash transactions denominated in U.S. dollars for any amount and a report of issued checks (with information as of 4Q14). Subsequently, as of 1Q15, a quarterly report of issued and paid checks must be submitted.

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.

In April 2014, the Provisions for Anti-Money Laundering were modified so as to clarify the requirements that must be observed for the KYC process when celebrating a trust agreement, establishing differentiated treatment for i) trusts for which the institution acts as the trustee and ii) those celebrated with another trust entity having an account at the bank (Banorte, in this case).

It was also made public that the SHCP through the CNBV will publish the list of Specially Designated Nationals and its updates, establishing the following obligations for the institution:

a) Suspend immediately any action, operation or service with a customer or user identified in the list of Specially Designated Nationals.
b) Raise a Suspicious Activity Report to the SHCP through the CNBV, no later than 24 hours from the moment this information is obtained, stating that the customer is in the Specially Designated Nationals list.
c) Inform the customer/user in writing of the blocking of his/her account and the suspension of any action, operation or service. Inform the customer he/she may approach, within the ten days after the notification, the competent authority to submit a claim, provide evidence and make allegations to clarify his/her situation.

Furthermore, this same amendment involved the obligation to submit to the SHCP through the CNBV a quarterly report of the cashier's checks, obligation that has already been mentioned in this section.

Later, in September 2014, the Provisions were amended again to establish that banks can receive, anywhere in the country, dollars in cash from customers classified as companies and selected customers that meet –amongst other things- the following conditions:

a) Companies must have been established for some years.
b) They provide evidence on the need of performing cash dollars transactions.
c) The bank must compile a file with these customers, including: financial statements, annual tax declarations and information of the shareholders.

Customer’s information and documentation proving the need of performing cash dollars transactions must be updated every year. Additionally, the system must keep an updated list of these customers. Every month, the bank must sent to the SHCP through the CNBV the updated list of customers classified as companies whose accounts will receive cash dollars under this scheme.

Furthermore, this same amendment involved the obligation of the institution to submit to the SHCP through the CNBV, a report containing the annual training program for Anti-Money Laundering. This report must be submitted within the first fifteen working days of January of every year.

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 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*) - which was repealed on April 4, 2015 and substituted as of this date by the Insurance and Bonding Law -, the Insurance Contract Law (*Ley sobre el Contrato de Seguro*) and other regulatory provisions enacted by the SHCP and the CNSF. 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. *See section 4 "Administration - Support Committees to GFNorte's Management" in this Annual Report.*

Capitalization

Broker-dealers are required to maintain a minimum capital depending upon their activities. In addition, broker-dealers must maintain minimum capital levels depending upon market risks, credit risk and operational risk.

If minimum capitalization levels are not maintained, the CNBV may take measures against the applicable broker-dealer, which include: (i) suspending the payment of dividends and other distributions to shareholders, (ii) suspending the payment of bonuses and extraordinary compensation to the general director and higher level officers, and (iii) ordering the suspension of activities that may impact the broker-dealer's capital.

Suspension and Limitations of Activities

The CNBV may suspend or limit the activities of a broker-dealer if: (i) internal infrastructure or internal controls are not sufficient for its activities, (ii) it conducts activities different from authorized activities, (iii) it conducts activities affected by conflicts of interest, (iv) undertakes securities transactions on the BMV, and (v) transactions are omitted or incorrectly entered into the broker-dealer's accounting.

In addition, the CNBV may intervene and commence the management of a broker-dealer, if any events affect the broker-dealer that may have an impact on the soundness, solvency or liquidity, or affect the interests of the broker-dealer's clients.

Revocation of Authorization

The CNBV may revoke the authorization to operate as a broker-dealer if, among other things: (i) the authorization was obtained based upon false documentation or statements, (ii) its capital falls below the regulatory minimum, (iii) provides false or incomplete periodic reports, (iv) fails to duly make accounts entries, (v) fails to comply with applicable law, (vi) a process for its dissolution or liquidation is initiated, or (vii) it is declared bankrupt.

Systems for Handling Orders

Broker-dealers are required to maintain an automatic system to receive, register, assign and execute orders for transactions with securities received by clients. Such system must distinguish (i) type of client, and (ii) different orders received. Broker-dealers are required to inform clients their schedules to receive orders and time-periods during which transactions shall remain in effect.

Secrecy

Under the Mexican Securities Market Law, broker-dealers may not provide any information in respect of transactions undertaken or services offered, except to the owner or holder of the account, to beneficiaries or their legal representatives, except if required by judicial authorities as a result of an order or to tax authorities, solely for tax purposes.

Traders and Operators

Broker-dealers may only engage in transactions with the public through authorized officers, and only if such officers have passed certain required exams and have been granted sufficient authority, through powers of attorney, by the broker-dealer.

Third-Party Services

Broker-dealers may contract with third parties any of the services required for their operations, as long as such broker-dealers obtain the approval of the CNBV and (i) maintain procedures to continuously monitor the performance of the service provider, (ii) cause the service provider to always grant CNBV access in connection with its supervisory rate, (iii) ensure that third-party service providers maintain confidentiality, and (iv) report to the CNBV the criteria used for selecting the service provider, the services in effect contracted, and risks arising from services provided.

Financial Reporting

Broker-dealers are required to disclose to the public (i) internal financial statements for the quarters ending in March, June and September, within one month from the end of this applicable quarter, and (ii) audited financial statements for each full fiscal year, within sixty days following the end of the applicable fiscal year.

Afores

Afores and Siefores are regulated and subject to supervision by the CONSAR, and are subject to the Retirement Savings System Law (Ley de los Sistemas de Ahorro para el Retiro) and the regulations issued by CONSAR. Afores are pension funds organized under the Retirement Savings Systems Law, in charge of receiving and investing retirement funds, through a retirement savings system implemented by the Mexican government in 1997. Under Mexican retirement savings system, workers are entitled to choose an Afore, which will manage and invest their retirement fund as set forth under the Retirement Savings System Law. Workers are subject to mandatory and voluntary contributions to their Afore, which in principle guarantees that, upon retirement, the worker will receive a more significant amount as a retirement pension. Afores typically invest their funds through Siefores, specialized investment entities controlled by Afores. Our subsidiary, Afore XXI Banorte, operates its business as an Afore, and therefore, is subject to regulation and supervision by the CONSAR.

New Regulation Applicable to our Business

Bill on Financial Discipline for States and Municipalities

On February 5 2015, a positive opinion was published on the draft bill aiming to amend and add several provisions of the Mexican Constitution regarding Financial Discipline for States and Municipalities for the purposes of legislative programming.

The bill considers the following:

1. Financial stability is considered the foundation for development and it should be observed when preparing and implementing the National Development Plan, and the states' and municipalities' plans.

2. The Mexican Congress has the faculty to set the guidelines on how subnational governments should resort to financial debt and to issue laws on fiscal accountability aiming to manage finance adequately. Such guidelines will include the following concepts:

   i) Limits and procedures for subnational governments to modify their contributions in order to secure their loans and meet their payment obligations;
   ii) The obligation to register and publish the total amount of loans and payment obligations in a single public register, indicating, for each loan or obligation: debtor, creditor, amount, interest rate, maturity date, type of guaranty or source of payment, and any other information deemed necessary to enhance transparence and access to information;
   iii) The creation of a warning system on debt management;
   iv) Sanctions to government officials for improper management of public resources and public debt; and
   v) Limits and requirements for contracting short term liabilities which should be settled, at the latest, three months before the end of the government term.

3. A bicameral committee will be created, through which, the Congress will analyze the adjustment strategy made by the federal government in order to strengthen public finance for those states and municipalities with high indebtedness. Such states will be able to celebrate agreements with the federal government to obtain guarantees. The committee should be informed in the case such an agreement has been celebrated.

4. Greater Tax Audit. The Superior Audit Office of Mexico will be in charge of auditing revenues, expenditures, debt and guarantees that the Federal Government grants in the form of states and municipalities loans. In the case of those states that have a guaranty from the Federation, the SAO will audit the fiscal year and the destination of the corresponding resources of the local governments. At the local level, the audit bodies from the state legislatures will be responsible for auditing the states and municipalities actions regarding funds, local resources and public debt.

5. Accountability of government officers. State and municipality officers in office will be accountable for improper management of public resources and public debt.

6. Destination of the loan and negotiation of agreements under the best market conditions. Subnational governments can only take on obligations or loans destined for productive public investment, refinancing or restructure; and these should be negotiated under the best market conditions. The Regulatory Act will establish the arrangements and conditions of the public debt that should be selected through a bidding process, as well as the mechanisms to ensure the market conditions or even better ones. Under no circumstances loans should be destined to cover current expenditure.

7. Local congresses will authorize the debt under the following conditions:

   i) By the vote of two thirds of its members.
   ii) Establishing a debt ceiling and ensuring negotiation of agreements under the best market conditions.
   iii) Previous analysis of the loan destination, ability to pay, the grant of guaranty and the source of payment.

The purpose of this law is to support government entities by improving them 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 leading to a Financial Discipline for States and Municipalities

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 became effective on April 4, 2015, 730 days after its publication.

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.

A monitoring process is also implemented in the Law, which will increase the obligations of the board of directors as it commits such body to establish mechanisms for permanent control 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 Solvency Capital Requirement, once approved by the CNSF, or to use the model developed by the CNSF (statutory method).

    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 and the investment policy approved by the Board of Directors. The entry into force of this pillar has been postponed to January 2016; nevertheless, efforts will continue in order to assess the impact and, when appropriate, readjust the statutory model of the Solvency Capital Requirement.

    (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 control with respect to the fulfillment of the operational and financial aspects of the institution. Currently, the Board approved policies and mechanisms which have already been established, according to this Law.

    In addition, the Insurance and Bonding Institutions Law requires the creation of an Audit Committee which will assume some of the activities of the Regulatory Comptroller.

    The Insurance and Bonding Institutions Law also requires the implementation of measures that ensure systems, 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 Admissible Proprietary Funds that cover the Solvency Capital Requirements.

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

The pillar of information disclosure will also be postponed to 2016; nevertheless, tests of the Economic Balance of previous years have been carried out in order to understand the effect of shifting from an Account Balance to the aforementioned.

Moreover, the publication and submission of a Solvency and Financial Condition report to the CNSF has been introduced. The report should describe the institution's activities and outcomes throughout the year, outlining the risks taken and the Solvency Capital Requirement.

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.

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.

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 15.26% as of December 31, 2014.

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

vi. HUMAN RESOURCES

GFNorte had 27,943 full-time and professional fee-based employees at the end of 2014.

Sector	2014	2013	2012
Banking, Brokerage, SOFOM and Other Finance Companies Sector	21,753	21,084	20,964
Long- term Savings Sector	6,145	6,390	5,144
Total full-time employees	**27,898**	**27,474**	**26,108**
Total full-time employees & salaries	**27,943**	**27,549**	**26,212**

75% 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 environmental policy containing the following 4 principles:

1. Achieve sustainable development.
2. Foster social responsibility in the pursuit of return on investment.
3. Convey awareness of sustainable development and environmental production throughout our day-to-day operations.
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 2014.

Environmental Programs and Projects

Regarding the development of existing environmental programs and projects, as well as the undertaking of new ones throughout 2014, we highlight:

Natural Capital Declaration

GFNorte participates actively in this financial sector declaration – according to the commitment assumed in Rio+20 United Nations Conference on Sustainable Development – which is focused on working on the integration of natural capital considerations into our financial products and services in this century.

GFNorte chairs Working Group 2, which aims to incorporate natural capital criteria into our financial products and services. Currently 3 pilot projects have been developed, detailed as follows:

- Pilot project 1: Aims to identify and include risks associated with natural capital when conducting credit risk assessment. The project is divided into two phases: in the first a broad study was carried out on the natural capital risks identification and its impact on financial institutions, this analysis was conducted by the International Capital Markets Association Centre of Henley Business School and Sociovestix Labs. In the second phase, which will take place during 2015, methodologies will be developed to include environmental risks into the credit risk assessment.

- Pilot project 2: It is focused on risk policies of agricultural raw materials (palm oil, soybean, meat and wood products) and its relation with the loan and investment portfolios. As part of the progress of this project, a tool for assessing risk policies of financial institutions was developed -which is considered a prevision tool..

- Pilot project 3: Works on considering water risks in the valuation of corporate bonds, currently it is in process of developing a study to identify and evaluate this type of risks.

CESPEDES

We continue participating in CESPEDES (*Comision de Estudios del Sector Privado para el Desarrollo Sustentable*) and in y Comision de Sustentabilidad del Consejo Coordinador Empresarial, A.C., working particularly in the Energy Group.

Banorte is a key member in this organization, which during 2014, held "Financing for Sustainable Growth" and "The future of food" forums, the latter, as part of "The Good Growth Plan" (a plan for sustainable food) in which Banorte collaborated with a special sponsorship.

Products and Services:

- During 2014, 17,149 physical tokens were migrated to cellular tokens, thus reaching a total of 208,306 users, 95% higher than last year. In addition in 2014, 8,822 tokens were collected to be responsibly disposed of by an authorized supplier and 8,877 tokens were re-used. The reduction in physical tokens generates savings for the institution and contributes to the conservation of our environment, while the proper disposal of waste helps to reduce the impact on the environment.

Energy and Climate Change:

- We are working together with the ABM (Mexican Bank Association) to establish the sustainability protocol and framework of the Mexican Banking System carbon footprint. In 2014 the results of the Mexican Banking System's emissions were released, as well the benchmark report with other sectors.

- We continue to be an active participant in the technical work group of Green House Gas (GHG Protocol) and United Nations Environment Program Finance (UNEP FI). This project aims to develop guidelines to establish a methodology to calculate the emissions related to the loan and investment portfolios of financial institutions.

- We encouraged the purchase of eco-friendly R-410 gas, an environment-friendly refrigerant gas, to be used in the majority of our air conditioning. Our goal is to gradually change our gas usage until 100% of all gases used are environment-friendly.

- We support the "Earth Hour", campaign organized by the World Wildlife Fund (WWF), by informing employees through internal communications about actions that can help save energy and by turning off non-essential lighting in the following buildings:

    - Corporativo Santa Fe (Mexico City)
    - Corporativo Torre Sur (Monterrey)

- Edificio Torre Morelos (Monterrey)
    - Edificio Heroes (Tijuana)
    - Edificio La Paz (Guadalajara)

- In 2014, GFNorte generated 66,890 tons of equivalent CO_2 emissions, achieving the expected results set in 2009 of reducing 20% the intensity of emissions per employee in 5 years.

- Our carbon footprint has been verified since 2012 by an external firm accredited by the EMA (Mexican Accreditation entity). Since last year, 100% of the greenhouse emissions have been verified, these emissions derived from the use of fuels and electricity within the Financial Group.

- In 2014, we donated 1,500 hectares in the state of Sonora to the Naturalia A.C. institution, to help preserve the jaguar. During the ceremony, which was attended by Banorte clients and employees, an auction of art was held which marked the beginning of actions that will contribute to generate financial resources for the long-term management and protection of the Northern Jaguar Reserve. Additionally, Banorte will work with Naturalia to develop various initiatives to involve Banorte's clients and affiliates in the protection of the jaguar as a species and the Northern Jaguar Reserve.

- Our green roof in the "Roberto Gonzalez Barrera Call Center" (Monterrey, N.L.) finalized its second operative year. In addition to the conservation of 40,000 specimens of plants we integrated an environmental education program which includes lectures and workshops. Thanks to this, today we have the first comprehensive green roof in Mexico; which at the end of 2014 received a total of 868 visitors, 719 internal and 149 external visitors considering employees, suppliers, organizations, academics and community.

- We have a solid infrastructure of meeting rooms and transmission equipment installed throughout the Financial Group, which enabled to hold 27,949 videoconferences in 2014, +27% YoY. Besides the monetary savings, this initiative prevented CO_2 emissions generated by the transportation of those employees to attend such meetings. Three connections are equivalent to one videoconference.

- Since April a new tool was included in the SAP module to quantify the number of kilometers traveled by plane of our banking sector employees (corporate trips). In 2014, more than 82 million kilometers were registered, which is equivalent to 762 tons of CO_2 emissions.

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

- At the end of 2014 the photovoltaic cells installed in two Banorte branches remained operating.

- In 2014 we established an agreement to include a company specializing in distributed generation of electricity through solar panels - in our portfolio of suppliers who provide benefits to employees. During the year, Banorte employees who installed solar panels in their homes contributed to reduce CO_2 emissions by 2,537 kg of CO_2, these devices generated 5,075 kWh of energy.

- Since the end of last year, Banorte adhered to three initiatives of the Road to Paris project organized by the Carbon Disclosure Project (CDP) in preparation for the Paris Climate Summit to be held in December 2015, which seeks:

- To use a price for carbon and encourage the use of this strategy.
- To incorporate climate change data in annual reports.
- To actively support the creation of public policies for climate change.

- In order to comply with new environmental legislation on emissions, in 2015 GFNorte will adhere to the guidelines set by the National Emissions Regulation (*RENE, Reglamento Nacional de Emisiones*).

Paperless Program and waste management:

- During 2014, we designed and taught the online Paperless course to 10,271 employees, aiming to raise awareness about the responsible consumption of paper in work activities. In addition, this course has been already included in the induction program for branch employees, through which over 200 new employees have been trained.

- Derived from GFNorte's responsible paper consumption program, Paperless, by the end of 2014, paper consumption of participating Staff areas was reduced by 36% vs. 2010, which contributed to reduce by 3% the percentage of paper used by employee vs. 2013.

- More clients are opting to use the online banking. At the end of 2014, 153,154 clients chose to not receive their account statement via mail and 190,825 chose to receive this document by e-mail, representing a 7% and 12% growth vs. 2013, respectively.

- In 2014 we created a register for feedback obtained in different channels of communication with employees, through which 1,931 environmental related initiatives were received.

- In 2014, the culture of organizational change was promoted among employees of the banking sector, Afore XXI Banorte, and the Insurance and Annuities companies to promote the implementation of sustainable practices by sending Ecotips.

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

- As part of our waste management-related actions, in 2014 we implemented a program to recycle paper in 6 additional buildings, for a total of 13 corporate buildings in the states of Nuevo Leon, Puebla and Distrito Federal, recycling 122 tons of paper.

- INB recycled 66 tons of paper and continued with the source separation and recycling program of aluminum cans and cardboard at the McAllen, Texas USA corporate building.

- Furthermore, Seguros Banorte and Pensiones Banorte recycled 25 tons of cardboard and white paper during 2014.

Management of Socio-Environmental Risks

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

- Since October 2012, Banorte implemented the Social and Environmental Management System (SEMS), which identifies, manages, assess, prevents, mitigates and offsets risks associated with Banorte's loan portfolio. During 2014 version 2.0 of the system was implemented, enabling us to extent its coverage and optimize the analysis of socio-environmental risks of our loans by systematizing the risk detection process based on industries and sectors with negative impacts on both society and the environment.

- In 2014 we consolidated direct contact with account executives through real time notifications of all financings entering in the Selective Credit Alliance System (*SACS,* Sistema Alianza Credito Selectivo). In this manner, through about 4,000 phone calls during the year, we managed to raise awareness effectively on the importance of socio-environmental risk. Likewise, via e-learning, 465 executives were trained and assessed on issues of sustainability and on the operation of the system.

Results in 2014:

% of Projects by type of socio-environmental risk 2014	
Low socio-environmental risk	62.1 %
Medium socio-environmental risk	37.8 %
High socio-environmental risk	0.1 %

- In 2014, 30 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, 208 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, 47 financings were authorized in 2014. In-depth social and environmental risk and performance analyses were conducted on these financings, all monitored under the Equator Principles' framework.

2014 results are detailed as follows:

Equator Principles	
Category A	3
Category B	4
Category C	40
TOTAL	47

**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 2014 we worked together with Government Banking, Structured Financing, Corporate and Middle-market Banking, Legal, Credit and Risks departments, aiming to incorporate SEMS into the bank's regulation.

Sustainability Management System

- We finalize the implementation of the Sustainability Management System (SMS), which aims to collect, validate, monitor and analyze ratios of the Group’s environmental, social and economic performance. This platform was launched in October and during 3Q14 40 users were trained, who will enter more than 250 data related to environmental metrics. As of January 2015, this system is collecting and verifying the majority of data of our 2014 Annual Inform.

- We created the Identification, Classification and Evaluation of Environmental Impacts Matrix, in order to determine in what areas and business processes are the actual and potential risks in environmental matters for the subsequent management of these risks. This is part of GFNorte’s first steps towards the establishment of an Environmental Management System that we will begin to develop in 2015.

- In the course of 2014 we worked to introduce new considerations into GFNorte’s Environmental Policy in order to align it with the ISO 14000 international environmental legislation and we aspire to meet all of its requirements in the long term.

Awards

- In September 2014, GFNorte joined the Dow Jones Sustainability Index Emerging Markets (DJSI Emerging Markets), becoming the first Mexican financial institution to be considered. The 2014 edition of is integrated by 86 members from 37 industries and 12 countries. In the environmental scope, we rank in the top 30%.

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

- GFNorte got an 88B grade in the CDP's 2014 climate change questionnaire, ranking second among Mexican companies and Latinamerican financial entities regarding transparency on climate change topics. Consequently, 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 2014 related to climate change

- GFNorte is the first financial institution to receive the GEI2 award granted by the Mexico GEI Program of SEMARNAT (Secretary of the Environment and Natural Resources) in 2014, which ratifies we monitor our carbon footprint since 2012 (verified by an external entity) and we have a mitigation program for our emissions. This year we participated again with the verified data of our carbon footprint in 2013 and we are waiting for the results corresponding to 2015.

- For fourth year in a row, Banorte-Ixe received the distinction of Socially Responsible Company (ESR) granted by the Centro Mexicano para la Filantropia (CEMEFI).

viii. MARKET INFORMATION

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

Company	Concept	2014	2013	2012
Banking Sector [1]	Retail Total Deposits	14.5%	14.2%	14.3%
	Performing Loans	13.9%	14.0%	14.3%
Brokerage [2]	Equity Operations	1.9%	3.3%	4.7%
Afore (retirement fund) [3]	Affiliations	24.4%	26.0%	16.8%
Insurance [4]	Issued Premiums	5.2%	4.3%	4.3%
Annuities [4]	Pensions	37.5%	45.0%	46.6%
Leasing and Factoring [5]	Total Loans	33.1%	35.6%	38.1%
Warehousing[6]	Certifications	3.2%	6.6%	5.4%
Solida Administradora de Portafolios (formerly Ixe Soluciones) [5]	Total Loans	6.8%	1.0%	0.6%
Ixe Automotriz [5](*)	Total Loans	-	-	0.2%
Fincasa Hipotecaria [5] (*)	Total Loans	-	-	6.8%

1) Source: CNBV Banca Multiple as of December 31, 2014.
2) Source: Asociacion Mexicana de Intermediarios Bursatiles, A.C., as of December 31, 2014.
3) Source: CONSAR as of December 31, 2014.
4) Source: Asociacion Mexicana de Instituciones de Seguros, A.C. as of December 31, 2014.
5) Source: CNBV Sociedades Financieras de Objeto Multiple, Entidades Reguladas that do not consolidate with Banks as of December 31, 2014. (2013 and 2012 – total system figures were modified).
6) Source: CNBV Almacenes Generales de Deposito as of December 31, 2014. (2013– total system figure was modified).
(*) Ixe Automotriz merged into Arrendadora y Factor Banorte, whereas Fincasa Hipotecaria merged into Banco Mercantil del Norte. Both mergers became effective in May 2013.

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

Concept	2014		2013	
	Position	Market Share	Position	Market Share
Total Assets	4	12.2%	4	11.7%
Performing Loans	3	13.9%	3	14.0%
Commercial	4	11.8%	4	12.7%
Consumer [1]	3	10.8%	3	10.7%
Credit Cards	4	7.9%	4	7.0%
Mortgage	3	16.4%	3	16.4%
Government	2	23.4%	1	23.3%
Retail Total Deposits	3	14.5%	3	14.2%
Demand Deposits	4	12.9%	4	12.3%
Time Deposits	1	17.9%	1	18.3%

Source: CNBV Banca Mutiple as of December 31, 2014.
1) Includes Personal, Payroll and Car.

Some of GFNorte's strengths are its soundness, service and experience, market knowledge, innovation record, organic growth, client-centric and multi-channel business platform, as well as the wide range of products and services.

As a result of the wide variety of products and services in all our business areas, we faced major competitors, which may be other Mexican financial groups, commercial banks, Mexican regional banks, insurance companies, brokerage houses, international banks and financial institutions and Afores.

As Banorte is focused on commercial and retail banking, it competes with large Mexican banks, including foreign banks subsidiaries, which as Banorte, are part of financial groups. Banorte competes strongly with certain Mexican subsidiaries of foreign banks (mainly American and Spanish). Our main competitors in Mexico are: i) *Scotiabank Inverlat, S.A., Institucion de Banca Multiple, Grupo Financiero Scotiabank Inverlat;* ii) *BBVA Bancomer, S.A., Institucion de Banca Multiple, Grupo Financiero BBVA Bancomer; iii) Banco Nacional de Mexico, S.A. Institucion de Banca Multiple, Grupo Financiero Banamex; iv) Banco Santander (Mexico), S.A. Institucion de Banca Multiple, Grupo Financiero Santander; v) HSBC Mexico, S.A., Institucion de Banca Multiple, Grupo Financiero HSBC and vi) Banco Inbursa, S.A. Institucion de Banca Multiple, Grupo Financiero Inbursa*. Some of these banks are significantly larger and have more financial resources than Banorte does. Additionally, Banorte competes with Banregio and Banco del Bajio in some regions of the country.

Stemming from the entry of new participants in the banking sector, it is likely that competition increases. Recently, the Mexican Financial System authorities have granted many licenses for the establishment and operation of new banking institutions, including among others:

- ABC Capital, S.A., Institucion de Banca Multiple.
- Banco Base, S.A., Institucion de Banca Multiple.
- Banco Finterra, S.A., Institucion de Banca Multiple.
- Banco Forjadores, S.A., Institucion de Banca Multiple.
- Banco Progreso Chihuahua, S.A., Institucion de Banca Multiple.
- Bancrea, S.A., Institucion de Banca Multiple.
- Bankaool, S.A., Institucion de Banca Multiple.
- Consubanco, S.A., Institucion de Banca Multiple.
- Fundacion Donde Banco, S.A., Institucion de Banca Multiple.

ix. CORPORATE STRUCTURE

Financial Entity	Equity as of December 31, 2014
Banco Mercantil del Norte, S.A., Institucion de Banca Multiple, Grupo Financiero Banorte. • Operate as credit Institution authorized to conduct financial operations. • Conduct banking and credit operations.	98.22%
Arrendadora y Factor Banorte, S.A. de C.V., Sociedad Financiera de Objeto Multiple, Entidad Regulada, Grupo Financiero Banorte. • Celebrate leasing and factoring contracts. • Obtain loans and financing from credit and insurance institutions to cover liquidity needs.	99.99%
Almacenadora Banorte, S.A. de C.V., Organizacion Auxiliar del Credito, Grupo Financiero Banorte. • Store, keep and maintain goods and merchandise. • Issue deposit certificates and pledged bonds. • Transform deposited merchandise in order to increase their value.	99.99%
Seguros Banorte, S.A. de C.V., Grupo Financiero Banorte. • Act as insurance and re-insurance institution for individuals and corporations.	99.99%
Pensiones Banorte, S.A. de C.V., Grupo Financiero Banorte. • Act as insurance institution whose objective is to exclusively manage annuities derived from social security laws.	99.99%
Casa de Bolsa Banorte Ixe, S.A. de C.V., Grupo Financiero Banorte. • Act as authorized intermediary to operate in the stock market, conducting sale and purchase transactions of securities; provide advice on securities' placement and operations with securities and mutual funds.	99.99%
Operadora de Fondos Banorte Ixe, S.A. de C.V., Sociedad Operadora de Fondos de Inversion, Grupo Financiero Banorte. • Carry out asset the functions of asset management, distribution, valuation, promotion and acquisition of securities issued by mutual funds, deposit and custody of securities subject to investment and of mutual funds, accounting, and management in the issuance of securities.	99.99%
Ixe Servicios, S. A. de C. V.	99.99%
Solida Administradora de Portafolios, S.A. de C.V., Sociedad Financiera de Objeto Multiple, Entidad Regulada, Grupo Financiero Banorte. • Obtain resources from: (i) placing securities previously rated by a Rating Agency, registered in the National Securities Registry, for later offering in the stock market, and (ii) acquiring liabilities with all types of national and international financial entities, in terms of applicable legal provisions, as well as granting loans to the automotive sector.	98.83%

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.	49,223	$650,697
Alfonso Reyes # 3,639, Monterrey, N.L.	41,672	451,096
Av. Revolucion # 3,000, Monterrey, N. L.	42,856	331,596
Calzada de Tlalpan # 2,980, Mexico D.F.	18,069	320,783
Paseo de la Reforma # 281, esquina Rio Sena 110, Mexico, D. F.	1,132	133,748
Calle David Alfaro Siqueiros # 106, Col. Valle Oriente. (land)	6,127	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 14 buildings, and a total of 159 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	63
Chihuahua	1	1
Coahuila	1	-
Estado de Mexico	-	23
Guanajuato	1	11
Jalisco	1	20
Michoacan	2	-
Morelos	0	6
Nuevo Leon	-	11
Puebla	1	10
Queretaro	1	9
Quintana Roo	1	2
Tabasco	1	-
Yucatan	-	3
Total	**14**	**159**

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, 2014, the authorized 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 face value of Ps 3.50. The subscribed and paid equity amounts to Ps 9,692,703,699.00, represented by 2,769,343,914 ordinary nominative shares, Series "O", Class I and II, all with face value of Ps 3.50. The remaining 4,385,649 shares are issued but not subscribed, as they were acquired by the Company accordingly to Article 56 of the Securities Market Law.

Shares representing subscribed capital are classified as: Class I shares, (representing the fixed portion of equity) and Class II shares (representing the variable portion of equity).

The variable portion of equity cannot exceed 10 times the fixed portion, and is not subject to withdrawal according to legal and statutory regulations.

According with the Corporate By-laws, total equity will be composed of a common portion and could also include an additional portion. The total common equity will be made up of Series "O" shares. If necessary, additional equity will be represented by Series "L" shares that can be issued up to an amount equivalent to forty percent of the ordinary equity, with the previous authorization of the CNBV. Series "O" and "L" shares will be available to the general public.

In the General Extraordinary Shareholders' Meeting held on March 30, 2011, the merger of Ixe Grupo Financiero, S.A.B. de C.V., into Grupo Financiero Banorte, S.A.B. de C.V. was approved, increasing Grupo Financiero Banorte's variable portion of the total equity to Ps 1,078,035,819.00, by issuing 308,010,234 ordinary nominative shares, Series "O", with a face value of Ps 3.50 each. Previous to this merger, GFNorte's subscribed equity was represented by 2,018'347,548 ordinary nominative shares, Series "O".

In the General Extraordinary Shareholders' Meeting held on July 3, 2013, an increase in the variable portion of the total equity was approved by issuing 447'371,781 ordinary nominative shares, Series "O", Class II with face value of Ps 3.50, to be subscribed in a Public Offering, which was finalized on 22 July, 2013.

See Note 30 in Equity in the Audited Financial Statements (Section 8. c) "Annexes- Audited Financial Statements" of this report.

xiii. DIVIDENDS

GFNorte has decreed the following cash dividends for the last three fiscal years as follows:

Meetings' Date (decreed dividend)	Amount of Decreed Dividend (pesos per share)	Date of Payment	Comments
February 17, 2012	Ps 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	Ps 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	Ps 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 in October 2012.
January 22, 2013	Ps 0.549 (in three disbursements of Ps 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	Ps 0.7852 (in four disbursements of Ps 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 Shareholders' Assembly on October, 2013.
December 20, 2013	Ps 0.3926 (prepayment of the second and third disbursements of Ps 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 0.1963 per share, respectively. *The fourth and last disbursement was not paid in advance and was disbursed on July 23, 2014, as agreed in the aforementioned Shareholders' Meeting.*
October 22, 2014	Ps 0.2435	As of October 31, 2014	Corresponds to the first of four payments to cover the amount of Ps 0.9740 per share, approved by the Shareholders' Assembly in October 2014.
January 21, 2015	Ps 0.2435	As of January 30, 2015	Corresponds to the second of four payments to cover the amount of Ps 0.9740 per share, approved by the Shareholders' Assembly in October 2014.
April 24, 2015	Ps 0.4870	The third and fourth disbursements will be paid as of April 30 and July 31, 2015, respectively	It was approved to distribute a cash dividend of Ps. 0.4870 per share, derived from the fiscal net income as of December 31, 2013, and which will be paid in two installments of Ps. 0.2435, against delivery of coupons No. 15 and 16. These dividends correspond to the third and fourth of four payments that will be made for a total amount of Ps. 0.9740 per share, approved by the Shareholders' Meeting in October 2014.

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, 2014 and 2013, published by Galaz, Yamazaki, Ruiz Urquiza, S. C., a member of Deloitte Touche Tohmatsu Limited dated February 19, 2015. For the year ended December 31, 2012, 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 20, 2014.*
- ✓ *During the second quarter of 2014, GFNorte reclassified retroactively, (in order to allow comparisons with 2013 figures), the result for "securities investment valuations" presented by the Insurance and Annuities companies in the Trading Income line to Net Interest Income under the Interest Income line". The above due to this concept corresponds to a recovery mainly caused by the update of the UDI's value of the position titles held to maturity denominated in UDIs for both companies. This reclassification between Trading Income and Net Interest Income amounted to Ps 1.56 billion in 2013. (See Note 4 of the Audited Financial Statements - Significant Accounting Policies – "Changes to the Consolidated P&L statement related to the accounting of the results of investments in securities valuation of the Insurance and Annuities companies"). Figures in 2012 were not modified, so these are not comparable with those of 2013. 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.*
- ✓ *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

	2014	2013	2012
Net Income Grupo Financiero Banorte (GFNorte) (*)	Ps 15,228	Ps 13,508	Ps 10,888
Total Assets GFNorte (*)	Ps 1,097,982	Ps 1,006,788	Ps 916,567
Total Liabilities GFNorte (*)	Ps 973,310	Ps 898,097	Ps 828,058
Stockholders' Equity GFNorte (*)	Ps 124,672	Ps 108,691	Ps 88,509
Stockholders' Equity GFNorte excluding minority interest (*)	Ps 122,922	Ps 106,657	Ps 81,881
INFORMATION PER SHARE			
Net income per share (pesos)	Ps 5.49	Ps 5.35	Ps 4.68
Dividend approved per share (pesos) (1)	Ps 0.9740	Ps 0.7852	Ps 0.732
Book value per share (pesos) (excluding minority interest)	Ps 44.39	Ps 38.45	Ps 35.20
Shares outstanding (millions) (2)	2,773.0	2,526.1	2,326.4
PROFITABILITY RATIOS			
NIM before REPOMO(3)	4.7%	4.4%	4.1%
NIM adjusted for credit risk(3)	3.5%	3.4%	3.4%
NIM adjusted w/o Insurance & Annuities(3)	4.5%	4.3%	4.2%
NIM from loan portfolio(3)	8.2%	7.8%	7.3%
Return on assets (ROA)	1.5%	1.4%	1.3%
Return on equity (ROE)	13.2%	14.2%	14.3%

	2014	2013	2012
OPERATIONS			
Efficiency ratio (4)	48.5%	52.0%	54.0%
Operating efficiency ratio (5)	2.8%	2.9%	2.9%
Liquidity ratio	133.7%	137.4%	128.4%
ASSET QUALITY INDICATORS			
Past due loan ratio	2.9%	3.1%	2.1%
PDL reserve coverage	107.0%	104.6%	138.3%
CAPITALIZATION RATIO			
Banco Mercantil del Norte	15.26%	15.12%	14.75%
Ixe Banco	N.A.	N.A.	15.5%
INFRASTRUCTURE AND EMPLOYEES			
Bank Branches (6)	1,269	1,288	1,316
ATMs (automated teller machines)	7,297	7,035	6,707
Full-time employees	27,898	27,474	26,108
Full-time employees and professional services	27,943	27,549	26,212

(*) Million pesos.

1. Dividends approved by the Shareholders' Assemblies in 2014, 2013 and 2012 were: a 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, the advanced payments regarding the installments of January and April 2014 were authorized to be made on December 31, 2013, the last installment was paid in its original date. Total Dividend decreed in 2014 was Ps 0.9740 per share to be paid in four installments of Ps 0.2435 per share (October 2014, January, April, and July 2015).
2. The 2,773.0 million shares are the accumulated weighted average in 2014; while as of the end of 4Q14 the total amount of outstanding shares totals 2,769.34 million.
3. Derived from the reclassification mentioned in the Note 4 of the Audited Financial Statements, ratios in 2013 have been modified from what was published in the 2013 Annual Report (sent to the authorities in February and April 2014).
4. Non Interest Expense / (Total Net Income + Non Interest Income).
5. Non Interest Expense / Average Total Assets.
6. Includes bank modules and excludes 1 branch in the Cayman Islands.

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

a. Total Deposits

By Business line

	2014	2013	2012
Commercial	356,365	327,253	259,008
Business	26,260	21,955	21,923
Corporate	9,437	7,500	7,491
Government	71,158	58,982	49,151
Financial Intermediaries	34,702	28,051	48,407
Deposits	**Ps 497,922**	**Ps 443,741**	**Ps 385,981**
Ixe (1)	**Ps** 0	**Ps** 0	**Ps** 38,344
Total Deposits	**Ps 497,922**	**Ps 443,741**	**Ps 424,325**

Million Pesos.

1. For 2012, 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

	2014	2013	2012
Mexico City- South	74,635	66,786	38,230
Mexico City- North	58,226	54,016	37,036
Northern	108,356	98,912	92,971
Central	68,447	60,579	53,464
Northwest	47,781	41,139	36,872
West	41,805	37,935	32,114
South	27,607	25,525	20,674
Peninsular	35,008	29,208	25,506
Central Treasury	10,405	6,957	23,279
Foreign	25,651	22,685	25,835
Ixe (1)	**Ps** 0	**Ps** 0	**Ps** 38,344
Total Deposits	**Ps 497,922**	**Ps 443,741**	**Ps 424,325**

Million Pesos.

1. For 2012, 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

	2014	2013	2012
Mortgages	91,192	83,119	73,420
Car Loans	11,297	11,599	10,464
Credit cards	24,567	21,601	18,458
Payroll	34,889	26,776	18,583
Consumer	161,945	143,095	120,923
Commercial	119,255	117,184	110,977
Corporate	85,899	82,774	89,660
Government (1)	118,962	95,638	88,354
Total Loan Portfolio	**$486,062**	**$438,693**	**$409,913**

Million pesos.

1. Government banking includes federal, state and municipal sectors.

By Geographical Regions

	2014	2013	2012
Northern	106,293	101,432	97,666
Mexico City- North	80,408	59,978	38,763
Mexico City- East	64,778	62,501	50,335
Mexico City- West	21,498	18,419	14,656
West	40,257	37,000	32,355
Central	45,481	44,022	39,613
Northwest	49,476	46,414	45,177
South	28,845	23,644	20,340
Peninsular	35,485	34,795	29,856
Foreign	13,541	10,342	9,228
Subtotal	486,062	438,546	377,989
Ixe (1)	-	-	31,606
Eliminations from acquiring Ixe	-	147	319
Total Loan Portfolio	**Ps 486,062**	**Ps 438,693**	**Ps 409,913**

Million Pesos.

1. For 2012, 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, 2014 are:

Arrendadora y Factor Banorte

a) Short-term Stock Certificates (AFBNT 00115):
Date Issued: January 22, 2015
Maturity Date: July 9, 2015
Amount Issued: Ps 128.3 million pesos
Coupon Rate: TIIE 28d - 0.11%

b) Short-term Stock Certificates (AFBNT 00215):
Date Issued: February 26, 2015
Maturity Date: August 13, 2015
Amount Issued: Ps 100 million
Coupon Rate: TIIE 28d - 0.11%

c) Short-term Stock Certificates s (AFBNT 00315):
Date Issued: March 12, 2015
Maturity Date: August 27, 2015
Amount Issued: Ps 150 million
Coupon Rate: TIIE 28d - 0.11%

Financing obtained from public investors up to December 31, 2014 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
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: Ps 3 billion
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: Ps 2.75 billion
Coupon Rate: TIIE 28d+ 0.77%

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

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

g) *Subordinated Non-cumulative & Non-preferred Obligations (in US dollars, Tier 1):*
Subordinated debt issued by Ixe Banco, given its merger into Banco Mercantil del Norte in May 2013, the latter took over the obligations derived from the merger.
Date Issued: October 14, 2010
Maturity date: October 14, 2020
Amount Issued: US $120 million
Coupon rate: 9.25%

INB

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

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

Arrendadora y Factor Banorte

a) *Short-term Stock Certificates (AFBNT 01114)*
Date Issued: September 11, 2014
Maturity Date: February 26, 2015
Amount Issued: Ps 250 million
Coupon Rate: TIIE 28d -0.11%

b) *Short-term Stock Certificates (AFBNT 01214).*
Date Issued: September 25, 2014
Maturity Date: March 12, 2015
Amount Issued: Ps 250 million
Coupon Rate: TIIE 28d -0.11%

c) *Short-term Stock Certificates (AFBNT 01314).*
Date Issued: October 1, 2014
Maturity Date: January 22, 2015
Amount Issued: Ps 145 million
Coupon Rate: TIIE 28d -0.11%.

d) *Short-term Stock Certificates (AFBNT 01414).*
Date Issued: October 15, 2014
Maturity Date: March 26, 2015
Amount Issued: Ps 250 million
Coupon Rate: TIIE 28d -0.10%.

All of GFNorte's subsidiaries are current in interest and/or capital payments of all their financial liabilities.

Loan or tax liabilities

The tax credits listed below are currently in litigation:

	As of December 31, 2014
BANORTE	**Ps 32**
IMSS fees, various occupations	*6*
INFONAVIT fees, various occupations	*26*
CASA DE BOLSA BANORTE IXE	**Ps 35**
Fiscal year 2007 (document 900 06 05-2010-03968)	*35*
SEGUROS BANORTE S.A. DE C.V.	**Ps 15**
Fiscal year 2003 (document 900-06-01-2009-9518)	*15*
AFORE XXI BANORTE	**Ps 2**
Loan # 4429309391 Payroll Tax of the state of Coahuila	*2*
IXE BANCO S.A.	**Ps 13**
Income Tax-Profit Sharing for the 2005 fiscal year – inflation adjustement	*13*

Million Pesos

Banorte's liabilities financed in foreign currency.

	December 2014	
CONCEPT IN FOREIGN CURRENCY	**Capital (Average)**	**Cost**
Core deposits	2,708.72	0.68%
Non-traditional deposits	320.00	7.76%
Total interbank loans	248.68	1.97%
Total Resources in Foreign Currency	**USD $3,277.41**	**1.47%**

Thousand US dollars.

INB liabilities financed in foreign currency

	December 2014	
CONCEPT IN FOREIGN CURRENCY.	**Capital (Average)**	**Cost**
Core deposits	1,418.48	0.52%
Total interbank loans	0	0%
Total Resources in Foreign Currency	**USD $1,418.48**	**0.52%**

Thousand US dollars.

d) MANAGEMENT ANALYSIS AND COMMENTS ON OPERATING RESULTS AND THE COMPANY'S FINANCIAL SITUATION

The following analysis should be read together with the Audited Financial Statements and with the notes that accompany them. Regarding the items in the Financial Statements that were re-expressed using ratios different than the Mexican Consumer Price Index, refer to the corresponding Note of the audited financial statements for the years ending December 31, 2014 and 2013, and the independent auditors' opinion of February 19, 2015. (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

	2014	2013	2012
Interest income[1]	Ps 72,579	Ps 70,991	Ps 64,127
Premium income (Net)	18,692	18,027	16,321
Interest expense	(27,861)	(31,456)	(30,874)
Net increase in technical reserves	(9,655)	(9,686)	(8,708)
Casualty rate, Claims and other Contractual Obligations (Net)	(9,659)	(9,138)	(8,057)
NET INTEREST INCOME (NII)	**Ps 44,096**	**Ps 38,738**	**Ps 32,809**
Loan Loss Provisions	(11,196)	(8,942)	(6,172)
NET INTEREST INCOME ADJUSTED FOR CREDIT RISK	**Ps 32,900**	**Ps 29,796**	**Ps 26,637**
Fees Charged	12,820	12,006	11,539
Fees Paid	(4,267)	(3,917)	(3,480)
Trading Income[1]	4,420	3,414	4,152
Other Operating Income	3,260	3,223	2,300
Non-Interest Income	**Ps 16,233**	**Ps 14,727**	**Ps 14,510**
Administration and promotional expenses	(29,232)	(27,818)	(25,535)
OPERATING INCOME	**Ps 19,901**	**Ps 16,704**	**Ps 15,613**
Minority Interest	1,220	1,130	590
PRE-TAX INCOME	**Ps 21,121**	**Ps 17,834**	**Ps 16,203**
Income Tax	(8,040)	(3,671)	(3,653)
Deferred Income Tax (Net)	2,372	116	(475)
Taxes	**(Ps 5,668)**	**(Ps 3,555)**	**(Ps 4,128)**
NET INCOME BEFORE RECOGNITION OF MINORITY INTEREST	**Ps 15,453**	**Ps 14,279**	**Ps 12,075**
Minority interest	(225)	(771)	(1,187)
NET INCOME	**Ps 15,228**	**Ps 13,508**	**Ps 10,888**

Million pesos.

1. Interest Income and Trading Income of 2013 published in the 2013 Audited Financial Statements and Annual Report (sent to the authorities in February and April 2014) have been modified in this document due to the reclassification on the second quarter of 2014. See Note 4 of the Audited Financial Statements.

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

Net Income by Segment	2014	2013	2012
Banking Sector (1) (2)	$10,526	$10,658	$7,310
Brokerage	$931	$649	$681
Long-Term Savings	$3,215	$1,962	$1,052
Afore XXI Banorte (2)	1,181	1,114	532
Seguros Banorte (Insurance) (3)	1,759	725	471
Pensiones Banorte (Annuities) (3)	276	123	49
SOFOM and Other Finance Companies	$574	$392	$256
Arrendadora y Factor (Leasing and Factoring)	700	599	604
Almacenadora (Warehouse)	45	43	43
Ixe Automotriz (4)	-	15	33
Solida Administradora de Portafolios (5)	(173)	(266)	(425)
Ixe Servicios	2	1	1
Holding	($18)	($153)	$1,589
GFNorte	***$15,228***	***$13,508***	***$10,888***

Million pesos.

1. Figures and ratios of 2012 presented in the Banking Sector of this Annual Report differ from those presented to the authority in April 2013, since some retroactive changes have been made to the corporate structure of Banco Mercantil del Norte, including the merger with Fincasa Hipotecaria and the spin-off of Solida Administradora de Portafolios.
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. As of October 4, 2013, Seguros Banorte and Pensiones Banorte consolidate 100% in Grupo Financiero, due to the acquisition of the 49% minority stake that Assicurazioni Generali S.p.A. had in these companies.
4. Ixe Automotriz was merged into Arrendadora y Factor Banorte, becoming effective since May 7 2013. The results presented correspond to previous periods of that date.
5. Figures showed in the chart corresponding to Solida Administradora de Portafolios includes the effect of its spin-off of Banco Mercantil del Norte and its subsequent merger with Ixe Soluciones (both effective as of May 24, 2013), in order to consolidate the recovery banking operations.

Comparative analysis: Summary of the years ended December 31, 2014 and 2013 and December 31, 2013 and 2012.

In 2014 GFNorte reported profits of Ps 15.23 billion, 13% higher than in 2013.The contribution to accumulated profits for 2014 by business sector are:

Net Income for the **Consolidated Banking Sector** (Banco Mercantil del Norte, Banorte- Ixe Tarjetas, Banorte USA, and the 50% participation in Afore XXI) rose to Ps 11.94 billion pesos in 2014, (187) million or (2%) lower vs 2013. It is important to note that Operating Income registered a 15% YoY growth, but was affected by higher tax payments due to the implementation of the new tax regulations effective as of January 2014, which resulted in a 71% YoY tax increase. Profits in this sector represent 78% 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 10.53 billion, (1%) vs. 2013, representing 69% of GFNorte's net profits.

Net Income for the **Long Term Savings Sector** comprised of Afore XXI Banorte, Insurance and Annuities Companies was Ps 4.44 billion, 24% higher than in 2013. According to GFNorte's participation in this sector, accumulated profits amounted to Ps 3.22 billion which represents an annual increase of 64% and a 21% of GFNorte´s earnings. This increase was due to better dynamics in the companies that make up this sector, especially Seguros Banorte, as well as the reduction in minority interest resulting from the October 2013 purchase of Generali's 49% stake in the Insurance and Annuities companies, (if GFNorte's stake in these companies was considered at 100%, annual growth would have been 60% for the Insurance company and 55% for the Annuities company).

The **Brokerage Sector** comprised of Casa de Bolsa Banorte Ixe and Operadora de Fondos Banorte-Ixe, reported profits during 2014 of Ps 931 million, 43% higher YoY driven by a higher NII, higher trading revenues and lower Non-Interest Expenses, which offset higher tax payments. The Brokerage Sector's Net Income for 2014 represented 6% of the Financial Group's profits.

SOFOM and Other Finance Companies comprised of Arrendadora y Factor Banorte, Almacenadora Banorte, Solida Administradora de Portafolios and Ixe Servicios, recorded profits of Ps 569 million in 2014, a 45% increase vs. 2013. According to GFNorte's participation in this sector, accumulated profits amounted to Ps 574 million, a 46% increase vs. 2013. The accumulated profit of this sector represented 4% of GFNorte's earnings.

In 2013, GFNorte reported profits of Ps 13.51 billion, 24% higher vs. 2012. During 2013, Net Income of the **Consolidated Banking Sector** amounted to Ps 12.12 billion, 34% above 2012. Net income in this sector represented 90% 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 10.66 billion, +46% vs. 2012, representing 79% of GFNorte's net profits. The **Brokerage Sector** generated accumulated profits of Ps 649 million, (5%) YoY lower vs. 2012, contributing with 5% of GFNorte´s profits. The **Long Term Savings Sector**, generated profits of Ps 3.58 billion, a YoY increase of 65%; contributing with Ps 1.96 billion or 15% of GFNorte's profits, based on the group's participation in these businesses, representing an annual increase of 86%. **SOFOM and Other Finance companies**, reported profits of Ps 392 million According to GFNorte's participation in this sector, representing 3% of GFNorte´s Profits.

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

Net Interest Income

	2014	2013	2012
Interest Income	Ps 65,303	Ps 65,307	Ps 60,773
Interest Expense	27,494	31,065	30,583
Loan Origination Fees	2,238	1,564	1,118
Fees Paid	367	377	286
Net Interest Income without Insurance and Annuities	**Ps 39,680**	**Ps 35,428**	**Ps 31,022**
Insurance and Annuities –Interest Income(1)	5,038	4,121	2,236
Premium income (Net)	18,693	18,026	16,321
Insurance and Annuities – Interest Expenses	-	14	4
Net Increase of technical reserves	9,655	9,686	8,708
Damages, Claims and Other Obligations (Net)	9,659	9,138	8,057
Net Interest Income for Insurance and Annuities	**Ps 4,416**	**Ps 3,310**	**Ps 1,788**
Net Interest Income GFNorte	**Ps 44,096**	**Ps 38,738**	**Ps 32,809**
Provisions	11,196	8,942	6,172
Net Interest Income Adjusted for Credit Risk	**Ps 32,900**	**Ps 29,796**	**Ps 26,637**
Average Earnings Assets	944,776	875,366	792,501
NIM (1) (2)	**4.7%**	**4.4%**	**4.1%**
NIM adjusted for Credit Risk (1) (3)	**3.5%**	**3.4%**	**3.4%**

Million pesos.

1. Interest Income of 2013 published in the 2013 Audited Financial Statements and Annual Report (sent to the authorities in February and April 2014) has been modified in this document due to the reclassification on the second quarter of 2014. See Note 4 of the Audited Financial Statements. Derived from the reclassification, NIM and NIM adjusted by credit risk in 2013 have been modified.
2. NIM (Net Interest Margin) = Annualized Net Interest Margin / Average Earnings Assets.
3. NIM adjusted for Credit Risk = Annualized Net Interest Margin adjusted for Credit Risk / Average Earnings Assets.

During 2014**, GFNorte's Net Interest Income grew 14% YoY,** from Ps 38.74 to Ps 44.1 billion as a result of a combined effect of:

a) A 13% increase in net financial revenues and loan origination fees; which increased 11% YoY, mainly because of the growth in the government, corporate and consumer portfolios.
b) Lower funding costs due to growth in core deposits (+14%), mainly Demand Deposits (+18%), which along with other factors, reduced (11%) Interest Expenses. The latter were also reduced by a decrease of 50 bp in the market reference rate during the past 12 months, as well as the August 2013 payment of Ixe's Perpetual Subordinated Obligations issued at 9.75% in dollars, the cancellation of debt servicing of the USD Ps 800 million syndicated loan pre-paid on July 26, 2013, and the April 21, 2014 prepayment Banorte made for Preferred Non-Convertible Subordinated Obligations in the amount of Ps 2.2 billion with a rate of TIIE + 2.0%.
c) A 43% increase in loan placement fees.
d) A 33% increase in the Net Interest Income of the Insurance and Annuities companies.

Net Interest Income excluding the Insurance and Annuities companies presented an accumulated increase of 12%, from Ps 35.43 billion to Ps 39.68 billion.

The average NIM stood at 4.7% for 2014, 24 bp higher vs. 2013 resulted from GFNorte's growth in productive assets in higher yielding segments (consumer portfolio excluding mortgage, represent 14.5% of the performing loans for 2014, vs. 13.6% at the end of 2013) and a higher valuation impact on the investments of the Annuities company.

During 2014, **NIM related to lending activity** was 8.2%, a YoY increase of 39 bp, while the **average NIM excluding Insurance and Annuities companies** was 4.5% for 2014, a YoY increase of 19 bp.

The **average NIM adjusted for Credit Risks was 3.5% in 2014**, an increase of 8 bp vs. 2013 driven by the growth in net interest income due to a portfolio mix with higher yielding loans, offset by higher provisions**.**

The following NIM analysis for 2013 includes the reclassification of Ps 1.56 billion of the result for "securities investment valuations" of the Insurance and Annuities companies in the Trading Income line to "Net Interest Income under the Interest Income line". (See Note 4 of the Audited Financial Statements)

During 2013**, GFNorte's Net Interest Income increased 18% YoY,** from Ps 32.81 to Ps 38.74 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) An 85% increase in the NII of the Insurance and Annuities Companies.
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 4.4%, a YoY increase of 30 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. **The average NIM adjusted for Credit Risks was 3.4% in 2013**, in line vs. 2012.

Provisions

In 2014 provisions charged to results totaled Ps 11.20 billion, +25% vs. 2013. This increase resulted from higher reserve requirements in Middle Market Companies, credit exposure to home developers, SMEs, Payroll, Mortgage and Credit Card.

Loan loss provisions represented 25% of NII in 2014, a 2 pp YoY increase vs. 2013.

Annualized accumulated loan loss provisions for 2014 represented 2.5% of the average loan portfolio, a YoY increase of 0.4 pp vs. 2013.

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.

Loan loss provisions represented 23% of Net Interest Income during 2013, a YoY increase of 4 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.

Non-Interest Income

	2014	**2013**	**2012**
Fees for commercial and mortgage loans	Ps 9	Ps 11	Ps 33
Fund transfers	637	533	479
Account management fees	1,499	1,371	1,240
Fiduciary	362	362	384
Income from Real Estate portfolios	187	811	1,307
Electronic Banking Services	4,486	3,934	3,377
Credit Card Fees	2,792	2,361	2,030
Fees from IPAB	0	0	0
Other fees charged(1)	2,847	2,622	2,689
Fees Charged on Services	**Ps 12,820**	**Ps 12,006**	**Ps 11,539**
Fund transfers	45	50	43
Other Fees Paid	4,222	3,867	3,437
Expenses from Real Estate Portfolios	0	0	0
Fees Paid on Services	**Ps 4,267**	**Ps 3,917**	**Ps 3,480**
Net Fees	**Ps 8,553**	**Ps 8,089**	**Ps 8,059**
Foreign Exchange	1,085	885	1,391
Securities-Realized Gains	2,322	2,726	914
Securities-Unrealized Gains(2)	1,013	(197)	1,847
Trading Income(2)	**Ps 4,420**	**Ps 3,414**	**Ps 4,152**
Subtotal Other Operating Income (Expense)	1,022	1,151	1,058
Other Products (Expense) net	1,578	1,387	615
Other Operating Income (Expense) derived from Insurance and Annuities	660	685	626
Other Operating Income and Expenses	**Ps 3,260**	**Ps 3,223**	**Ps 2,300**
Non-Interest Income	**Ps 16,233**	**Ps 14,727**	**Ps 14,510**

Million Pesos.

1. Includes fees from letters of credit, transactions with pension funds, warehouse services, financial advisory services, and securities trading by the Brokerage House, among others.
2. Securities-Unrealized Gains line within Trading Income of 2013 published in the 2013 Audited Financial Statements and Annual Report (sent to the authorities in February and April 2014) has been modified in this document due to the reclassification on the second quarter of 2014. See Note 4 of the Audited Financial Statements.

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

	2014	2013	2012
Services	Ps 8,365	Ps 7,278	Ps 6,752
Recovery	187	811	1,307
Trading [(1)]	4,420	3,414	4,152
Other Operating Income (Expense)	3,260	3,223	2,300
Non-Interest Income	**Ps 16,233**	**Ps 14,727**	**Ps 14,510**

Million Pesos.

1. The 2013 figure includes the Ps 1.56 billion reclassification held on the second quarter of 2014. See Note 4 of the Audited Financial Statements.

During 2014, Non-Interest Income totaled Ps 16.23 billion, a 10% YoY increase from 15% growth in Service Fees, 29% in Trading Income and 1% in Other Operating Income (Expenses), which offset the decline of (77%) in income from real estate portfolio recoveries.

Including the reclassification of Ps 1.56 billion of the result for "securities investment valuations" presented in the Insurance and Annuities companies in the Trading Income line to Net Interest Income under the Interest Income line, **in 2013, Non-Interest Income amounted to Ps 14.73 billion**, 15% higher YoY.

- **Service Fees**

During 2014, Service Fees totaled Ps 8.37 billion, 15% higher as a result of better business dynamics. The YoY growth is the combined effect of:

i) + 14% in fees from electronic banking,
ii) + 18% in consumer loan fees,
iii) + 9% in other fees,
iv) + 9% in account management due to growth in the number of accounts,
v) + 19% in fund transfer revenues due to higher volumes, and
vi) + 9% in fees paid driven by higher interbank fees and commissions paid to insurance brokers.

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.

- **Trading**

Trading revenues in 2014 totaled Ps 4.42 billion, a 29% YoY growth due to valuation gains for Banorte and Casa de Bolsa Banorte Ixe, and positive results in FX transactions, which offset the results from securities and derivatives transactions of Banorte and the Annuities Company.

Including the reclassification of Ps 1.56 billion of the result for "securities investment valuations" presented in the Insurance and Annuities companies in the Trading Income line to Net Interest Income under the Interest Income line, **in 2013, trading revenues totaled Ps 3.41 billion,** an 18% YoY decrease.

Other Operating Income (Expense)

	2014	2013	2012
Loan Recoveries	Ps 956	Ps 1,384	Ps 1,234
Income from Foreclosed Assets	(130)	(145)	(83)
Other Operating Income	424	135	76
Other Operating Expense	(229)	(223)	(169)
Subtotal Other Operating Income (Expense)	**Ps 1,022**	**Ps 1,151**	**Ps 1,058**
Other Products	3,421	2,988	2,305
Other Recoveries	1,217	1,312	386
Other (Expenses)	(3,060)	(2,912)	(2,075)
Other Products (Expense) Net	**Ps 1,578**	**Ps 1,387**	**Ps 615**
Other Operating Income (Expense) from Insurance and Annuities	**Ps 660**	**Ps 685**	**Ps 626**
Other Operating Income (Expense)	**Ps 3,260**	**Ps 3,223**	**Ps 2,300**

Million pesos.

During 2014 Other Operating Income (Expenses) totaled Ps 3.26 billion, 1% higher YoY due to:

i) A 14% increase in *Other Products*, driven by the cancellation of debtor accounts and other provisions and the increase in leasing revenues, which offset the negative valuation results of securitizations, and
ii) A 214% increase in *Other Operating Income* due to cancellations of excess preventive estimates constituted in prior years.

The above were offset by:

i) A (33%) decrease in the combined recoveries' revenues from previously written-off portfolios and sales of foreclosed assets,
ii) A 5% increase in *Other Expenses* mainly due to more frauds, higher estimates for irrecoverable in certain subsidiaries and other losses, which offset lower expenses on damages,
iii) A (7%) decline in *Other Recoveries,* as a result of the extraordinary income generated by the recoveries achieved by the sale of an infrastructure project and another business investment, derived from old debts capitalizations in 1Q13 and 3Q13,
iv) A (4%) decrease in Other Income from the Insurance and Annuities companies, and
v) A 2% increase in Other Operating Expenses.

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.

- **Recoveries**

Non-Interest Income from Recoveries (including real estate portfolio recoveries, write-offs, proprietary loan portfolio and foreclosed assets classified under "Other Operating Income (Expenses) ") **totaled Ps 2.23 billion in 2014**, a (34%) YoY decrease vs. 2013, mainly due to the extraordinary income generated by the recoveries achieved by the sale of an infrastructure project and another business investment, derived from old debts capitalizations in 1Q13 and 3Q13 respectively, in addition to the (77%) decrease in real estate portfolio recoveries that included the recognition of lower revenues related to investment projects, mainly with home developers.

During 2013, Non-Interest Income from Recoveries 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 that have solvency and liquidity problems.

Non-Interest Expense

	2014	**2013**	**2012**
Personnel	Ps 12,986	Ps 13,077	Ps 10,398
Professional Fees	3,000	2,767	2,907
Administrative and Promotional	5,679	4,874	4,899
Rents, Depreciation & Amortization	3,648	3,219	2,954
Taxes other than income tax expenses	1,653	1,726	1,826
Contributions to IPAB	1,887	1,831	1,610
Employee Profit Sharing (PTU)	379	324	940
Non-Interest Expense	**Ps 29,232**	**Ps 27,818**	**Ps 25,535**

Million pesos.

Non-Interest Expense for 2014 amounted Ps 29.23 billion, a 5% YoY increase (in line with the annual inflation in Mexico, 4.08%) to sustain business growth and expansion of the operational infrastructure, which was partially offset by a decline in other concepts. Higher expenses came from:

i) +Ps 805 million in Administration and Promotional Expenses (+17%). This growth was driven by the increase in various businesses -related expenses, among others, the expenses of insurance tied to consumer credit and more transactions in ATMs and POS.
ii) +Ps 429 million in Rents, Depreciations and Amortizations (+13%),
iii) +Ps 234 million in Professional Fees (+8%). This increase was due to higher payment for professional services, such as: audit, trust management and recovery services for the consumer portfolio.
iv) +Ps 56 million in IPAB contributions (+3%) due to growth in liabilities subject to IPAB fees, and
v) +Ps 55 million in Employee Profit Sharing (+ 17%).

These increases were partially offset by lower Personnel Expenses for Ps (91) million or (1%) and the decrease in Other taxes & non-deductible expenses for Ps (73) or (4%).

The Efficiency Ratio during 2014 was 48.5% (3.6 pp) lower YoY due to the positive operating leverage achieved in the period.

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

Taxes

Income taxes for 2014 totaled Ps 5.67 billion, +59% YoY derived by: i) new tax regulations effective as of January 1, 2014, including: the non-deductibility of loan loss reserves and certain employee benefits, ii) a larger profit base for the calculation of taxes, and iii) the use of fiscal credits in 2Q13. **The effective tax rate and accumulated Employee Profit Sharing in 2014 was 29.8%,** 7.0 pp higher compared to the 22.8% for the same period in 2013.

During 2013 Income tax 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 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.

Net Income

GFNorte reported Net Income of Ps 15.23 billion during 2014, **13% higher vs. 2013** due to the positive operating leverage achieved from a 13% YoY growth in total income, lower growth in Operating Expenses, effects that offset increases in credit costs and tax payments. Additionally, it was achieved by lower minority interest resulting from the acquisition of the IFC's stake in Banorte and Generali's participation in the Insurance and Annuities companies, which together with Afore XXI Banorte and the Credit Card SOFOM, posted favorable business dynamics. **In 2013 GFNorte reported Net Income of Ps 13.51 billion**, 24% higher vs. 2012, due to the positive operating leverage (derived from a 13% YoY growth in total income and 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.

Accumulated recurring revenues (NII + net fees excluding portfolio recoveries - Operating Expenses - Provisions) **in 2014 totaled Ps 12.03 billion, a 30% YoY increase** as a result of higher financial revenues and fees which offset increases in Operating Expenses and Provisions.

ROE for 2014 was 13.2%, decreasing 99 bp vs. the same period of the previous year due to the dilution of the equity offering of last year; whereas, **during 2013 was 14.2%**, a YoY decrease of 12 bp vs. 2012. **ROTE in 2014 was 16.4%**, 2.3 pp lower vs. 2013, **ROTE in 2013 was 18.7%**, unchanged vs. the previous year.

ROA for 2014 was 1.5%, an increase of 5 bp over the same period of the previous year due to the growth in net income as a result of a better mix and return on assets; during 2013, ROA was 1.4%, 15% higher vs. 2012. **RRWA was 3.1% in 2014,** 8 bp higher vs. 2013; in 2013 was 3.0%, +34 pb vs. 2012.

Performing Loan Portfolio

	2014	**2013**	**2012**
Commercial	Ps 114,040	Ps 113,795	Ps 106,257
Consumer	158,139	139,715	118,401
Corporate	80,464	75,690	88,237
Government	118,962	95,636	88,293
Subtotal	**471,606**	**424,837**	**401,189**
Recovery Bank	162	201	243
Total	**Ps 471,768**	**Ps 425,038**	**Ps 401,432**
Past due loans	14,294	13,655	8,481
% NPL Ratio	**2.9%**	**3.1%**	**2.1%**

Million pesos.

Performing Consumer Loan Portfolio

	2014	2013	2012
Mortgage	Ps 89,758	Ps 81,833	Ps 72,365
Car Loans	11,074	11,412	10,329
Credit Cards	23,209	20,323	17,524
Payroll	34,098	26,147	18,183
Total performing consumer loans	**Ps 158,139**	**Ps 139,715**	**Ps 118,401**

Million pesos.

Total Performing Loans increased 11% YoY, growing by Ps 46.77 billion at the end of 2014 with Ps 471.61 billion, excluding proprietary loans managed by the Recovery Bank. The Loan portfolio has recovered a growth rate similar to levels not seen since the end of 2012 due to the gradual economic recovery and has grown above the national economy. Corporate and Business portfolios (included in the Commercial portfolio) continue to be affected by prepayments from customers (approximately Ps 19 billion in 2014), despite this, during the last quarter, they began to be offset by new loan originations in both sectors to achieve annual growth.

During 2013, Total Performing Loans increased 6% YoY, growing by Ps 23.65 billion to Ps 424.84 billion at the end 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.

In 2014, portfolio growth by segments was as follows:

I. Individual Loans

- ✓ **Consumer and Mortgage:** Increased by Ps 18.43 billion or 13% vs. 2013, **totaling Ps 158.14 billion at the end of 2014** as a result of favorable dynamics in all portfolios with the exception of Car loans. Due to the strategy to increase the Consumer portfolio, mainly Payroll loans and Credit cards, Consumer loans (excluding Mortgages) have increased their proportion within the Performing Loan portfolio from 13.6% to 14.5% in the last 12 months.

- ✓ **Mortgage:** Grew by Ps 7.93 billion or 10% YoY, **posting a balance of Ps 89.76 billion,** driven by favorable dynamics in products for construction, remodeling and payment of liabilities and the mortgage program with Pemex.

- ✓ **Credit Cards: At the end of 2014 the portfolio totaled Ps 23.21 billion**, a 14% YoY increase of Ps 2.89 billion. The increase is due to portfolio management strategies, promotional campaigns for Banorte - Ixe products and more cross-selling to clients.

- ✓ **Payroll: At the end of 2014, the portfolio increased Ps 7.95 billion or 30% YoY totaling Ps 34.10 billion**, as a result of growth in the number of Banorte-Ixe payroll account holders, as well as campaigns to promote the product, multichannel cross-selling strategies and product adjustments to provide more flexibility to clients in order to disburse amortized balances; additionally, in March 2014, Banorte acquired a Payroll loan portfolio from another institution. Payroll loans continue to show vigorous growth with good asset quality with respect to the system's average.

- ✓ **Car Loans: The portfolio decreased by (Ps 338) million or (3%) YoY, totaling Ps 11.07 billion**. This decrease was due to fewer new loan placements given the growing competition from financial firms of car manufacturers in the last months.

II. Loans to Institutions

- ✓ **Commercial: Increased by Ps 245 million or 0.2% YoY, totaling Ps 114.04 billion**. Growth for this portfolio was affected by prepayments, as well as by the decrease of the SME portfolio due to lower origination. **The SME performing portfolio balance was Ps 29.85 billion**, (Ps 3.89) billion or (11.5%) lower YoY.

- ✓ **Corporate: At the end of 2014 the balance was Ps 80.46 billion,** increasing Ps 4.77 billion or 6% YoY. The growth was driven by higher origination which offset prepayments received from some clients who used proceeds from capital market transactions to pay off bank liabilities.

  Through its subsidiaries Banco Mercantil del Norte, Arrendadora y Factor Banorte and Solida Administradora de Portafolios, GFNorte granted loans and participated through specialized trust operations in home development projects. Since 2013 some of the largest companies in this sector have experienced financial difficulties; 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. They are currently involved in refinancing negotiations with GFNorte and other banks.

  As of December 31, 2014 the loan exposure was Ps 5.54 billion in 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., 15.6% lower than the prior quarter, mainly due to the sale of a company belonging to Grupo Homex to another entity. These three companies represented 1.1% of the total loan portfolio vs. the 1.4% of September 2014. Of these loans, **Ps 5.42 billion were past due**, decreasing by Ps 82 million during the fourth quarter of 2014. The total portfolio has 76% coverage in guarantees, higher than the 65% reported in the previous quarter due to the sale of a company belonging to Grupo Homex whose loan was unsecured. The reserve coverage of this exposure was 57.6% in 4Q14, 16.8 pp higher vs. 3Q14. **Solida had Ps 6.11 billion** in investment projects compared to Ps 6.15 billion registered in September 2014.

- ✓ **Government: At the end of 2014 the balance was Ps 118.96 billion,** growing by Ps 23.33 billion or 24% YoY as a result of efforts to continue meeting demand for loans in this segment, including some federal government entities. The portfolio's risk profile is adequate with 28.6% of the loans granted to Federal Government entities and over 95% of loans to States and Municipalities have a fiduciary guarantee (Federal budget transfers and local revenues such as payroll tax), and less than 2% of the loans have short-term maturities.

Past Due Loans

During 2014, Past Due Loans were Ps 14.29 billion, 5% higher vs. 2013 as a result of higher delinquencies in Commercial loans (including SMEs), Mortgages, Payroll loans, Credit Cards and Car loans, which were not offset by the significant reduction in Corporate delinquencies.

The trend in past due balances by segment during the quarter was:

Million pesos	**2014**	**Change. vs. 2013**
Credit Cards	1,358	79
Payroll	789	161
Car loans	223	36
Mortgage	1,274	187
Commercial	5,215	1,826
Corporate	5,435	(1,649)
Government	-	(2)
Total	**14,294**	**638**

In 2014, the Past Due Loan Ratio was 2.9%, (17 bp) lower vs. 2013 due to lower delinquencies in the Corporate, Credit card and Payroll segments. **When excluding the home developers exposure, the PDL Ratio would be 1.8%,** 30 bp above the level registered for 2013.

Past due Loan Ratios by segment showed the following trends during the last 12 months:

	2012	2013	2014
Credit Cards	5.0%	5.9%	5.5%
Payroll	2.2%	2.3%	2.3%
Car loans	1.3%	1.6%	2.0%
Mortgage	1.1%	1.3%	1.4%
Commercial	4.3%	2.9%	4.4%
Corporate	1.6%	8.6%	6.3%
Government	0.1%	0.0%	0.0%
Total	2.1%	**3.1%**	**2.9%**

At the end 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. T**he PDLin 2013 was 3.1%,** 1.0 pp higher YoY vs. 2012, mainly due to more past due loans in all segments, except Commercial and Government.

Deposits

	2014	2013	2012
Non-Interest Bearing Demand Deposits	Ps 147,033	Ps 122,499	Ps 107,450
Interest Bearing Demand Deposits	153,249	132,798	103,968
Total Demand Deposits[(1)]	**Ps 300,282**	**Ps 255,297**	**Ps 211,418**
Time Deposits – Retail	136,127	129,121	124,255
Core Deposits	**Ps 436,409**	**Ps 384,418**	**Ps 335,673**
Money Market[(2)]	62,287	59,729	90,073
Total Banking Sector Deposits[(3)]	**Ps 498,697**	**Ps 444,148**	**Ps 425,746**
GFNorte's Total Deposits[(4)]	**Ps 497,922**	**Ps 443,741**	**Ps 424,325**
Third Party Deposits	149,092	150,636	111,042
Total Assets Under Management	**Ps 647,789**	**Ps 594,783**	**Ps 536,788**

Million pesos.

1. Includes debit cards.
2. Includes bank bonds. (Customers and Financial Intermediaries).
3. For the integration of Total Demand Deposits, see Note 9 of Banco's Mercantil del Norte Audited Financial Statements.
4. Includes eliminations between subsidiaries. The eliminations during 2012, 2013 and 2014 were (Ps 1,421) million, (Ps 407) million, and (Ps 774) million, respectively.

At the end of 2014, GFNorte's Total Deposits amounted to Ps 497.92 billion, a 12% YoY increase of Ps 54.18 billion driven mainly by efforts to promote Banorte - Ixe deposit products, as well as higher account balances of some clients, mainly in Government banking, since the end of 2013. **Total Deposits in the Banking Sector amounted to Ps 498.70 billion,** representing a 12% YoY increase or Ps 54.55 billion, which is comprised of an 18% increase in Demand Deposits, 5% in Retail Time Deposits and 4% in Money Market.

At the end 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. 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.

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, these figures are contained on Banorte'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.

The Consolidated Banking Sector (comprised of Banco Mercantil del Norte, Banorte- Ixe Tarjetas, Banorte USA and 50% of Afore XXI) reported net income during **2014 of Ps 11.94 billion**, declining by (Ps 187) million or (2%) vs. 2013. It is important to note that Operating Income registered a 15% YoY growth, but was affected by higher tax payments due to the implementation of the new tax regulations, effective as of January 2014, which resulted in a 71% YoY tax increase. Profits of this sector represent 78% of the Financial Group's earnings.

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 10.53 billion**, (1%) vs. 2013, representing 69% of GFNorte's net profits.

For 2014, ROE of this sector was 13.7%, (296 bp) lower vs. 2013 as a result of capital accretion**;** and the **Accumulated ROA was 1.4%,** decreasing (16 bp) YoY.

Banking Sector's Financial Ratios

	2013	2012	2011
Profitability			
NIM (1)	4.9%	4.8%	4.5%
ROA (2)	1.4%	1.6%	1.3%
ROE (3)	13.7%	16.7%	15.6%
Operation			
Efficiency Ratio (4)	50.5%	53.7%	56.7%
Operating Efficiency Ratio (5)	3.2%	3.3%	3.2%
Liquidity Ratio (6)	105.1%	99.1%	93.2%
Asset Quality			
% PDL Ratio	2.9%	3.1%	2.0%
Coverage Ratio	105.8%	103.4%	137.1%
Growth (7)			
Performing Loan Portfolio (8)	10.5%	7.0%	16.6%
Core Deposits	13.5%	14.5%	9.6%
Total Deposits	12.3%	4.4%	15.2%

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.

Consolidated Income Statement – Banking Sector

	2014	2013	2012
Interest income	Ps 58,593	Ps 57,183	Ps 54,211
Interest expense	20,003	22,498	23,630
NET INTEREST INCOME (NII)	**Ps 38,590**	**Ps 34,685**	**Ps 30,581**
Loan Loss Provisions	11,107	8,788	6,585
NET INTEREST INCOME ADJUSTED FOR CREDIT RISK	**Ps 27,483**	**Ps 25,897**	**Ps 23,996**
Fees Charged	11,723	10,565	9,435
Fees Paid	(3,091)	(2,897)	(2,637)
Trading Income	3,859	3,021	2,410
Other Operating Income	2,478	2,624	1,021
Non-Interest Income	14,969	13,313	10,229
Administrative and Promotional Expenses	27,037	25,766	23,127
OPERATING INCOME	**Ps 15,415**	**Ps 13,444**	**Ps 11,098**
Minority Interest	1,241	1,439	1,105
PRE-TAX INCOME	**Ps 16,656**	**Ps 14,883**	**Ps 12,203**
Income taxes incurred	6,874	2,822	2,704
Income taxes deferred (net)	(2,154)	(61)	508
Taxes	4,720	2,761	3,212
INCOME BEFORE NONCONTROLLING INTEREST	**Ps 11,936**	**Ps 12,122**	**Ps 8,991**
Minority interest	0	0	34
NET INCOME	**Ps 11,936**	**Ps 12,122**	**Ps 9,025**

Million pesos. Does not include Afore. Its results are included in the Subsidiaries' equity using the equity participation method.

The following is a breakdown of the most important items of the income statement and the balance sheet.

Net Interest Income

	2014	2013	2012
Interest Income	Ps 56,356	Ps 55,619	Ps 53,098
Interest Expense	19,638	22,120	23,344
Loan Origination Fees	2,237	1,564	1,112
Fees Paid	365	377	286
Net Interest Income	**Ps 38,590**	**Ps 34,685**	**Ps 30,581**
Provisions	11,107	8,788	6,585
Net Interest Income Adjusted for Credit Risk	**Ps 27,483**	**Ps 25,897**	**Ps 23,996**
Average Productive Assets	Ps 790,173	Ps 724,637	Ps 673,177
NIM(1)	**4.9%**	**4.8%**	**4.5%**
NIM Adjusted for Credit Risk(2)	**3.5%**	**3.6%**	**3.6%**

Million pesos.

1. NIM (Net Interest Margin) = Annualized Net Interest Margin / Average Earnings Assets.
2. Annualized Net Interest Margin adjusted for Credit Risk / Average Earnings Assets.

During 2014 Net Interest Income grew 11% YoY going from Ps 34.69 to Ps 38.59 billion, and increased 12% YoY considering only interest income and net fees related to loan originations as a result of: i) a 10% growth in Performing Loans (highlighted by growth in the Government, Consumer and Corporate portfolios), even with the sale of the Payroll loan portfolio to Solida in 3Q14; ii) lower funding costs, as a result of growth in Core Deposits, mainly Demand Deposits, producing an (11%) decrease in Interest Expenses. These latter were also reduced by the 50 bps decrease in the market benchmark rate in the last 12 months, as well as the payment in August 2013 of

Ixe's Perpetual Subordinated dollar Obligations issued at 9.75% and the prepayment of Preferred Subordinated Obligations for Ps 2.2 billion in April 2014, carrying a rate of TIIE + 2.0% and iii) a 43% increase in loan fees.

The average NIM was 4.9% for 2014, +0.1 pp. vs 2013. **The average NIM adjusted for Credit Risks was 3.5% at the end of 2014**, (0.1 pp.) lower vs. 2013.

During 2013, Net Interest Income grew 13% YoY from Ps 30.58 to Ps 34.69 billion and 17% 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**, 24 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. **The average NIM adjusted for Credit Risks was 3.6% at the end of 2013**, in line vs. 2012.

Provisions

During 2014, Provisions charged to results totaled Ps 11.11 billion, 26% higher vs. 2013 derived from the increased provisions for Middle-Market Companies portfolios, as a result of the loan exposures to the troubled home developers, SMEs, Payroll loans, Mortgage and Credit card portfolios.

During 2013, Provisions charged to results totaled Ps 8.79 billion, a 33% increase vs. 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.

Non-Interest Income

The following table shows a breakdown of Non-Interest Income:

	2014	2013	2012
Services	Ps 8,583	Ps 7,580	Ps 6,703
Recovery	49	88	95
Trading	3,859	3,021	2,410
Other Operating Income (Expense)	2,478	2,624	1,021
Non-interest income	**Ps 14,969**	**Ps 13,313**	**Ps 10,229**

Million pesos.

Non-Interest Income in 2014, totaled Ps 14.97 billion, a 12% YoY increase driven by growth in Service Fees and Trading revenues, which offset declines in Other Operating Income (Expenses) and real estate portfolio recoveries.

During 2013 Non-Interest Income totaled Ps 13.31 billion, a 30% YoY increase due to higher Services fees, Trading revenues and Other Income.

Non-Interest Expense

	2014	2013	2012
Personnel	Ps 12,441	Ps 12,569	Ps 9,978
Professional Fees	2,591	2,365	2,239
Administrative and promotional expenses	4,995	4,230	4,136
Rents, depreciations and amortizations	3,391	2,992	2,730
Other Taxes and Non-deductible Expenses	1,364	1,456	1,522
Contributions to IPAB	1,887	1,831	1,610
Employee Profit Sharing (PTU)	369	323	912
Non Interest Expense	**Ps 27,037**	**Ps 25,766**	**Ps 23,127**

Million pesos.

Non-Interest Expenses in 2014 totaled Ps 27.04 billion, a 5% YoY increase driven by growth in all areas except Personnel Expenses and Other Taxes and Non-Deductible Expenses. **The Efficiency Ratio for 2014 was 50.5%,** (3.2 pp) lower YoY vs. 2013 due to the positive operating leverage achieved.

Non-Interest Expense during 2013 amounted to Ps 25.77 billion, 11% 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%**, (3.0 pp) below 2012.

Performing Loan Portfolio

	2014	2013	2012
Commercial	Ps 107,346	Ps 107,417	Ps 101,160
Consumer	154,408	139,641	118,315
Corporate	84,213	79,086	87,047
Government	117,655	93,484	86,378
Subtotal	**Ps 463,622**	**Ps 419,629**	**Ps 392,900**
Recovery Bank	162	201	243
Total performing loans	**Ps 463,785**	**Ps 419,830**	**Ps 393,142**
Past due loans	13,912	13,317	8,188
% NPL Ratio	**2.9%**	**3.1%**	**2.0%**

Million Pesos.

Performing Consumer Loan Portfolio (without recoveries)

	2014	2013	2012
Mortgage	Ps 89,758	Ps 81,808	Ps 72,340
Car Loans	11,068	11,408	10,325
Credit Cards	23,209	20,323	17,524
Payroll	30,373	26,102	18,126
Consumer loans	**Ps 154,408**	**Ps 139,641**	**Ps 118,315**

Million pesos.

During 2014, Performing Loans increased 10% annually, growing from Ps 419,629 billion to Ps 463,622 billion**,** excluding the proprietary loans managed by the Asset Recovery department. The Loan portfolio has recovered its pace of growth reaching levels not seen since the end of 2012 due to the gradual economic recovery, maintaining a higher growth rate than GDP. Corporate and middle market company portfolios (included in the commercial portfolio) continued to receive prepayments from customers, which were offset by new loan placements in both segments during the last quarter, achieving annual growth.

The Banking Sector's Past Due Loans for 2014 grew 4%YoY, the NPL Ratio was 2.9%, (0.2 pp) lower YoY.

During 2013, 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.

At the end 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%, 1.0 pp higher vs. 2012, mainly due to past due loans related to home developers.

Deposits

	2014	2013	2012
Non interesting-bearing demand deposits	Ps 147,033	Ps 122,499	Ps 107,450
Interest-bearing demand deposits	153,249	132,798	103,968
Total Demand Deposits (1)	**Ps 300,282**	**Ps 255,297**	**Ps 211,418**
Time Deposits – Retail	136,127	129,121	124,255
Core deposits	**Ps 436,409**	**Ps 384,418**	**Ps 335,673**
Money Market (2)	62,287	59,729	90,073
Total banking sector deposits(3)	**Ps 498,697**	**Ps 444,148**	**Ps 425,746**

Million pesos.

1. Includes debit cards.
2. Includes bank bonds. (Customers and Financial Intermediaries).
3. For the integration of Total Demand Deposits, see Note 9 of Banco's Mercantil del Norte Audited Financial Statements.

At the end of 2014, **Total Deposits amounted to Ps 498.70 billion, representing a 12% YoY increase or Ps 54.55 billion**, driven mainly by the efforts to promote Banorte-Ixe's deposit products.

In 2014, **Core Deposits grew 14% YoY**, from Ps 384.42 billion to **Ps 436.41 billion,** comprised of an 18% increase in Demand Deposits, 5% in Retail Time Deposits and 4% in Money Market.

At the end of 2013, **Total Deposits** amounted to Ps 444.15 billion, an Ps 18.40 billion or 4% YoY increase vs. 2012.

On the other hand, **Core Deposits** rose from Ps 335.67 billion in 2012 to Ps 384.42 billion in 2013, 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 end of 2013** decreased (34%) YoY.

Brokerage

	2014	2013	2012
Net Income	Ps 931	Ps 649	Ps 681
Stockholders' Equity	2,799	2,569	2,785
Total Assets	102,373	116,576	103,344
Assets Under Management	732,713	647,996	667,873

Million pesos.

The Brokerage Sector (Casa de Bolsa Banorte Ixe y Operadora de Fondos Banorte-Ixe) **reported profits of Ps 931 million in 2014**, 43% higher YoY. Growth was driven by a higher NII, higher trading revenues and lower Non-Interest Expenses, which offset higher tax payments. The Brokerage Sector's Net Income for 2014 represented 6% of the Financial Group's profits.

During 2013, the Brokerage Sector reported net income of Ps 649 million, 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.

At the end of 2014, Assets Under Management totaled Ps 732.7 billion, increasing 13% YoY, **in 2013, Assets Under Management totaled Ps 648 billion**, a (3%) YoY decrease.

Long-Term Savings

	2014	2013	2012
Total Long-Term Savings			
Net Income	Ps. 4,443	Ps. 3,576	Ps. 2,169
Stockholders' Equity	30,451	29,478	10,641
Total Assets	111,164	96,396	66,690
Afore			
Net Income	Ps. 2,408	Ps. 2,301	Ps. 1,149
Stockholders' Equity	23,982	24,374	6,216
Total Assets	25,282	25,402	6,889
AUMs (1)	605,816	541,544	247,183
Insurance-			
Net Income	Ps. 1,759	Ps. 1,097	Ps. 924
Stockholders' Equity	5,094	3,854	3,252
Total Assets	24,153	18,470	16,803
Annuities			
Net Income	Ps. 276	Ps. 178	Ps. 96
Stockholders' Equity	1,375	1,250	1,173
Total Assets	61,729	52,524	42,998

Million Pesos.
1.Source: CONSAR December 2014.

Afore (Afore XXI Banorte)

Afore XXI Banorte posted net profits of Ps 2.41 billion for 2014, 5% higher vs. the same period of last year due to higher revenues and valuation gains in its investment portfolios, which offset higher Operating Expenses and taxes. **ROE for Afore XXI Banorte** at the end of 2014 **was 10%,** (1.5 pp) lower vs. the same period of the previous year; when excluding goodwill, **ROE would be 32.7%.** Afore XXI Banorte contributed 8% of the Financial Group's profits for 2014.

Assets under management as of December 2014 totaled Ps 605.8 billion, an increase of 12% vs. December 2013.

According to CONSAR, to December 2014, Afore XXI Banorte had a 25.4% share in managed funds, ranking 1st in the market, with 11.35 million accounts (this number does not include 6.2 million accounts managed by Afore XXI with resources deposited in Banco de Mexico), which represent a 24.4% share of the total number of accounts in the system, making it the market leader.

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 end 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. Assets under management of Afore XXI Banorte amounted to Ps 541.5 billion (source: CONSAR), a 119% YoY increase vs. 2012.

Seguros Banorte

On October 4, 2013, the acquisition of Assicurazioni Generali S.p.A.'s 49% minority stake in Seguros Banorte and Pensiones Banorte was finalized, and so as of this date GFNorte owns 100% of these companies' equity.

In 2014, Seguros Banorte reported profits of Ps 1.76 billion, 60% higher YoY due to a significant growth in NII, which offset higher Non-Interest Expenses and taxes. Seguros Banorte's net income represented 12% of the Financial Group's profits for 2014.

ROE for the Insurance company was 39.2% at the end of 2014, 6.7 pp higher YoY.

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.

Regarding the disclosure requested by the General Provisions applicable to Financial Groups' controlling companies, subject to CNBV's oversight, for this reporting period:

1. Risks assumed through the issuance of insurance premiums and bonds, with respect to operations and authorized branches of cancelled operations.
   1.1 No cancellations were registered during the fourth quarter of 2014 that involved any technical risk.

2. Damages and claims, as well as the fulfillment with reinsurers and bonding companies according to their participation.
   2.1 In the last quarter of 2014 damage ratios remained under control.

3. Costs derived from placement of insurance policies and bonds.
   3.1 There were no relevant events to disclose in 4Q14.

4. Transfer of risks through reinsurance and bonding contracts
   4.1 In the P&C book two important government contracts and one in the tourism sector were ceded to reinsurers, by which 100% of the risk was transferred to prominent foreign reinsurance companies.

5. Contingencies arising from non-fulfillment by reinsurers and bonding companies.
   5.1 There were no relevant events in the fourth quarter of 2014.

Pensiones Banorte

During 2014, Pensiones Banorte reported profits of Ps 276 million, increasing by Ps 98 million or 55% vs. 2013 due to growth in NII, which offset lower trading revenues and higher operating expenses and taxes. Net income for Pensiones Banorte for 2014 represented 2% of the Financial Group's profits.

ROE was 20.4% at the end of 2014, 6.0 pp higher vs. 2013.

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.

SOFOM and Other Finance Companies

The following figures correspond to what was reported in the Financial Statements of each company. The total of the sector are not consolidated figures. *See note 28 of the Audited Financial Statements.*

	2014	2013	2012
Total SOFOM and Other Finance Companies(1)			
Net Income	Ps. 569	Ps. 391	Ps. 255
Stockholders' Equity	8,044	6,116	5,683
Loan Portfolio	25,163	20,296	20,598
Past Due Loans	394	424	379
Loan Loss Reserves	(569)	(531)	(510)
Total Assets	39,740	35,598	31,198
Leasing and Factoring(2)			
Net Income	Ps. 700	Ps. 599	Ps. 604
Stockholders' Equity	3,735	3,209	2,983
Loan Portfolio	21,237	19,732	19,607
Past Due Loans	181	210	154
Loan Loss Reserves	(309)	(312)	(271)
Total Assets	21,623	20,173	20,058
Warehousing			
Net Income	Ps. 45	Ps. 43	Ps. 43
Stockholders' Equity	218	271	265
Inventories	922	477	351
Total Assets	1,127	711	578
Solida Administradora de Portafolios (3)			
Net Income	(Ps. 178)	(Ps. 266)	(Ps. 425)
Stockholders' Equity	3,946	2,310	2,124
Loan Portfolio	3,926	494	288
Past Due Loans	213	196	205
Loan Loss Reserves	(260)	(213)	(234)
Total Assets	16,843	14,010	9,699
Ixe Servicios(1)			
Net Income	$2	$1	$1
Stockholders' Equity	$145	24	22
Total Assets	$147	32	37
Ixe Automotriz (2)			
Net Income	-	Ps. 15	Ps. 33
Stockholders' Equity	-	326	311
Loan Portfolio	-	70	703
Past Due Loans	-	18	20
Loan Loss Reserves	-	(6)	(5)
Total Assets	-	704	863

Million pesos.

1. The total for this sector in 2014 and according to note 28 of the audited financial statements of 2014, considers Leasing and Factoring, Warehousing, Solida and Ixe Servicios. The total for this sector in 2013 and 2012 and according to note 28 of the audited financial statements of 2013, considers Leasing and Factoring, Warehousing, Solida and Ixe Automotriz.
2. Ixe Automotriz was merged into Arrendadora y Factor Banorte, becoming effective since May 7 2013. The results presented correspond to previous periods.

3. Figures showed in the chart corresponding to Solida includes the effect of its spin-off of Banco Mercantil del Norte and its subsequent merger with Ixe Soluciones (both effective as of May 24, 2013), in order to consolidate the recovery banking operations.

Leasing and Factoring

In 2014 Arrendadora y Factor Banorte reported profits amounting to Ps 700 million, increasing 17% YoY mainly due to the increase in Net Interest Income driven by the growth in the portfolio, lower funding costs, provisions and Operating Expenses. The Leasing and Factoring Company contributed 4.6% of the Financial Group's profits in 2014.

ROE for the Leasing and Factoring company was 20.0% at the end of December 2014, (0.3 pp) lower YoY.

At the end of 2014, **the Past Due Loan Ratio was 0.9%,** (0.3 pp) lower vs. 2013; the **Coverage ratio was 170.5%**, 22 pp higher vs. 2013. **The Capitalization ratio as of December was 15.93%** considering total risk-weighted assets of Ps 23.36 billion.

Arrendadora y Factor Banorte continue to be the market leader in terms of portfolio size and assets among the 47 companies in this sector, according to the Asociacion Mexicana de Sociedades Financieras de Arrendamiento, Credito y Factoraje, A.C. - AMSOFAC.

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. Its net income represented 4.4% of the Financial Group's profits. **ROE of the Leasing and Factoring Company was 20.3%** at the end of 2013, and, the **Past Due Loan ratio was 1.2%**, 0.4 pp higher vs. 2012.

Warehousing

Warehouse posted profits of Ps 45 million in 2014, Ps 2 million more than last year mainly due to growth in Other Operating Income, which offset the decline in the Net Interest Income. Almacenadora Banorte contributed 0.3% of the Financial Group's profits in 2014.

ROE for 2014 was 16.6%, 0.7 pp higher YoY. **In 2014 the Capitalization Ratio was 19.7%,** considering total certificates at risk in circulation for Ps 3.35 billion. Almacenadora Banorte ranks third among the 18 warehouses of this sector in terms of generated profits.

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 represented 0.3% of the Financial Group's profits.

Solida Administradora de Portafolios

During 2014, Solida Administradora de Portfolios reported a loss of (Ps 178) million, an annual variation of Ps 88 million, representing a decrease in losses of (33%) YoY vs. 2013.

The Past Due Loan Ratio was 5.4% at the end of 2014, 34 pp higher vs. 2013**. The Coverage ratio was 123%,** comparing favorably to the 109% of 2013. **The estimated Capitalization ratio at the end of 2014 was 16.2%,** 4.4 pp higher vs. 2013 (due to the increase in equity in the third quarter of 2014).

During 2013, Solida Administradora de Portafolios posted a loss of (Ps 266) million, representing a decrease in losses of (37%) YoY decline vs. 2012.

The Past Due Loan ratio was 39.7% at the end 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 end of 2013 was 11.8%.**

Ixe Servicios

During 2014, Ixe Servicios Net Income was Ps 2 million pesos. ROE was 3.2% at the end of 2014. The accumulated profit during the year of Ixe Servicios represented 0.01% of GFNorte´s profits.

During 2013, Ixe Servicios net income was Ps 1 million pesos. ROE was 5.9% at the end of 2013. The accumulated profit during the year of Ixe Servicios represented 0.01% of GFNorte´s profits.

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 represented 0.1% of the Financial Group’s profits.

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, 2014 and December 31, 2013, 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 2014 was 133.7%, which compares to the 137.4% and 128.4% registered in 2013 and 2012, respectively. On the other hand, Banorte's liquidity ratio at the end of 2014 was 105.1% and 99.1% in 2013.

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 2014 and 2013 GFNorte generated a monthly average liquidity requirement of USD 337.49 million and USD 104.61 million, respectively, and maintained an average investment in liquid assets of USD 820.72 million and USD 493.06 million, having an average surplus of USD 483.23 million and USD 387.38 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:

	2014	2013	2012
Short-term Debt	Ps. 21,082	Ps. 22,380	Ps. 27,923
Long-term Debt:			
Interbank Loans	9,002	7,679	7,982
Other long-term debt (subordinated debt and others)	21,874	23,406	24,022
Total Debt	Ps. 51,958	Ps. 53,465	Ps. 59,926

Million Pesos.

Funding

Our main and most economic source of funding comes from client deposits. On December 31, 2014, GFNorte's client deposits totaled Ps 484.07 billion (89% of the total funding, considering subordinated debt) a 12% YoY increase vs. Ps 433.37 billion in 2013; Banorte's client deposits amounted to Ps 485.74 billion in 2014.

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, 2014, the balance of repos registered by GFNorte was Ps 306.60 billion, a 0.8% increase vs. 2013. Furthermore, Banorte registered a balance of Ps 208.36 billion in 2014, a 6.3% increase vs. 2013's balance of Ps 196.04 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, 2014, GFNorte's total long term debt maturing in more than one year was Ps 16.47 billion; an 8.5% decrease vs. Ps 18.00 billion in 2013, the decrease was maily due to the prepayment of the Preferred and Non-Convertible Subordinated Obligations for an amount of Ps 2.2 billion.

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.

Treasury Policies

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 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.

<u>Loan or tax liabilities</u>

See this information in section “c) Report of Relevant Loans” of this Annual Report.

GFNorte’s Equity

	2014	2013	2012
Paid-in Capital	14,632	14,652	13,072
Share Subscription Premiums	36,201	35,219	18,320
Subscribed Capital	**Ps. 50,833**	**Ps. 49,871**	**Ps. 31,392**
Capital Reserves	6,657	5,811	3,399
Retained Earnings from prior years	50,407	39,303	37,644
Result from valuation of Securities Available for Sale	634	667	1,598
Result from valuation of instruments for cash flow hedging	(762)	(1,420)	(2,493)
Cumulative foreign currency translation adjustment	(75)	(1,083)	(547)
Net Income	15,228	13,508	10,888
Earned Capital	**Ps. 72,089**	**Ps. 56,786**	**Ps. 50,489**
Minority Interest	**1,750**	**2,034**	**6,628**
Total Shareholders’ Equity	**Ps. 124,672**	**Ps. 108,691**	**Ps. 88,509**

Million Pesos.

GFNorte's equity increased 15% from Ps 108.69 billion by the end of 2013, to Ps 124.67 billion in 2014, driven mainly by the following factors:

1) Increase in the balance of retained earnings from prior years.
2) Higher profits generated during the last 12 months.
3) Increase in the cumulative foreign currency translation adjustment.
4) Increase in the Share Subscription Premiums.
5) Higher capital reserves.
6) Lower impact in the result from valuation of instruments for cash flow hedging.

These factors offset the decrease in minority interest, and the decrease in the result from valuation of securities available for sale.

Banco Mercantil del Norte's Capitalization Ratio. *[See Note 30 of GFNorte's 2014 Audited Financial Statements]*

	Dic-14	Dic-13	Dic-12
Tier 1 Capital	69,995	58,585	46,696
Tier 2 Capital	8,001	11,034	11,496
Net Capital	**Ps. 77,996**	**Ps. 69,619**	**Ps. 58,192**
Credit Risk Assets	359,318	338,045	297,007
Market & Operational Risk Assets	151,738	122,283	97,522
Total Risk Assets [(1)]	**Ps. 511,057**	**Ps. 460,328**	**Ps. 394,529**
Net Capital / Credit Risk Assets	**21.7%**	**20.6%**	**19.6%**
Capitalization Ratio			
Tier 1	13.70%	12.73%	11.84%
Tier 2	1.56%	2.40%	2.91%
Total Capitalization Ratio	**15.26%**	**15.12%**	**14.75%**

Million Pesos.

1. Without intercompany eliminations.

At the end of 2014 **Banorte's estimated Capitalization Ratio (CR) was 15.26%** considering credit, market and operational risk and 21.71% if only credit risks are considered. The Core Tier 1 ratio was 12.70%, Total Tier 1 ratio was 13.70% and Tier 2 was 1.56%.

The Capitalization Ratio Increased 0.14 pp vs 2013, showing the following dynamics:

1.	Growth of profits during 2014	+2.58 pp
2.	Capitalization in March 2014	+0.55 pp
3.	Valuation of Financial Instruments, Securitizations and Equity Accounts	+0.20 pp
4.	Reserves considered as Tier 2 [1)]	-0.08 pp
5.	Prepayment and effectiveness decrease of Subordinate Debt	-0.71 pp
6.	Effects of Investment in Subsidiaries and Intangibles	-0.72 pp
7.	Growth in risk assets	-1.68 pp

1. Loan loss reserves for Financial Intermediaries and Property Investment Projects.

Ixe Banco's Capitalization Ratio ***[See Note 30 of 2012 Audited Financial Statements. In 2014 and 2013 figures are no longer reported given the merger of Ixe Banco into Banco Mercantil del Norte in May 2013]***

	Dec-12
Tier 1 Capital	5,686
Tier 2 Capital	2,483
Net Capital	**Ps. 8,169**
Credit Risk Assets	33,246
Market & Operational Risk Assets	19,378
Total Risk Assets (1)	**Ps. 52,624**
Net Capital / Credit Risk Assets	**24.6%**
Tier 1	10.8%
Tier 2	4.7%
Total Capitalization Ratio	**15.5%**

Million pesos.

1. Excluding intercompany eliminations.

At the end of December 2012, the Ixe Banco's 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 + 0.96 pp
2) Impact of permanent investments in shares during the period + 0.89 pp
3) Growth in risk assets during the period - 0.92 pp
4) FX impact on Subordinated Notes - 0.47 pp
5) Securitizations that impact net capital - 0.14 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 2014, available cash amounted to Ps 73.84 billion, 19% higher the Ps 61.98 billion registered in December 2013.

GFNorte's Cash Flow Statement

	2014	2013
Net income	**Ps. 15,228**	**Ps. 13,508**
Items not requiring (generating) resources:		
Depreciation and amortization	1,262	1,216
Technical reserves	9,655	9,686
Other provisions	6,005	(757)
Current and deferred income tax	5,668	3,555
Equity in earnings of unconsolidated subsidiaries and associated companies	(995)	(359)
	36,823	**26,849**
OPERATING ACTIVITIES:		
Changes in margin accounts	13	437
Changes in investments in securities	(15,802)	(69,906)
Changes in debtor balances under repurchase and resale agreements	(669)	5,492
Changes in asset position of derivatives financial instruments	(1,696)	3,456
Change in loan portfolio	(44,888)	(26,132)
Changes in acquired collection rights	537	(412)
Changes in accounts receivable from insurance and annuities, net	(653)	(396)
Changes in debtor premiums, (net)	(1,455)	90
Changes in reinsurance agencies (net) (asset)	(2,404)	(847)
Changes in receivables generated by securitizations	151	144
Change in foreclosed assets	61	156
Change in other operating assets	(5,881)	(4,526)
Change in deposits	51,799	19,295
Change in interbank and other loans	10	(5,829)
Change in creditor balances under repurchase and sale agreements	2,580	59,991
Collateral sold or pledged	145	(29)
Change in liability position of derivative financial instruments	2,444	(2,950)
Change in technical reserves (net)	1,831	799
Changes in reinsurance agencies (net) (liability)	860	(46)
Change in subordinated debentures	(1,567)	(1,457)
Change in other operating liabilities	(5,291)	(6,046)
Change in hedging instruments related to operations	488	(989)
Income tax	(3,584)	(5,324)
Net cash flows provided by (used in) operating activity	**13,852**	**(8,180)**
INVESTING ACTIVITIES:		
Proceeds on disposal of property, furniture and equipment	2,002	2,681
Payments for acquisition of property, furniture and equipment	(4,006)	(3,939)
Charges on acquisitions of subsidiaries and associated companies	409	1,037
Payment on acquisitions of subsidiaries and associated companies	-	(27,345)
Sale of other permanent investments	-	(1)
Charges for cash dividends	1,134	505
Net cash flows used in investment activity	**(461)**	**(27,062)**
FINANCING ACTIVITIES:		
Charges for issuance of shares	-	31,200
Dividends paid	(1,218)	(2,911)
Repurchase of shares	(549)	437
Net cash flow (used in) provided by financing activity	**(1,767)**	**28,726**
Net increase (decrease) in cash and cash equivalents	11,624	(6,516)
Effects from changes in the value of cash and cash equivalents	236	14
Cash and cash equivalents at the beginning of the year	61,978	68,480
Cash and cash equivalents at the end of the year	**Ps. 73,838**	**Ps. 61,978**

Million Pesos.

iii. INTERNAL CONTROL

At GFNorte, we recognize that internal control is the responsibility of each member of the Institution, and is therefore implicit in daily performance which facilitates its permanent spread and promotion at all levels of the Institution.

The 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 how the internal workings should be operated, in order to provide reasonable security in the effectiveness and efficiency of operations, the dependability of financial information, as well as the fulfillment of regulations and the legal framework.

The ICS's mission is to support the operation of appropriate internal controls in transactions, and the generation and recording of information. It is comprised of several elements:

A. The Board of Directors with the support of: the Advisory Board, Risk Policies Committee, Audit and Corporate Practices Committee, and the Human Resources Committee.

B. The CEO and the departments which support him: Unit Risk Management (UAIR), Legal Department and the Comptroller, responsible for ensuring that adequate control levels, operational risks and compliance with regulation are maintained.

C. Internal Audit, External Audit and the Commissary (The Commissary applies only to GFNorte 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 CAPS and maintains full independence from the administrative areas.

D. The Executive Group as main responsible persons for SCI assurance according to the functions and responsibilities assigned to them. In addition to promoting the enforcement of the regulations established for the Institution and the strategies set forth by the GFNorte's CEO.

E. Documents that establish the general control criteria that should be followed in the operation and reporting of transactions; in optimizing human, material and technological resources; in the use, security, timeliness and reliability of the information; and in the due compliance with the external and internal regulations. Among these documents, the Code of Conduct is highlighted, it regulates the behavior that each Board member, officer or employee of the Group should assume while performing their activities stress out.

F. Policy and procedure manuals that regulate documentation, recording and liquidation of operations that the Institution carries out and establish the control points that should be observed, assuring the separation of functions, clear assigning of responsibilities, safekeeping of information and prevention of unlawful acts.

During the fourth quarter of 2014, activities related to strengthening control, risk evaluation and management, establishment and monitoring of controls, and assurance of quality information continued to be developed; highlighting the following:

A. The Board of Directors analyzed and, at the request of CAPS, ratified its authorization of the basic documents of Corporate Governance related to the SCI: Code of Conduct, Objectives and Limitations of Internal Control and General Policies for Human Resources and Materials, in accordance with external regulation specifications.

B. The various Corporate Governance Committees have had the required financial, economic, accounting and/or legal information for proper decision-making.

C. The manual of policies and procedures has been updated as per the changes in external regulations, new products, and changes in the Institution's processes or the improvements to internal controls. Additionally, there has been a continuous follow-up of the improvement actions regarding the observations made by the different members of the SCI.

D. The Supervisory Authorities' requirements have been addressed and the information required by the external regulations has been submitted.

E. Monitoring of the various business and support processes that make up the operation in GFNorte through Process Controllers and Management, to report periodically on compliance and identifying opportunity areas for a timely remediation.

F. Requests regarding internal control subjects from diverse internal departments were handled, to the development of new institutional projects, as well as those derived from the Financial Reform.

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, 2014. (Section 8 c - "Annexes-Financial Statements" of this Annual Report).

GFNorte has identified the main critical accounting estimates described in this section as follows:

1. Investment in Securities

Investments in debt or capital securities are classified based on the intention for use at the time of acquisition and fair value is determined according to the type of financial instrument concerned, in accordance with the following:

(i) Trading Securities

Trading securities are securities owned by GFNorte, acquired with the intention of selling them for a profit derived from the price differences in short-term purchase and sale operations made by GFNorte as a market participant.

At the time of the acquisition they are initially recorded at fair value, which may include either a discount or premium.These securities are stated at fair value, which is determined by the price vendor. The valuation includes both capital and accrued interest. The trading securities valuation result is recorded in the results of the period.

(ii) Securities available for sale

Securities available for sale are debt or equity securities; acquired with no intention of obtaining earnings from short term trading operations and, in the case of debt securities, neither with the intention nor capacity of holding them to maturity. Therefore, they represent a residual category, that is to say, they are acquired with an intention different than that of trading or holding them to maturity.

They are valued in the same way as trading securities, recognizing the result from valuation in other headings of net income within stockholders' equity.

(iii) Securities held to Maturity

Securities held to maturity consist of debt instruments whose payments are fixed or can be determined with a set maturity, which are acquired by GFNorte with the intent and capability to hold them to maturity.

They are initially recorded at fair value and valued at amortized cost, which means that the amortization of the premium or discount (included in the fair value at which they were initially recorded), is part of the earned interest.

(iv) General valuation standards

Upon the sale of trading securities, the valuation result previously recorded in the year's results is reclassified as part of the gain or loss on the sale. Similarly, upon the sale of securities available for sale, the cumulative valuation result recorded in the comprehensive result in stockholders' equity is reclassified as part of the gain or loss on the sale.

Accrued interest on debt instruments is determined using the effective interest method and is recorded in the corresponding category of investments in securities and in the year's results.

Dividends on equity instruments are recorded in the corresponding category of investments in securities and in the year's results when the right to receive such dividends is established.

The foreign exchange gain or loss on investments in securities denominated in foreign currency is recorded in the year's results.

Reclassification of securities held to maturity to available for sale is allowed, provided there is no intention or ability of holding them to maturity. In the case of reclassifications to securities held to maturity or from trading securities to securities to available for sales securities, which can be done in extraordinary circumstances (lack of market liquidity, absence of an active market for such securities, among others), the CNBV will evaluate such circumstances and, if it determines they are valid, it will issue its express authorization for their reclassification.

If securities held to maturity are reclassified as available for sale, the corresponding valuation result on the reclassification date is recorded in the comprehensive result within stockholders' equity.

When the debt instruments reclassification is authorized from securities available for sale to securities held to maturity, the valuation result on the transfer date continues to be reported in stockholders' equity, and it is amortized based on such instrument's remaining life.

Regarding authorized reclassifications from trading securities to any other category, the valuation result on the reclassification date is already acknowledged in the year's results.

An impairment loss on a security is recorded against the year's results if there is objective evidence of such impairment as a result of one or more events, occurring after the initial recording of the security, that have had an impact on the estimated future cash flows that can be reliably determined. The effect of recording the impairment of securities is shown in Note 6 of the GFNorte's audited consolidated financial statements as of December 31, 2014.

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, 2014 until the repurchase agreement's maturity.

3. Operations with Derivatives

Since the derivatives products operated by GFNorte are considered as conventional (*Plain Vanilla*), the institution uses the standard valuation models contained in derivatives operations and GFNorte risk management systems.

All of the valuation methods that GFNorte uses result in fair value of the transactions and are periodically adjusted. Furthermore, they are audited by independent third parties.

Valuation of the positions is done on a daily basis and a price provider generates the input used by the transaction and risk management systems. The price provider generates these valuations based on daily market conditions.

(A) Forward and Futures Contracts

Forward and Futures Contracts available for sale, are those through which a buy or sell of a financial asset or commodity obligation is set at a future date, with previously set amount, quality and price in the contract.
Futures contracts are recorded initially by GFNorte in the balance sheet as an asset and a liability at fair value, which represents the price agreed in the contract in order to acknowledge the right and obligation of receiving and/or delivering the underlying, as well as the right and obligation of receiving and/or delivering the cash equivalent to the underlying, object of the contract.

Derivatives are presented in a specific item of assets or liabilities, depending on whether their fair value (as a consequence of established rights and/or obligations) corresponds to a debtor or creditor balance, respectively. Debtor or creditor balances in the Consolidated Balance Sheets are offset if GFNorte has the contractual right to offset the stated amount, the intention of liquidating the net amount or to realize the assets and cancel the liability, simultaneously.

In the case of transactions for trading purposes, their balance represents the difference between the fair value of the contract and the established "forward" price.

(B) *Options Contracts*

GFNorte records the option premium as an asset or liability at the transaction date. The fluctuations resulting from market valuation of the option's premium are recorded by affecting the Consolidated Income Statement in the account "Trading results" and the corresponding Consolidated Balance Sheet account

(C) *Swaps*

Are recorded at fair value which corresponds to the net amount between the asset and liability portion for the rights and obligations agreed upon; they are subsequently valued at fair value using the present value of the future flows to receive or grant according to the projections for future implicit applicable rates, discounting the market rate on the valuation date with yield curves given by the price provider. The result of such valuation is recorded in the year's results.

4. Allowance for loan losses

Application of new portfolio rating criteria

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

In the case of consumer, mortgage and commercial loans, 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 used until December 31, 2013 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, 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 had the Comission'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 was applied to the total commercial portfolio with balances equal to or greater than 4 million UDIS or its equivalent in Mexican pesos (except those granted to financial entities, State and Municipal Governments and loans intended for investment projects having their own source of payment) up to June 29, 2013. Thereafter, on June 30, 2013, GFNorte adopted the aforementioned changes, which were applied until December 31, 2013 to the financial entities' portfolios with balances equal to or greater than 4 million UDIS or its equivalent in Mexican pesos. According to the regulation, as of January 1, 2014, the aforementioned changes to the regulations were applied. Credit ratings and loan loss provisions 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 Entities equal to or greater than 4 million UDIS or their equivalents in Mexican pesos, until December 31, 2013, were 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.

GFNorte applied, until December 31, 2013, the CIR Banorte methodology, approved by the CNBV to determine debtors' ratings for Commercial loans granted to Financial Entities equal to or greater than 4 million UDIS or their equivalents in Mexican pesos. For the rest of the commercial portfolio, and as of January 1, 2014 for the Financial Entities portfolios equal to or greater than 4 million UDIS or their equivalents in Mexican pesos, GFNorte complies with the procedure established by the CNBV. No material amount was reported derived from this change.

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.

The investment projects' balances represent financing to investment projects' trusts (especially in the development of social housing). GFNorte acknowledges a yield from the trust financing disposal, which is related to the construction project's progress compliance and/or sale as stated in each trust's agreement. Failure to meet the construction project's progress and/or sale as stipulated in the agreement, GFNorte stops recording the funding yield.

To assess investment projects, each project's expected value is determined according to the expected flow of the sale of investment project's potential inventory or that of a portfolio of investment projects of GFNorte based on the current business plan.

Investment project value impairment is determined based on the time they are not under development. To be considered under development, an investment project shall have proof of any of the following:

- Infrastructure, urbanization or new housing construction works in progress as per the business plan, or
- Available bridge loan for the investment project, or
- An investment agreement with a third party, who has the required operating and financial capability, other than the developer contemplated on its investment date.

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, 2014 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 both, with defined and indefinite lives, their value are subject to annual impairment tests.

GFNorte maintains criteria for identifying and, where appropriate, recording intangible losses for deterioration or decline in value for those financial and other long-term assets, including goodwill. No indicators of impairment of goodwill have been identified as of December 31, 2014.

9. Income Taxes (ISR)

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.

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, 2014 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, 2014. 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.

Provisions for Employee Statutory Profit Sharing are registered under the Administrative Expenses item of the year they were caused. The Financial Group determines Employee Statutory Profit Sharing based on the criteria established in the guidelines set forth by the Mexican Constitution.

4. ADMINISTRATION

a) EXTERNAL AUDITORS

External auditors are appointed with the Board of Directors' approval, which is based on the recommendations presented by the Audit and Corporate Practices Committee.

As of 2005, the firm Galaz, Yamazaki, Ruiz Urquiza, S. C. has audited GFNorte's Financial Statements; therefore, there has been no change in external auditors for the last ten 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 2014, GFNorte hired a firm of external auditors at a total cost of Ps. 651 thousand, 100% of this cost corresponding to the auditing services for the financial statements.

Moreover, each of the Group's subsidiaries also make payments to the external auditor on account of the auditing services of their financial statements and provide 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, loans granted to related parties of credit institutions cannot surpass the established limit of 35% of the basic part of the net capital for December 2014, and of 50% of the basic part of the net capital for December 2013 and 2012.

In GFNorte as of December 31, 2014, 2013 and 2012, the amount of loans granted to third parties is as follows:

Institution granting the loan	2014	% of the limit	2013	% of the limit	2012	% of the limit
Banorte	Ps. 3.69	15.5%	Ps. 6.78	24.1%	Ps. 11.54	50.3%
Ixe Banco	-	-			1.79	68.6%
	Ps. 3.69		**Ps. 6.78**		**Ps. 13.33**	

Million Pesos.

The granted loans are under the 100% limit set forth by the LIC.

As of 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 payable balance of Afore XXI Banorte was Ps. 1 million.

Banorte

As of **December 31, 2014**, total portfolio of related party loans under Article 73 of the LIC, was **Ps. 3.69 billion** (including Ps. 450 million in “CC” Credit Letters, which are registered in memorandum accounts), representing 0.8% of the total loan portfolio (excluding the balance of CC and Support to Federal Government Housing Debtors). Of the total related loans, Ps. 2.39 billion were loans granted to clients linked to members of the Board of Directors; Ps. 924 million were granted to clients linked to shareholders and Ps. 370 million were linked to companies related to GFNorte.

According with Article 73 of the LIC, the balance of GFNorte’s loan portfolio for individuals and corporations at closing of **December 2014 was 15.5%** of the limit set forth by Banxico which was the equivalent of 35% 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 GFNorte’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, 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 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 forth 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 GFNorte’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.

Ixe Banco

In 2014 and 2013 the amount of loans granted by Ixe Banco are 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, 2014, 2013 and 2012, GFNorte's participation in the equity of its consolidated subsidiaries is as follows:

	2014	2013	2012
Banco Mercantil del Norte, S.A. and Subsidiaries	98.22%	97.50%	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, S.A. de C.V.	99.99%	99.99%	51.00%
Pensiones Banorte, S.A. de C.V.	99.99%	99.99%	51.00%
Casa de Bolsa Banorte Ixe, S.A. de C.V.	99.99%	99.99%	99.99%
Operadora de Fondos Banorte Ixe, S.A. de C.V.	99.99%	99.99%	99.99%
Ixe Servicios, S.A. de C.V.	99.99%	99.99%	99.99%
Solida Administradora de Portafolios, S.A. de C.V., SOFOM, ER (formerly Ixe Soluciones)	98.83%	96.76%	99.99%
Fincasa Hipotecaria, S. A. de C. V. SOFOM, ER and Subsidiary*	-	-	99.99%
Ixe Banco, S. A.*	-	-	99.99%
Ixe Automotriz, S. A. de C. V. SOFOM, ER and Subsidiary***	-	-	99.99%

*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 Solida at a price of Ps. 378 million. Of this transaction, Ps. 1.86 billion was related to past-due loans amounts and Ps. 64 million to the performing loan portfolio. The transaction was recorded based on figures as of August 2002, for which reason the final amount affecting the February 2003 balance sheet was Ps. 1.86 billion, considering the collections made since August 2002. In conjunction with the loan portfolio sold, Ps. 1.58 of the associated allowance for loan losses was transferred as well.

In official letter 601-II-323110 dated November 5, 2003; the CNBV established the accounting criteria to be applied to this transaction and issued a series of rulings whereby Banorte must provide detailed information on the activities of this transaction throughout its duration, in the understanding that this transaction was a one-time event and not a recurring portfolio transfer procedure.

Pursuant to the foregoing, below is a summary of the activity of the loan portfolio sold to Solida since August 2002 and for the years of 2014 and 2013:

	Mexican pesos			Foreign Currency			Total		
Type of portfolio	**Aug 02**	**Dec 13**	**Dec 14**	**Aug 02**	**Dec 13**	**Dec 14**	**Aug 02**	**Dec 13**	**Dec 14**
Performing loan portfolio									
Commercial	Ps. 5	Ps. -	Ps. -	Ps. 5	Ps. -	Ps. -	Ps. 10	Ps. -	Ps. -
Mortgage	54	8	22	-	-	-	54	8	22
Total	**59**	**8**	**22**	**5**	**-**	**-**	**64**	**8**	**22**
Past-due loan portfolio									
Commercial	405	302	251	293	112	111	698	414	362
Consumer	81	72	72	-	-	-	81	72	72
Mortgage	1,112	258	227	-	-	-	1,112	258	227
Total	**1,598**	**632**	**550**	**293**	**112**	**111**	**1,891**	**744**	**661**
Total portfolio	**1,657**	**640**	**572**	**298**	**112**	**111**	**1,955**	**752**	**683**
Allowance for loan losses(1)									
Commercial	326	302	251	246	112	111	572	414	362
Consumer	77	72	72	-	-	-	77	72	72
Mortgage	669	258	238	-	-	-	669	258	238
Total allowance for loan loss	**1,072**	**632**	**561**	**246**	**112**	**111**	**1,318**	**744**	**672**
Net portfolio	**Ps. 585**	**Ps. 8**	**Ps. 11**	**Ps. 52**	**Ps. -**	**Ps. -**	**Ps. 637**	**Ps. 8**	**Ps. 11**

Million Pesos

1. Banorte held a 99% participation in Solida's equity until May 2013. After that date, Solida merged into Ixe Soluciones and changed its name to Solida Administradora de Portafolios. As of December 31, 2014, GFNorte had a 98.83% participation in Solida.

As of December 31, 2014 and 2013, the composition of the Holding's loan portfolio without subsidiaries, is as follows:

Type of portfolio	Mexican pesos		Foreign Currency		Total	
	Dec 14	Dec 13	Dec 14	Dec 13	Dec 14	Dec 13
Commercial loans	Ps 286,398	Ps 267,511	Ps 28,387	Ps 19,291	Ps 314,785	Ps 286,802
Consumer loans	42,321	38,380	-	-	42,321	38,380
Mortgage loans	88,537	80,628	-	1	88,537	80,629
Performing loan portfolio	**417,256**	**386,519**	**28,387**	**19,292**	**445,643**	**405,811**
Commercial loans	10,428	10,327	196	168	10,624	10,495
Consumer loans	1,131	962	-	-	1,131	962
Mortgage loans	1,480	1,352	-	-	1,480	1,352
Past-due loan portfolio	**13,039**	**12,641**	**196**	**168**	**13,235**	**12,809**
Total portfolio	**430,295**	**399,160**	**28,583**	**19,460**	**458,878**	**418,620**
Allowance for loan losses	12,112	11,432	360	345	12,472	11,777
Net portfolio	**Ps 418,183**	**Ps 387,728**	**Ps 28,223**	**Ps 19,115**	**Ps 446,406**	**Ps 406,843**
Allowance for loan losses					**94.24%**	**91.94%**
% of past-due portfolio					**2.88%**	**3.06%**

Million Pesos.

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 13 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 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 for the fiscal year 2014, appointed and approved during the Annual General Shareholders' Meeting held on April 25, 2014 and modified on the Ordinary General Shareholders' Meeting held on October 22, 2014 and in the Board of Directors' session on November 20, 2014, is comprised by the following members:

NAME	POSITION	WITH THE COMPANY SINCE	PROFESSIONAL BACKGROUND
Carlos Hank Gonzalez	Chairman of the Board of Directors Proprietary Member	October 2014	• He was CEO of Grupo Financiero Interacciones, Interacciones Casa de Bolsa and Grupo Hermes. • He was Deputy Managing Director of GrupoFinanciero Banorte. • He was Vice Chairman of Gruma's Board of Directors. • He holds a Bachelor's Degree in Business Management from Universidad Iberoamericana.
David Villareal Montemayor	Proprietary Member	October 1993	• CEO and major shareholder of Artefactos Laminados, S. A. de C.V. • He is Chairman of the Board of Directors and Deputy CEO of Inmobiliaria Montevi, S.A. de C.V. and Inmobiliaria Monyor S.A. de C.V. • He is a regional Advisor of Banco Nacional de Mexico, S.A. (Banamex) and Financial Advisor and Business Developer for SISMEX, Sistemas Mexicanos S.A. de C.V. • He is a Mechanical and Electrical Engineer from Instituto Tecnologico y de Estudios Superiores de Monterrey (ITESM) and holds a Master's Degree in Science in Automatic Control from the same institution.

NAME	POSITION	WITH THE COMPANY SINCE	PROFESSIONAL BACKGROUND
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 of International Finance at EGADE, Business School, ITESM. • He was Director of Economic Studies of Grupo Industrial Alfa (Alfa Group). • He founded Consulting Agency Index, Economia Aplicada S.A. • He was Deputy Governor of the Bank of Mexico. • He is member of several companies' Boards of Directors. • He graduated in Economics from the University of Nuevo Leon and holds a Master's Degree and Ph.D. in Economics, both from the University of Wisconsin-Madison.
Alfredo Elias Ayub	Proprietary Independent Member	April 2012	• He was CEO of the Comision Federal de Electricidad (Mexican Federal Electricity Commission, CFE), of Aeropuertos y Servicios Auxiliares (Airports and Auxiliary Services, ASA) and held several positions within the Ministry of Energy and Mining. • He was a member of the Alumni Council at Harvard Business School, Nacional Financiera, Multibanco Mercantil de Mexico and Banco Internacional. • He was Chairman of the Board of the Mexican Institute of Electric Research and of the Mexico Foundation at Harvard. • He is Chairman of the Board of Promociones Metropolis S.A de C.V. and is member of the Board of Iberdrola USA and Rotoplas. • He is a Civil Engineer from Universidad Anahuac and holds an MBA from Harvard Business School.
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 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	• He is Executive Manager Director and member of the Board of Directors of Vitro, S.A.B. de C.V. and has held several Maganer positions within the Industrial Group. • He is a Member of the Board of Directors of Coparmex, Comegua, Club Industrial de Monterrey, Universidad de Monterrey and Camara de la Industria de Transformacion (CAINTRA). • He graduated in Business from Instituto Tecnologico y de Estudios Superiores de Monterrey (ITESM) and holds an MBA from Stanford Business School.

NAME	POSITION	WITH THE COMPANY SINCE	PROFESSIONAL BACKGROUND
Patricia Armendariz Guerra	Proprietary Independent Member	April 2009	• She is Managing Director at Financiera Sustentable, Associated Director of the Bank for International Settlements and Partner - Director and Founder of Valores Financieros. • She was advisor to the Chairman Emeritus, Roberto Gonzalez Barrera, and Director of Special Projects at the same Institution. • She was advisor to the Minister of Finance and Public Credit and Vice Chairman of Supervision at the National Banking and Securities Commission. • She is an Actuary from Universidad Nacional Autonoma de Mexico (UNAM), holds a Master's Degree in Economics from the same institution and a Ph.D. in Economics from Columbia University.
Armando Garza Sada	Proprietary Independent Member	July 2011	• Chairman of the Board of Directors of Alfa. • Member of the Board of: Banco de Mexico (Regional Board), Femsa, Frisa, Instituto Tecnologico y de Estudios Superiores de Monterrey (ITESM), Lamosa, Liverpool, Proeza, Advisory Board of Stanford University's Business School, and member of the Board of Stanford University. • He graduated from the Massachusetts Institute of Technology (MIT) and holds an MBA from Stanford Business School.
Hector Reyes-Retana y Dahl	Proprietary Independent Member	July 2011	• Independent Member of the Board of Banco del Ahorro Nacional (Bansefi). • He founded the organism "ProMexico, Inversion y Comercio". • He was the CEO of Banco Nacional de Comercio Exterior, S.N.C (Bancomext), CEO of Banca Confia and Director of International Operations of Banco de Mexico (Banxico). • He was CEO of Grupo Financiero Mifel and Banca Mifel, and was Vice Chairman of the Mexican Banking Association. • He is an Industrial Engineer from Universidad Iberoamericana and holds an MBA from Cornell University.
Juan Carlos Braniff Hierro	Proprietary Independent Member	July 2011	• He is Chairman of the Board and CEO of Capital I, Fondos de Inversion Inmobiliaria. • Member of the Board of Directors of Maxcom and Afore XXI Banorte. • At Grupo Financiero BBVA Bancomer, he was Vice Chairman of the Board of Directors, Chairman of the Board of Insurance, Annuities and Afore Bancomer and member of the Credit, Risk and Audit Committees. He has also been member of the Board of Directors and member of committees at: Fomento Economico Mexicano (FEMSA), Coca Cola Femsa (KOF), Aeromexico, Maizoro, Hoteles Presidente Intercontinental and El Paso Corp, among others.

NAME	POSITION	WITH THE COMPANY SINCE	PROFESSIONAL BACKGROUND
Miguel Aleman Magnani	Proprietary Independent Member	April 2013	• He is Executive Chairman of ABC, Aerolineas-Interjet, Chairman of Grupo Aleman and Chairman of the Committee of the Tourism Program of Fundacion Miguel Aleman, A. C. • He participates in the Advisory Board of Mexico City's Tourism, the Consejo Coordinador Empresarial and in the Board of Mexican Tourism Promotion. • He held various positions at Grupo Televisa as Director of Special Affairs of the Chairman, Vice Chairman of Corporate Image and Proprietary Member of the Board. • He holds a Bachelor's Degree in Law from Universidad Anahuac.
Alejandro Burillo Azcarraga	Proprietary Independent Member	April 2013	• He is Chairman of the Board of Directors of Grupo Pegaso. • He has participated as strategic partner in: Ixe Banco, Laredo National Bank, Telefonica Movistar, Atlante Football Club, among others. He has also been independent member of the Board of Directors of Grupo Financiero BBVA Bancomer, S.A.
Juan Antonio Gonzalez Moreno	Proprietary Member	April 2004	• He is Chairman of the Board and CEO of Gruma and Gimsa. • He has been Managing Director of Gruma Asia and Oceania, Senior Vice Chairman of Special Projects of Gruma Corporation, Chairman of the Board and CEO of CarAmigo, Vice-Chairman of Central and East Regions of MissionFoods, Chairman and Vice Chairman of sales of Azteca Milling. • He graduated in Business Management from Universidad Regiomontana and holds an MBA from San Diego University.
Graciela Gonzalez Moreno	Alternate Member	April 2013	• She is private accountant, graduated from the Universidad Labastida in Monterrey, N.L. Since September 1988 until 2010, she participated as founding partner and member of the Board of Directors of Asociacion Gilberto, A.C., being Vice Chairman 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.
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 Chairman 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.

NAME	POSITION	WITH THE COMPANY SINCE	PROFESSIONAL BACKGROUND
Alberto Halabe Hamui	Alternate Independent Member	April 2014	• Deputy Managing Director of Inmobiliaria IHM S.A. de C.V. since 2007, Comercializadora de Viviendas Albatros S.A. de C.V. and Nueva Imagen Construcciones S.A. de C.V. • Member of the Management and Operations Committee of St. Regis Mexico and Banorte's Metropolitan Regional Board; furthermore, he was Member of the Board of Directors in Microfinanciera Finsol.
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. • He is Civil Engineer graduated from Universidad Nacional Autonoma de Mexico.
Manuel Aznar Nicolin	Alternate Independent Member	March 2007	• Partner at Kuri Breña, Sanchez Ugarte y Aznar, S.C. • He holds a Bachelor's Degree in Law from Escuela Libre de Derecho.
Eduardo Livas Cantu	Alternate Independent Member	April 1999	• He is an Independent Financial Adviser. • Member of the Board of Directors of Gruma S.A. de C.V. and Gimsa S.A. de C.V. • He was a member of the Board of the Executive Committee of Gruma S.A. de C.V. and Chief Corporate Officer of Gruma S.A. de C.V. and Gimsa S.A. de C.V.
Roberto Kelleher Vales	Alternate Independent Member	April 2014	• Currently, he is Shareholder, Vice Chairman and CEO of Inmobilia Desarollos. • He was Chairman and member of the Volkswagen National Dealers Association and member of the Mexican Association of Car Dealers.
Ramon A. Leal Chapa	Alternate Independent Member	July 2011	• He is Director of Treasury at Alfa Corporativo. • He held various executive positions at Pulsar, Vector Casa de Bolsa and Violy & Partners.
Guillermo Mascareñas Milmo	Alternate Independent Member	July 2011	• Associate Director of Alpha Patrimonial, S.A. de C.V. • He was member of the Board of Directors of Grupo Pegaso, Grupo Televisa and Casa de Bolsa Inverlat.
Lorenzo Lazo Margain	Alternate Independent Member	April 2013	• CEO of Aleman Velasco y Asociados S.C. • Member of the Consultive Board of "Mexico Cumbre de Negocios" and Chairman of the Board of L.L. & M.M. Consultores S.C. • He has held various positions in the public sector.
Alejandro Orvañanos Alatorre	Alternate Independent Member	April 2013	• He is CEO of Grupo Pegaso. Formerly, he was CEO of Caribevision Television Network, Director of Operations of Grupo Pegaso and Deputy CEO of Movistar.
Juan Antonio Gonzalez Marcos	Alternate Member	April 2014	• Chairman of Maranello Magnate, LLC. • He was Director of Marketing Projects at Mission Foods. • He holds a Bachelor's degree in Audio Production from SAE Institute of Melbourne. • He holds a Bachelor's degree in Fine Arts; Marketing from University of North Texas.

NAME	POSITION	WITH THE COMPANY SINCE	PROFESSIONAL BACKGROUND
Jose Marcos Ramirez Miguel	Alternate Member	July 2011	• CEO of Grupo Financiero Banorte, Banco Mercantil del Norte and Casa de Bolsa Banorte Ixe. • He held positions as Managing Director of Wholesale Banking and Chief Corporate Officer at Grupo Financiero Banorte. • He was CFO, Managing Director of Wholesale Banking, Managing Director of Santander Brokerage and Executive Vice Chairman of Grupo Financiero Santander. • He was appointed Chairman of Asociacion Mexicana de Intermediarios Bursatiles. He also worked at Nacional Financiera, S.N.C., Banque Nationale de Paris and Banque Indosuez Mexico.Founded Finventia and served as interdisciplinary consultant at Peat Marwick Mexico. • He holds a Bachelor's Degree in Actuarial Science from Universidad Anahuac, a Post-graduate Degree in Finance from Instituto Tecnologico Autonomo de Mexico (ITAM) and an MBA from E.S.A.D.E. in Barcelona, Spain.
Jesus O. Garza Martinez	Alternate Member	April 2012	• He was Managing Director of Segments and Channels in Banco Mercantil del Norte, S.A.

It is informed through this Annual Report that the Annual Ordinary General Shareholders' Meeting was held on April 24, 2015, in which was approved - among other resolutions - the Board of Directors for the fiscal year 2015 which will be comprised by 15 Proprietary and their respective Alternate members, accordingly:

NAME	POSITION	WITH THE COMPANY SINCE	PROFESSIONAL BACKGROUND
Carlos Hank Gonzalez	Chairman of the Board of Directors Proprietary Member	October 2014	• He was CEO of Grupo Financiero Interacciones, Interacciones Casa de Bolsa and Grupo Hermes. • He was Deputy Managing Director of Grupo Financiero Banorte. • He was Vice Chairman of Gruma's Board of Directors. • He holds a Bachelor's Degree in Business Management from Universidad Iberoamericana.
Juan Antonio Gonzalez Moreno	Proprietary Member	April 2004	• He is Chairman of the Board and CEO of Gruma and Gimsa. • He has been Managing Director of Gruma Asia and Oceania, Senior Vice Chairman of Special Projects of Gruma Corporation, Chairman of the Board and CEO of CarAmigo, Vice-Chairman of Central and East Regions of MissionFoods, Chairman and Vice-Chairman of sales of Azteca Milling. • He graduated in Business Management from Universidad Regiomontana and holds an MBA from San Diego University.
David Villarreal Montemayor	Proprietary Member	October 1993	• CEO and major shareholder of Artefactos Laminados, S. A. de C.V. • He is Chairman of the Board of Directors and Deputy CEO of Inmobiliaria Montevi, S.A. de C.V. and Inmobiliaria Monyor S.A. de C.V. • He is a regional Advisor of Banco Nacional de Mexico, S.A. (Banamex) and Financial Advisor and Business Developer for SISMEX, Sistemas Mexicanos S.A. de C.V. • He is a Mechanical and Electrical Engineer from Instituto Tecnologico y de Estudios Superiores de Monterrey (ITESM) and holds a Master's Degree in Science in Automatic Control from the same institution.
Jose Marcos Ramirez Miguel	Proprietary Member	July 2011	• CEO of Grupo Financiero Banorte, Banco Mercantil del Norte and Casa de Bolsa Banorte Ixe. • He held positions as Managing Director of Wholesale Banking and Chief Corporate Officer at Grupo Financiero Banorte. • He was CFO, Managing Director of Wholesale Banking, Managing Director of Santander Brokerage and Executive Vice Chairman of Grupo Financiero Santander. • He was appointed Chairman of Asociacion Mexicana de Intermediarios Bursatiles. He also worked at Nacional Financiera, S.N.C., Banque Nationale de Paris and Banque Indosuez Mexico.Founded Finventia and

NAME	POSITION	WITH THE COMPANY SINCE	PROFESSIONAL BACKGROUND
			served as interdisciplinary consultant at Peat Marwick Mexico. • He holds a Bachelor's Degree in Actuarial Science from Universidad Anahuac, a Post-graduate Degree in Finance from Instituto Tecnologico Autonomo de Mexico (ITAM) and an MBA from E.S.A.D.E. in Barcelona, Spain.
Everardo Elizondo Almaguer	Proprietary Independent Member	April 2010	• Founder and Director of the Graduate School of the Faculty of Economics, University of Nuevo Leon. He is Professor of International Finance at EGADE, Business School, ITESM. • He was Director of Economic Studies of Grupo Industrial Alfa (Alfa Group). • He founded Consulting Agency Index, Economia Aplicada S.A. • He was Deputy Governor of the Bank of Mexico. • He is member of several companies' Boards of Directors. • He graduated in Economics from the University of Nuevo Leon and holds a Master's Degree and Ph.D. in Economics, both from the University of Wisconsin-Madison..
Patricia Armendariz Guerra	Proprietary Independent Member	April 2009	• She is Managing Director at Financiera Sustentable, Associated Director of the Bank for International Settlements and Partner - Director and Founder of Valores Financieros. • She was advisor to the Chairman Emeritus, Roberto Gonzalez Barrera, and Director of Special Projects at the same Institution. • She was advisor to the Minister of Finance and Public Credit and Vice Chairman of Supervision at the National Banking and Securities Commission. • She is an Actuary from Universidad Nacional Autonoma de Mexico (UNAM), holds a Master's Degree in Economics from the same institution and a Ph.D. in Economics from Columbia University.
Hector Reyes-Retana y Dahl	Proprietary Independent Member	July 2011	• Independent Member of the Board of Banco del Ahorro Nacional (Bansefi). • He founded the organism "ProMexico, Inversion y Comercio". • He was the CEO of Banco Nacional de Comercio Exterior, S.N.C (Bancomext), CEO of Banca Confia and Director of International Operations of Banco de Mexico (Banxico). • He was CEO of Grupo Financiero Mifel and Banca Mifel, and was Vice Chairman of the Mexican Banking Association. • He is an Industrial Engineer from Universidad Iberoamericana and holds an MBA from Cornell University.
Juan Carlos Braniff Hierro	Proprietary Independent Member	July 2011	• He is Chairman of the Board and CEO of Capital I, Fondos de Inversion Inmobiliaria. • Member of the Board of Directors of Maxcom and Afore XXI Banorte.

NAME	POSITION	WITH THE COMPANY SINCE	PROFESSIONAL BACKGROUND
			• At Grupo Financiero BBVA Bancomer, he was Vice Chairman of the Board of Directors, Chairman of the Board of Insurance, Annuities and Afore Bancomer and member of the Credit, Risk and Audit Committees. He has also been member of the Board of Directors and member of committees at: Fomento Economico Mexicano (FEMSA), Coca Cola Femsa (KOF), Aeromexico, Maizoro, Hoteles Presidente Intercontinental and El Paso Corp, among others.
Armando Garza Sada	Proprietary Independent Member	July 2011	• Chairman of the Board of Directors of Alfa. • Member of the Board of: Banco de Mexico (Regional Board), Femsa, Frisa, Instituto Tecnologico y de Estudios Superiores de Monterrey (ITESM), Lamosa, Liverpool, Proeza, Advisory Board of Stanford University's Business School, and member of the Board of Stanford University. • He graduated from the Massachusetts Institute of Technology (MIT) and holds an MBA from Stanford Business School.
Alfredo Elias Ayub	Proprietary Independent Member	April 2012	• He was CEO of the Comision Federal de Electricidad (Mexican Federal Electricity Commission, CFE), of Aeropuertos y Servicios Auxiliares (Airports and Auxiliary Services, ASA) and held several positions within the Ministry of Energy and Mining. • He was a member of the Alumni Council at Harvard Business School, Nacional Financiera, Multibanco Mercantil de Mexico and Banco Internacional. • He was Chairman of the Board of the Mexican Institute of Electric Research and of the Mexico Foundation at Harvard. • He is Chairman of the Board of Promociones Metropolis S.A de C.V. and is member of the Board of Iberdrola USA and Rotoplas.. • He is a Civil Engineer from Universidad Anahuac and holds an MBA from Harvard Business School.
Adrian Sada Cueva	Proprietary Independent Member	April 2013	• He is Executive Manager Director and member of the Board of Directors of Vitro, S.A.B. de C.V. and has held several Maganer positions within the Industrial Group. • He is a Member of the Board of Directors of Coparmex, Comegua, Club Industrial de Monterrey, Universidad de Monterrey and Camara de la Industria de Transformacion (CAINTRA). • He graduated in Business from Instituto Tecnologico y de Estudios Superiores de Monterrey (ITESM) and holds an MBA from Stanford Business School.
Miguel Aleman Magnani	Proprietary Independent Member	April 2013	• He is Executive Chairman of ABC, Aerolineas-Interjet, Chairman of Grupo Aleman and Chairman of the Committee of the Tourism

NAME	POSITION	WITH THE COMPANY SINCE	PROFESSIONAL BACKGROUND
			Program of Fundacion Miguel Aleman, A. C. • He participates in the Advisory Board of Mexico City's Tourism, the Consejo Coordinador Empresarial and in the Board of Mexican Tourism Promotion. • He held various positions at Grupo Televisa as Director of Special Affairs of the Chairman, Vice Chairman of Corporate Image and Proprietary Member of the Board. • He holds a Bachelor's Degree in Law from Universidad Anahuac.
Alejandro Burillo Azcarraga	Proprietary Independent Member	April 2013	• He is Chairman of the Board of Directors of Grupo Pegaso. • He has participated as strategic partner in: Ixe Banco, Laredo National Bank, Telefonica Movistar, Atlante Football Club, among others. He has also been independent member of the Board of Directors of Grupo Financiero BBVA Bancomer, S.A.
Jose Antonio Chedraui Eguia	Proprietary Independent Member	April 2015	• He is CEO of Grupo Comercial Chedraui. • He has held positions as Commercial Director and then as CEO of Comercial Las Galas. • He participates in the organizations Fundacion Chedraui, Young Presidents' Organization and Mexico Nuevo. • He holds a Bachelor's Degree in Accounting and Finance from Universidad Anahuac.
Alfonso de Angoitia Noriega	Proprietary Independent Member	April 2015	• He is Executive Vice Chairman and Chairman of the Finance Committee at Grupo Televisa, S.A.B. He has served on the Board and Executive Committee and has held the position of Executive Vice Chairman of Administration and Finance at Grupo Televisa. • He is member of the Board of Directors of Cablevision, S.A. de C.V., Innova, S. de R.L. de C.V. (Sky), Cablemas Telecomunicaciones, S.A. de C.V., Operbes, S.A. de C.V. (Bestel), Television Internacional, S.A. de C.V.,Grupo Axo, S.A.P.I. de C.V. and The Americas Society. • Co-founder of the Law firm Mijares, Angoitia, Cortes y Fuentes, S.C. • He was a member of the Board of Grupo Modelo, S.A.B. de C.V. • He holds a Bachelor's Degree in Law from the Universidad Autonoma de Mexico (UNAM).
Graciela Gonzalez Moreno	Alternate Member	April 2013	• She is private accountant, graduated from the Universidad Labastida in Monterrey, N.L. Since September 1988 until 2010, she participated as founding partner and member of the Board of Directors of Asociacion Gilberto, A.C., being Vice-Chairman 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
Juan Antonio Gonzalez Marcos	Alternate Member	April 2014	• Chairman of Maranello Magnate, LLC. • He was Director of Marketing Projects at Mission Foods. • He holds a Bachelor's degree in Audio Production from SAE Institute of Melbourne. • He holds a Bachelor's degree in Fine Arts; Marketing from University of North Texas.
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 Chairman 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.
Robert William Chandler Edwards	Alternate Independent Member	April 2015	• Partner at Sanchez DeVanny Eseverri, S.C. since 1991. • He is member of the Board of Banco de Bajio, S.A. • He has been officer in various financial entitites such as Chase Manhattan Bank, Banco Mercantil Agricola de Caracas, Banco de Comercio de Bogota and Banco Mercantil del Norte, S.A. • He participated in the Board of Directors of Banco del Centro, S.A., Banpais, S.A. and Cydsa, S.A.
Alberto Halabe Hamui	Alternate Independent Member	April 2014	• Deputy Managing Director of Inmobiliaria IHM S.A. de C.V. since 2007, Comercializadora de Viviendas Albatros S.A. de C.V. and Nueva Imagen Construcciones S.A. de C.V. • Member of the Management and Operations Committee of St. Regis Mexico and Banorte's Metropolitan Regional Board; furthermore, he was Member of the Board of Directors in Microfinanciera Finsol.
Roberto Kelleher Vales	Alternate Independent Member	April 2014	• Currently, he is Shareholder, Vice Chairman and CEO of Inmobilia Desarollos. • He was Chairman and member of the Volkswagen National Dealers Association and member of the Mexican Association of Car Dealers.
Manuel Aznar Nicolin	Alternate Independent Member	March 2007	• Partner at Kuri Breña, Sanchez Ugarte y Aznar, S.C. • He holds a Bachelor's Degree in Law from Escuela Libre de Derecho.
Guillermo Mascareñas Milmo	Alternate Independent Member	July 2011	• Associate Director of Alpha Patrimonial, S.A. de C.V. • He was member of the Board of Directors of Grupo Pegaso, Grupo Televisa and Casa de Bolsa Inverlat.

NAME	POSITION	WITH THE COMPANY SINCE	PROFESSIONAL BACKGROUND
Ramon A. Leal Chapa	Alternate Independent Member	July 2011	• He is Director of Treasury at Alfa Corporativo. • He held various executive positions at Pulsar, Vector Casa de Bolsa and Violy & Partners.
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. • He is Civil Engineer graduated from Universidad Nacional Autonoma de Mexico.
Eduardo Livas Cantu	Alternate Independent Member	April 1999	• He is an Independent Financial Adviser. • Member of the Board of Directors of Gruma S.A. de C.V. and Gimsa S.A. de C.V. • He was a member of the Board of the Executive Committee of Gruma S.A. de C.V. and Chief Corporate Officer of Gruma S.A. de C.V. and Gimsa S.A. de C.V.
Lorenzo Lazo Margain	Alternate Independent Member	April 2013	• CEO of Aleman Velasco y Asociados S.C. • Member of the Consultive Board of "Mexico Cumbre de Negocios" and Chairman of the Board of L.L. & M.M. Consultores S.C. • He has held various positions in the public sector.
Javier Braun Burillo	Alternate Independent Member	April 2015	• He is Director of Operations and member of the Board of Directors at Grupo Pegaso. • He was Managing Director of Broad Band at Pegaso. • He holds a Bachelor's degree in Economics from Universidad Iberoamericana and an MBA from UCLA Anderson School of Management.
Rafael Contreras Grosskelwing	Alternate Independent Member	April 2015	• He is Director of Administration and Finance at Grupo Comercial Chedraui, S.A. de C.V. • He is part of the Advisory Board of Banco Nacional de Mexico, S.A. • He is Industrial Engineer from Universidad Panamericana.
Guadalupe Phillips Margain	Alternate Independent Member	April 2015	• She is Vice Chairman of Finance and Risk at Grupo Televisa, S.A.B. • She is member of the Board of Directors of Mas Fondos, S.A. de C.V., Grupo Televisa, S.A.B., Evercore Casa de Bolsa, S.A. and Innova, S. de R.L. de C.V. • She holds a Bachelor's degree in Law from Instituto Tecnologico Autonomo de Mexico and a Master's degree and Ph.D. from Tufts University.

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.

As of July 4, 2014, by resolutions adopted at the Extraordinary General Shareholders' Meeting, it was agreed to entirely amend the by-laws to adjust them to the new Law to Regulate Financial Groups, published in the Official Gazette on January 10, 2014. Such resolutions are subject to obtaining authorization from the SHCP. Once the corresponding authorization is obtained and the public instrument is registered in the respective Public Registry of Commerce, the functions and faculties of the Board of Directors will be those listed below, in accordance with Article Thirty-three of the by-laws:

I. Establish the general strategies of the Financial Group and the general strategies for the management, direction and execution of the business of the Company, Financial Entities and, as the case may be, Subholding Companies.

II. Oversee, through the Corporate Practices Committee, the management and direction of the Company, the Financial Entities and, as the case may be, Subholding Companies of which the Company has control, considering for that purpose the importance of the latter in the financial, administrative and legal standing of the Financial Group as a whole, as well as the performance of the Relevant Senior Officers, upon the terms of Articles 56 to 58 of the Law to Regulate Financial Groups.

III. Approve, upon prior opinion of the relevant Committee:

a) The policies and guidelines for the use by related parties of the assets that comprise the wealth of the Company and Financial Entities and of all the other persons controlled by it.

b) The acts, individually, with related parties intended to be executed by the Company. The acts stated below shall not require approval of the Board of Directors as long as they meet the policies and guidelines approved to such effect by the Board of Directors:

1. Those which, by virtue of their amount, are not important for the Financial Group as a whole, upon the terms of the rules of a general nature that regulate the terms and conditions for the incorporation of holding companies and the operation of financial groups.

2. The acts executed between the Company and Financial Entities members of the Financial Group and, as the case may be, Subholding Companies, as long as: i) They are of the ordinary or customary line of business, and ii) they are deemed to be made at market prices or supported by appraisals made by external specialist agents.

3. Those executed with employees of the Company, Financial Entities members of the Financial Group or, as the case may be, Subholding Companies, provided that they are executed upon the same conditions as with any client or as a result of labor benefits of a general nature.

c) The acts executed either simultaneously or successively, which by virtue of their characteristics may be considered as a single operation and that are intended to be executed by the Company or Financial Entities members of the Financial Group or, as the case may be, by the Subholding Companies, within one fiscal year, whenever they are unusual or non-recurring or their amount represents, based on figures corresponding to the closing of the next preceding quarter, in any of the following events:

    1. The acquisition or disposal of assets with a value equal to or higher than five percent of the consolidated assets of the Financial Group.

    2. The granting of guarantees or the assumption of liabilities by an aggregate amount equal to or higher than five percent of the consolidated assets of the Financial Group.

    Investments in debt securities or in banking instruments are excepted from the foregoing, as long as they are made pursuant to the policies approved by the board of directors itself to such effect.

d) The appointment and, as the case may be, removal of the CEO of the Company and his integral compensation, as well as the designation and integral compensation policies of the other Relevant Senior Officers.

e) The policies for the granting of loans or any type of credits or guarantees to Related Parties.

f) The releases for a director, Relevant Senior Officer or person with a Power of Command to take advantage of business opportunities for himself or in favor of third parties corresponding to the Company, Financial Entities or, as the case may be, Subholding Companies. The releases for transactions which amount is less than that mentioned in subparagraph c) of this section may be delegated to any of the committees of the Company in charge of audit or corporate practices functions referred to in the Law to Regulate Financial Groups.

g) The guidelines concerning internal control and internal audit of the Company and of Financial Entities or, as the case may be, Subholding Companies.

h) The accounting policies of the Company in compliance with the provisions of the Law to Regulate Financial Groups.

i) The financial statements of the Company.

j) The contracting of the legal entity that provides external audit services and, as the case may be, services additional or supplementary to external audit services.

k) Whenever the determinations of the board of directors are not in line with the opinions provided by the relevant committee, such committee must instruct the CEO to disclose such circumstance to public investors through the securities exchange where the shares of the Company or credit instruments representing them are listed, in compliance with the terms and conditions established by such exchange in its internal regulations, to the general shareholders meeting held after such act, as well as the CNBV, within 10 business days following the corresponding determination.

    These authorizations do not release from the compliance with the obligations vis-à-vis related parties established in special laws of each of the financial entities members of the Financial Group.

IV. Submit to the General Shareholders' Meeting held by virtue of the closing of the fiscal year:

a) The reports referred to in Article 58 of the Law to Regulate Financial Groups.

b) The report prepared by the CEO pursuant to Article 59, section X, of the Law to Regulate Financial Groups, accompanied by the opinion of the external auditor.

c) The opinion of the Board of Directors on the contents of the report of the CEO referred to n subparagraph b) above.

d) The report referred to in Article 172, subparagraph B) of the General Law of Business Corporations containing the main accounting and information policies and criteria followed in the preparation of financial information.

e) The report on the operations and activities in which it shall have participated pursuant to the provisions of the Securities Market Law and the Law to Regulate Financial Groups.

V. Monitor the main risks to which the Company and Financial Entities members of the Financial Group and, as the case may be, Subholding Companies, are exposed, identified based on the information provided by the committees, the CEO and the legal entity that provides external audit services, as well as accounting, internal control and internal audit, registration, file or information systems, of the former and the latter, which may be done through the audit committee.

VI. Approve information and communication policies with the shareholders and the market, and with the Board Members and Relevant Senior Officers, in order to comply with the provisions of the Law to Regulate Financial Groups.

VII. Determine the corresponding actions in order to remedy the known irregularities and implement the corresponding corrective measures.

VIII. Establish the terms and conditions to which the CEO shall be subject in exercise of his authorities for acts of ownership.

IX. Direct the CEO to publicly disclose the relevant events known to him. The foregoing, without prejudice of the obligation of the CEO referred to in Article 44, section V, of the Securities Market Law.

X. Represent the Company before all kinds of individuals and legal entities and before administrative, judicial or other authorities, whether municipal, state or federal, and before local or federal labor authorities, before the different Ministries of the State, the Tax Court of the Federation, the Mexican Social Security Institute, regional offices and other agencies of such Institute and before arbiters or arbitrators, with a general power-of-attorney for lawsuits and collections; therefore, the fullest general authorities referred to in Article 2554 of the Civil Code for the Federal District are deemed to be granted, and with the special authorities that require an express reference according to sections I, II, III, IV, V, VI, VII and VIII of Article 2587 of such civil code; therefore, without limitation, it may:

a) Settle and submit to arbitrators;

b) File and withdraw from all kinds of lawsuits and remedies;
c) File “amparo” proceedings and withdraw therefrom;
d) File and ratify criminal claims and complaints and meet the requirements of the latter and withdraw therefrom;
e) Become an assistant of the Federal or Local Public Prosecutor;
f) Grant pardon in criminal proceedings;
g) File or answer interrogatories in all kinds of lawsuits, including labor lawsuits, provided, however, that the authority to answer them may only be exercised through the individuals designated to such effect by the Board of Directors, upon the terms of section X of this Article; therefore, any other officers or attorneys-in-fact of the Company are absolutely excluded from the enjoyment thereof; and
h) Obtain allocations of assets, assign assets, file auction positions, challenge, and receive payments.

XI. Appear before all kinds of labor authorities, whether administrative or jurisdictional, local or federal; act within the corresponding procedural or non-procedural proceedings from the stage of conciliation to the stage of labor execution; and execute all kinds of agreements, upon the terms of Articles 11, 787 and 876 of the Federal Labor Law;

XII. Manage the business and corporate assets with the fullest general power-of-attorney of administration, upon the terms of Article 2554 of the Federal Civil Code;

XIII. Issue, subscribe, grant, accept or endorse credit instruments upon the terms of Article 9 of the General Law of Credit Instruments and Operations;

XIV. Open and cancel banking accounts in the name of the Company, and to make deposits and draw against them and designate persons to draw against them;

XV. Exercise acts of disposal and ownership with respect to the assets of the Company or their real or personal rights, upon the terms of paragraph three of Article 2554 of such Civil Code, with the special authorities provided by sections I, II and V of Article 2554 thereof;

XVI. Grant general or special powers-of-attorney, reserving at all times the exercise thereof, and to revoke the powers-of-attorney it may grant;

XVII. Establish rules on the structure, organization, makeup, functions and authorities of the Executive Commission of the Board of Directors, the Regional Boards, the Internal Committees and labor commissions that may be deemed necessary; designate their members and establish their compensations;

XVIII. Prepare its internal labor regulations;

XIX. Grant the powers-of-attorney it may deem appropriate to the officers of the Company or any other individuals, and revoke those which are granted and, pursuant to the provisions of the applicable laws, delegate their authorities to the CEO or any of them to one or several of the Board Members or the Attorneys-in-Fact designated to such effect, to be exercised in the business and upon the terms and conditions stated by the Board of Directors;

XX. Delegate, in favor of the individuals it may deem appropriate, the legal representation of the Company, grant them the use of the corporate signature and grant them a general power-of-attorney for lawsuits and collections, with the fullest general authorities referred to in the first paragraph of Article 2554 of the Federal Civil Code and the special authorities that require an express reference pursuant to sections III, IV, VI, VII and VIII of Article 2587 thereof, so that, without limitation, they may:

a) Appear as legal representatives of the Company in any administrative, labor, judicial or other proceedings or processes and, in such capacity, take all kinds of actions and, specifically, file or answer interrogatories in the name of the Company, appear, in the conciliatory term, before boards of conciliation and arbitration; participate in the respective formalities; and execute all kinds of agreements with employees;

b) Carry out all the legal acts referred to in section I of this Article;

c) Substitute the powers and authorities in question, without affecting their own, and grant and revoke powers-of-attorney;

XXI. Resolve on the acquisition, lien or transfer of shares owned by the Company, issued by other companies.

XXII. In general, it shall have all the authorities necessary to perform the management entrusted to it and, consequently, may perform all operations and legal and material acts which are directly or indirectly related to the corporate purpose defined in Article Three of these Corporate Bylaws and the supplementary activities listed in Article Four thereof, without limitation. The references made in this Article to the Articles of the Federal Civil Code are deemed to be made to the correlative Articles of the Civil Codes for the states and the Civil Code for the Federal District, according to the territory where the power-of-attorney is exercised, and all the others set forth in the Securities Market Law and the Law to Regulate Financial Groups.

The Board of Directors shall oversee the performance of the resolutions of Shareholders Meetings, which must be done through the committee that exercises the auditing authorities referred to in the Securities Market Law.

Shareholders 2014

According to the shareholder listings prepared for the Ordinary General Shareholders' Meeting held on January 21, 2015, Board Members and the main officials in the Company do not hold a participation over 1%.

According to the shareholder listings prepared for the Ordinary General Shareholders' Meeting held on January 21, 2015, the names of the 10 main shareholders of GFNorte are:

Ssb om01 Client Omnibus A
Banco Invex, S.A. Trust 1204
JPM Oppenheimer Lending ACC
JPM Chase Bank Treaty A/C
State Street Bank West Client
Cbhk-Ixora Inv Pte. Ltd
Mellon Treaty Omnibus
Alicia Rebeca Montemayor Garcia
Gic Private Limited - C
The Bank of New York Global Custo

The following Support Committees for the Board of Directors and the CEO are updated as of December 31, 2014:

Support committees for GFNorte's Board of Directors

The established support Committees for the Board of Directors of GFNorte are the:

1. Risk Policies Committee (CPR)
2. Audit and Corporate Practices Committee (CAPS)
3. Advisory Board
4. Human Resources Committee
   4.1 Talent Development Committee
5. Regional Boards
6. Designation Committee

Which are made up of GFNorte's Board Members or Independent Members and, in some of them, officials of the institution. The Board is responsible for authorizing Committees' bylaws and evaluating management annually.

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	
Juan Carlos Braniff Hierro (Chairman)	Proprietary Independent Member
Alfredo Elias Ayub	Proprietary Independent Member
Everardo Elizondo Almaguer	Proprietary Independent Member
Hector Reyes- Retana y Dahl	Proprietary Independent Member
Eduardo Livas Cantu	Alternate Independent Member
Manuel Aznar Nicolin	Alternate Independent Member
Jose Marcos Ramirez Miguel	CEO - GFNorte and Casa de Bolsa Banorte Ixe
Manuel Antonio Romo Villafuerte (Banorte-Ixe Tarjetas)	MD Product*
Fernando Solis Soberon (Long Term Savings)	MD Long Term Savings
Gerardo Zamora Nañez (Leasing & Factoring)	MD Leasing & Factoring, and Warehouse*
---------------	MD Wholesale Banking*
Luis Fernando Orozco Mancera (Solida Administradora de Portafolios)	Chief Credit Officer*
David Aaron Margolin Schabes (Secretary)	MD Risk Management
Federico Santos Cernuda (Invited)	MD Legal
Carlos Eduardo Martinez Gonzalez (Invited)	MD Retail Banking
Jose Armando Rodal Espinosa (Invited)	MD Middle-market and Corporate
Rafael Arana de la Garza (Invited)	COO
Isaias Velazquez Gonzalez (Invited)	MD Internal Audit**

*With voice and vote only in the topics related to the entity they represent.
**His presence is invariable required, unless a force majeure case is presented.

Quorum: Two Proprietary Board Members, CEO of the corresponding entity and the Committee's Secretary.

Decisions will be adopted by the unanimous vote of those present.

AUDIT AND CORPORATE PRACTICES COMMITTEE (CAPS)

Objective: To support the Board of Directors in monitoring the management, performance and execution of the GFNorte's businesses and of the financial entities comprising it, considering the relevance that these have in the financial, administrative, operational, and legal situation of GFNorte.

Faculties:

The Committee as the support government body to the Board of Directors, will have the faculty to comply with duties and perform the functions defined in the following operating rules:

1. Request the opinion of independent experts in such cases where it is judged to be convenient, for the appropriate performance of their functions.
2. Have full availability of book, registers, facilities and the support of the employees' entities under its responsibility.
3. Require relevant officers and other employees of GFNorte and the financial entities comprising it, regarding the elaboration of financial and of any other type of information that it considers necessary for the execution of their duties.
4. Do research on the possible non-fulfillment of those with knowledge regarding operational policies and guidelines, the Internal Control System, internal audit and accounting registration system, either of GFNorte or the financial entities, through an examination of documentation, registrations and other proof or evidence, to the extent necessary to fulfill this supervision.
5. Receive observations expressed by shareholders, Board Members, relevant officers, employees and, by any third party in general, regarding matters referred to in the previous paragraph, as well as to carry out actions that are reasonable in their opinion in connection with such observations.
6. Request periodic meetings with the relevant officers, as well as the delivery of any type of information related to the internal control and internal audit of the Group or the financial entities that comprise it.
7. Meet with the Board of Director, relevant GFNorte's officers, internal comptroller, Internal and external auditor, authorities and investors.

The Committee, in the development of its activities, shall establish the necessary procedures for the general performance of its duties. In any case, Committee members shall take as a basis for their activities, information prepared by the Internal Comptroller, Internal and External Auditors as well as by the Management.

Integration:

a. The Committee will be comprised exclusively of independent members, with a minimum of three members appointed at the proposal of the Chairman of this body.
b. If the minimum of the required members for this Committee is not fulfilled, and the Board of Directors had not appointed alternate members, any Shareholder may request the Chairman of the Committee to call after three days the Shareholders' Meeting in order to make the corresponding appointment.

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
Manuel Alfonso Alvarez Lugo	Secretary	Not Member

Quorum: Sessions of the CAPS are valid with a majority participation of its members, provided that the Chairman is present or whoever has been designated as his alternate.

Voting:

A. Members of the committee will have voice and vote.
B. Agreements must be achieved by majority of votes, in case of a tie, the Chairman will have the deciding vote.

The Committee, in the development of its activities, must perform at least the following activities in each of the entities it oversees.

Internal Control System

A. Monitor the establishment of mechanisms and internal controls that enable verification that acts by GFNorte and its financial entities adhere to applicable regulations, as well as implement methodologies that make it possible to check compliance with the foregoing. (LRAF Article 57 Section II Subsection p).
B. Report the situation of the Internal Control System to the Board of Directors of GFNorte and the financial institutions it is accountable for or legal entities in which it exercises control, including irregularities detected, if the case. (LRAF Article 57 Section II Subsection d).

Accounting and Financial Information

A. Discuss and revise GFNorte's financial statements with the persons responsible for its preparation, and based on that, to recommend or not the Board's approval. (LRAF Article 57 Section II Subsection c).
B. Review significant accounting and reporting issues, including complex or unusual transactions as well as professional declarations and recent regulations, and understand its impact on the financial statements.
C. Review the verdict of the annual financial statements with Management and with the Internal and External Auditors, prior to submission to regulatory authorities.
D. Select and approve the hiring of the independent expert who will perform impairment testing of goodwill.
E. Review the results of the goodwill impairment test.

Internal Comptrollership

A. Follow-up on the Internal Comptroller's activities, keeping the Board informed of its performance. (CUB Article 144)
B. Review the report of management that the person responsible for the Internal Comptroller's functions shall deliver to the Committee and the CEO at least twice a year. (CUB Article 167)
C. Review the reports presented by the Internal Comptroller on the results of the inspection visits carried out by supervising agencies.

Internal Audit

A. Follow-up on the Internal Auditor's activities, keeping the Board informed of its performance. (CUB Article 144)
B. Monitor the independence of the Internal Audit area about the other business and administrative units. Any lack of independence must be reported to the Board. (CUB Article 156 Section IV)
C. Inform the Board of Internal Audit's situation in GFNorte, its financial or legal entities or corporations in which it exercises control, including any detected irregularities, if the case. (LRAF Article 57 Section II Subsection d)
D. Approve the Bylaws of Internal Audit's function.
E. With the prior opinion of the CEO, to approve the annual work program of the Internal Audit area. (CUB Article 156 Section VIII)

If the case, amendments to the referred annual program should be presented for the approval of the Committee, in the next session.

A. Review, based on reports from the Internal Audit area and the External Auditor, at least once a year or when required by the CNBV, that the Internal Audit program is carried out in accordance with appropriate quality standards in accounting matters and internal controls, and that the activities of the Internal Audit area are carried out effectively. (CUB Article 156 Section III).
B. Review the report prepared by the head of Internal Audit functions on the results of its management, at least every six months or as frequently as the Committee requires. The foregoing, notwithstanding that the head of Internal audit functions learns of, immediately, the detection of any deficiency or deviation identified in the exercise of their functions and that according to the Internal Control System is considered significant or relevant. (CUB article 161).
C. Approve the hiring of service providers for the external evaluation of the quality of Internal Audit's performance.
D. Review the results of internal and external quality assessments carried out for Internal Audit's functions and where appropriate, to follow-up on the implementation of certain recommendations.
E. Review, at least annually, the organization's structure, capabilities and the adequacy of resources allocated to the Internal Audit area for the performance of its functions and, where appropriate, approve actions required in order to ensure the greatest effectiveness in the fulfillment of its objectives and goals.
F. Meet regularly with the Internal Auditor, without the presence of management for comments and observations on the progress of its work. (CMPC Practice 23, Section IV).

External Audit

A. Follow-up on External Audit activities, keeping the Board informed of its performance. (CUB Article 144).
B. Monitor the independence of the External Auditors obtaining their statements in this regard and evaluating the nature of the additional services provided.
C. Review the External Auditor's report on elements to be considered to define the scope of their audit and develop a work plan.
D. Review External Audit's detailed work plan, including the hours assigned to each job and its cost.
E. Evaluate the performance of the legal entity providing GFNorte's external audit services, as well as analyze the verdict, opinions or reports drawn up and signed the External Auditor. For this purpose, the Committee may require the presence of the External Auditor when deemed appropriate and without prejudice must reunite with the Committee at least once a year. (LRAF Article 57 Section II Subsection b).
F. Meet periodically with the External Auditor, without the presence of management, for comments and observations on the progress of its work. (CMPC Practice 23 Section IV).

Agreements between the Shareholders' Assembly and the Board of Directors

A. Monitor that the CEO fulfills the agreements made between the Shareholders' Meetings and the Board of Directors of GFNorte, according to the instructions which, if the case, are dictated by the Meeting or the Board. (LRAF Article 57 Section II Subsection o).

Authorizations from the Board of Directors and Shareholder rights

A. Monitor that the Board approve the topics that correspond to it and respects the shareholders' rights in accordance that established in the LRAF, as well as policies derived from them to. (LRAF Article 57 Section II Subsection g, in relation to Articles 39 Section III and 65).

The other regulations established by the LRAF or in GFNorte's Bylaws, in accordance with the functions assigned by the LRAF.

COMMUNICATION

Provide opinions for approval by the Board of Directors

Give the Board an opinion to approve on the following issues:

In the area of Corporate Practices:

A. Policies and guidelines for the use of assets that make up GFNorte's patrimony, as well as financial institutions and other legal entities that exercise control, through related people.
B. Acts, each individually, with Related People, proposed to celebrate with GFNorte.
C. Policies for the granting of joint loans, loans or any type of credit or guarantee to Related People.
D. Acts that are executed, either simultaneously or successively, which by their nature may be considered as one and that are intended to be carried out by GFNorte or financial institutions comprising it, in the span of one fiscal year, when they are unusual or non-recurring, or when their amount fits into any of the cases referred to by the LRAF.
E. The appointment and, if the case, dismissal of GFNorte's CEO and this comprehensive remuneration, as well as policies for the designation and comprehensive remuneration of other relevant managers.
F. Any waivers so that a Board member, relevant officer or person with authority may take advantage of business opportunities for, or on behalf of third parties, corresponding to GFNorte or the financial entities that comprise it.

In the area of Audit:

A. Guidelines in the areas of Internal Control and Internal Audit for GFNorte and the financial institutions under its responsibility.
B. GFNorte's accounting policies, adjusted to the LRAF
C. GFNorte's financial statements.
D. Hiring the corporation that will provide the external audit services and, if the case, supplementary or complementary services to the external audit services.

When the Board of Directors' decisions are not consistent with the Committee's views, the CEO shall be instructed to disclose such circumstances to the General Shareholders' Meeting that takes place after this Act, as well as the CNBV, within ten working days of the corresponding determination.

Report to the Board of Directors

A. The Chairman of the Committee should draw up an annual report on the activities that correspond to such organ and submit it to the Board of Directors. The report, should at least consider the following aspects:

In the area of corporate practices

a. Observations regarding the performance of relevant managers.
b. Acts with Related Persons, during the period reported, detailing the more significant characteristics.
c. Emolument or comprehensive remuneration packages for the CEO and relevant executives.
d. Any exemptions granted by the Board so that a Board Member, relevant Director or person with authority, can take advantage of business opportunities for himself or on behalf of third parties, that correspond to GFNorte or to financial institutions under its responsibility.
e. Observations made by commissioned supervisors of the financial institutions of the financial group, or the CNBV for GFNorte, as a result of supervision of the same.

In the area of audit:

a. The state of the Internal Control and Internal Audit systems of GFNorte, of financial institutions or companies in which it exercises control and, where appropriate, the description of its deficiencies and deviations, as well as aspects requiring improvement, taking into account the opinions, reports, press releases and the opinion of the External Auditor as well as reports issued by independent experts who rendered services during the period the report covers.
b. The mention and follow-up of implemented preventive and corrective measures based on the results of investigations related to non-compliance with guidelines and operational policies and accounting records, of either GFNorte or financial entities that it is responsible for.
c. Evaluation of the performance of the legal entity providing external audit services and the External Auditor responsible for this.
d. The description and assessment of additional or complementary services provided, and if the case, the legal entity responsible for performing the external audit, as well as those provided by independent experts.
e. The main results of revisions to financial statements of GFNorte and the financial institutions under its responsibility.
f. The description and effects of modifications to approved accounting policies during the period that the report covers.
g. Measures adopted for relevant observations made by shareholders, Board Members, relevant managers, employees and, in general, any third party, with respect to accounting, internal controls and issues related to internal or external audit or, issues arising from allegations based on facts considered to be irregular in the administration.
h. The follow-up on agreements of the Shareholders' Meeting and the Board of Directors' meetings.

B. To form an opinion of the CEO's report on the business' progress and submit it for consideration to the Board of Directors for subsequent submission to the Shareholders' Meeting, relying on, among other things, the External Auditor's opinion.
C. To support the Board f Directors in the preparation of the report on major accounting policies and criteria and information following the preparation of financial information.

D. To support the Board of Directors in the preparation of the report on intervened operations and activities in accordance with the LRAF.

To prepare the report, as well as opinions, the Committee should hear from relevant managers; in the case of any difference of opinion with the latter, such differences should be incorporated into the aforementioned reports and opinions.

E. Inform the Board of important irregularities detected in the exercise of functions and, where appropriate, the corrective actions taken or proposals for action to be implemented.
F. A progress report in the review of the financial statements' External Auditor, as well as the result of the reviewed verdict of the annual financial statements.

OTHER AUDIT COMMITTEES

Audit Committee for Banco Mercantil del Norte (Banorte)

Objective:

This committee is a government body constituted by Board of Directors to support it in the definition and update of the Internal Control System's (ICS) objectives and the guidelines for their implementation; as well as in its evaluation.

The Committee will also supervise that financial information and accounting are prepared in accordance with the guidelines, dispositions and applicable accounting principles, and will follow on the external and internal audit activities and internal comptrollership, informing the Board regarding the development of the aforementioned.

Faculties:

The Committee as the support government body to the Board of Directors, will have the faculty to comply with duties and perform the functions defined in the following operating rules:

A. Request the opinion of independent experts in such cases where it is judged to be convenient, for the appropriate performance of their functions.
B. Have full availability of book, registers, facilities and the support of the employees' entities under its responsibility.
C. Require involved officers of the financial entities under its responsibility, regarding the elaboration of financial and of any other type of information that it considers necessary for the execution of their duties.
D. Meet with the Board of Director, relevant GFNorte's officers, internal comptroller, Internal and external auditor, authorities and investors

The Committee, in the development of its activities, shall establish the necessary procedures for the general performance of its duties. In any case, Committee members shall take as a basis for their activities, information prepared by the Internal Comptroller, Internal and External Auditors as well as by the Management.

Integration:

A. The Committee is comprised of at least three and not more than five members of the Board of Directors, that may be proprietary or alternate, of which at least one should be independent.

MEMBERS		
Hector 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
Manuel Alfonso Alvarez Lugo	Secretary	Not Member

Frequency of sessions: The Audit Committee should hold at least a quarterly session, according to the annual work plan and approved schedule for sessions in stablished date, place and time in the understanding that these sessions may be held electronically, through videoconference or telephone.

Quorum: Sessions of the Audit Committee are valid with the participation of a majority of their members, only if the Chairman or his Alternates intervene.

Voting:

B. Members of the committe will have voice and vote.
C. Agreements must be achieved by majority of votes, in case of a tie, the Chairman will have the deciding vote.

1. Internal Control System

A. Hold a permanent and updated register of the ICS objectives, guidelines for implementation as well as manuals considered relevant for the operation, which shall be elaborated by the responsible for the Internal Control functions.
B. Review and oversee whith the support of the responsible for the Internal Control functions, that such relevant manuals comply with the ICS.
C. Review together with the Management the relevant manuals previously refered to, as well as the Code of Conduct, at least once a year or when significant changes in the operation occur.
D. Review along internal and external audit the implementation of the ICS, assessing its efficiency and effectiveness.
E. Review the report the CEO shall present at least annually to the Board of Directors and the Committee regarding the performance of his activities for the duly implementations of the ICS, as well as its operation.
F. Review the report that Internal Audit shall prepare regarding the follow-up on detected deficiencies or relevant deviation, so they can be timely restored.

2. Accounting and Financial Information

A. Assist the Board of Directors in the revision of the annual and intermediate financial information and in the release process, relying on the Internal and External Auditors' work.
B. Oversee that the financial and accounting information is formulated in accordance with the applicable guidelines and dispositions, as well as with applicable accounting principles.
C. Review significant accounting and reporting issues, including complex or unusual transactions, as well as professional opinions and recent regulations, and to understand their impact in the financial statements.
D. Review with Management and the Internal and External Auditors, the opinion of the annual financial statements, before their presentation to regulatory authorities.
E. Review with Management and the Internal and External Auditors, the opinion of the internal accounting control, which shall be released every two years, before their presentation to regulatory authorities.

F. Select and approve the hiring of the independent expert who will perform impairment testing of goodwill.
G. Review the results of the goodwill impairment test.
H. Prepare the internal policies aiming to stablish guidelines and procedures related to the management and, if the case, destruction of the books, registers documents and other information related to accounting, that have been or will be object of microfilm or recording.

3. Internal Comptroller

A. Follow-up on the Internal Comptroller's activities, keeping the Board informed of its performance.
B. Review the report of management that the person responsible for the Internal Comptroller's functions shall deliver to the Committee and the CEO at least twice a year.
C. Review the reports presented by the Internal Comptroller on the results of the inspection visits carried out by supervising agencies.

4. Sales Practices

A. Approve the appointment of the responsible person for oversee the compliance of applicable provisions on advised investment services, who shall comply with the requirements and functions stablished in the general provisions on investment services issued by SHCP.
B. Review the report that the responsible for overseing the compliance of applicable provisions on advised investment services, which will contain the main findings, and shall be presented to the Board through this Committee, as well as to the Commission at least twice a year.

5. Internal Audit

A. Follow-up on the Internal Auditor's activities, keeping the Board informed of its performance.
B. Monitor the independence of the Internal Audit area with regards to the other business and administrative units. Any lack of independence must be reported to the Board.
C. Approve the Bylaws of Internal Audit's function as well as the applicable methodology and policies to review the quality of internal control of main operations, called Models of Risk Evaluation (MER).
D. With the prior opinion of the CEO, to approve the annual work program of the Internal Audit area.

   If the case, amendments to the referd annual program should be presented for the approval of the Committee, in the next session.

E. Review, based on reports from the Internal Audit area and the External Auditor, at least once a year or when required by the CNBV, that the Internal Audit program is carried out in accordance with appropriate quality standards in accounting matters and internal controls, and that the activities of the Internal Audit area are carried out effectively.
F. Review the report prepared by the head of Internal Audit functions on the results of its management, at least every six months or as frequently as the Committee requires. The foregoing, notwithstanding that the head of Internal audit functions learns of, immediately, the detection of any deficiency or deviation identified in the exercise of their functions and that according to the Internal Control System is considered significant or relevant.
G. Approve the hiring of service providers for the external evaluation of the quality of Internal Audit's performance.
H. Review the results of internal and external quality assessments carried out for Internal Audit's functions and where appropriate, to follow-up on the implementation of certain recommendations.

I. Review, at least annually, the organization's structure, capabilities and the adequacy of resources allocated to the Internal Audit area for the performance of its functions and, where appropriate, approve actions required in order to ensure the greatest effectiveness in the fulfillment of its objectives and goals.
J. Meet regularly with the Internal Auditor, without the presence of management for comments and observations on the progress of its work.

6. External Audit

A. Follow-up on External Audit activities, keeping the Board informed of its performance.
B. Monitor the independence of the External Auditors obtaining their statements in this regard and evaluating the nature of the additional services provided.
C. Review the External Auditor's report on elements to be considered to define the scope of their audit and develop a work plan.
D. Review External Audit's detailed work plan, including the hours assigned to each job and its cost.
E. Evaluate the performance of the External Auditor and the quality of his opinion and reports prepared in compliance with the applicable general provisions, including comments made by the CNBV, and inform the Board of Directors of the results.
F. Meet periodically with the External Auditor, without the presence of management, for comments and observations on the progress of its work.

7. Credit

A. Review the CEO's report which shall be prepared at least quarterly to the Board, the Risk Committee and the Audit committee regarding the detected deviations of the objectives guidelines, policies, procedures, strategies and current provisions on credit.
B. Review the report internal audit of credit prepare shall prepare at leas once a year and which will be presented to the Board, the Rsik Committe and the Audit Committe, regarding its findings.
C. Approve the anual loan review and the simple of clients to be included in each entities' review.
D. Check the results report on the loan review.

8. Comprehensive Risk Management

A. Review the Internal Audit report with the results of the audit on the Comprehensive Risk Management, which be carried out at leas once a year or at the end of the fiscal year. This report shall be presented to the Board, the Risk Committee and the CEO and be submitted to the CNBV.
B. Select and approve the hiring of the suppliers of technical assessment on Comprehensive Risk Management matters, according to internal policies for suppliers hiring.
C. Review the report of the technical assessment on Comprehensive Risk Management matters, which will be carried out at least every two fiscal years and shall be presented for approval to the Risk Committee and the Board, and be submitted to the CNBV:

9. Derivatives

A. Release a document in which the Committee expresses that it complies with the requirements set forth in the rules to carry out derivative transactions issued by Banco de Mexico, as a necessary element to manage the authorization to hold proprietary derivative transactions.
B. Select and approve the hiring of the independent expert to valid valuation and risk measurement models according to internal policies for suppliers hiring.
C. Review the results of the valuation and risk measurement models approval, which shall be made at least once a year by independent experts.

10. Comission agents

A. Approve the hiring of commission agents to carry out an operative process or data base management that may be executed partially or totally abroad or by foreign residents.
B. Review the performance report of commission agents to be delivered to the Board, the Audit Committee or CEO, as well as the compliance of provisions related to such service.
C. Review the result of the audits carried out every two years to verify the compliance with Chapter XI of the hiring of commission agents if the CUB, as well as what is set forth in Annexes 52 and 58 accordingly. .

11. Money Laundering and Financing of Terrorism

A. Approve, by proposal of the Communication and Control Committee, the policies and procedures Manual to prevent money laundering and financing of terrorism, as well as any amendment to this document.
B. Review the result of the work of Internal Audit or independent external auditors of assessing and ruling annually the compliance of Provisions set forth in articles 115 of the LIC and 87-D and 95-Bis of the LGOAAC. This revision shall be presented to the CEO and Communication and Control Committee, and be submitted to the CNBV.

12. Online Banking

A. Review the reports of incidents of Online Banking, which shall be presented to the Audit and Risks Committees in the immediate following session of the event involved, in order to adopt measures to prevent and avoid these incidents again.
B. Review the reports to be presented to the Audit and Risks Committee, each time these meet; therefore correlating to information from clients' claims with fraud event.

13. Autocorrection program

A. Provide an opinion on the autocorrection progams to be submitted for authorization of the CNBV, CONDUSEF, or IPAB, when the institution, in the development of its activities, or the Audit Committee, as a result of its functions, setect irregularities or non compliance of what is set forht in the LIC and other applicable regulations.
B. Autocorrection programs shall be signed off by the Chairman of the Committee and be presented to the Board in the immediate following session of the request for authorization presented before CNBV, CONDUSEF or IPAB, accordingly.
C. Follow up on the implementation of the authorized autocorrection programs and inform the advance, to the Board, CEO, CNBV, CONDUSEF or IPAB, accordingly.

Other duties and responsibilities necessary for the performance of its functions.

COMMUNICATION

1. Propose for the Board of Directors approval:

A. The ICS that the institution requires for its proper functioning and updates.
B. The objectives and guidelines for their implementation of the Internal Control System (ICS), which shall refer at least two:

1. General policies refered to organizational structure.
2. Comunication and flow information channels among different units and areas.
3. General operation policies.
4. Business Continuity Plan
5. Control measures for transactions to be properly approved, processed and registered.

C. The Code of Conduct, prepared by the Management.
D. Changes to accounting policies related to the registration, rating of items in the financial statements and presentation and disclosure of information, so that it is complete, correct, precise, reliable, timely and serves in decision making prepared by the CEO according to applicable provisions. In any event, the Committee will also be able to propose changes that it considers necessary to these policies, considering the opinion of the CEO.
E. Internal Audit appointment.
F. External Audit appointment.
G. Adittional services related to audited financial statements provided by the external auditor.
H. Business Continuity Plan as well as its amendments.
I. Regulation that will determine the proper functioning of this Committee, which will subsecuently be send to the CNBV for its information.

All the matters to be approved by the Board contained in chapter VI of the Internal Control of the CUB, will be presented by the Committee by such effect.

2. Report to the Board of Directors

A. Evaluate on an annual basis, the condition of the Internal Control System and inform the Board of Directors of the results. The report shall contain at least the following:

1. Deficiencies, deviations or issues of the ICS that, if the case, require enhancement considering for such effect, reports of the Risk Management department, as well as ARSI.
2. The mention and follow-up of implemented preventive and corrective measures based on the comments of the CNBV and the results of the internal and external audit, as well as the assessment of the ICS carried out by the committee.
3. Evaluation of the performance of the Internal Comprollership and Internal Audit functions.
4. Evaluate the performance of the External Auditor and the quality of his opinion and reports prepared in compliance with the applicable general provisions, including comments made by the CNBV.
5. Significant matters of the ISC that may affect the performance of the Institution's activities.
6. Results of the opinion, reports and communication of the External Auditor.
7. Assessment of the scope and effectiveness of the Business Continuity Plan, its disclosure among the corresponding areas and identification, if the case, of the necessary adjustments for its update and strengthening.

The Committee, when preparing its report, will hear the CEO, the Internal Auditor and the responsible for the Internal Comptrollership functions. In case of different opinions with the aforementioned in the ICS, such differences shall be included in the report.

B. Report the Board of the significant irregularities detected when carring out its functions, and if the case, of the adopted corrective measures or propose those that shall be applied.
C. Report the External Auditor progress on the Audited financial statements progress as well as the result of the opinion of the annual financial statements.

D. Review the report that the responsible for overseing the compliance of applicable provisions on advised investment services, which will contain the main findings, and shall be presented to Commission at least twice a year.
E. Report the Board at least once a year on the consistency of the Compensation System application. The report shall contain at least the following:

1. An evaluation of the compliance to the policies and procedures of compensation, and if the case, provide fundamented reason for any exception.
2. Adjustments to the Compensation System as a result of losses when these had not been forseen by this System.
3. Significant matters of the Compensation system that may affect bank's liquidity, solvency and stability.
4. Review the reports that the CEO, Internal Comproller, Internal and External Auditor will present to the Board on matters related to the committee.

Audit Committee for Casa de Bolsa Banorte Ixe

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
--------------------------	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:

The Committee is the body, of an advisory nature, responsible for monitoring the adherence of companies in the Long Term Savings Sector (companies) to internal norms defined by the Board, as well as compliance with applicable legal and administrative provisions.

The Committee will also oversee that the financial and accounting information is formulated in accordance with the applicable guidelines, provisions and accounting principles and will monitor the activities of Internal and External Audit and the Internal Comptrollership, keeping the Board of Directors informed of the performance of the same.

Faculties:

The Committee, as a supporting governance entity for the Board of Directors, will have sufficient authorization to carry out the duties and functions that the present rules of operation define, among which stand out:

A. Request the opinion of independent experts for cases it considers convenient, for the proper performance of its functions.

B. Have unrestricted access to books, records, facilities and support of personnel in institutions under its responsibility.

C. Require from involved officials of companies under its responsibility, reports relating to the preparation of financial information or any other type of report that it considers necessary to perform its duties.

D. Meet with the Board of Directors, senior officers of these companies, Internal Comptroller, Internal Auditor, External Auditor, authorities and investors.

The Committee, in the development of its activities, shall establish the procedures necessary for the general performance of its duties. In any case, Committee members shall take information prepared by the Internal Comptroller, Internal and External Auditors, Independent Actuary and Management as a basis for its activities.

Integration

A. The Committee will be comprised of at least three and not more than five Board members, who may be proprietary members or alternates, of which at least one must be an independent.

B. Proprietary members or alternates who are Committee members may be substituted by any other member, observing regulations of Article 72, Sections III and IV of the law.

MEMBERS		
Hector Reyes-Retana y Dahl	Independent Board Member	Chairman
Manuel Aznar Nicolin	Independent Board Member	Member
Patricia Armendariz Guerra	Independent Board Member	Member
Julio Cesar Mendez Rubio	Independent Board Member	Member
Manuel Alfonso Álvarez Lugo	Secretary Non-Member	

Quorum: Committee sessions are valid with a majority participation of its members, provided that the Chairman or his alternate is present.

Voting:

A. Committee members have a voice and vote.

B. Agreements must be obtained by a majority of votes, with the Chairman casting the deciding vote in the case of a tie.

The Committee, in the performance of its duties shall, at least, perform the following activities for each of the companies under its responsibility:

1. Corporate Governance System

A. Follow-up on companies' compliance with corporate governance policies and guidelines adopted by the Board.

1.1. Comprehensive Risk Management

A. To monitor companies' adherence to internal regulations defined by the Board, as well as compliance with applicable laws, regulations and administrative provisions, related to the comprehensive risk management system.

B. Review Internal Audit's reports with the results of audits carried out to verify procedures which the Risk Management area uses to follow-up on compliance with limits, objectives, policies and procedures relating to comprehensive risk management, in accordance with applicable legal, regulatory or administrative regulations, as well as with policies established by the Board in that area.

1.2. Internal Control

A. Review the reports of the Internal Comptroller's System operation and of its results that the CEO shall submit to the Committee at least every six months.

B. Review, with support from Internal Audit and the independent external auditor, the application of the Internal Comptroller's System, evaluating its efficiency and effectiveness.

C. Follow-up on the Internal Comptroller's activities for the companies, keeping the Board informed of its performance.

D. Review the management report that the head of Internal Comptroller must submit to the Committee and the CEO at least twice a year.

E. Review the code of conduct at least once a year and propose necessary modifications to the Board of Directors, if the case.

F. To establish monitoring mechanisms for the companies' areas that, by its operational characteristics or its relationship with the public or third parties, may be prone to corruption; and to propose the necessary control measures.

G. To review the Internal Audit report on the follow-up of detected relevant deficiencies or deviations in connection with the operation of the companies, so that they be remedied promptly.

H. To review the reports submitted by the Internal Comptroller on the results of the inspection visits carried out by supervising agencies.

1.3. Internal Audit's Duties

A. Follow-up on the Internal Auditor's activities, keeping the Board informed of its performance.
B. Monitor the independence of the Internal Audit area with respect to other business and administrative units. Any lack of independence, must be reported to the Board.
C. Approve the By-Laws and Internal Audit Manual, and methodologies used for the development of its activities, as well as updated versions.
D. With the prior opinion of the CEO, to approve the annual work program of the Internal Audit area.

For this purpose, Internal Audit must present its work program for the following year in the last two months of every year. The work program shall ensure that the companies' activities are audited within a reasonable period of time, considering a risk-oriented approach and adequate period to review the strategic areas.

If the case, amendments to the referred annual program should be presented for the Committee's approval in its next session.

E. Review, based on reports from the Internal Audit area and the independent External Auditor, at least once a year or when required by the CNBV, that the Internal Audit program is carried out in accordance with appropriate quality standards in accounting matters, and that the activities of the Internal Audit area are carried out in adherence to applicable internal and external regulations.

F. Review Internal Audit reports on the results of audits carried out, and the tests or evidence supporting observations and recommendations, and other elements that allow the Committee fulfill its functions.

G. Review the report prepared by the head of the Internal Audit area on the results of its management, at least every six months. The foregoing, notwithstanding that the Internal Auditor immediately informs the Committee, of the detection of any deficiency or deviation identified in the exercise of its functions and that is considered significant or relevant according to the corporate governance system. In addition, a copy of these reports must be submitted to Management and other business areas, as the Committee deems convenient, in view of the nature of the detected problem.

H. Approve the hiring of service providers for the external evaluation of the quality of Internal Audit's performance.

I. Review the results of internal and external quality assessments carried out for Internal Audit's functions and where appropriate, to follow-up on the implementation of established recommendations.

J. Review, at least annually, the organization's structure, capabilities and the adequacy of resources allocated to the Internal Audit area for the performance of its functions and where appropriate, approve actions required in order to ensure the greatest effectiveness in the fulfillment of its objectives and goals.

K. Meet regularly with the Internal Auditor, without the presence of management for comments and observations on the progress of its work.

1.4. Actuarial Duties

A. To monitor that the companies adhere to the internal policy defined by the Board, as well as fulfill applicable legal, regulatory and administrative laws related to the actuarial duties of the companies.

B. To review the Letter of Opinion and the Opinion of Technical Reserves report, which the independent actuary must submit to the Committee within ninety calendar days from the end of the fiscal year.

C. To review the reports that the independent actuary must submit to the Committee and the Commission if in the course of its revision of the situation and adequacy of the technical reserves, irregularities were found that, based on his professional judgment, may endanger the stability, liquidity or solvency of the companies.

1.5. Hiring Third Party Services

A. To monitor the adherence of the companies to internal policy defined by the Board, as well as compliance with applicable legal, regulatory and administrative regulations related to hiring third party services.

B. Review the reports to ensure that policies and procedures for hiring third-party services established by the Management are adhered to, as well as compliance with applicable legal, regulatory and administrative regulations.

C. Review Internal Audit reports on the performance of third-parties hireed to provide services necessary for its operation, as well as their compliance with applicable regulations.

2. Accounting and Financial Information

A. Assist the Board in the review of the annual and intermediate financial information and its issuance process, relying on the work of the Internal and External Auditors.

B. To monitor that financial and accounting information is formulated in accordance with guidelines and provisions, as well as applicable accounting principles.

C. To review significant accounting and reporting issues, including complex or unusual transactions, as well as professional declarations, recent regulations and to understand its impact on financial statements.

D. To assess the financial position and results of the companies in relation to the state of the Internal Control System, and submitting the corresponding recommendations to the Board.

E. To assist the Board of Directors and the CEO in the evaluation of the fulfillment of objectives and goals of the companies.

F. To develop internal policies designed to establish guidelines and procedures relating to the management and, where appropriate, destruction of books, records, documents and other information relating to its accounting, that have been or will be subject to recording or microfilming.

G. To review with management and the Internal Auditor the reports that the independent External Auditor must prepare, sign and submit to the Commission (short report of basic consolidated annual financial statements, long report and reports on supplementary information, and other reports and releases).

3. External Audit

A. To follow-up on External Audit activities, keeping the Board informed of its performance.

B. To monitor the independence of the External Auditors obtaining their statements in this regard and evaluating the nature of additional services provided.

C. To review reports that the independent External Auditor must present to the Committee and the Commission in the practice of its duties or as a result of irregularities found in the audit affecting the liquidity, stability or solvency of the agencies that provide services.

D. To review the report of the External Auditor on elements considered in defining the scope of the audit and developing a work plan.

E. To review External Audit's detailed work plan, including the hours and cost assigned to each job.

F. To evaluate the External Auditor's performance, as well as the quality of his opinion and reports prepared, in compliance with the applicable regulations, including remarks that in this regard by the Commission, and report the results to the Board.

G. To meet periodically with the External Auditor, without the presence of management, for his comments and observations on the progress of his work.

4. Follow-up on the fulfillment of Other Policies and Standards

A. To follow-up on compliance with policies and standards in subscription issues, design of insurance and reinsurance products and other transfer mechanisms for risks and responsibilities, financial reinsurance, marketing, development and financing of the companies' operations.

B. To follow-up on compliance with standards to avoid conflicts of interest between different areas of the companies in the exercise of assigned duties.

C. To follow-up on compliance with policies for investment of the companies' assets.

One member of the Audit Committee must attend Investment Committee meetings, with voice but without vote.

D. To follow-up on the fulfillment of general policies for the provision of services and attention to service users, as well as issues relating to the disclosure of information in which companies comply with the obligations established in Article 308 of the Law, and in Title 24 of the CUSF.

5. Regularization Plans and AutoCorrect Programs

A. To approve auto-correct programs when companies or the Committee, in the exercise of their duties, detect irregularities or non-compliance to the Law and/or other applicable regulations, and submit them for consideration by the Commission through the CEO as well as present them to the Board.

B. Review, if the case, regularization plans to restore coverage of solvency parameters or to remedy irregularities detected by the Commission, which must be presented for the Board's approval, prior to its submission to the Commission for approval.

C. To follow-up on regularization plans and AutoCorrect programs authorized by the Commission, keeping the Board and CEO, as well as the Commission, informed of progress in compliance.

D. To present a report to the Commission on the instrumentation progress of regularization plans and AutoCorrect programs in effect, within the first ten working days following the close of each month, accompanied by documents that, if the case, support the reported progress.

E. Submit a report to the Commission within ten working days from the respective expiration date of the regularization plan or autocorrect program, with respect to the fulfillment of actions contained therein. In cases where irregularities or breaches subject of the regularization plan or auto-correct program were not corrected, the report must state the reasons for this.

6. Transactions using Electronic Means

A. Review the reports which must be presented whenever the Committee sessions, with the results of applying both preventive and corrective procedures, enabling the correlation of information from customers' claims with fraud events.

B. Review the reports about occurrences in the operation of the computing and telecommunications infrastructure, informing the Committee in the session immediately following verification of the event concerned, in order to adopt measures to prevent or avoid reoccurrence of such event.

7. Prudential Measures in Credit Issues

A. Review that the Credit Manual is consistent with the objectives, guidelines and policies for origination and credit management issues approved by the Board.

B. Review the report prepared by the CEO on a quarterly basis at least, for the Board, the Committee and the Risk Management area, on deviations detected with respect to the objectives, guidelines, policies, procedures, strategies and regulations in credit matters.

C. Review the report by the area responsible for Internal Audit's function, at least once a year, in terms of credit matters on observations made in their reviews, to the Board and the Committee.

8. Sales Practices

A. In the case of trusts, in which companies act as fiduciary institutions and that involve operations with the public such as consultancy, advertising, purchase and sale of securities as established in Article 140 Section III of the Law, Receiving and Assignment System manuals, as well as their modifications, shall be authorized by the CEO, based on guidelines and policies established by the Board for this purpose, on the Committee's proposal. Manuals, as well as their amendments shall be submitted for the Commission's prior approval.

B. Review reports by the officer or area responsible for monitoring transactions carried out through the Receiving and Assignment System, as frequently as established by the Committee; the above, without prejudice, to immediately inform the Committee Chairman of the detection of any deficiency or deviation considered significant or relevant in the performance of its duties.

In addition, when so determined by the Committee, the officer or area shall report to the CEO and other units of the companies, including, when appropriate, to the Board.

9. Financial Reinsurance Transactions

A. To follow up, within the scope of its responsibilities, on companies' reinsurance contracts, as well as those that include financial reinsurance operations, permanently evaluating the behavior of the original estimates with respect to the significant transfer of insurance risk, as well as the impact of the Financing component's amortization scheme on the technical and financial operation of the companies.

10. Issuance of Subordinated Obligations and Other Debt Instruments

A. To issue the required opinion for authorization to issue subordinated obligations or other debt instruments, with the favorable vote of the independent Board members, regarding:

a) To prepare financial statement projections of the company, with and without the effects of the issuance of subordinated obligations or other debt instruments.

b) To calculate the impact that the financing amortization scheme planned in the issuance act may have on the company's financial situation.

11. Transactions with Related Parties

A. Review the results of the transfer pricing study to be prepared by an independent third party for the realization of significant transactions with related entities, such study must be submitted to the Committee in the session immediately following the date of its reception, in order to verify compliance with applicable legal, regulatory and administrative regulations as well as policies and procedures adopted by the Board, and take measures deemed pertinent.

When the study carried out by the independent third party determines that prices or the amounts of compensation agreed on significant transactions with related entities, do not correspond to those that had been agreed by parties in comparable acts, the Committee must report this fact to the Commission in a term no longer than five working days, as of the date of the study reception.

12. Prevention of Money Laundering and Financing of Terrorism

A. Study the results of the review by Internal Auditor and independent External Auditor that must be done on an annual basis to evaluate and asses compliance with regulations for the prevention of money laundering and financing of terrorism. Such report must be submitted to the CEO and the Communication and Control Committee to evaluate the effectiveness of implemented measures and to follow-up on applicable corrective-action programs, and which must be presented to the Commission within sixty calendar days following the close of the fiscal year of the corresponding revision.

All other obligations arising from legal, regulatory and administrative regulations applicable to the companies, and which are necessary for the performance of its duties. (CUSF 3.8.4. Section XV)

Communication

1. Propose for approval by the Board of Directors

A. The Internal Comptroller System that the companies require to function properly, as well as its updates. The Internal Comptroller System's objectives and guidelines must relate to the aspects listed in Chapter 3.3 of the CUSF, which shall be drawn up by the CEO and submitted for consideration of the Committee.

B. The code of conduct referred to in Regulation 3.1.3 of the CUSF.

C. The appointment of the Internal Auditor for the companies.

D. The appointment of the External Auditor and any additional services as a result of the ruling of the financial statements that will be required.

E. The appointment of the Independent Actuary who will issue a ruling on the situation and adequacy of the technical reserves that companies must create, and additional services derived from this review.

F. The appointment of the Actuary who will perform the Dynamic Solvency Test for the companies.

G. Where appropriate, the designation of an independent expert to provide an opinion on whether the internal model for the calculation of the Capital Solvency Requirement of the companies complies with applicable legal, regulatory and administrative regulations.

H. The regularization plans referred to in Article 320 of the LISF.

I. Any changes to accounting policy regarding:

   1. The registration and valuation of headings in the financial statements, and

   2. The presentation and disclosure of the companies' information, so that it is correct, sufficient, reliable, consistent and timely.

   In all cases, the Committee may propose such changes when it deems them necessary for the companies.

J. A Business Continuity Plan, as well as its modifications.

K. The rules for Committee's functions.

2. Report to the Board of Directors

A. The Board must be informed at least once a year, on the situation of the companies' corporate governance system. This report must contain, as a minimum, the following:

   1. Any deficiencies, deviations, or aspects of the Comprehensive Risk Management System which, if the case, requires improvement, taking into account for this purpose reports from the Risk Management Area, as well as those from ARSI.

   2. Any deficiencies, deviations or aspects of the Internal Comptroller System, if the case, that require improvement, taking into account for this purpose the reports and rulings from the Internal Audit Area and the independent External Auditor as well as those responsible for Internal Comptroller duties.

   3. The mention and follow-up of implemented preventive and corrective measures derived from the Commission's observations and the results of the Internal and External audits, as well as the evaluation of the Internal Comptroller System carried out by the Committee itself.

4. The performance evaluation for the Internal Comptroller and Internal Audit, including significant aspects in carrying out those functions that could affect the performance of the companies.

5. The performance evaluation for the External Auditor and the Independent Actuary who rule on the situation and the adequacy of technical reserves, as well as the quality of its opinions and prepared reports, including comments from the Commission.

6. The results of the ruling review, reports, opinions and statements from the External Auditor and the independent Actuary who rule on the situation and adequacy of the technical reserves.

7. The deficiencies, deviations or aspects of the companies' actuarial function that, if the case, require improvement

8. The deficiencies, deviations, or aspects of hiring services through third parties that, if the case, require improvement.

The Committee in the elaboration of its report will listen to THE Management, the Internal Auditor and the person responsible for the functions of Internal Comptrollerdhip. In case of a difference in opinion with the latter, with respect to the Internal Control System, such differences should be incorporated into this report.

B. Important irregularities detected with the objective of performing their duties and, if the case, corrective actions taken or proposed.

C. The Board and General Management of the companies must be notified, through the Committee, of the results and recommendations arising from the Internal Audit, to ensure the implementation of appropriate corrective measures.

D. Results of the follow-up of regularization plans and auto correction programs authorized by the Commission.

E. The progress in the External Auditor's review of the audited financial statements.
F. Report on the performance of its activities. Review in advance, reports that the CEO, Internal Comptroller, and Internal and External Auditors submit to the Board on issues falling within the purview of the Committee.

ADVISORY BOARD

Objectives and Faculties: The Advisory Board will only function as a consultative and advisory body to the Chairman of the Board of Directors, 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 or may not be or have been members of the Board of Directors. The members of the Advisory Board should be elected by the Shareholders' Meeting 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' Meeting or the Board of Directors may remove any of these members) and will receive the compensation that the Shareholders' Meeting or the Board of Directors establishes.

MEMBERS	
Guillermo Ortiz Martinez	Chairman
Enrique Castillo Sanchez Mejorada	
Javier Molinar Horcasitas	
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.

Functions:

Assist the Board of Directors in the performance of its duties regarding the Compensation System in the following aspects:

1. Propose for approval of the Board of Directors:

    a. The compensation policies and procedures, consistent with reasonable risk taking, as well as any modifications made to them.

    b. Employees or personnel who hold any position, mandate, commission or any other legal title, which will be subject to the paragraph of Compensation System related to risk taking.

    c. The special cases or circumstances in which someone might exempt the application of approved compensation policies.

2. Implement and maintain the Compensation System related to risk taking, which must consider the differences among the different administrative, control and business units as well as the risks inherent to the activities performed by people subject to the Compensation System related to risk taking. For this purpose, the Committee shall receive and consider the reports of the Unit for Risk Management and any other area that the same Committee deems appropriate, on the implications of risk policies and procedures for compensation.

3. Inform all relevant staff, about policies and procedures of compensation, ensuring at all times the understanding by stakeholders regarding the methods for the determination, integration and delivery of their compensation, applicable risk adjustments, the deferral of extraordinary compensations and any other mechanisms applicable to their remuneration.

4. Prior to the DMD of Human Resources proceeds to deliver the percentage of Deferred Compensation that corresponds to each employee subject to deferral system, the Human Resources Committee shall report the results of the evaluation exercise to:

    a. The CEO: Results of risk analysis of Managing Directors under his charge before being presented to each of them.

    b. The Chairman of the Board: Results of the risk analysis of the CEO.

5. Hiring, when deemed necessary, external consultants on compensation schemes and risk management, who contribute to design compensation schemes, avoiding any conflict of interest.

6. Define and update the guidelines that frame the retention plan (in shares) for executives of the Institution subject to the Compensation System associated with risks, and to interpret, manage, modify and, where appropriate, propose to the Board the termination of the retention plan.

a. Take any necessary action for the effective and timely execution of the retention plan for officers subject to the Compensation System.

b. Report to the Board of Directors, when deemed appropriate on matters relevant to retention plan for officers subject to the Compensation System.

7. Report to the Board of Directors at least semiannually, on the operation of the Compensation System, and any time when exposure to risk assumed by the Institution, administrative, control and business units or people subject to the Compensation System, could result in an adjustment to such Compensation System.

Frequency of sessions: The Human Resources Committee meets 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	Proprietary Independent Member	Member
David Aaron Margolin Schabes	MD Risk Management	Member
Javier Beltran Cantu	DMD Human Resources	Member
Rafael Arana de la Garza	COO	Member
Jorge Eduardo Vega Camargo	DMD Comptrollership	Member
Isaias Velazquez Gonzalez	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 of GFNorte's employees, including analysis, evaluation and opinion in the approval of Graduate Scholarships (Masters or PhD).

Functions:

A. Foster comprehensive development of GFNorte's human talent, aiming to enhance the professional level of employees.

B. Set guidelines that enable to align the training and development model to the business strategy and to the institutional transformation projects.

C. Set guidelines to develop core capabilities in all employees, develop leaders' and management's capabilities.

D. Approve a methodological approach to deploy Career and Succession Plans.

E. Know the potential of GFNorte's employees trying to develop people with high potential.

F. Determine the policies and guidelines for granting postgraduate scholarships and authorize exceptions.

G. Approve and update the procedures for granting postgraduate scholarships.

H. Analyze and determine the scholarship applications submitted to each ordinary and extraordinary session of the Committee.

I. Oversee compliance of approved programs for Scholars.

J. 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)	--------------------------
Carlos Eduardo Martinez Gonzalez	MD Retail Banking	Francisco Javier Salgado Muñoz
Manuel Antonio Romo Villafuerte	MD Product	Jose Gerardo Aguilar y Maya Verduzco
--------------------------	MD Wholesale Banking	Rene Gerardo Pimentel Ibarrola
--------------------------	MD Corporate Services	Jorge Eduardo Vega Camargo
Luis Fernando Orozco Mancera	Chief Credit Officer	Rafael Angel Hinojosa Cardenas
Mario Alberto Barraza Barron	MD Assets Recovery	Jorge Abiel Garza Bautista
Javier Beltran Cantu	DMD Human Resources	Jorge Antonio Fuentes Rivera
Juan Pedro Meade Kuribreña	ED Institutional Prevention and Control	

	(Secretary Not Member)	
Isaias Velazquez Gonzalez	MD Internal Audit	Adriana Elizondo Cordero

Quorum: Sessions of the Committee shall be valid with the participation of the majority of its members.

REGIONAL BOARDS

Objective and Faculties:

Regional Boards will function as consultative and advisory bodies to the Chairman of GFNORTE's Board of Directors, therefore their members' functions will be to give opinions and advice on trends and opportunities in their region, as well as those issues that the Chairman of the Board of Directors submit to their consideration. In addition, they will function as a body to reach the business community in each region.

Frequency of sessions: The Regional Boards hold sessions at least once a year or when convened by GFNORTE´s Chairman of the Board of Directors. An annually plenary session of the National Board will be held.

Integration:

Each Regional Board will be constituted by the number of members determined by GFNORTE´s Chairman of the Board of Directors, who have the technical quality, honesty and satisfactory credit history, as well as extensive knowledge and experience in the financial, legal or administrative fields, to develop their activities in the respective regions.

Likewise, the Chairman of the Board of Directors will appoint a Chairman among the members of the Regional Board, who will chair the Regional Board sessions, as well will appoint a Secretary, who will not be part of the Board. If the Chairman is not present, he will be substituted by a person appointed by the Chairman of the Board of Directors.

The Members of each Regional Board are elected, and if the case, removed by the Chairman of the Board of Directors. The members remain in office for 2 years, with the possibility of being reelected for any number of times.

Currently there are 6 Regional Boards: the Northern Regional Board, Northwest Regional Board, Metropolitan Regional Board, Western Regional Board, Peninsular Regional Board and Central Regional Board.

DESIGNATIONS COMMITEE

Faculties:

1. Propose for approval by the Shareholders' Meeting 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' Meeting or by the Board of Directors, the compensation for the members of the Company's Board of Directors and its Committees, as well as the Boards of the Financial Groups' Subsidiaries.

4. Propose for approval by the Shareholders' Meeting or by the Board of Directors, the removal of members of the Company's Board of Directors, as well as from the Board of any of the Financial Groups' Subsidiaries.

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' Meeting 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.

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 and Strategy
2 Investment
3 Security
4 Central Credit
5 Central Credit Recovery
6 Assets and Liabilities
7 Financial Markets
8 Communications and Control
9 Fiducary Business
10 Investment Projects
11 Integrity
12 Investments in Managed Portfolios
13 Parametric Loan
14 Analysis of Financial Products
15 Institutional Communication
16 Recovery and Continuity

OPERATIONS AND STRATEGY COMMITTEE

Objective: To be the body to make strategic decisions related to the critical variables of GFNORTE's business.

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 Corporate Projects Office.
3. Make any other strategic decision related with critical variables of the business.
4. Approve the viability of initiatives for New Products and Services.

Frequency of sessions: The Committee will hold sessions when convened by its Chairman or Secretary. Furthermore, they can gather extraordinarily.

Integrationn:

	MEMBERS	
Proprietary		**Alternate**
Jose Marcos Ramirez Miguel	GFNorte's CEO (Chairman)	--------------------------
Rafael Arana de la Garza	COO	Javier Beltran Cantu
Fausto Jose Hernandez Pintado	Chief Strategic Planning and Value Creation Officer	Carlos Andres Vernon Holbrook
Carlos Eduardo Martinez Gonzalez	MD Retail Banking	Hector Abrego Perez
Manuel Antonio Romo Villafuerte	MD Product	Jose Gerardo Aguilar y Maya Verduzco
--------------------------	MD Wholesale Banking	Rene Gerardo Pimentel Ibarrola
Fernando Solis Soberon	MD Long-Term Savings	Edgar Robledo Herrera
Ignacio Aldonza Goicoechea	MD Technology and Operations	Fernando Roque Ranz
--------------------------	CFO and Head of Investor Relations	Roberto Gonzalez Mejorada
Juan Pedro Meade Kuribreña	ED Institutional Prevention and Control (Secretary Not Member)	
	INVITED	
Isaias Velazquez Gonzalez	MD Internal Audit	Francisco Salvador Garcia Dayo
Federico Santos Cernuda	MD Legal	Alonso Rodriguez Quintana
Alejandro Eric Faesi Puente	MD Markets & Institutional Sales	Jorge Arturo Garcia Pares
Jose Antonio Murillo Garza	MD Analytics	Pedro Masetto Morales
Jorge Gonzalez Nakazawa	D Innovation	Cynthia Romero de Alva
Felipe Duarte Olvera	MD Client Experience	Sonia Vera Riquelme

INVESTMENT COMMITTEE

Objective: To be GFNORTE's top body in charge of approving and prioritizing the portfolios of investment projects, as well as budgetary assignments.

Functions:

1. Follow up on the projects of the annual investment program authorized by the Board of Directors.
2. Manage the investment program authorized by the Board of Directors.
3. Analyze, and if necessary authorize the initiatives and projects that have been approved by the Operations Committee, and that have been previously evaluated by the Corporate Projects Office.
4. Modify, suspend or cancel previously approved projects that present critical deviations, considering the recommendations by the Corporate Projects Office.
5. Follow up on the results and general benefits of the investment projects' portfolio, and if the case prioritize it.
6. Assign the authorized investment budget and follow up on its implementation.

Frequency of the sessions: The Committee will hold sessions when convened by its Chairman or Secretary. Furthermore, they can gather extraordinarily.

Integration:

	MEMBERS	
Proprietary		**Alternate**
Jose Marcos Ramirez Miguel	GFNorte's CEO (Chairman)	-------------------------
Rafael Arana de la Garza	COO	Javier Beltran Cantu
Fausto Jose Hernandez Pintado	Chief Strategic Planning and Value Creation Officer	Carlos Andres Vernon Holbrook
Carlos Eduardo Martinez Gonzalez	MD Retail Banking	Hector Abrego Perez
Fernando Solis Soberon	MD Long-Term Savings	Edgar Robledo Herrera
Manuel Antonio Romo Villafuerte	MD Product	Jose Gerardo Aguilar y Maya Verduzco
Ignacio Aldonza Goicoechea	MD Technology and Operations	Fernando Roque Ranz
-------------------------	MD Wholesale Banking	Rene Gerardo Pimentel Ibarrola
-------------------------	CFO and Head of Investor Relations	Úrsula Margarete Wilhem Nieto
Juan Pedro Meade Kuribreña	ED Institutional Prevention and Control (Secretary Not Member)	
	INVITED	
Roberto Gonzalez Mejorada	DMD Financial Planning	Pablo Ramos Coronado
Jorge Ruiz Cortazar	DMD Material Resources	Jose Carlos Villarreal Delgado
Jorge Eduardo Vega Camargo	DMD Comptrollership	Gerardo Mejia Zacarias
David Aaron Margolin Schabes	MD Risk Management	Jessica Maricarmen Serrano Bandala
Isaias Velazquez Gonzalez	MD Internal Audit	Francisco Garcia Dayo
Eduardo Vazquez Villegas	DMD Operations	---------------------------------------
Rodolfo Fernando Gaona Garza	DE Business Partner	Raul Leon Barrios
Federico Santos Cernuda	MD Legal	Alonso Rodriguez Quintana
Carla Juan Chelala	MD Marketing	Jose Antonio Calatayud Vazquez

SECURITY COMMITTEE

Objective: Propose improvements and seek solutions to physical security problems that affect the institutional assets or pose risks of embezzlement by employees or third parties, considering the employees' physical integrity, through changes to processes and procedures, as well as sanction whoever is responsible for unhealthful practices in their financial function and services at the Financial Group.

Functions:

1. To analyze the origin of the damage or risk of irregular events of third parties or employees.
2. To implement preventive measures to avoid risk, through changes in the operative or management processes and send messages to alert managers, officers and employees.
3. To take corrective measures and actions in the face of irregular or illicit behavior by managers, officers and employees (Labor Sanctions) and by third parties (Legal Action). Considering provisions in the "Guidelines for the care of unlawful acts by officers".
4. Evaluate and follow up resolutions made in the Work Group, and decide on queries or requests submitted by this group.

Frequency of sessions: The Committee will be hold regularly on a monthly basis, the third Thursday of the month. Furthermore, it can also gather extraordinarily in virtue of the risk or gravity of a particular case.

Integration:

MEMBERS		
Jorge Eduardo Vega Camargo	DMD Comptrollership	Chairman
Juan Pedro Meade Kuribreña	ED Institutional Control and Prevention	Secretary, Not Member
Federico Santos Cernuda	MD Legal	
Javier Beltran Cantu	DMD Human Resources	
Isaias Velazquez Gonzalez	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.

Frequency of sessions: The Central Credit Committee convenes every fifteen days. The Credit Committees supporting it convenes with the same frequency, or if needed, on a weekly basis or more frequently as required.

Integration:

MEMBERS	
Jose Marcos Ramirez Miguel (1)	Chairman and Coordinator
Luis Fernando Orozco Mancera	Alternate Coordinator
David Aaron Margolin Schabes (2)	Alternate Coordinator
Rafael Angel Hinojosa Cardenas (5)	Alternate Coordinator and Secretary
Heleodoro Ruiz Santos (5)	Alternate Coordinator
German Ballesteros Quezadas (2)	
Luis Homero Bocanegra Galarza (2)	
Jose Armando Rodal Espinosa (6)	
Victor Antonio Roldan Ferrer (6)	
Rafael Arana de la Garza	
Carlos Eduardo Martinez Gonzalez (6)	
Felipe Duarte Olvera	
Arturo Monroy Ballesteros (3) (6)	
Director Territorial (4) (6)	
Sergio Garcia Robles Gil	Alternate
Carlos Rafael Arnold Ochoa (5)	Alternate
Legal Representatives	Invited (without vote)
Audit Representatives	Invited (without vote)

1. With veto power.
2. Risks Officer.
3. Regarding loan requests of groups that have authorized investment projects, have voice w/o vote.
4. The participation of the Territorial Director will be rotated according to the following Geographic logistics, Northern Mexico, Western Mexico, Eastern Mexico, North, South, Northeast, Peninsular, West, Centre.
5. Credit Officer
6. Business Offices

CENTRAL CREDIT RECOVERY COMMITTEE

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 clients' recovery proposals that are under management of the Asset Recovery Business as well as Transactional Banking borrowers that propose cash settlements, restructurings and payments in kind or conversions of debt to equity, that could imply or not debt cancellations or write-offs.

Additionally, Recovery committees manage the resolutions proposal of the sale of foreclosed assets according to the following:

1. Analyze the sale value of Foreclosed Assets, based on financial rationale, considering present value and cost of money.
2. Propose to the Risk Policies Committee adjustments to the Sale of Foreclosed Assets policy.
3. Analyze, and if the case authorize, all the sale proposals of Foreclosed Assets.
4. Analyze the quarterly report of transactions of the Administration and Sale of Assets department.
5. Overview the progress and compliance of the sale of Foreclosed Assets, as well as duly coordination of the involved departments.
6. Decide on the hiring of brokers or companies specialized in real estate sale; in case of urgency, this decision shall be made by 3 members informing (and establishing in the corresponding minutes) to the Committee in the next session.
7. Manage every issue related to the sale of Foreclosed Assets not considered herein.

Integration:

PROPRIETARY MEMBERS	
Luis Fernando Orozco Mancera	Coordinator
Sergio Garcia Robles Gil	Coordinator
David Aaron Margolin Schabes	Coordinator
Jose Armando Rodal Espinosa	Coordinator
Rafael Angel 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	Secretary without vote
Carlota Hinojosa Salinas	
Juan Pedro Meade Kuribreña	Without vote
Isaias Velazquez Gonzalez	Without vote
ALTERNATE MEMBERS	
Juan Gilberto Guasco Godinez	Coordinator
Carlos Eduardo 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		
Jose Marcos Ramirez Miguel	CEO – GFNorte and Casa de Bolsa Banorte Ixe	With veto power
Carlos Alberto Arciniega Navarro	MD Treasury	With voice and vote (coordinator)
-------------------------	MD Wholesale Banking	With voice and vote
-------------------------	MD Segment and Channel	With voice and vote
Manuel Antonio Romo Villafuerte	MD Product	With voice and vote
Rafael Arana de la Garza	COO	With voice and vote
-------------------------	MD Corporate Services	With voice and vote
David Aaron Margolin Schabes	MD Risk Management	With voice and vote
Isaias Velazquez Gonzalez	MD Internal Audit	With voice
Jorge Eduardo Vega Camargo	DMD Comptrollership	With voice
Fausto Jose Hernandez Pintado	Chief Strategic Planning and Value Creation Officer	With voice and vote
Adan Jorge Peña Guerrero	ED Balance Sheet Management	With voice (Secretary)
Business and Territorial Directors	Wholesale Banking/ Retail Banking	With voice

FINANCIAL MARKETS 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 trade of financial instruments.
3. Follow-up on the Balance Sheet and define strategies for risk in proprietary investment portfolios proposed by the business areas that manage those portfolios.
4. Review and evaluate the portfolios.
5. Supervise compliance with limits authorized by the Board of Directors or by the corresponding Risk Policies Committee.
6. Define investment strategies in abnormal situations of risk.
7. Review parameters and define remedial liquidation measures if certain cases (without a secondary market, low securitization, etc).

Frequency of sessions: Meetings shall be hold every two weeks; the Secretary is responsible for coordinating the agenda and convening sessions. In the event that the financial situation requires it, any member can summon extraordinary meetings.

Integration:

MEMBERS	
Alejandro Eric Faesi Puente	MD Markets & Institutional Sales
Francisco Jose Gonzalez Tesillo	ED Treasury Investments in Position and Balance Hedging
Alfonso de Lara Haro	DMD Financial and Operative Risk
Oscar Guadalupe Vela Hinojosa	D Market Risk
Ignacio Saldaña Paz	D Investments – Long-term savings
Fausto Jose Hernandez Pintado	Chief Strategic Planning and Value Creation Office
Jorge Arturo Garcia Pares	DMD Money Market
Jacaranda Alicia Nava Villarreal	ED Derivatives
Julio Alfonso Sepulveda Elizondo	D Risk
Miguel Angel Arenas Lopez	D Comptrollership Brokerage
	Audit Representative
	Risk Representative
	Legal Representative
Juan Pedro Meade Kuribreña	ED Institutional Prevention and Control (Secretary Not Member)

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 GFNorte participates as trustee, custodian or representative.

Faculties:

1. Analyze, approve or reject medium, high and limited risks trust businesses.
2. Analyze, approve or reject promotion and hiring schemes' trust businesses.
3. Determine matters that by their risk don't need to be submitted to this Committee.

4. Analyze and decide those issues whose characteristics may eventually produce a legal, financial, administrative or reputational contingency to the institution, stemming from the hiring, operation or management of the trust businesses.
5. Remission of honorary Trustees vanquished and moratorium interest, as well as reduction in trust fees agreed.

Frequency of Sessions: Meetings will be hold permanently every first and third Wednesday of the month.

Integration:

MEMBERS		
Proprietary		**Alternate**
Federico Santos Cernuda	MD Legal (Chairman)	Elba Elena Garcla Garate
David Aaron Margolin Schabes	MD Risk Management	Jesus Valdes Fernandez
Jorge Eduardo Vega Camargo	DMD Comptrollership	Gerardo Mejia Zacarias
David Alberto Salazar Vite	MD State and Municipal Governments	Alberto Samir Abud Espinosa
Jose Armando Rodal Espinosa	MD Business and Corporate	Juan Carlos Tamariz
Jesus Miguel Escudero Basurto	ED Fiduciary	Javier Rodriguez Flores
Juan Pedro Meade Kuribreña	ED Institutional Prevention and Control (Secretary Not Member)	
INVITED		
Gerardo Amando Diaz Valdez	ED Subsidiaries and Banking Audit Operations	Silvia Lazaro Lazaro

INVESTMENT PROJECTS COMMITTEE

Objectives: Analyze the viability of every proposal related to: 1) the acquisition of loan portfolios, 2) acquisition of real estate portfolios, and 3) investment in housing, commercial real estate, and mixed usage projects, which must be authorized in adherence to GFNORTE's strategies.

Scope: The objectives, functions, members and frequency of the investment projects committee's sessions are generally applicable to GFNORTE and subsidiaries.

Functions:

1. Analyze and approve different business transactions presented to this Committee, such as:
    a. Acquisition of loan portfolios.
    b. Acquisition of real estate portfolios.
    c. Investment in housing, malls, infrastructure and tourism projects. (see provisions at the end of this section)
    d. Extensions and changes to authorizations.
2. Monitor and review advances in the business transactions being executed, through a presentation by those responsible for each business.
3. Ensure that every business transaction presented to the Committee adheres to the minimum profitability and risk criteria established in GFNORTE and/or the Board of Solida Administradora de Portafolios.
4. Recommend that additional funds be requested to the corresponding instances in order to advance in the initiatives or projects under development that require the disbursement of additional resources.
5. Respect all provisions issued by the Risk Policies Committee (RPC) that impact its areas of influence.
6. The Committee will be able to request a review of analysis presented to it by an expert in the subject, as

well as by personnel of the specialized areas.

Frequency of the sessions: Upon request by the Coordinator and/or Secretary of the Committee. Advancement on the projects should be presented at least once every three months.

Integration:

MEMBERS		
Jose Marcos Ramirez Miguel	CEO - GFNorte and Casa de Bolsa Bnorte Ixe	Chairman / Coordinator
--------------------------	MD Wholesale Banking	Alternate Coordinator
Luis Fernando Orozco Mancera	Chief Credit Officer	Alternate Coordinator
David Aaron Margolin Schabes	MD Risk Management	Alternate Coordinator
Rafael Angel Hinojosa Cardenas	DMD Selective Credit Management	Coordinator
Rafael Arana de la Garza	COO	Secretary
Arturo Monroy Ballesteros	DMD 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	
Carlos Eduardo Martinez Gonzalez	MD Retail Banking	
Mauricio Diez Garcia	D Legal Consumer Banking	
Jorge Eduardo Vega Camargo	DMD Comptrollership	
Javier Beltran Cantu	DMD Human Resources	
Hector Abrego Perez	DMD Channels Development and Innovation	
Francisco Salvador Garcia Dayo	ED Information Technology Audit	(Without vote)
INVITED		
Alberto Vega Balderas	DD Risk Management – 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
Francisco Salvador Garcia Dayo	ED IT Audit
Jesus Valdes Fernandez	D Operational Risk Management
Ricardo Elizondo Elizondo	D Management and Information Control
Cesar Alberto Gonzalez Rodriguez	D IT Security and Technology Management

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	
Proprietary		**Alternate**
Rene Gerardo Pimentel Ibarrola	MD Asset Managment and Business Development (Chairman)	Luz Maria Ramirez Ramon*
Alejandro Aguilar Ceballos	MD Operadora de Fondos Banorte (Alternate Chairman)	Hector Manuel Carrasco Contreras
Luis Ernesto Pietrini Sheridan	MD Private Banking and Wealth Management	Fernando Duran Garza Galindo
Carlos Alberto Arciniega Navarro	MD Treasury	Francisco Jose Gonzalez Tesillo
David Aaron Margolin Schabes	MD Risk Management	Alfonso de Lara Haro
Fausto Jose Hernandez Pintado	Chief Strategic Planning and Value Creation Officer	Carlos Andres Vernon Holbrook
Alejandro Eric Faesi Puente	MD Markets & Institutional Sales	Jorge Arturo Garcia Pares
Arturo Monroy Ballesteros	DMD Investment Banking & Structured Financing	Fernando Jose Guarda de Mateo
Javier Diaz de Leon Opitz	ED Investment	Juan Guillermo Alvarez Castillo*
Ricardo Franco San Sebastian*	D Equity Investment	Mauricio Calva Ruiz de Chavez
Oscar Guadalupe Vela Hinojosa	D Market Risk	Adriana Herrera Orozco
Ignacio Saldaña Paz	D Investments – Afore XXI Banorte	Francisco Belaurasan Gonzalez
Miguel Angel Arenas Lopez	D Comptrollership CB	Sandra Martinez Lopez
Manuel Ignacio Vega Chavez Peon	Alternate Independent Member Operadora de Fondos Banorte Ixe	
	Audit Representative	

	Legal Representative	
Juan Pedro Meade Kuribreña	ED Institutional Prevention and Control (Secretary Not Member)	

PARAMETRIC LOAN COMMITTEE

Objective: Promote, design and establish the policies and strategies of products for individuals (payroll, car, mortgages, credit cards and personal loans) and SMEs (Crediactivo and Empuje Negocio.)("Parametric or Consumer Loan Portfolio").

Functions:

1. Ensure compliance with the risk appetite framework and limits approved by the Risk Policies Committee and notify it in case of any deviations.
2. Approve credit and risk policies for parametric loan products according with group level policies and limits established by the Risk Policies Committee.
3. Delegate faculties to GFNorte's officers for the approval of consumer credit lines.
4. Authorize strategies and collection policies for the parametric loan portfolio.
5. Portfolio's periodically monitoring: placement, past due, scorecards' performance, rating, losses, among other aspects.
6. Resolve matters related to the bank parametric loan risk.

Frequency of Sessions: The meetings will be hold on a quarterly basis or when convened by the Chairman or Secretary. Furthermore, it can meet extraordinarily.

Integration:

MEMBERS		
Proprietary		**Alternate**
David Aaron Margolin Schabes	MD Risk Management (Chairman)	Luis Hector Hernandez Magro Miranda
Luis Fernando Orozco Mancera	Chief Credit Officer	Rafael Angel Hinojosa Cardenas
Heleodoro Ruiz Santos	DMD SME and Consumer Credit	------------------------------
Carlos Eduardo Martinez Gonzalez	MD Retail Banking	Hector Abrego Perez
Manuel Antonio Romo Villafuerte	MD Product	Jose Gerardo Aguilar y Maya Verduzco
Rafael Arana de la Garza	COO	
Carla Juan Chelala	MD Marketing	Marcelle Guaida Haddad
Mario Alberto Barraza Barron*	MD Assets Recovery	Jorge Abiel Garza Bautista
Enrique Argüelles Illoldi	ED Consumer Credit Risk	Hector Tenorio Fenton
Juan Pedro Meade Kuribreña	ED Institutional Prevention and Control (Secretary Not Member)	
INVITED		
Carlos Javier Zambrano Elizondo	MD SME Banking	Alfonso Gonzalez de Cosio
Roberto Galarza Sacramento	DMD SME Segment	Luis Octavio Sanchez Centeno
-------------------------	DMD Affluent Segment	Armando Maldonado Rodriguez
Jorge Eduardo Vega Camargo	DMD Comptrollership	Gerardo Mejia Zacarias
Federico Santos Cernuda	MD Legal	------------------------------
Isaias Velazquez Gonzalez	MD Audit	David Guillen Zuñiga

ANALYSIS OF FINANCIAL PRODUCTS COMMITTEE

Objective: The Analysis of Financial Products Committee is the entity authorized to comply with the obligations of the General Provisions applicable to brokerage houses and credit institutions related to investment services issued by the CNBV.

Functions:

1. The Analysis of Financial Products Committee will be responsible for developing and updating policies and guidelines regarding:
   a. Authorization of information on recommended financial products; personalized or generalized advice or suggestions, to be delivered to customers through promotional efforts.
   b. Diversification in the composition of investment portfolios based on different investment profiles of clients, establishing maximum limits to be considered on a value, instrument, issuer or counterpart at the time of the recommendation, as well as the specific circumstances in which they could not comply with the aforementioned limits.
   c. Managing accounts comprised of financial instruments transferred from another financial institution or that would not have been subject to the investment advisory service.
   d. The general performance framework on which investment management services will be delivered (agreements with limited discretion).
   e. The parameters to be considered for the establishment of fees to be charged for investment services.

2. Develop policies and specific procedures based on the policies and general guidelines approved by the Board of Directors regarding the following matters:
   a. Evaluation and determination of clients' investment profiles
   b. Determine the profile of financial products
   c. Reasonableness of recommendations directed to customers.
   d. Performance parameters to be observed by the promoters providing Investment Services.
   e. Measures to avoid conflicts of interest in providing Investment Services.
   f. Analysis and follow-up on complaints or legal actions

3. Approve the profile matrix of the financial products, which must be identified and classified according to the different investment profiles of clients.

4. Authorize a market offering or the acquisition of new financial products for clients under the umbrella of advised and unadvised investment services.

5. Analyze the prices of new products and those determined by the Committee itself, through general guidelines.

6. Follow-up periodically on the performance of financial instruments, which through general guidelines the Committee determined with respect to the risk-return relationship, in order to determine the actions to be taken in making investment decisions.

7. Approve the directory of investment services provided by the institution.

Frequency of Sessions: The meetings will be hold on a quarterly basis, or when convened by the Chairman or Secretary. Furhermore, it can meet extraordinarily.

Integration:

MEMBERS		
Proprietary		**Alternate**
David Aaron Margolin Schabes	MD Risk Management (Chairman)	Jessica Maricarmen Serrano Bandala
Gabriel Casillas Olvera	MD Economic Analysis	Delia Maria Paredes Mier
Fausto Jose Hernandez Pintado	Chief Strategic Planning and Value Creation Officer	Carlos Andres Vernon Holbrook
Yesika Anayanzi Navarro Teran	D Legal Brokerage	Diana Cristina Guzman Jalpa
Arturo Monroy Ballesteros	DM Investment Banking & Structured Financing	Fernando Jose Guarda de Mateo
Jorge Eduardo Vega Camargo	DMD Comptrollership	Gerardo Mejia Zacarias
Adan Jorge Peña Guerrero	ED Balance Sheet Management	Herminio Alfaro Arcibar
Oscar Guadalupe Vela Hinojosa	D Market Risk	Karina Martinez Alvarez
Juan Pedro Meade Kuribreña	ED Institutional Prevention and Control (Secretary Not Member)	
INVITED		
Isaias Velazquez Gonzalez	Internal Audit Representative	Gerardo Amando Diaz Valdez

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. Assess the impact of communication.
6. Appoint those responsible for the content of the institutional communication
7. Approve the annual budget for institutional communication.

Frequency of sessions: Meetings will be hold monthly, or if the case when convened by the Chairman or Secretary. Furthermore, it can meet extraordinarily depending on the risk or importance of a particular case.

Integration:

MEMBERS	
Jose Marcos Ramirez Miguel	GFNorte's CEO (Chairman)
Rafael Arana de la Garza	COO
--------------------------	CFO and Head of Investor Relations
Fausto Jose Hernandez Pintado	Chief Strategic Planning and Value Creation Officer
Manuel Romo Villafuerte	MD Product
Carlos Eduardo Martinez Gonzalez	MD Retail Banking
--------------------------	MD Wholesale Banking

Felipe Duarte Olvera	MD Client Experience
David Aaron Margolin Schabes	MD Risk Management
Carla Juan Chelala	MD Marketing
Federico Santos Cernuda	MD Legal
Isaias Velazquez Gonzalez	MD Internal Audit
Ayax Carranza Segura	ED Communications and Institutional Relations
Juan Jesus Viteri Alvarez	MD Internal Communication
Jorge Eduardo Vega Camargo	DMD Comptrollership
Javier Beltran Cantu	DMD Human Resources
Francisco Javier Salgado Muñoz	DMD Intelligence and Commercial Model
Concepcion Gpe. Borjon Shears	Sumando Project Leader
Horacio Cortes	EVP Corporate Services de INB
Mayra Hernandez Gonzalez	CD Social Responsability
Hector Avila Flores	MD Legal
Jose Carlos Torres Garcia	Sindicate General Secretary
Juan Pedro Meade Kuribreña	ED Institutional Prevention and Control (Secretary Not Member)

RECOVERY AND CONTINUITY COMMITTEE

Objective:

To be the body with faculties to:

A. In case of service interruption, evaluate the impact of damages, identify affected business areas, estimate the recovery time; and
B. In case of a disaster, coordinate the resume of operations and report to the Technology and Investment Committee and the CEO.

Functions:

A. Ensure that the Business Continuity Plans (BCP: Processes, Procedures, Communication, etc.) including the Disasters Recovery Plan (DRP) are documented, current and proven to respond to a contingency in an organized manner.
B. Ensure that the different components (Hardware, Software, Communications, data, etc.) of the Alternate Computer Center are installed and available for a contingency.
C. Ensure the availability and proper functioning of the facilities located in the Alternate Computer Center.
D. Monitor the execution of DRP and BCP.
E. Request the necessary resources from the Technology and Investment Committee to coordinate and execute test runs of the DRP and BCP at least once a year.
F. Coordinate the actions of the Immediate Response Team (Crisis Center) to evaluate the impact, identify the affected business areas, estimate recovery time and prioritize the actions to be executed in the event of a lingering interruption of services.
G. In the event of a declared disaster, to coordinate the recovery and/or continuity at an Institutional level until ensuring the total recovery of all the necessary components for operation (software, hardware, communications, human and materials resources, clients, suppliers, etc).

Frequency of sessions: The Recovery and Continuity Committee will hold sessions on the first Friday of February, May, August and November or when convened by the Committee's Chairman or Secretary. Furthermore, it can meet extraordinarily.

Quorum: Committee sessions will be valid constituted with the attendance of five of its members.

MEMBERS		
Proprietary		**Alternate**
Jorge Eduardo Vega Camargo	DMD Comptrollership (Chairman)	Apolonio Perez Ramirez
Ignacio Aldonza Goicoechea	MD Technology and Operations	Bernardo Castro Villagrana
Jorge Ruiz Cortazar	DMD Material Resources	Eduardo Güemez Zurita
Ricardo Morales Gonzalez	ED Information Security	Ernesto Elias Flores
Francisco Salvador Garcia Dayo	ED Information Technology Audit	Jose Alfredo Merlos Hernandez
Rafael Cordova Puon	D IT Infrastructure and operations (Insurance and Annuities)	Samuel Molina Hernandez
Alfonso de Lara Haro	DMD Financial and Operative Risk	Jesus Valdes Fernandez
Miguel Angel Arenas Lopez	D Comptrollership Brokerage	Eligio Rendon Castro
Javier Beltran Cantu	DMD Human Resources	Rafael Flores Birrichaga
Jose Vicente Fernandez Camargo	D Corporate Control and Compliance (Insurance and Annuities)	Homero Martinez Hernandez
Hector Abrego Perez	DMD Channels Development and Innovation	Quirino Castro Flores
Rene Gerardo Pimentel Ibarrola	MD Asset Managment and Business Development	Guillermo Abdala Brizio Cherit
Ramon Eduardo Vazquez Villegas	DMD Operations	Gerardo Vargas Treviño
Guillermo Macias Avitia	D Protection and Security	Epigmenio Treto Martinez
Eduardo Martinez Ham	D Technological Infrastructure Production	Ricardo Nuñez Álvarez
Miguel Ángel de la Rosa Rios	D Business Continuity (Secretary)	Gerardo Delgadillo Ramos

Main Officers as of December 2014

Name	Years the company	Current Position	Age	Maximum Level of Education	Main executive positions at other companies
Jose Marcos Ramirez Miguel	4.1	GFNorte's CEO	51	Bachelor's degree in Actuarial Science	Santander Mexico
Carlos Eduardo Martinez Gonzalez	15.7	MD Retail Banking	51	Master's degree in Business Administration	Grupo Financiero Serfin
Jose Armando Rodal Espinosa	21.7	MD Middle-market & Corporate Banking	45	Master's degree in Administration	ITESM
Mario Alberto Barraza Barron	17.2	MD Asset Recovery	52	Master's degree in Administration	GRUMA
Fernando Solis Soberon	7.5	MD Long-Term Savings	53	Master's degree and Ph.D.in Economy	Grupo Nacional Provincial, Grupo Bal, CONSAR, Comision Nacional de Seguros y Fianzas
Samuel J. Munafo	3.0	MD Inter National Bank	65	Postgraduate 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	3.3	COO	63	Electromechanical Engineer	Managing Director of HSBC's Retail Banking for Latin America and the Caribbean. Deputy CEO of HSBC Mexico.
Alejandro Eric Faesi Puente	4.4	MD Markets and Institutional Sales	45	Master's degree in Finance	JP Morgan Financial Group
Guillermo Guemez Sarre	4.4	Executive Leader – Transformational Services	47	Computer Systems Engineer	Servicios Administrativos Wal-Mart
Carlos Alberto Arciniega Navarro	21.4	MD Treasury	54	Master's degree in Management and Finance	Empresas La Moderna
Sergio Garcia Robles Gil	20.2	MD Corporate Affairs	54	Master's degree in Business Administration	Fina Consultores (Consultancy)
Federico Santos Cernuda	9.0	MD Legal	39	Bachelor's degree in Law	N/A
Carla Juan Chelala	7.2	MD Marketing	45	Master's degree in Marketing and Advertising	HSBC Financial Group
Sergio Deschamps Ebergenyi	17.1	Northern Territorial Director	60	Bachelor's degree in Business Administration	Banca Serfin
Humberto Luna Gale	8.9	Northern Mexico Territorial Director	52	Electromechanical Engineer	Santander Serfin
Juan Carlos Cuellar Sanchez	29.7	Western Territorial Director	52	Executive MBA	BANCAM

Name	Years the company	Current Position	Age	Maximum Level of Education	Main executive positions at other companies
Alfonso Paez Martinez	16.9	Central Territorial Director	49	Executive MBA	Casa de Bolsa Abaco and Casa de Bolsa Probursa
Arturo Valdes Villaseñor	18.2	Northwestern Territorial Director	54	Master's degree in Administration	Centro Bancario de Monterrey
Jorge Luis Molina Robles	20.7	Peninsular Territorial Director	58	Civil Engineer	Government of the State of Chiapas
Alberto Salvador Lopez	12.6	Southern Territorial Director	51	Bachelor's degree in Actuarial Science	Seguros Bancomer, S.A., Banca Promex, Banco del Atlantico
Alejandro del Valle Morales	9.1	Eastern Mexico Territorial Director	44	Master's degree in Business Management	Casa de Bolsa Banorte
Francisco Jose Archivaldo Rodriguez Giacinti	3.8	Western Mexico Territorial Director	57	Physicist	Santander, Bancomext, Ixe GF
Gabriel Casillas Olvera	2.6	Chief Economist	39	Ph.D. in Economics	J.P. Morgan Chase & Co.
Victor Antonio Roldan Ferrer	3.8	MD Transactional Banking	47	Bachelor's degree in Informatics	Ixe GF, Banco Santander
Ricardo Velazquez Rodriguez	3.8	MD International Banking and Financial Institutions	38	Bachelor's degree in Economics and MBA	Ixe GF
Luis Ernesto Pietrini Sheridan	3.8	MD Private Banking and Wealth Management	43	Bachelor's degree in Administration with specialization in Finance	Ixe GF, Vector Mex Inc.
Rene Pimentel Ibarrola	3.8	MD Asset Management and Business Development	42	Bachelor's degree in Economics	Ixe GF
Manuel Antonio Romo Villafuerte	3.8	MD Product	49	Bachelor's degree in Administration and Master's degree in Economics	Ixe GF, Banco Nacional de Mexico
Ignacio Aldonza Goicoechea	1.8	MD Technology and Operations	54	Industrial Engineer, Master's degree in Economics and Business Administration	BBVA Bancomer
Fausto Jose Hernandez Pintado	6.0	Chief Strategic Planning and Value Creation Officer	44	Bachelor's degree in Economics, Master's degree in Finance	Goldman Sachs, AON Re, PEMEX, Visa International, Barclays Bank and SHCP.
Isaias Velazquez Gonzalez	16.0	MD Internal Audit	52	Public Accountant	CNBV
David Aaron Margolin Schabes	2.0	MD Risk Management	57	Bachelor's degree in Actuarial Science, Master's degree in Operations Research	Banco de Mexico

Name	Years the company	Current Position	Age	Maximum Level of Education	Main executive positions at other companies
Concepcion Gpe. Borjon Shears	21.8	Sumando Project Leader	45	Master's degree in Administration with specialization in Management	Tecnogas del Norte
Jose Antonio Murillo Garza	1.5	MD Analytics	45	Bachelor's degree and Ph.D. in Economics	Banco de Mexico, FMI
Ayax Carranza Segura	8.2	MD Communications and Institutional Relations	45	Bachelor's degree in Economics, Master's degree in Science specialized in Business Administration	SEP, GRUMA.
Luis Fernando Orozco Mancera	11.0	Chief Credit Officer	60	Master's degree in Business Administration	Citibank Mexico
Maria Del Socorro Bermudez Ramirez	33.5	MD Preferred Banking Ixe	50	Electronic and Telecommunication Engineer	N/A
Jorge de la Vega Grajales	6.7	MD Federal Government	54	Master's degree in Business Administration	Board of Directors of COFACE, Banamex, Serfin, Scudder Investments
Arturo Monroy Ballesteros	9.2	MD Investment Banking and Structured Finance	42	Master's degree in Finance	Nacional Financiera, Ministry of Transport and Communications, SHCP
Carlos Javier Zambrano Elizondo	16.5	MD SME Banking	51	Systems and Industrial Engineer	Invermexico Casa de Bolsa, Banco Santander Mexico, Banco Mexicano, S.A.
David Alberto Salazar Vite	22.7	MD State and Municipal Government	54	Bachelor's degree in Business Administration	Multibanco Comermex
Juan Jesus Viteri Alvarez	25.5	MD Internal Communication	48	Bachelor's degree in Business Administration	Multivalores Casa de Bolsa.
Felipe Duarte Olvera	0.8	MD Client Experience	40	Master's degree in Business Administration	MCKINSEY & COMPANY, President's Office (Mexico), Ministry of Economy

Compensations and Benefits

The total amount of compensations and benefits paid to GFNorte's main officers in 2014 was approximately Ps 346.2 million.

Compensations and Benefits are as follows:

- **Fixed Compensation:** Salary.

- **Annual Bonus Plan for 2014:**

  The Bonus Plan for each business area evaluates estimated profit for that particular business, as well as an evaluation of individual performance, which takes into account the achievement of each participant's goals and objectives. The bonus for certain departments is also adjusted based on operational risk evaluations carried out by the Control Department. Likewise, eligibility to receive the deferred variable compensation for a group of managers is determined by a risk and compliance mechanics' review.

  Eligible personnel of staff areas is evaluated based on the attainment of estimated profit for the Group, as well as individual performance in accordance with the achievement of each candidate's goals and objectives.

  For senior management, year bonus is covered in 60% and the remaining 40% is covered in three annual installments of 13%, 13% and 14% respectively.

- **Banorte's Long Term Incentive Plans:**

  Stock Plans:

  > The long term scheme for incentives consists in assigning to certain Officers designated by the Compensation Committee, a stock option package through a trust having right to exercise 100% of it within a vesting period up to 4 years. Participants will be entitled to exercise a percentage of the package each year; receiving shares in its capital account.

- **Vacations:** From 10 to 30 working days depending on the number of years of service.

- **Legally Mandated Christmas Bonus:** Equivalent to 42 days of salary.

- **Savings Fund:** The Corporation matches the amount of the employee's contribution up to a maximum of 13% of their monthly salary in accordance with the legal limits established in the Income Tax Law.

- **Medical Service: Traditional Scheme:** Banorte provides medical services through recognized medical institutions, obtaining efficiency in cost and service. **Full Medical Insurance Scheme:** Major medical expenses insurance policy.

- **Life Insurance:** In the event of death or total incapacity, a life insurance policy provides a sum of up to 36 months' salary. In the event of accidental death, the compensation is double, prior verification by the insurance company.

- **Pension and Retirement:** The institution has two types of plans: one with defined benefits (Traditional and Special), and a second with a defined contribution (Ensure Your Future).

  Ensure Your Future: was established on January 1, 2001. This is a defined contribution plan, whereby a percentage of individual contributions by the employee and GFNorte are deposited in a fund for withdrawal by that employee upon termination of their labor relationship. This plan has an "initial individual contribution" (only for employees hired prior to January 1, 2001) 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 80.8 billion.

d) CORPORATE BY-LAWS AND OTHER AGREEMENTS

In 2006 the bylaws were modified in order to adapt them with the dispositions of the new Stock Market Law to incorporate the articles related to the integration, organization and functioning of the social bodies. The Board of Directors' functions were redefined as the body in charge of strategy and supervision, and the CEO responsible for conduction and management of the company. Also, the commissary figure was eliminated and its functions were redistributed within the Board of Directors, the Audit and Corporate Practices Committee and the Independent External Auditor. The objective of the Audit and Corporate Practices Committee is to monitor all the accounting processes of the company, having the following general functions: evaluate the performance of the external independent auditor, elaborate an opinion regarding the financial statements prior to presenting them to the Board, inform the Board about the internal control systems and monitor that the generally accepted accounting principles and procedures are followed, among others. The objective of the Corporate Practices Committee is to reduce the potential risk that transactions are carried out in disadvantageous conditions for the company's patrimony or give privileges to a determined group of shareholders. Its general functions include: approve the policies for the use of the company's assets, authorize transactions with related parties, among others.

Also, the bylaws and the Statutory Responsibility Agreement were reformed with respect to the responsibility of the holding company for the losses of the entities that form the group, so that in case that the equity of the holding was not enough to cover the losses of the Group's members, the losses corresponding to the credit institution will be first covered, and later on a pro-rata basis with respect to the other entities until the holding's equity is depleted.

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 Bylaws as a result of the appointment of a Chairman Emeritus and a Chairman of the Board of Directors; Article 25 establishing the faculties so that the Chairman Emeritus presides the Shareholders' Meetings and in his absence, the Chairman of the Board of Directors will have full authority; Article 31 in order to grant the General Assembly the faculty to designate a Chairman Emeritus and also a Chairman of the Board of Directors, both of which are part of the Board of Directors. Also, the Assembly or the Board will designate a Secretary or his/her respective alternate (Pro-

Secretary) who will not be part of these corporate organisms. The Chairman Emeritus will not have an alternate. Also, in the event of death, inability, remotion or resignation of the Chairman of the Board of Directors, he/she will be substituted by the rest of the proprietary members in the order that they determine, or if there is no rule in this respect, in the order of their appointments until the Shareholders Assembly names a new Chairman of the Board. The changes also grant the faculty to the Chairman Emeritus to preside the Shareholders Assemblies and the Board Sessions of the company as stipulated in articles Twenty-Five and Thirty-Two of the Corporate Bylaws. Also, the Chairman of the Board of Directors will have the following faculties, obligations, attributions and powers unless otherwise indicated by the Assembly: i) Preside the Shareholders Assemblies and Board Sessions in the absence of the Chairman Emeritus; ii) Propose to the Board the independent board members that will integrate the Corporate Practices and Audit Committees, as well as the temporary board members whose designation corresponds to the board in accordance with article Thirty-Six of the ByLaws and iii) Execute or supervise the execution of the resolutions taken by the Shareholders Assembly and the Board of Directors, doing whatever is necessary or prudent to protect the interests of the company, without violating the faculties that the Assembly, Board of Directors and the legal framework gives to the Chief Executive Officer; Article Thirty-Two will be modified in order to make express reference to articles 27 of the Stock Market Law and 24 of the Law to Regulate Financial Institutions regarding the requirement to hold at least one Board meeting every quarter. Furthermore, the Chairman of the Board of Directors must call the necessary board meetings in accordance with article 411 of the Stock Market Law. The changes also reflect the faculty of the Chairman Emeritus to preside the Board Sessions, and in his absence, by the Chairman of the Board of Directors. In the case that both are absent, the Board of Directors' sessions will be chaired by the board member designated by those present at the meeting. Also, the Chairman Emeritus and the President of the Board of Directors will have a tie-breaking vote in case of a tie in the voting of the Board's resolutions. Article Thirty-Six will change in order to make a express reference to Article 25 of the Stock Market Law regarding the faculty of the Chairman of the Board of Directors to propose to the Board or the Shareholders Assembly, the independent members that will integrate the Audit and Corporate Practices Committee.

Also the following were incorporated to the 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 Bylaws was added, in order to establish the creation and operation of the Designations Committee, whose main objective is the to propose to the Assembly the people who will serve on the Board of Directors of the Company and the Directors of the Subsidiaries and entities that comprise the financial group.

On February 17, 2012 the Extraordinary General Shareholders' Meeting approved to modify Article Second of the Bylaws, in order to exclude Casa de Bolsa Banorte, 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 Bylaws, 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 Bylaws, 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.,

On July 4, 2014, by the resolutions approved in the Extraordinary General Shareholders' Meeting, Article Second of the Bylaws was modified to eliminate "Generali" in the legal denomination of the Insurance and Annuities companies.

Likewise, in such Assembly it was agreed to entirely amend the Bylaws to adjust them to the new Law to Regulate Financial Groups, published in the Official Gazette on January 10, 2014. These resolutions are subject to obtaining SHCP's authorization.

It is important to point out that both the new LRAF and the Stock Market Law establish the following requisites for the acquisition or transmission of the Company's shares:

- The individuals who acquire or transfer series "O" shares representing more than 2% of the company's equity, or who exceeds such percentage with such acts must inform the SHCP within 3 business days of such acquisition or transfer.

- No Mexican financial entities, even those which are a part of the Financial Group may participate in the capital stock of the Company, except when they act as institutional investors, upon the terms of Article 27 of the Law to Regulate Financial Groups.

  Except as provided in the following paragraph, insurance and bonding institutions, acting as Institutional investors, and if the case, any other Institutional Investor integrating or controlled directly or indirectly by member of a Financial Group, may not acquire Company's shares or any other company's shares of the Financial Group.

  Mutual funds controlled directly or indirectly by financial entities integrating a Financial Group, which individually or jointly invest in the Company's shares and subordinated debt, may not in any case acquire more than 10% of these shares and obligations.

- Any individual or company can acquire through one or various simultaneous transactions, the control of series "O" shares of the Holding Company, in the understanding that such transactions must always be subject to Article 28 of the Law to Regulate Financial Groups.

  When is intended to directly or indirectly acquire more than 5% of the paid capital stock, the authorization of the SHCP shall be previously obtained, which may grant it on a discretionary basis after hearing the opinion of Banco de Mexico, and w and as applicable, of the CNBV, the Insurance and Bonding Commission or the Retirement Saving Funds System. In such cases, the persons that intend to perform such acquisition must evidence that they meet the requirements established in section II of Article 14 of the Law to Regulate Financial Groups and provide to the SHCP the information required by rules of a general nature to such effect.

  In the event that a person or group of persons, whether or not shareholders, intend to directly or indirectly acquire 20% or more of Series "O" shares of capital stock of the Holding Company or the control thereof, they must request authorization from the SHCP, which may grant it on a discretionary basis, for which purpose it must hear the opinion of Banco de Mexico and as applicable, of the CNBV, the Insurance and Bonding Commission or the Retirement Saving Funds System. Such request must contain the following:

I. Relation or information of the person or persons that, if the case, intend to acquire shares, which must contain also the information proving it complies with Article 28 of the Law to Regulate Financial Groups.

II. Relation of the members of the Board of Directors and officers that would be appointed in the acquired company, including the information that proves that such persons comply with the requirements set forth in the Law to Regulate Financial Groups.

III. If the case, modifications to the strategic plans for the organization, administration and internal control; and

IV. Further information that the SHCP requires in order to start assessing the corresponding requirement.

When an individual or company intend to directly or indirectly acquire more than 5% of the paid capital stock of a Subholding Company, the authorization of the SHCP shall be previously obtained, which may grant it on a discretionary basis after hearing the opinion of Banco de Mexico and as applicable, of the CNBV, the Insurance and Bonding Commission or the Retirement Saving Funds System. The persons who intend to perform such acquisition must evidence that they meet the requirements established in section II of Article 14 of the Law to Regulate Financial Groups

The direct or indirect acquisition of more than 20% of the shares of the paid capital stock of a Subholding Company will be subject to the provisions for such entities set forth in Article 28 of the Law to Regulate Financial Groups.

- The Company shall refrain from filing in the Share Registry referred to in Articles 128 and 129 of the General Law of Business Corporations, in connection with Article Sixteen of these Corporate Bylaws, any transfers made in contravention of Articles 24, 26, 27, 28, 74 and 75 of the Law to Regulate Financial Groups, and it shall notify such circumstance to the SHCP and the Supervisory Commission within five business days of the date it becomes aware thereof.

  Likewise, when the acquisition and other legal acts through which the direct or indirect ownership of shares of capital stock of the Company is obtained are made in contravention to the provisions of the abovementioned Articles, the property and corporate rights inherent to the relevant shares of the Company shall be suspended and, therefore, they may not be exercised until the obtainment of the relevant authorization or resolution, or the compliance with the requirements contemplated by the Law to Regulate Financial Groups, are evidenced.

- The person or group of persons who acquire, directly or indirectly, within or outside of the Stock Exchange, through one or various simultaneous or successive transactions of any nature, series “O” shares that result in holdings equal to or greater than 10% and lower than 30% of such shares, must inform the public of this situation the next business day at the latest, through the corresponding stock exchange, following the terms and conditions established by it. If it is a group of persons, the individual holdings of each member of the group must be disclosed.

  Also, the individual or group of persons must inform their intention or not of acquiring a significant influence in the company.

- Individuals related to the company who directly or indirectly increase or reduce their holdings of the company by 5%, through one or various simultaneous or successive transactions, must inform the public of this situation on the next business day at the latest, through the corresponding stock exchange, following the terms and conditions established by the exchange.

  Furthermore, they must express their intention or not of acquiring a significant influence or increasing it in the terms outlined in the previous paragraph.

- Any individual or group of persons who directly or indirectly own 10% or more of the shares representing the company's equity, as well as members of the Board of Directors and relevant officers of the company, must inform the CNBV and the public in the cases established by generally applicable dispositions issued by the CNBV, of the acquisition or disposal of these securities within the stated timeframe established by the CNBV.

The current Bylaws also include mechanisms to protect the interests of minority shareholders, which basically consist of:

- Board of Directors' approval to any shareholder or group of shareholders related to each other or to third parties to acquire 5% or more of GFNorte's shares. 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 bylaws 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. As of July 4, 2014, by resolutions adopted at the Extraordinary General Shareholders' Meeting, it was agreed to entirely amend the by-laws to adjust them to the new Law to Regulate Financial Groups, published in the Official Gazette on January 10, 2014. Such resolutions are subject to obtaining authorization from the SHCP in terms of article 20 of the Law to Regulate Financial Groups.

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 3,561,069 ADRs were in circulation at the end of 2014. The depository bank is Bank of New York Mellon. On July 15, 2010, the Level 1 ADR program was authorized to operate in the OTCQX International Premier platform, the highest level in the "Over The Counter" (OTC) market and on April 9, 2014, was included in the OTCQX ADR 30 Index ("OTCQX30"), comprised by the 30 most relevant ADRs in the market, in terms of market capitalization, volume and liquidity. Grupo Financiero Banorte is one, of only two Mexican companies, included in this index. The inclusion of our Level 1 ADR in this index will provide more visibility and liquidity to our program.

On June 9, 2009, ordinary shares of Grupo Financiero Banorte began trading in the Madrid Stock Exchange through the Latin American Stock Market "Latibex", under the symbol XNOR. GFNORTE's shares were included in the FTSE Latibex All Shares index from their inclusion to the market, and as of June 10, they were incorporated into the FTSE Latibex TOP index which includes the 16 Latin American most important companies of this market. One share of XNOR represents 10 shares of GFNORTE.

b) PERFORMANCE OF SHARES IN THE STOCK MARKET

GFNORTE's series "O" shares are traded in the Mexican Stock Exchange (BMV) under the ticker "GFNORTEO".

The following charts show, for the indicated periods, the maximum, minimum and close market prices for shares in the BMV (GFNORTEO), GBOOY (ADR Level 1) and XNOR (Latibex).

Performance of the stock at closing of the last 5 fiscal years:

GFNORTEO (Pesos) – BMV

Date	Maximum	Minimum	Close	*P/BV	**P/E	Volume of Shares (Daily Average)	Total Volume Operated
31/12/2010	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	16.17	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
31/12/2014	97.00	73.89	81.20	1.83	14.71	7,312,924	1,835,543,844

*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		
31/12/2010	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
31/12/2014	37.28	25.57	27.62	19,802	4,990,185

XNOR (Euros) – Latibex*

Date	Euros			Volume of Shares (Daily Average)	Total Volume Operated
	Maximum	Minimum	Close		
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
31/12/2014	5.41	4.11	4.61	5,474	218,942

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
31/03/2013	101.07	83.50	98.68	2.72	18.27	4,918,251	290,176,793
30/06/2013	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	6,510,607	397,147,019
31/06/2014	97.00	81.00	92.79	2.23	17.18	6,628,333	410,956,662
31/09/2014	94.87	84.95	85.78	2.00	14.69	5,440,177	353,611,526
31/12/2014	87.99	73.89	81.20	1.83	14.71	10,695,693	673,828,637
31/03/2015	89.89	72.05	88.52	1.94	15.79	7,149,070	436,093,273

*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		
31/03/2013	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	15,664	955,498
31/06/2014	37.28	31.57	35.73	23,119	1,456,515
31/09/2014	36.45	31.54	31.91	8,629	552,244
31/12/2014	32.51	25.57	27.62	31,655	2,025,928
31/03/2015	29.76	24.92	29.08	19,414	1,184,225

XNOR (Euros) – Latibex

Date	Euros			Volume of Shares (Daily Average)	Total Volume Operated
	Maximum	Minimum	Close		
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	4,886	122,154
31/06/2014	5.41	4.57	5.41	933	2,800
31/09/2014	5.41	5.01	5.01	3,667	11,000
31/12/2014	5.01	4.55	4.61	9,221	82,988
31/03/2015	4.79	4.40	4.78	1,500	9,000

Monthly performance of shares during the last 6 months:

GFNORTEO (Pesos) – BMV

Date	Maximum	Minimum	Close	Volume of Shares (Daily Average)	Total Volume Operated
31/10/2014	87.60	81.01	86.39	9,532,130	219,238,987
30/11/2014	87.99	73.89	78.80	14,918,199	283,445,787
31/12/2014	82.70	75.10	81.20	8,149,708	171,143,863
31/01/2015	81.70	72.05	76.07	7,617,366	159,964,689
28/02/2015	82.49	76.01	81.19	6,575,671	124,937,750
31/03/2015	89.89	79.52	88.52	7,199,564	151,190,834

GBOOY (Dollars) – ADRs

Date	Dollars per ADR			Volume of Shares (Daily Average)	Total Volume Operated
	Maximum	Minimum	Close		
31/10/2014	32.51	29.72	32.14	38,578	887,289
30/11/2014	32.27	27.24	28.11	24,660	468,537
31/12/2014	28.27	25.57	27.62	30,459	670,102
31/01/2015	27.87	24.92	25.40	25,731	514,612
28/02/2015	27.57	25.21	27.10	20,748	394,210
31/03/2015	29.76	26.45	29.08	12,518	275,403

XNOR (Euros) – Latibex

Date	Euros			Volume of Shares (Daily Average)	Total Volume Operated
	Maximum	Minimum	Close		
31/10/2014	5.01	4.55	5.00	13,850	55,400
30/11/2014	5.00	4.61	4.61	5,518	27,588
31/12/2014	4.61	4.61	4.61	N/A	N/A
31/01/2015	4.61	4.45	4.45	5,000	5,000
28/02/2015	4.79	4.45	4.79	1,000	3,000
31/03/2015	4.79	4.40	4.78	500	1,000

c) MARKET MAKER

GFNorte does not have nor ever had a market maker.

6. UNDERLYING ASSETS

At the moment GFNorte's subsidiaries do not carry out operations that involve underlying assets.

7. RESPONSIBLE OFFICERS

“The undersigned hereby solemnly declare that within the scope of our respective functions, we have truthfully prepared the information contained in this annual report related to Grupo Financiero Banorte, which to the best of our knowledge and understanding reasonably reflects the situation. We also declare that we do not have knowledge of any relevant information that has been omitted or falsified in this annual report or that it contains information that could mislead investors.”

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Jose Marcos Ramirez Miguel
Chief Executive Officer of Grupo Financiero Banorte, S.A.B. de C.V.

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Rafael Arana de la Garza
Chief Operating Officer

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Hector Avila Flores
Managing Director of Legal Affairs

“Los suscritos manifestamos 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 2014 y 2013 fueron dictaminados con fecha 19 de febrero de 2015 de conformidad con las Normas Internaciones de Auditoría. De igual manera, los estados financieros correspondientes al ejercicio terminado el 31 de diciembre de 2012 fueron dictaminados con fecha 20 de febrero de 2014, de conformidad con las Normas Internacionales de Auditoría.

Asimismo, manifestamos que hemos leído el presente reporte anual y basado en su lectura y dentro del alcance del trabajo de auditoría realizado, no tenemos conocimiento de errores relevantes o inconsistencias en la información que se incluye y cuya fuente provenga de los estados financieros dictaminados señalados en el párrafo anterior, ni de información que haya sido omitida o falseada en este reporte anual o que el mismo contenga información que pudiera inducir a error a los inversionistas.

No obstante, los suscritos no fuimos contratados, y no realizamos procedimientos adicionales con el objeto de expresar su opinión respecto de otra información contenida en el reporte anual que no provenga de los estados financieros por nosotros dictaminados.”

Galaz, Yamazaki, Ruiz Urquiza, S. C.
Firma miembro de Deloitte Touche Tohmatsu Limited

C.P.C. Fernando Nogueda Conde

Auditor Externo

C.P.C. Fernando Cerda Martínez

Apoderado Legal

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 Articles 58 of the Law to Regulate Financial Groups and 43 of the Stock Market Law, the Audit and Corporate Practices Committee (Committee) presents its annual report of activities for 2014.

The contents of this report shall refer to Grupo Financiero Banorte (GFNorte) and the following relevant institutions: Banco Mercantil del Norte, S.A., Inter National Bank, Casa de Bolsa Banorte Ixe, S.A. de C.V., Banorte Ixe Tarjetas, S.A. de C.V. SOFOM ER, Arrendadora y Factor Banorte, S.A. de C.V. SOFOM ER, Solida Administradora de Portafolios, S.A. de C.V. SOFOM ER, Seguros Banorte, S.A. de C.V., and Pensiones Banorte, S.A. de C.V.

I. In the area of audit:

a) On the state of the Internal Control System (SCI) and Internal Audit of GFNorte and their relevant institutions, deficiencies and deviations, the following elements were taken into consideration:

1. The annual reports on activities in matters of Internal Control of relevant entities are prepared by their General Directors.

2. The reports of Internal Comptrollers and regulations of some relevant entities, and their opinion on the functioning of the SCI.

3. Internal Audit's opinion on the situation of the SCI for relevant entities.

4. Reports on deficiencies and relevant observations of GFNorte and its subsidiaries presented by Internal Audit and follow-ups on corrective actions.

5. Reports of observations on Internal Control of the External Auditor and their opinion of the financial statements for GFNorte and its subsidiaries.

6. Reports of inspections visits by competent Authorities.

7. The opinions of Commissioners for relevant entities in GFNorte.

8. Reports of other Audit Committeeson relevant events and the minutes of their meetings.

9. Reports of Internal Audit's managment and compliance with its work program, and the results of its assurance and quality improvement program.

Taking into consideration indicated elements, we can report that the SCI of GFNorte and its relevant entities works reasonably well in general, and that deficiencies or deviations detected are in the process of being attended to.

With respect to the operation of Internal Audit, this areas has maintained its independence, reasonably met its work program in accordance with best practices, and effectively monitored the implementation of actions to correct observations and identified areas of opportunity.

b) No significant non-compliances to operating guidelines and policies or accounting records of GFNorte and its relevant entities were found. Detected areas of opportunity were reported to policy-makers and steps were taken to address them, a follow-up system ensures their proper implementation.

c) Regarding the performance evaluation of the corporation providing external audit services, it was reported that in the duty of its activities and its relationship with the Administration 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 that of the Auditor in charge.

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

d) On the description and assessment of the additional or complementary services provided by the External Auditor, during the 2014 fiscal year the hiring of additional services to assess compliance with regulations in the comprehensive risk management process for the Insurance and Annuities companies was approved Independent experts were hired to perform and impairment testing of GFNorte's goodwill and that of some subsidiaries, conducta technical review of risk models requested by the Bank of Mexico, carry out a review of quality in the Internal Audit area and issue opinions on more than 10 million legal contingencies.

e) The review of financial statements to December 31st, 2014 for GFNorte and its subsidiaires and the External Auditor's opinions were concluded, confirming that they were prepared in all material respects in accordance with applicable accounting principles, and recommended their approval by the Board of Directors. The Committee also reviewed the quarterly interim financial statements for the fiscal year.

f) With repect to the main modifications to policies and accounting criteria used during the year, reports that modifications were made to comply with changes in the applicable regulations, described in Note 4 of the financial statements called "Main Accounting Policies", with a detailed explanation of them and their effects.
   An important event in 2014, was when the Board of Directors approved the methodology for the valuation of investment projects.

g) No relevant observations or allegations of irregular events were received during the fiscal year from shareholders, Board members, directors, employees or any third party with respect to accounting, internal controls or internal and external audit. Based on best practices, there is an anonymous complaint system of the Committee follows-up with due attention.

h) The Committee has not been asked to monitor or follow-up on any agreements between the Shareholders' Assembly and the Board of Directors.

i) During the fiscal year, there were various supervisory visits by Banxico, Condusef, IPAB and CNBV, among which stood out the inspection visit carried out by the latter that focused on issues related to the origination process and follow-ups for credit and Internal Audit, which were reported to the Board of Directors in the meeting held on 23 October.

   The observations resulting from such visits were largely attended or are being attended to process modifications and/or technological adaptations required.

j) Among other relevant activities carried out by the Committee, the analysis of re-enforcing Audit and Internal Comptrollership structures and the added value activities of the External Auditor.

The Committee followed-up on areas of opportunity identified in the loan process, of which stood out selective loans and SME loans, and revised plans drawn up by the Administration for their remediation, as well as progress of the work plan to be implemented by the General Management of Credit.

With respect to the strategic alliance between GFNorte and IBM, the Committee followed-up on the progress of the "Adding value for the customer" project with the officers responsible for the same.

The Committee revised the plan to replace the system in the Fiduciary area in order to obtain a commercial solution to achieve a greater functional coverage, in addition to efficiencies.

Additionally, the Committee reviewed the plan for "Transformation Markets, Casa de Bolsa and investments" which seeks to change most of the systems and reduce operational risk.

Finally, the Committee assessed propective candidates for top-level positions, including CEO.

II. In the area of Corporate practices:

a) In relation to observations on the performance of relevant managers, the Human Resources Committee reported that there were no cases recorded of executives who acted outside of established policies during the fiscal year.

b) Transactions with related parties were approved by the Board of Directors and to December 31st, 2014 loans provided through Banco Mercantil del Norte to related parties amounted to Ps 3.668 billion, less than the limit set by the corresponding regulation.

   Intercompany transactions were conducted at market prices, which was verified by the External Auditor who reported no relevant findings.

   We can report that during the fiscal year there were no unusual or non-recurring operations that required approval from the Board of Directors.

c) Emolument packages for the CEO and relevant managers included in the Remuneration System were approved by the Board of Directors, which divides their remuneration into ordinary and extraordinary, and includes rules to defer the latter according to established risk indicators and compliance with policies, and was applied consistently during the fiscal year.

d) During the fiscal year the Board of Directors did not award dispensations to directors or relevant managers to take advantage of business opportunities.

Yours truly,

Hector Reyes Retana y Dahl
President 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, 2014 and 2013, 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 of Grupo Financiero Banorte, S.A.B. de C.V. and Subsidiaries as of December 31, 2014 and 2013, and their financial performance and their cash flows for the years then ended, in accordance with the accounting practices prescribed by the Commission.

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 19, 2015

GRUPO FINANCIERO BANORTE, S.A.B. DE C.V. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2014 AND 2013
(In millions of Mexican pesos)

ASSETS	**2014**	**2013**
CASH AND CASH EQUIVALENTS	**Ps. 73,838**	**Ps. 61,978**
MARGIN SECURITIES	**45**	**59**
INVESTMENTS IN SECURITIES		
Trading securities	248,976	232,926
Securities available for sale	104,937	85,031
Securities held to maturity	77,736	96,730
	431,649	**414,687**
DEBTOR BALANCES UNDER REPURCHASE AND RESALE AGREEMENTS	**871**	**202**
DERIVATIVES FINANCIAL INSTRUMENTS		
For trading purposes	16,510	14,799
For hedging purposes	86	55
	16,596	**14,854**
VALUATION ADJUSTMENTS FOR ASSET HEDGING	**143**	**158**
PERFORMING LOAN PORTFOLIO		
Commercial loans		
Business loans	191,189	184,624
Financial institutions' loans	3,316	4,863
Government loans	118,962	95,636
Consumer loans	68,383	57,883
Mortgage loans	89,918	82,032
TOTAL PERFORMING LOAN PORTFOLIO	**471,768**	**425,038**
PAST-DUE LOAN PORTFOLIO		
Commercial loans		
Business loans	10,649	10,473
Financial institutions' loans	1	-
Government loans	-	2
Consumer loans	2,370	2,093
Mortgage loans	1,274	1,087
TOTAL PAST-DUE LOAN PORTFOLIO	**14,294**	**13,655**
LOAN PORTFOLIO	**486,062**	**438,693**
(Minus) Allowance for loan losses	(15,287)	(14,289)
LOAN PORTFOLIO, net	**470,775**	**424,404**
ACQUIRED COLLECTION RIGHTS	**2,984**	**3,522**
TOTAL LOAN PORTFOLIO, net	**473,759**	**427,926**
ACCOUNTS RECEIVABLE FROM INSURANCE AND ANNUITIES, net	**1,934**	**1,281**
PREMIUM RECEIVABLES	**4,502**	**3,047**
ACCOUNTS RECEIVABLE FROM REINSURANCE	**5,967**	**3,563**
RECEIVABLES GENERATED BY SECURITIZATIONS	**587**	**738**
OTHER ACCOUNTS RECEIVABLE, net	**26,646**	**21,703**
MERCHANDISE INVENTORY	**922**	**477**
FORECLOSED ASSETS, net	**2,732**	**2,781**
PROPERTY, FURNITURE AND EQUIPMENT, net	**12,845**	**12,033**
PERMANENT STOCK INVESTMENTS	**13,916**	**14,205**
DEFERRED TAXES, net	**2,311**	**-**
OTHER ASSETS, net		
Other assets, deferred charges and intangible assets	**28,719**	**27,096**
TOTAL ASSETS	**Ps. 1,097,982**	**Ps. 1,006,788**

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, 2014, the stockholders' equity amounts to Ps. 9,677 (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.

	2014	**2013**

LIABILITIES AND STOCKHOLDERS' EQUITY		
DEPOSITS		
Demand deposits	Ps. 298,852	Ps. 254,219
Time deposits		
General public	185,220	179,146
Money market	8,444	4,971
Senior debt issued	5,406	5,405
	497,922	**443,741**
INTERBANK AND OTHER LOANS		
Demand loans	-	2,974
Short-term loans	21,082	19,406
Long-term loans	9,002	7,679
	30,084	**30,059**
TECHNICAL RESERVES	**73,693**	**62,207**
CREDITOR BALANCES UNDER REPURCHASE AND RESALE AGREEMENTS	**306,602**	**304,021**
COLLATERAL SOLD OR PLEDGED		
Repurchase or resale agreements (creditor balance)	**154**	**8**
DERIVATIVES FINANCIAL INSTRUMENTS		
For trading purposes	17,271	14,827
For hedging purposes	4,020	3,500
	21,291	**18,327**
ACCOUNTS PAYABLE TO REINSURERS, net	**1,619**	**759**
OTHER ACCOUNTS PAYABLES		
Income tax	5,380	794
Employee profit sharing	373	339
Creditors from settlements of transactions	3,224	4,282
Sundry creditors and other payables	15,041	12,936
	24,018	**18,351**
SUBORDINATED DEBENTURES	**16,468**	**18,001**
DEFERRED TAXES, net	**-**	**200**
DEFERRED CREDITS AND ADVANCED COLLECTIONS	**1,459**	**2,423**
TOTAL LIABILITIES	**973,310**	**898,097**
STOCKHOLDERS' EQUITY		
PAID-IN CAPITAL		
Common stock	14,632	14,652
Additional paid-in capital	36,201	35,219
	50,833	**49,871**
OTHER CAPITAL		
Capital reserves	6,657	5,811
Retained earnings from prior years	50,407	39,303
Result from valuation of securities available for sale	634	667
Result from valuation of instruments for cash flow hedging	(762)	(1,420)
Cumulative foreign currency translation adjustment	(75)	(1,083)
Net income	15,228	13,508
	72,089	**56,786**
MINORITY INTEREST	**1,750**	**2,034**
TOTAL STOCKHOLDERS' EQUITY	**124,672**	**108,691**
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**Ps. 1,097,982**	**Ps. 1,006,788**

Act. Jose Marcos Ramirez Miguel
CEO

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

C.P. Isaias Velazquez Gonzalez
Managing Director - Audit

Lic. Jorge Eduardo Vega Camargo
Deputy Managing Director - Controller

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

GRUPO FINANCIERO BANORTE, S.A.B. DE C.V. AND SUBSIDIARIES
CONSOLIDATED INCOME STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013
(In millions of Mexican pesos)

	2014	2013
Interest income	Ps. 72,579	Ps. 70,991
Premium revenue, net	18,692	18,027
Interest expense	(27,861)	(31,456)
Increase in technical reserves	(9,655)	(9,686)
Casualty rate, claims and other contractual obligations, net	(9,659)	(9,138)
NET INTEREST INCOME	**44,096**	**38,738**
Provisions for loan losses	(11,196)	(8,942)
NET INTEREST INCOME AFTER ALLOWANCE FOR LOAN LOSSES	**32,900**	**29,796**
Commission and fee income	12,820	12,006
Commission and fee expense	(4,267)	(3,917)
Brokerage revenues	4,420	3,414
Other operating income (expenses)	3,260	3,223
Non-interest expense	(29,232)	(27,818)
	(12,999)	**(13,092)**
OPERATING INCOME	**19,901**	**16,704**
Equity in earnings of unconsolidated subsidiaries and associated companies	1,220	1,130
INCOME BEFORE INCOME TAX	**21,121**	**17,834**
Current income tax	(8,040)	(3,671)
Deferred income taxes, net	2,372	116
	(5,668)	**(3,555)**
INCOME BEFORE NONCONTROLLING INTEREST	**15,453**	**14,279**
Minority interest	(225)	(771)
NET INCOME	**Ps. 15,228**	**Ps. 13,508**

These Income Statements, consolidated with those of the financial entities and other companies that form part of the Financial Group and are susceptible to consolidation, were prepared according to Accounting Principles applicable to Financial Service Holding Companies issued by the Mexican National Banking and Securities Commission according to article 30 of the Law of Financial Institutions. Such principles are consistently applied in the consolidated financial statements, which are presented according to sound practices and applicable legal and administrative provisions and reflect all the operations conducted by the Financial Group, its financial service subsidiaries and the other companies that form part of the Financial Group and are consolidated as of the Consolidated Income Statement dates above.

The accompanying Consolidated Income Statements have been approved by the Board of Directors in accordance with the responsibility assigned to them.

The attached Notes are an integral part of these consolidated financial statements.

Act. Jose Marcos Ramirez Miguel
CEO

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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, 2014 AND 2013
(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, 2013	**Ps. 13,072**	**Ps. 18,320**	**Ps. 3,399**	**Ps. 37,644**	**Ps. 1,598**	**(Ps. 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 & Pensiones Banorte	-	(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	**14,652**	**35,219**	**5,811**	**39,303**	**667**	**(1,420)**
TRANSACTIONS APPROVED BY STOCKHOLDERS:						
Share repurchase for executive shares' plan payable in equity instruments	(20)	438	(357)	1	36	-
Transfer of prior year's result	-	-	-	13,508	-	-
Creation of reserves as per General Stockholders' meeting on April 25, 2014	-	-	314	(314)	-	-
Creation of reserves for share repurchase	-	-	889	(889)	-	-
Dividends declared at the General Stockholders' meeting on October 14, 2013 and paid on:						
July 23, 2014	-	-	-	(544)	-	-
Dividends declared at the General Stockholders' meeting on October 22, 2014 and paid on:						
October 31, 2014	-	-	-	(674)	-	-
Total transactions approved by stockholders	**(20)**	**438**	**846**	**11,088**	**36**	**-**
COMPREHENSIVE INCOME:						
Net income	-	-	-	-	-	-
Result from valuation of securities available for sale	-	-	-		(69)	-
Effect of subsidiaries, affiliates and mutual funds	-	544	-	16	-	-
Result from valuation of instruments for cash flow hedging	-	-	-	-	-	658
Total comprehensive income	**-**	**544**	**-**	**16**	**(69)**	**658**
Minority Interest	**-**	**-**	**-**	**-**	**-**	**-**
Balances, December 31, 2014	**Ps. 14,632**	**Ps. 36,201**	**Ps. 6,657**	**Ps. 50,407**	**Ps. 634**	**(Ps. 762)**

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, 2013	**(Ps. 547)**	**Ps. 10,888**	**Ps. 81,881**	**Ps. 6,628**	**Ps. 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, 2013	-	-	(1,089)	-	(1,089)
Acquisition of Banorte shares from IFC	-	-	(3,747)	-	(3,747)
Acquisition of Minority interest of Seguros Banorte & Pensiones Banorte	-	-	(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	**(1,083)**	**13,508**	**106,657**	**2,034**	**108,691**
TRANSACTIONS APPROVED BY STOCKHOLDERS:					
Share repurchase for executive shares' plan payable in equity instruments	-	-	98	-	98
Transfer of prior year's result	-	(13,508)	-	-	-
Creation of reserves as per General Stockholders' meeting on April 25, 2014	-	-	-	-	-
Creation of reserves for share repurchase	-	-	-	-	-
Dividends declared at the General Stockholders' meeting on October 14, 2013 and paid on:					
July 23, 2014	-	-	(544)	-	(544)
Dividends declared at the General Stockholders' meeting on October 22, 2014 and paid on:					
October 31, 2014	-	-	(674)	-	(674)
Total transactions approved by stockholders	**-**	**(13,508)**	**(1,120)**	**-**	**(1,120)**
COMPREHENSIVE INCOME:					
Net income	-	15,228	15,228	-	15,228
Result from valuation of securities available for sale	-	-	(69)	-	(69)
Effect of subsidiaries, affiliates and mutual funds	1,008	-	1,568	-	1,568
Result from valuation of instruments for cash flow hedging	-	-	658	-	658
Total comprehensive income	**1,008**	**15,228**	**17,385**	**-**	**17,385**
Minority Interest	-	-	-	(284)	(284)
Balances, December 31, 2014	**(Ps. 75)**	**Ps. 15,228**	**Ps. 122,922**	**Ps. 1,750**	**Ps. 124,672**

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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, 2014 AND 2013
(In millions of Mexican pesos)

	2014	2013
Net income	**Ps. 15,228**	**Ps. 13,508**
Items not requiring (generating) resources:		
Depreciation and amortization	1,262	1,216
Technical reserves	9,655	9,686
Other provisions	6,005	(757)
Current and deferred income tax	5,668	3,555
Equity in earnings of unconsolidated subsidiaries and associated companies	(995)	(359)
	36,823	**26,849**
OPERATING ACTIVITIES:		
Changes in margin accounts	13	437
Changes in investments in securities	(15,802)	(69,906)
Changes in debtor balances under repurchase and resale agreements	(669)	5,492
Changes in asset position of derivatives financial instruments	(1,696)	3,456
Change in loan portfolio	(44,888)	(26,132)
Changes in acquired collection rights	537	(412)
Changes in accounts receivable from insurance and annuities, net	(653)	(396)
Changes in debtor premiums, (net)	(1,455)	90
Changes in reinsurance agencies (net) (asset)	(2,404)	(847)
Changes in receivables generated by securitizations	151	144
Change in foreclosed assets	61	156
Change in other operating assets	(5,881)	(4,526)
Change in deposits	51,799	19,295
Change in interbank and other loans	10	(5,829)
Change in creditor balances under repurchase and sale agreements	2,580	59,991
Collateral sold or pledged	145	(29)
Change in liability position of derivative financial instruments	2,444	(2,950)
Change in technical reserves (net)	1,831	799
Changes in reinsurance agencies (net) (liability)	860	(46)
Change in subordinated debentures	(1,567)	(1,457)
Change in other operating liabilities	(5,291)	(6,046)
Change in hedging instruments related to operations	488	(989)
Income tax	(3,584)	(5,324)
Net cash flows provided by (used in) operating activity	**13,852**	**(8,180)**
INVESTING ACTIVITIES:		
Proceeds on disposal of property, furniture and equipment	2,002	2,681
Payments for acquisition of property, furniture and equipment	(4,006)	(3,939)
Charges on acquisitions of subsidiaries and associated companies	409	1,037
Payment on acquisitions of subsidiaries and associated companies	-	(27,345)
Sale of other permanent investments	-	(1)
Charges for cash dividends	1,134	505
Net cash flows used in investment activity	**(461)**	**(27,062)**
FINANCING ACTIVITIES:		
Charges for issuance of shares	-	31,200
Dividends paid	(1,218)	(2,911)
Repurchase of shares	(549)	437
Net cash flow (used in) provided by financing activity	**(1,767)**	**28,726**
Net increase (decrease) in cash and cash equivalents	11,624	(6,516)
Effects from changes in the value of cash and cash equivalents	236	14
Cash and cash equivalents at the beginning of the year	61,978	68,480
Cash and cash equivalents at the end of the year	**Ps. 73,838**	**Ps. 61,978**

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, 2014.

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 their 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 22, 2015 meeting in accordance with the responsibility assigned to this Organ.

2 – SIGNIFICANT EVENTS DURING THE YEAR

a) Follow-up on Loan Exposure in the Housing Development Sector

During 2014, the three main housing developers in the country continued facing financial difficulties. Consequently they are in the process of restructuring their debts and have been delinquent in their payments. As of December 31, 2014, two of them have been declared bankruptcy with a prior restructuring plan that would allow them to continue operating.

As part of the agreements made with the creditor banks, these companies' funding may be reactivated provided they comply with the terms and conditions of the agreed upon restructuring.

As of December 31, 2014, the Financial Group's loan exposure with the three developers was Ps. 5,536;of which Ps. 5,418 were past due. According to the Administration's estimate, the hedge funds recorded as of December 31, 2014 of Ps. 3,191 cover the Financial Group's potential losses.

Additionally, as of December 31, 2014, the Financial Group has a Ps. 6,114 balance in investment projects, as per Note 4.

b) Reclassification of Securities Held To Maturity

In December 2014, the Financial Group reclassified securities held to maturity to securities available for sale, comprised mainly of stock certificates and Eurobonds of private companies, of Ps. 4,447. The book value of the securities was Ps. 4,447, with a market value of Ps. 4,396, whereby the Financial Group recognized an appreciated shortfall of (Ps. 51) in its equity

According to the Commission's Circular B-2 "Investments in Securities", the Financial Group may not classify securities acquired as of that date and up to December 31, 2016 in the category of securities held to maturity. Note 6 indicate that the Financial Group had such instruments held to maturity as of December 31, 2014 and 2013.

c) Prepayment of Subordinated Debentures

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%.

3 – BASIS OF PRESENTATION

Monetary unit of the consolidated financial statements

The consolidated financial statements and notes as of December 31, 2014 and 2013 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, 2014 and 2013, Grupo Financiero Banorte, S.A.B. de C.V.'s consolidated subsidiaries and its equity ownership is as follows:

	2014	2013
Banco Mercantil del Norte, S.A. and Subsidiaries	98.22%	97.50%
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, S.A. de C.V.	99.99%	99.99%
Pensiones Banorte, S.A. de C.V.	99.99%	99.99%
Casa de Bolsa Banorte Ixe, S.A. de C.V.	99.99%	99.99%
Operadora de Fondos Banorte Ixe, S.A. de C.V.	99.99%	99.99%
Ixe Servicios, S.A. de C.V.	99.99%	99.99%
Solida Administradora de Portafolios, S.A. de C.V., SOFOM, ER	98.83%	96.76%

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 2014 and 2013, 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, 2014, the Financial Group adopted changes regarding the following NIFs:

NIF C-11, Stockholders' equity - Establishes the disclosure standards so that future advance payments in capital are presented in the stockholders' equity, for which: i) there must be ruling in the stockholders' or owners' meeting stating that they will be applied to stockholders' equity increases in the future; ii) determine a set number of shares to issue for such advance payments; iii) there is no fixed yield; and iv) they cannot be reimbursed before being capitalized.

NIF C-12, Financial instruments with liability and capital features - Establishes that: i) the main feature required for an equity instrument to qualify as such is that its holder be exposed to risks and benefits, instead of having the right to charge a fixed amount; ii) an equity instrument may be stated as stockholders' equity when it meets certain conditions, such as that the instrument can only be redeemed upon the company's liquidation, provided there is no other unavoidable payment obligation to the holder; iii) it incorporates the concept of subordination, a crucial element of this standard, because if a financial instrument sets a priority of payment or reimbursement over other instruments, it qualifies as a liability; iv) it allows stating an instrument as capital with an option to issue a set number of shares at a fixed price in a currency other than that of the issuer, provided that all the proprietors of the same class of equity instruments have such option in proportion to their share.

Improvements to NIF 2014 - Enhancements issued that caused accounting changes:

NIF C-5, Advance payments - It establishes that the amounts paid in foreign currency shall be recorded at the exchange rate of the transaction date and shall not be subject to subsequent exchange rate fluctuations.

NIF C-15, Impairment in the value of long-term assets and their disposal - It states that impairment losses, as well as their reversals, shall be presented as part of the net profit or loss of the period, in the item deemed appropriate at the professional discretion of the reporting entity. Under no circumstances may impairment losses be reported as part of expenses that have been capitalized in any asset.

In the case of long-term assets for sale, a one-year extension to complete the sale does not preclude the asset from being stated as held for sale. Furthermore, assets and liabilities identified with the discontinuation of a transaction, shall be reported in the general balance sheet, grouped into a single line item of assets and into another of short-term liabilities. The prior year general balance sheets shall not be modified because of this restating.

NIF C-6, Property, plant and equipment, NIF C-7, Intangible assets, NIF C-9, Liabilities, provisions, contingent assets and liabilities, and acquisitions, D-3, Employee benefits - Do not have to be reported under other income and expenses in the statement of income; consequently reference to these concepts are eliminated in these NIF.

As of December 31, 2014, there were no effects of these new standards in the Financial Group's consolidated financial information.

Main changes in accounting principle B-6 “Loan Portfolio”:

On September 24, 2014, the Commission published a ruling that modifies the provisions regarding B-6 "Loan Portfolio." This principle's objective is to establish how banking institutions should handle the accounting of loans granted pursuant to Article 43 (fraction VIII) and Article 75 (fractions II and III of Article 224) of the Bankruptcy Law. The main changes are:

- Specify in the definition of past-due loans, that in order to exclude this term from the loans given to borrowers declared bankrupt, the Banks shall continue to receive payment of the principal and interest.

  Past-due loan portfolio - Comprised of loans:

  a) Whose borrowers are declared bankrupt, except loans that:

     i. Continue to receive payment as per fraction VIII of Article 43 of the Bankruptcy Law, or

     ii. are granted pursuant to article 75 as related to fractions II and III of Article 224 of said Law; or

  b) Whose principal, interest or both have not been liquidated as originally agreed, in which case the provisions in paragraphs 53 to 64 of this standard will apply.

- It incorporates the definition of payment.

  Payment.- Actual delivery of the object or amount due or the rendering of the service that was agreed to. The following shall not be considered as payment: accruable interest income from capitalizable leasing or financial factoring; nor capitalized interest.

- It specifies the Bankruptcy Law’s rationale regarding how Banks should transfer to past-due loans those loans granted to companies filing for bankruptcy, provided said companies pay the principal and interest.

- Transfer to past-due loans.-

The outstanding balance according to the conditions set forth in the loan agreement will be recorded as past-due when:

- The Financial Group is aware that the borrower has declared bankruptcy, pursuant to the Bankruptcy Law.

- Without impairment to the stipulations in this number, loans for which payment is continued to be received as per fraction VIII of article 43 of the Bankruptcy Law, as well as loans granted pursuant to article 75 as related to fractions II and III of article 224 of said law, will be transferred to past-due loans in the cases listed in number 2 of paragraph 53 of principle B-6 "Past-due Loans."

Change in recording the result of the valuation of investments in the Insurance and Pension companies' securities

During the second quarter of 2014, the Financial Group restated the result of the valuation of investments in Insurance and Pension companies' securities to the Net Interest Margin under "Trading Income." This is because this concept corresponds to a valuation generated mainly by updating the value of the UDI in Securities Held to Maturity denominated in UDIs for both companies.

This result used to be recorded in "Trading Income" - "Fair Value Valuation Result," as recorded in the Insurance and Pension companies' financial statements. However, given their origin and the intention to uniform the criteria for grouping the transactions of the Financial Group's subsidiaries, it was decided that the valuation of investments in securities of these companies be included as part of the Net Interest Margin in Interest Income of the Financial Group's Income Statement. This restating was done retroactively to have comparable figures, impacting by Ps. 1,557 the Net Interest Margin vs. Trading Income.

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 2014 and 2013 was 11.76% and 12.31%, respectively. Therefore, the Mexican economy is considered as non-inflationary. However, assets, liabilities and stockholders' equity as of December 31, 2014 and 2013 include the restatement effects recorded up until December 31, 2007.

The Mexican inflation rates for the years ended December 31, 2014 and 2013 were 4.18% and 3.78%, 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.

Securities held to maturity

Securities held to maturity consist of debt instruments whose payments are fixed or can be determined with a set maturity, which are acquired with the intent and capability to hold them to maturity.

They are initially recorded at fair value and valued at amortized cost, which means that the amortization of the premium or discount (included in the fair value at which they were initially recorded), is part of the earned interest.

<u>General valuation standards</u>

Upon the sale of trading securities, the valuation result previously recorded in the year's results is reclassified as part of the gain or loss on the sale. Similarly, upon the sale of securities available for sale, the cumulative valuation result recorded in other comprehensive income in stockholders' equity is reclassified as part of the gain or loss on the sale.

Accrued interest on debt instruments is determined using the effective interest method and is recorded in the corresponding category of investments in securities and in the year's results.

Dividends on equity instruments are recorded in the corresponding category of investments in securities and in the year's results when the right to receive such dividends is established.

The foreign exchange gain or loss on investments in securities denominated in foreign currency is recorded in the year's results.

Reclassification of securities from held to maturity to available for sale is allowed, provided there is no intention or ability of holding them to maturity. In the case of reclassifications to securities held to maturity or from trading securities to available for sale securities, which can be done in extraordinary circumstances (lack of market liquidity, absence of an active market for such securities, among others), the Commission will evaluate such circumstances and, if it determines they are valid, it will issue its express authorization for their reclassification.

If securities held to maturity are reclassified as available for sale, the corresponding valuation result on the reclassification date is recorded in other comprehensive income within stockholders' equity.

In the case of debt instruments that have been authorized for reclassification from available for sale securities to held to maturity securities, the valuation result on the transfer date continues to be reported in stockholders' equity, and it is amortized based on such instrument's remaining life.

Regarding authorized reclassifications from trading securities to any other category, the valuation result on the reclassification date is already acknowledged in the year's results.

An impairment loss on a security is recorded against the year's results if there is objective evidence of such impairment as a result of one or more events, occurring after the initial recording of the security, that have had an impact on the estimated future cash flows that can be reliably determined. The effect of recording the impairment of securities is shown in Note 6.

A previously recorded impairment loss is reversed against the year's results if, in a later period, the amount of the loss decreases and such decrease is objectively associated with an event occurring after the impairment was recorded.

The Financial Group periodically verifies if its securities available for sale and held to maturity show any impairment loss, by means of an evaluation on the quarterly balance sheet date or whenever there are indications of an impairment loss.

Securities are deemed as impaired and therefore incurring an impairment loss if and only if there is objective evidence of the impairment loss as a result of a set of events that occurred after their initial value was recorded. Such events should have had an impact on the estimated future cash flows, which can be determined in a reliable manner.

These events may include: issuer's significant financial difficulties; likelihood of the issuer's filing for bankruptcy or financial reorganization; noncompliance with contractual clauses such as failure to pay interest or the principal; loss of an active market for the securities due to financial difficulties; lower credit rating and sustained decline in the issuance price, in combination with additional information.

In addition to the aforementioned events, objective evidence of impairment loss for a net asset instrument includes information about significant changes with adverse effects that occurred in the technological, market, economic or legal situation in which the issuer operates, and which indicates a possible loss of the cost of investing in the net asset instrument.

The events considered by the model are divided into:

a) Information that the Financial Group has about the securities (breach of contract covenants, financial, economic or legal problems).

b) Information that the Financial Group has about the issuer (issuer's probability of bankruptcy, financial reorganization and financial difficulties).

c) Information that the market has about the securities (rating assigned by Commission-approved agencies).

d) Information that the market has about the issuer (rating assigned by Commission-approved agencies).

The evaluation model that the Financial Group applies to determine impairment loss incorporates the aforementioned events according to their importance and rates them as per the severity percentage used to estimate the return on investment. Similarly, it incorporates the existence of guarantees, which contributes to lower impairment losses.

The investments on which impairment losses have been recognized are analyzed on a quarterly basis to identify the possible recovery of their value and, if applicable, reverse the recorded loss in the Consolidated Income Statements for the year such recovery is achieved.

Customer repurchase agreements (repos)

This is a transaction through which the purchaser acquires ownership of credit securities for a sum of money and is obliged to transfer the property of another amount of securities of the same kind to the seller of the securities within the agreed term and in exchange for the same price plus a premium. The purchaser keeps the premium unless agreed otherwise.

Repurchase transactions are recorded according to their economic substance, which is financing with collateral, through which the Financial Group, acting as the purchaser, provides cash as financing in exchange for financial assets as guarantee in case of non-compliance.

On the repurchase agreement transaction contract date, the Financial Group, acting as the seller, records the cash inflow, or else a settlement debtor account as well as a payable account at its fair value, initially at the agreed price, which represents the obligation to reimburse the cash to the purchaser. The account payable is subsequently valued over the term of the repurchase agreement at amortized cost by recognizing the interest from the repurchase agreement in the year's results using the effective interest method.

As to the collateral granted, the Financial Group reclassifies the financial asset in the Consolidated Balance Sheet as restricted and values it according to the criteria mentioned earlier in this note until the maturity of the repurchase agreement.

The Financial Group, acting as the purchaser, on the repurchase transaction contract date records cash and cash equivalents or a creditor settlement account, with an account receivable at its fair value, initially at the agreed price, which represents the right to recover the cash that was delivered. The receivable is subsequently valued over the life of the repurchase agreement at amortized cost by recognizing the repurchase agreement interest in the year's results using the effective interest method.

As to the collateral received, the Financial Group records it in off balance sheet memorandum accounts until the repurchase agreement's maturity, following the guidelines of Circular B-9, "Asset Custody and Management", issued by the Commission.

Derivatives financial instruments

The Financial Group is authorized to perform two types of transactions involving derivatives financial instruments:

Transactions to hedge the Financial Group's open risk position: Such transactions involve purchasing or selling derivatives financial instruments to mitigate the risk resulting from one or a group of given transactions.

Transactions for trading purposes: The Financial Group enters into such transactions as a market participant for reasons other than to hedge its exposed position.

Transactions with derivatives financial instruments are presented in assets or liabilities, as applicable, under the heading "Derivatives financial instruments", separating derivatives for trading purposes from those for hedging purposes.

When entering into transactions involving derivatives financial instruments, the Financial Group's internal policies and norms require an assessment and if necessary determination of different risk exposures for each counterparty in the financial system that have been authorized by Banco de 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 cash flow’s hedging transactions based on the following guidelines:

a. The effective portion of the hedging instrument’s gain or loss is recorded as a component of other comprehensive income in stockholders’ equity using an asset or liability account called “derivatives financial instruments” with an offsetting account in liquid assets or liabilities. The portion determined as ineffective is measured through retrospective testing, and when it results in over-hedging, it is immediately recognized in current earnings.

b. The effective hedging component recognized in stockholders’ equity associated with the hedged item is adjusted to equal the lowest (in absolute terms) of:

    i. The accumulated gain or loss of the hedging instrument from its inception.
    ii. The accumulated change in fair value (present value) of the hedged expected future cash flows from the beginning of the transaction.

Valuation method

Since the derivatives used by the Financial Group are considered as conventional (“Plain Vanilla”), standard valuation models contained in the derivative transaction systems and the Financial Group’s risk management are used.

All of the valuation methods that the Financial Group uses result in fair value of the transactions and are periodically adjusted. Furthermore, they are audited by internal and external auditors, as well as by the financial authorities.

Valuation of the positions is done on a daily basis and a price provider generates the input used by the transaction and risk management systems. The price provider generates these valuations based on daily market conditions.

The valuation methods are based on the market’s accepted and commonly used principles. At present, derivatives are valued by the cash flow present value method, except in the case of options. This method consists of estimating future derivative flows, using the difference between the derivative's fixed level and the forward market curves on the valuation date, and then discounting such flows and updating them to the present value. Options are valuated under the Black and Scholes method, which in addition to the present value calculation, involves the volatility and probability of occurrence for calculating the premium. Once the option's market value is obtained, it is compared to the original premium accrued on the valuation date.

Cancellation of hedging accounting

A cash flow hedging relation is cancelled when:

1. The hedging instrument expires or is sold, terminated or enforced;
2. The hedging fails to meet the requirements of documentation, evaluation and effectiveness measuring;
3. The projected transaction is not expected to occur;
4. The hedging designation is revoked.

For cases 1 and 2, the profit or loss recorded in net income stays in that account until the projected transactions occurs. For case 3, the profit or loss recorded in net income should be immediately restated in results; and for case

4, if the hedging is on a projected transaction, the loss or profit stated in net income should stay in that account until the projected transactions is realized. Otherwise, it should be immediately restated in results.

A fair value hedging relation is canceled when:

1. The hedging instrument expires or is sold, terminated or enforced;
2. The hedging fails to meet the requirements of documentation, evaluation and effectiveness measuring;
3. The hedging designation is revoked.

Any adjustment to the result from the valuation adjustment of the hedged item attributable to the covered risk, should be amortized in the period's results. The amortization start as soon as the adjustment turns up, and under no circumstance after the hedged item is no longer adjusted due to changes in the fair value attributable to the risk covered. The adjustment should be amortized in full on the due date of the hedged item.

<u>Operation strategies</u>

Trading
The Financial Group participates in the derivatives market with trading purposes, and the risk exposures generated are computed within its overall VaR limit.

The trading strategy is submitted on a weekly basis to the Financial Group's Treasury Committee, which analyzes the current risks and takes any necessary decisions.

The trading strategy is carried out according to market levels and expectations, maximizing the circumstances to obtain a benefit by trading, margin and volatility. Each trading strategy is submitted to the Treasury Committee on a weekly basis for its consideration. The Committee analyzes the risks and then decides accordingly.

Hedging

The hedging strategy is determined annually and when market conditions require it. Hedging strategies are submitted to the Risk Policies Committee.

Hedging transactions comply with the applicable norm set forth in Circular B-5 "Derivatives and hedging transactions" issued by the Commission. This implies, among other things, that the hedge's effectiveness must be evaluated both prior to its arrangement (prospective) as well as thereafter (retrospective). These tests are performed on a monthly basis.

The hedging strategy is determined annually and each time the market conditions require. Hedges are used to reduce foreign exchange risks, through both exchange rate forwards and currency swaps, as well as interest rates by means of interest rate swaps. This is done with the purpose of setting the rates paid on debt issued by the Financial Group, thereby ensuring the debt servicing, as well as to make investments that generate greater value for the customers. The main strategy is to ensure that the Financial Group's future income and expenses are covered, maximizing its profitability.

Hedging derivatives can be restated whole or partially due to hedging inefficiencies, maturity or sale of primary position.

Contingencies

To enter the derivatives market, the Financial Group is bound by agreement to deliver its financial information in a timely manner and to abide by the applicable laws, regulations and provisions, as well as to provide written notice to the affected parties in case that an event arises that could be considered as early termination, which could lead to a credit contingency. These include the following: bankruptcy filing, payment suspension, restructuring, intervention, liquidation, dissolution or other similar judicial or extra-judicial proceedings that affect the Financial Group; if the statements stipulated in the contract are incorrect; the Financial Group's failure to fulfill its obligations and/or payments; breach of contract; the Financial Group's consolidates or merges with another entity thereby transferring a substantial portion of its assets; failure to provide the guarantees that were agreed in the event of noncompliance with obligations or if such guarantees expired or diminished in value; the Financial Group's falls into insolvency, lower credit quality or illegality due to changes in the tax or legal legislation; the existence of a ruling, proceeding or embargo against the Financial Group that could substantially affect its ability to fulfill its obligations in a timely manner; or general noncompliance with obligations. Each ground for early termination is subject to the counter-party's consideration in order to determine its importance and significance regarding the Financial Group's ability to comply.

At present no such contingency situations have arisen.

Embedded derivatives

Embedded derivatives are those contract components that do not intend to explicitly originate a derivative financial instrument but rather that the implicit risks generated or hedged by those components differ in their economic and risk features from those of the contract, and therefore display a behavior and features similar to those of a common derivative.

Identified embedded derivatives are separated from the host contract for valuation purposes and are treated as a derivative when they meet the features outlined in Circular B-5 paragraph 22, unless the implicit derivative is denominated in a currency commonly used for the purchase and sale of non-financial items in the economic environment where the transaction takes place. The main embedded derivatives recognized by the Financial Group prior to January 2011 are from service and leasing contracts established in US dollars.

Loan portfolio

The loan portfolio represents the balance of amounts effectively granted to borrowers plus uncollected accrued interest minus interest collected in advance. The allowance for loan losses from credit risks is presented as a reduction of the loan portfolio.

The unpaid loan balance is classified as past-due portfolio as follows:

- Loans with bullet payment of principal and interest at maturity: 30 calendar days after being overdue.
- Loans involving a single principal payment at maturity, but with periodic interest payments, total principal and interest payments 30 and 90 calendar days after being overdue, respectively.
- Loans for which the payment of principal and interest is agreed based on partial periodic payments, 90 calendar days after the first payment is due.
- In the case of revolving loans, whenever payment is outstanding for two billing periods or when they are 60 or more days overdue.
- Overdrawn customer checking accounts are considered as part of the past-due portfolio when such situations arise.

Interest is recognized and accrued as income when earned. The accrual of interest income is suspended when loans are transferred to the past-due portfolio.

The fees charged the initial granting, restructuring and renewal of loans will be recorded as a deferred credit, which will be amortized as interest income, using the straight line method over the loan's contractual term, except those originating from revolving loans, which are amortized over a 12-month period.

Annual credit card fees, whether the first annual charge or subsequent of a renewal, are recorded as a deferred credit and amortized over a 12-month period against the year's results in the commission and fee income line item.

The costs and expenses associated with the initial granting, restructuring and renewal of a loan are stated as a deferred charge which is amortized against the year's earnings as interest expense for the duration of the loan, except those originating from revolving loans and credit cards as they are amortized over a 12-month period.

Restructured past-due loans are not considered in the performing portfolio until evidence of sustained payment is obtained; this occurs when credit institutions receive three timely consecutive payments, or a payment is received for periods exceeding 60 days.

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, the Financial Group applies 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 until December 31, 2013.

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

Such provisions also establish general methodologies for 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 all the 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 financial intermediaries, 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; and up until December 31, 2013, it was applied to loans to financial intermediaries equal to or greater than 4 million UDIS or its equivalent in Mexican pesos, as the changes in the aforementioned Provisions became effective as of January 1, 2014. 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.

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 were rated, up until December 31, 2013 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, up until December 31, 2013, the internal risk classification methodology, CIR Banorte, authorized by the Commission, to rate debtors in commercial loans to financial intermediaries; equal to or greater than 4 million UDIS or the equivalent in Mexican pesos, whereas for the rest of the commercial loans and as of January 1, 2014 of the loans to Financial Intermediaries equal to or greater than 4 million UDIS or the equivalent in Mexican pesos, the Financial Group applied the procedure established by the Commission. No material amounts were generated as a result of this change.

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

General description of rules established by the Commission

Rules for rating the consumer, mortgage and commercial loans (excluding loans to financial intermediaries and loans intended for investment projects having their own source of payment) indicate that their allowance for loan loss should be determined based on the estimated expected loss of the loans over the next twelve month period.

Such methodologies stipulate 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

- Revolving and non-revolving consumer loan – depends on the number of outstanding payments.
- Mortgage loan – it considers the amount of the property sub-account, unemployment insurance and the state where the loan was granted.
- Commercial loans – they consider actual financial and non-financial guarantees as well as personal guarantees.

Exposure to non-compliance

- Non-revolving consumer loan – loan balance at the rating date.
- Revolving consumer loan – considers the current use of the credit line to estimate how much its use would increase in the event of non-compliance.
- Mortgage loans – loan balance at the rating date.
- Commercial – for revocable loans, the loan balance at the rating date is considered. For irrevocable loans, the current use of the credit line to estimate how much its use would increase in the event that non-

compliance is considered.

Commission's rules for rating commercial loan debtors in loans to financial intermediaries (effective until December 31, 2013), 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

This balance represents the premiums pending collection on the balance date. Pursuant to the provisions of the General Law of Institutions and Mutual Insurance Companies (the Law) and the Mexican National Insurance Commission CNSF, premiums over 45 days old should be cancelled against the year's earnings including, if applicable, the technical reserves, acquisition cost and relative reinsurance granted, and should not be considered in the coverage of technical reserves.

Based on the internal policy approved by the CEO, the administration authorized excluding the cancellation process for certain policies with a premium over 45 days old and that has not been collected totally or partially. These accounts are indeed collectible and negotiations with the insured are currently underway. On December 31, 2014, the premiums over 45 days old that have not been cancelled amounted to Ps. 458, excluding debts under federal public administration's and entities' charge. The non-accrued net premium, fees and reinsurance should be subtracted from such amount to determine its net effect on earnings. This amount was not computed for the coverage of technical reserves.

Reinsurance

According to the rules of the CNSF, a portion of the insurance contracted by the Financial Group is ceded in reinsurance to other insurance or reinsurance companies. Therefore they are part of both the premiums and the casualty rate cost.

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.

The investment projects' balances represent financing to investment projects' trusts (especially in the development of social housing). The Financial Group acknowledges a yield from the trust financing disposal, which is related to the construction project's progress compliance and/or sale as stated in each trust's agreement. Failure to meet the construction project's progress and/or sale as stipulated in the agreement, the Financial Group stops recording the funding yield.

To assess investment projects, each project's expected value is determined according to the expected flow of the sale of investment project's potential inventory or that of a portfolio of investment projects of the Financial Group based on the current business plan.

Investment project value impairment is determined based on the time they are not under development. To be considered under development, an investment project shall have proof of any of the following:

- Infrastructure, urbanization or new housing construction works in progress as per the business plan, or
- Available bridge loan for the investment project, or
- An investment agreement with a third party, who has the required operating and financial capability, other than the developer contemplated on its investment date.

Merchandise inventory

This is comprised mainly of finished goods and is restated to the lower of replacement cost or market. Cost of sales, included in "Other Operating Income (expenses)" in the Consolidated Income Statements is restated using the replacement cost at the time of the sale.

Impairment of the value of long-lived assets and their disposal

The Financial Group has established guidelines to identify and, if applicable, record losses derived from the impairment or decrease in value of long-lived tangible or intangible assets, including goodwill.

Foreclosed assets

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, 2014, 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

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.

As a result of the 2014 Tax Reform, as of December 31, 2013, deferred IETU is no longer recognized.

The net effect of the aforementioned items is presented in the Consolidated Balance Sheet under the "Deferred taxes, net" line.

Intangible assets

Intangible assets are recognized in the Consolidated Balance Sheets provided they are identifiable and generate future economic benefits that are controlled by the Financial Group. The amortizable amount of the intangible asset is assigned on a systematic basis during its estimated useful life. Intangible assets with indefinite lives are not amortized and their value is subject to 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, 2014 and 2013.

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, 2014 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".

Employees who were hired prior to January 1, 2001 and who decided to enroll voluntarily in the defined contribution pension plan received a contribution from the Financial Group for prior services equivalent to the actuarial benefit accrued in their previous defined benefit plan that was cancelled. The initial contribution was made from the plan assets that had been established for the original defined benefit plan and participants were immediately assigned 50% of such amount with the remaining 50% to be assigned over 10 years.

The initial payment to the defined contribution plan for past services was financed with funds established originally for the defined benefit plan as a result of the early termination of its obligations and recognized in accordance with the provision guidelines.

The labor obligations derived from the defined contribution pension plan do not require an actuarial valuation as established in NIF D-3, because the cost of this plan is equivalent to the Financial Group's contributions made to the plan's participants.

Provisions for PTU are recorded in the results of the year in which they are incurred as administrative expenses. The Financial Group determines employee statutory profit sharing based on the criteria established in the guidelines set forth by the Mexican Constitution.

Foreign currency conversion

Foreign currency transactions are recorded at the applicable exchange rate in effect at the transaction date. Monetary assets and liabilities denominated in foreign currency are translated into Mexican pesos at the applicable exchange rate at the close of each period. The exchange rate used to establish Mexican peso equivalence is the FIX exchange rate published by Banco de 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.

- Collateral received:

  The balance represents all the collateral received in securities repurchase agreement operations when the Financial Group is the buyer.

- Collateral received and sold or given as a pledge:

  The balance represents all the collateral received in securities repurchase agreements when the Financial Group is acting as the buyer and which in turn are sold by the Financial Group acting as the seller.

Main subsidiaries' income recognition

Banco Mercantil del Norte

- Income from cash equivalents, securities' investments, repurchasing operations, hedging transactions and loan interest is recorded as income when accrued.

- The fees charged for the initial granting, restructuring and renewal of loans will be recorded as a deferred credit, which will be amortized as interest income.

- Securities purchase-sales results are recorded when performed.

- The revenues from loan asset recovery are recorded when accrued, collected or both, agree to the Valuation method.

- Permanent stock investments in affiliates are originally recorded at their acquisition cost and are valued using the equity method based on the last available financial statements.

Casa de Bolsa Banorte Ixe

- 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

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.

c. Moreover the Financial Group recognizes an income from the trust's return on equity based on fulfilling the construction project's progress and/or sale, and suspends recording such income when the progress is not as expected in the plan included in the trust's contract. Impairment of investment projects is determined based on time for those projects not in development.

5 - CASH AND CASH EQUIVALENTS

As of December 31, 2014 and 2013, this line item was composed as follows:

	2014	2013
Cash	Ps. 20,188	Ps. 15,848
Banks	53,422	45,955
Other deposits and available funds	228	175
	Ps. 73,838	**Ps. 61,978**

"Banks" is represented by cash in Mexican pesos and US dollars converted at the exchange rate issued by Banco de Mexico of Ps. 14.7414 and Ps. 13.0843 as of December 31, 2014 and 2013, respectively and is made up as follows:

	Mexican pesos		Denominated in US dollars		Total	
	2014	2013	2014	2013	2014	2013
Call money	Ps. 5,404	Ps. 5,998	Ps.-	Ps. 3,794	Ps. 5,404	Ps. 9,792
Deposits with foreign credit institutions	-	-	14,237	7,236	14,237	7,236
Domestic banks	176	227	-	-	176	227
Banco de Mexico	33,452	28,581	153	119	33,605	28,700
	Ps. 39,032	**Ps. 34,806**	**Ps. 14,390**	**Ps. 11,149**	**Ps. 53,422**	**Ps. 45,955**

In June 2014, Banco de Mexico issued Circular 9/2014, which establishes banking institutions' obligation to constitute a new monetary regulation deposit, and modifies the interest rate such deposits pay. As of December 31, 2014 and 2013, the Financial Group had made monetary regulation deposits of Ps. 33,452 and Ps. 28,581, respectively.

As of December 31, 2014 and 2013, the total sum of restricted cash and cash equivalents is Ps. 41,080 and Ps. 39,510, respectively. This includes monetary regulation deposits, futures placed in the domestic and foreign market, call money and contracted transactions pending liquidation in 24 and 48 hours.

The interbank loans are documented and accrued at an average rate of return of 0.425% and 0.432% in USD and 0.18% and 0.25% in Mexican pesos, as of December 31, 2014 and 2013, respectively.

As of December 2014 and 2013, "Other Deposits and Available Funds" includes:

	2014	2013
Minted metals in gold and silver	Ps. 26	Ps. 28
Cashable checks received, pending payment at a 3-day term	58	120
Remittances	144	27
	Ps. 228	**Ps. 175**

The exchange rates used for the conversion of gold and silver coins (Centenarios and Troy ounces, respectively) was Ps. 437.258 and Ps. 257.53, per unit, respectively, in 2014; and Ps. 387.622 and Ps. 274.77, per unit, respectively, in 2013.

6 - INVESTMENTS IN SECURITIES

a. Trading securities

As of December 31, 2014 and 2013, trading securities are as follows:

	2014				2013
	Acquisition cost	Accrued interest	Valuation increase (decrease)	Book value	Book value
CETES	Ps. 2,651	Ps. 5	Ps. -	Ps. 2,656	Ps. 2,725
Bonds	2,339	6	15	2,360	8,714
Development Bonds	60,863	66	(38)	60,891	72,414
Saving Protection Bonds (BPAS)	133,853	394	(34)	134,213	112,250
UDIBONOS	1,146	2	2	1,150	4,994
Bank securities	15,691	6	2	15,699	5,557
Eurobonds	158	1	6	165	224
Securitization certificates	28,069	46	32	28,147	23,335
Treasury notes	-	-	-	-	64
Other securities	2,780	3	(4)	2,779	1,873
Shares	234	-	145	379	-
Investment funds	457	-	80	537	776
	Ps. 248,241	**Ps. 529**	**Ps. 206**	**Ps. 248,976**	**Ps. 232,926**

During 2014 and 2013, the Financial Group recognized under "Brokerage revenues" a profit and a loss of Ps. 187 and (Ps. 108), respectively, for the fair value valuation of these instruments.

As of December 31, 2014 and 2013, there are Ps. 235,555 and Ps. 228,270, respectively, in restricted trading securities associated mainly with repurchase operations.

b. Securities available for sale

As of December 31, 2014 and 2013, securities available for sale were as follows:

	2014				2013
	Acquisition cost	**Accrued interest**	**Valuation increase (decrease)**	**Book value**	**Book value**
US Government Bonds	Ps. 8,440	Ps. 24	(Ps. 122)	Ps. 8,342	Ps. 9,592
CETES	181	-	-	181	412
Bonds	1,005	2	(17)	990	546
Development Bonds	99	-	-	99	3,480
Saving Protection Bonds (BPAS)	61,052	824	318	62,194	43,534
Bank securities	684	-	(102)	582	208
Shares	-	-	-	-	424
Corporate bonds	-	-	-	-	107
EUROBONDS	18,015	526	625	19,166	12,367
Investment funds	7,288	-	122	7,410	7,276
CBIC	31	1	6	38	-
Securitization certificates	6,006	27	(115)	5,918	7,017
Other securities	17	-	-	17	68
	Ps. 102,818	**Ps. 1,404**	**Ps. 715**	**Ps. 104,937**	**Ps. 85,031**

As of December 31, 2014 and 2013 there are Ps. 66,663 and Ps. 64,590, respectively, in restricted securities available for sale, mainly associated with securities repurchasing transactions.

c. Securities held to maturity

As of December 31, 2014 and 2013, securities held to maturity are as follows:

Medium and long-term debt instruments:

	2014			2013
	Acquisition cost	**Accrued interest**	**Book value**	**Book value**
Government bonds- support program for Special Federal Treasury Certificates	Ps. 886	Ps. -	Ps. 886	Ps. 860
Bonds	2,123	6	2,129	2,423
Development Bonds	399	-	399	399
CETES	-	-	-	100
Saving Protection Bonds (BPAS)	3,286	12	3,298	20,953
Udibonos	49,743	67	49,810	42,362
Bank securities	3,054	1,114	4,168	4,924
Eurobonds	187	4	191	786
Securitization certificates	15,644	557	16,201	23,117
Other securities	653	1	654	806
	Ps. 75,975	**Ps. 1,761**	**Ps. 77,736**	**Ps. 96,730**

As of December 31, 2014 and 2013, there are Ps. 7,738 and Ps. 30,988, respectively, in restricted trading securities associated mainly with repurchasing operations.

As of December 31, 2014, 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. 886	Ps. 886
Bonds	444	1,356	60	263	2,123
Development Bonds	200	199	-	-	399
Saving Protection Bonds (BPAS)	3,286	-	-	-	3,286
Udibonos	-	-	-	49,743	49,743
Bank securities	1,105	620	749	580	3,054
Eurobonds	-	-	157	30	187
Securitization certificates	220	3,088	315	12,021	15,644
Other securities	151	466	-	36	653
	Ps. 5,406	**Ps. 5,729**	**Ps. 1,281**	**Ps. 63,559**	**Ps. 75,975**

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, 2014 and 2013, were as follows:

		2014		
		Fair value in millions		
Type of collateral:	**Instrument category**	**Pesos**	**Denominated in US dollars**	**Euros**
Cash	-	Ps. -	461	-
PEMEX bonds	Available for sale	-	112	-
		Ps. -	**573**	**-**

		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**

As of December 31, 2014, the Financial Group's instruments received as collateral totaled Ps. 284; no received collateral was reported as of December 31, 2013.

As of December 31, 2014 and 2013, interest income amounted to Ps. 16,021 and Ps. 16,436, respectively.

Concept	2014	2013
Trading securities	Ps. 11,585	Ps. 10,364
Securities available for sale	3,285	3,919
Securities held to maturity	1,151	2,153
	Ps. 16,021	**Ps. 16,436**

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.

As of December 31, 2014 the amount recorded for the impairment of securities available for sale and held to maturity was Ps. 12 and Ps. 221, respectively; while as of December 31, 2013, the reported amounts were Ps. 16 and Ps. 185.

During 2014 and 2013, accrued interest income from impaired instruments as Ps. 1 and Ps. 2, respectively.

7 - CREDITOR BALANCES UNDER REPURCHASE AND RESALE AGREEMENTS

As of December 31, 2014 and 2013, the creditor balance in repurchase transactions consist of:

Acting as seller of securities

Instrument	2014	2013
CETES	Ps. 1,611	Ps. 1,543
Development Bonds	58,326	73,697
Bonds IPAB	27,188	24,538
Quarterly IPAB bonds	115,313	88,168
Semi-annual IPAB bonds	56,251	56,584
20-year bonds	887	8,745
Udibonos	140	4,821
Government securities	**259,716**	**258,096**
Promissory Notes	6,517	307
CEDES	3,940	2,670
CEBUR Bank	18,180	22,043
Bank securities	**28,637**	**25,020**
Short-term CEBUR	18,185	20,820
Mortgage certificates	64	85
Private securities	**18,249**	**20,905**
	Ps. 306,602	**Ps. 304,021**

With the Financial Group acting as the vendor, accrued premiums were charged to the results of operations as of December 31, 2014 and 2013 for Ps. 15,513 and Ps. 16,583, respectively, which are presented in the "Interest Expenses" heading.

During 2014, the period of repurchase transactions carried out by the Financial Group in its capacity as vendor ranged in term from 1 to 364 days.

Acting as securities purchaser

	2014				2013			
Instrument	**Repurchase agreement from debtors**	**Received, sold collateral in repurchase**	**Debit difference**	**Credit difference**	**Repurchase agreement from debtors**	**Received, sold collateral in repurchase**	**Debit difference**	**Credit difference**
CETES	Ps. -	Ps. -	Ps. -	Ps. -	Ps. 2,000	Ps. 2,000	Ps. -	Ps. -
Development Bonds	14,735	13,865	870	-	10,642	10,642	-	-
Bonds IPAB	4,461	4,461	-	-	8,167	8,167	-	-
Quarterly IPAB bonds	15,829	15,829	-	-	34,628	34,428	200	-
Semi-annual IPAB bonds	117	117	-	-	11,582	11,582	-	-
Udibonos	500	500	-	-	-	-	-	-
20-year bonds	-	-	-	-	500	500	-	-
Government securities	**35,642**	**34,772**	**870**	**-**	**67,519**	**67,319**	**200**	**-**
CEDES	-	-	-	-	100	100	-	-
Bank bonds	1,094	1,094	-	-	-	-	-	-
Securitized bank certificates	635	635	-	-	10	10	-	-
Bank securities	**1,729**	**1,729**	**-**	**-**	**110**	**110**	**-**	**-**
Short-term CEBUR	7,797	7,950	1	154	5,145	5,151	2	8
Private securities	**7,797**	**7,950**	**1**	**154**	**5,145**	**5,151**	**2**	**8**
	Ps. 45,168	**Ps. 44,451**	**Ps. 871**	**Ps. 154**	**Ps. 72,774**	**Ps. 72,580**	**Ps. 202**	**Ps. 8**

With the Financial Group acting as the purchaser, accrued premiums charged to the results of operations as of December 31, 2014 and 2013 for Ps. 5,462 and Ps. 5,417, respectively, which are presented in the "Interest Income" heading.

During 2014, repurchase transactions carried out by the Financial Group in its capacity as purchaser ranged in term from 1 to 364 days.

By December 31, 2014, the amount of securities corresponding to guarantees granted and received in repurchase transactions that involved the transfer of property totaled Ps. 97,855 and Ps. 142,005, respectively, and by December 31, 2013, the totals were Ps. 305,749 in guarantees granted and Ps. 143,033 in guarantees received.

8 - DERIVATIVES FINANCIAL INSTRUMENTS

Ttransactions 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, 2014, 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, 2014 and 2013, the Financial Group's derivatives positions held for trading purposes are as follows

Asset position	2014	2013
Forwards		
Foreign currency forwards	Ps. 557	Ps. 144
Options		
Foreign currency options	-	1
Interest rate options	638	542
Swaps		
Interest rate swaps	14,035	12,784
Exchange rate swaps	1,280	1,328
Total trading	**16,510**	**14,799**
Options		
Interest rate options	-	1
Swaps		
Interest rate swaps	37	53
Exchange rate swaps	49	1
Total hedging	**86**	**55**
Total position	**Ps. 16,596**	**Ps. 14,854**

Liability position	2014	2013
Forwards		
Foreign currency forwards	Ps. 420	Ps. 96
Options		
Foreign currency options	-	5
Interest rate options	467	365
Swaps		
Interest rate swaps	13,932	12,794
Exchange rate swaps	2,452	1,567
Total trading	**17,271**	**14,827**
Swaps		
Interest rate swaps	1,551	1,665
Exchange rate swaps	2,469	1,835
Total hedging	**4,020**	**3,500**
Total position	**Ps. 21,291**	**Ps. 18,327**

The following are notional bonds in different currencies, depending on the type of product, by December 31, 2014:

Trading instruments

Instrument	MXN	USD	EUR
Foreign currency forwards	Ps. 16,458	1,179	-
Interest rate options	23,527	111	-
Foreign currency swaps (receiving leg)	13,473	553	20
Foreign currency swaps (paying leg)	7,215	1,047	20
Interest rate swaps (receiving leg)	926,673	16,754	-
Interest rate swaps (paying leg)	926,673	16,754	-

Hedging instruments

Instrument	MXN	USD	EUR	GBP
Interest rate options	Ps. 9,750	-	-	-
Foreign currency swaps (receiving leg)	13,450	70	-	-
Foreign currency swaps (paying leg)	868	257	450	106
Interest rate swaps (receiving leg)	25,978	-	-	-
Interest rate swaps (paying leg)	25,978	-	-	-

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 2015 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, 2014 is USD 573,000 thousand, and as of December 31, 2013 it was USD 481,000 thousand and EUR 134,000 thousand. Futures transactions are made through recognized markets, and as of December 31, 2014 they represent 7% of the nominal amount of all the derivatives' operations contracts; the remaining 93% correspond to option and swap transactions in OTC markets.

As of December 31, 2014 and 2013, the collateral was comprised mainly of cash, PEMEX 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 2014 to 2027. Their fair value is shown in Note 6 d).

As of December 31, 2014 and 2013, the Financial Group had no instruments received as collateral in derivative transactions.

During 2014 and 2013, the net earnings from the valuation and realization of derivative financial instruments were Ps. 1,222 and (Ps. 792), 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. 15).

As of December 31, 2014 and 2013, the main positions hedged by the Financial Group and the derivatives designated to cover such positions are:

Cash flow hedging:

- Forecast funding using TIIE rate Caps and Swaps.
- Recorded 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, 2014, there are 109 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, 2014, 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, 2014, 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. 258	Ps. 792	Ps. 3,221	Ps. 1,371
Liabilities denominated in USD	9	29	171	-
Assets denominated in USD	81	125	734	663
Assets denominated in Euros	168	143	1,400	2,496
Assets denominated in USD	129	20	678	790
	Ps. 645	**Ps. 1,109**	**Ps. 6,204**	**Ps. 5,320**

The fair value of the instruments designated as cash flow hedging, recognized in overall earnings in stockholders equity on December 31, 2014 and 2013 totaled (Ps. 762) and (Ps. 1,420), respectively. Furthermore, Ps. 18 and Ps. 75, respectively, were reclassified from stockholders' equity to results.

The gains recognized in derivatives financial instruments' results designated for trading were Ps. 897 and Ps. 67, on December 31, 2014 and 2013, respectively.

Trading derivatives and hedging derivatives: the loan risk is minimized through means of contractual compensation agreements, in which asset and liability derivatives with the same counterparty are settled for their net balance. Similarly, there may be other types of collateral such as credit lines, depending on the counterparty's solvency and the nature of the transaction.

The following table shows the cash flows hedging valuation balance:

Balance	Valuation of cash 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
Balance, December 31, 2014	(Ps. 856)	Ps. 658	Ps. 18

9 - LOAN PORTFOLIO

As of December 31, 2014 and 2013, the loan portfolio by loan type is as follows:

	Performing loan portfolio		Past-due loan portfolio		Total	
	2014	2013	2014	2013	2014	2013
Commercial loans						
Denominated in domestic currency						
Commercial	Ps. 142,418	Ps. 150,945	Ps. 10,549	Ps. 10,415	Ps. 152,967	Ps. 161,360
Rediscounted portfolio	6,192	6,971	-	-	6,192	6,971
Denominated in USD						
Commercial	39,120	25,766	100	58	39,220	25,824
Rediscounted portfolio	3,459	942	-	-	3,459	942
Total commercial loans	**191,189**	**184,624**	**10,649**	**10,473**	**201,838**	**195,097**
Loans to financial institutions	3,316	4,863	1	-	3,317	4,863
Consumer loans						
Credit card	23,209	20,323	1,358	1,278	24,567	21,601
Other consumer loans	45,174	37,560	1,012	815	46,186	38,375
Mortgage loans						
Denominated in domestic currency	88,228	80,305	1,207	989	89,435	81,294
Denominated in USD	1,404	1,388	33	43	1,437	1,431
Denominated in UDIS	286	339	34	55	320	394
Government loans	118,962	95,636	-	2	118,962	95,638
	280,579	**240,414**	**3,645**	**3,182**	**284,224**	**243,596**
Total loan portfolio	**Ps. 471,768**	**Ps. 425,038**	**Ps. 14,294**	**Ps. 13,655**	**Ps. 486,062**	**Ps. 438,693**

Restructured loans

The restructured loans on December 31, 2014 and 2013 that modified their terms and rates are shown below:

	2014		2013	
	Performing	Past-due	Performing	Past-due
Commercial loans				
Business loans	Ps. 8,497	Ps. 1,044	Ps. 2,618	Ps. 873
Financial institutions' loans	38	9	31	-
Government loans	6,668	-	8,852	-
Consumer loans	10	2	6	3
Mortgage loans	47	38	38	29
	Ps. 15,260	**Ps. 1,093**	**Ps. 11,545**	**Ps. 905**

As of December 31, 2014, past-due loans showed the following periods of delinquency:

	From 1 to 180 days	From 181 to 365 days	From 366 days to 2 years	More than 2 years	Total
Commercial loans					
Business loans	Ps. 2,157	Ps. 1,597	Ps. 6,403	Ps. 492	Ps. 10,650
Consumer loans	2,285	79	2	4	2,370
Mortgage loans	636	637	2	-	1,274
	Ps. 5,078	**Ps. 2,313**	**Ps. 6,407**	**Ps. 496**	**Ps. 14,294**

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 days 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**

Past-due loan movements for the years ended on December 31, 2014 and 2013 are shown below:

	2014	2013
Balance at the beginning of the year	Ps. 13,655	Ps. 8,481
Liquidations	(4,894)	(4,514)
Write-offs*	(7,953)	(7,333)
Renewals	(932)	(945)
Loan portfolio purchases	600	-
Discounts	(715)	(435)
Foreclosures	(322)	(169)
Loan portfolio sales	-	(933)
Transfers to performing loans	(5,887)	(3,086)
Transfers from performing loans	20,709	22,559
Merger of Ixe entities	-	17
Fluctuation from foreign exchange rate	33	13
Year-end balance	**Ps. 14,294**	**Ps. 13,655**

* Corresponds to 100% hedged loans.

As of December 31, 2014, the balance of deferred loan origination fees was Ps. 2,133, and the amount recorded in results was Ps. 2,206. Furthermore, the deferred balance of costs and expenses associated with initial loan originations was Ps. 1,085, and the amount recorded in results was Ps. 367. 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. 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, 1.8 years; b) financial institutions, 3.1 years; c) mortgage, 18.7 years; d) government loans, 8.2 years; and e) consumer, 5.6 years.

During the periods ended on December 31, 2014 and 2013, the balance of written off loans that had been fully reserved as past-due loans was Ps. 7,953 and Ps. 7,333, respectively.

On December 31, 2014 and 2013, revenues from recoveries of previously written-off loan portfolios were Ps 716 and Ps 1,194, respectively.

The loans granted per economic sectors as of December 31, 2014 and 2013, are shown below:

	2014		2013	
	Amount	**Concentration percentage**	**Amount**	**Concentration percentage**
Private (companies and individuals)	Ps. 201,838	41.53%	Ps. 195,096	44.47%
Financial institutions	3,317	0.68%	4,862	1.11%
Credit card and consumer	70,753	14.56%	59,977	13.67%
Mortgage	91,192	18.76%	83,119	18.95%
Government loans	118,962	24.47%	95,639	21.8%
	Ps. 486,062	**100.00%**	**Ps. 438,693**	**100%**

Special accounting handling of Banco Mercantil del Norte, S.A.'s hurricane "Odile" flooding aid program.

Given the negative impact of the floods caused by hurricane "Odile", 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:

- Mortgage loan. 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.
- Car loans. Deferral of up to three monthly installments, which are relocated to the end of the loan term thereby extending the original term.
- Payroll loans. Deferral of up to three monthly installments, which are relocated to the end of the loan term thereby extending the original term.
- Crediactivo. 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 P110/2014 applicable to the Financial Group from September 19 to 120 days following the disaster date, which authorized the Financial Group not to consider as restructured loans the ones which payment of the principal and interest was deferred for according to the Plan, as per paragraph 56 of criterion B-6 "Loan portfolio" and to keep them in the current loans during such period. These loans were considered as 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, 2014 Consolidated Balance Sheet:

PERFORMING LOAN PORTFOLIO	
Commercial loans	
Business loans	Ps. 191,187
Financial institutions' loans	3,316
Government loans	118,962
Consumer loans	68,328
Mortgage loans	89,918
TOTAL PERFORMING LOAN PORTFOLIO	**471,711**
PAST-DUE LOAN PORTFOLIO	
Commercial loans	
Business loans	10,651
Financial institutions' loans	1
Consumer loans	2,425
Mortgage loans	1,274
TOTAL PAST-DUE LOAN PORTFOLIO	**14,351**
LOAN PORTFOLIO	**486,062**
(Minus) ALLOWANCE FOR LOAN LOSSES	(15,287)
LOAN PORTFOLIO, net	**470,775**
ACQUIRED COLLECTION RIGHTS	2,984
TOTAL LOAN PORTFOLIO, net	**Ps. 473,759**

Granting such assistance to the borrowers would not modify the year's results.

The amount of deferred payments derived from such plans by December 31, 2014 is as follows:

	Deferred amount
Commercial loans	Ps. 1
Consumer loans	Ps. 8

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:

	2014	**2013**
Distressed commercial loans	**Ps. 11,306**	**Ps. 12,359**
Performing	938	2,305
Past-due	10,368	10,054
Commercial loans	350,599	317,044
Performing	350,329	316,495
Past-due	270	549
Total commercial loans	361,905	329,402
Total portfolio	**Ps. 523,922**	**Ps. 471,380**
Distressed commercial loans/total portfolio	**2.16%**	**2.62%**

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, 2014 and 2013, the Financial Group has no mortgage loans restructured in UDIS.

Early termination of mortgage loan borrower support programs

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

The total amount of Federal Government payment obligations for commercial loans as of December 31, 2014 is Ps. 28, which includes Ps. 27 associated with the conditioned discount portion from loans in Mexican pesos and UDIS; and Ps. 1 associated with the discount applied to those mentioned in number 3.1.2 of Circular 1430. In December 31, 2013, the amount was Ps. 58, which included Ps. 56 for the conditioned discounted portion and Ps. 2 for the applied discount.

The obligations of the Federal Government as of December 31, 2014 and 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 during 2010 for the loans included in the Agreement is detailed below:

	2014
Balances, January 1, 2010	Ps. 19
Financial Group support	67
Discounts and write-offs	14
Reserves reclassification	(9)
Contribution to settle fiduciary liability	1
Balances, December 31, 2014	**Ps. 92**

During 2014 and 2013, Ps. 8 and Ps. 11, respectively, in support reserves were recorded.

The maximum amount the Financial Group would absorb for loans not susceptible to the Early Termination program and that would be entitled to discount benefits program is Ps. 14.

Ps. 97 were used to repurchase Special Federal Treasury Certificates (CETES); the remaining balance of Special CETES not repurchased by the Federal Government by December 31, 2014 and 2013 was Ps. 885 and Ps. 860, respectively, 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 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:

	2014						
	Loan portfolio	Required allowances for losses					
Risk category		**Companies**	**Government**	**Financial institutions' loans**	**Consumer portfolio**	**Mortgage portfolio**	**Total**
Exempted portfolio	Ps. 29	Ps. -	Ps. -	Ps. -	Ps. -	Ps. -	Ps. -
Risk A1	375,354	768	487	162	331	108	1,856
Risk A2	58,211	254	229	7	318	38	846
Risk B1	23,457	170	40	6	781	11	1,008
Risk B2	23,162	107	30	11	723	22	893
Risk B3	13,776	263	13	4	326	8	614
Risk C1	6,764	165	26	3	239	39	472
Risk C2	5,326	199	-	1	473	76	749
Risk D	13,749	3,545	-	-	1,472	328	5,345
Risk E	4,133	2,028	-	-	1,072	107	3,207
Unclassified	(39)	-	-	-	-	-	-
	Ps. 523,922	**Ps. 7,499**	**Ps. 825**	**Ps. 194**	**Ps. 5,735**	**Ps. 737**	**Ps. 14,990**
Less: recorded allowance	-	-	-	-	-	-	**Ps. 15,287**
Reserve Supplement*							**Ps. 297**

	2013						
	Loan portfolio	Required allowances for losses					
Risk category		**Companies**	**Government**	**Financial institutions' loans**	**Consumer portfolio**	**Mortgage portfolio**	**Total**
Exempted portfolio	Ps. 58	Ps. -	Ps. -	Ps. -	Ps. -	Ps. -	Ps. -
Risk A1	Ps. 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. 14,019**
Less: recorded allowance	-						**Ps. 14,289**
Reserve supplement*	**Ps. 471,380**						**Ps. 270**

*The recorded reserves supplement conforms to the Provisions to cover 100% of the past-due interest and for the effects of inquiries in the credit bureau.

As of December 2014 and 2013, the provisions to cover 100% of the rating base for loan portfolios includes Ps. 5,671 and Ps. 4,411, respectively, for Granted Guarantors and Loan Acquisitions, which were recorded in memorandum accounts. Ps. 32,189 and Ps. 28,275 were also added for loans to related parties.

As of December 31, 2014 and 2013, the estimated allowance for loan losses is determined based on portfolio balances at those dates.

As of December 31, 2014 and 2013, the allowance for loan losses represents 107% and 105%, 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, 2014 and 2013.

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.

According to the regulatory modifications of June 24, 2013, as of January 1, 2014 the Financial Group used the regulatory methodology based on expected losses from loans to financial intermediaries.

The amount of preventive reserves for loan risks of loans to financial intermediaries totaled Ps. 217, while reserves amount for this portfolio using the methodology effective up to December 31, 2013 was Ps. 229, both figures to January 31, 2014. The effect of this change was recorded in the year's income.

According to the existing regulation, as of December 31,2014, the Financial Group used the regulatory methodology based on expected losses from commercial (except for loans to investment projects having their own payment source) mortgage and revolving and non-revolving consumer loans.

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. 309,319	7.8%	33.9%
Mortgage	89,767	3.0%	26.9%
Non-revolving consumer	46,024	9.3%	63.9%
Revolving Consumer loan	32,994	10.5%	86.5%

* 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. 53,748.

Movements in allowance for loan losses

An analysis of the movements in allowance for loan losses is detailed below:

	2014	2013
Balance at the beginning of the year	Ps. 14,289	Ps. 11,734
Increase charged to results	10,933	8,717
Discounts and write-offs	(9,811)	(8,988)
Rebates granted to housing debtors	(8)	(11)
Loan portfolio sales	(165)	(1,118)
Effect of the new loan rating methodology	-	3,952
Others	49	3
Year-end balance	**Ps. 15,287**	**Ps. 14,289**

As of December 31, 2014, the total amount of preventive loan loss reserves charged to the Consolidated Income Statement totals Ps. 11,196, and is presented net of (Ps. 311) paid to Other income (expenses), and due to the variation of the USD $48 exchange rate; such amounts are affected against results is comprised of Ps. 10,933 credited directly to the estimate. As of December 31, 2013, the net amount of preventive loan loss reserves charged to the Consolidated Income Statement totals Ps. 8,942, and is presented net of (Ps. 228) paid to Other income (expenses), and due to the variation of the USD $3 exchange rate; such amounts are affected against results is comprised of Ps. 8,717 credited directly to the estimate.

12 - ACQUIRED COLLECTION RIGHTS

As of December 31, 2014 and 2013, the acquired collection rights are comprised as follows:

Valuation Method	2014	2013
Cash basis method	Ps. 1,889	Ps. 1,012
Cost recovery method	1,024	2,415
Interest method	71	95
	Ps. 2,984	**Ps. 3,522**

As of December 31, 2014 and 2013, 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 corresponding amortization of Ps. 406, the effects of which were recognized under the “Other income (expense)” heading in the Consolidated Income Statement. For the year ended December 31, 2013, the Financial Group recognized income of Ps. 1,370, together with the respective amortization of Ps. 835.

The Financial Group performs an analysis based on events or information to estimate the amount of expected cash flows to determine the estimated rate of return used in applying the valuation method for the amortization of the accounts receivable. If based on current events information, the analysis demonstrates that the expected future cash flows will decrease to the degree that they will not cover the book value, it will constitute an estimate for non-recoverability or difficult collection against the year’s results for the amount that such expected cash flows are lower than the book value of the accounts receivable.

Assets different from cash that the Financial Group has received as part of portfolio collection or recovery have been mainly in real estate property.

The main feature considered for segmenting acquired portfolios has been the type of loan.

13 – PREMIUM RECEIVABLES

This item is made up as follows:

	2014	2013
Liability	Ps. 155	Ps. 113
Maritime and transportation	51	76
Fire	1	109
Automobile	1,321	1,070
Various	1,427	480
Accidents and health	445	357
Life	323	287
Pensions	505	68
	4,228	**2,560**
Federal public administration agencies' indebtedness	274	487
	Ps. 4,502	**Ps. 3,047**

14 – ACCOUNTS RECEIVABLE FROM REINSURANCE

This item is made up as follows:

	2014	2013
Insurance and annuities	Ps. 1,528	Ps. 1,057
Reinsurers' participation for pending claims	2,524	1,739
Reinsurers' participation for current risk	1,898	760
Other participations	17	7
	Ps. 5,967	**Ps. 3,563**

15 - OTHER ACCOUNTS RECEIVABLE, NET

This item is made up as follows:

	2014	2013
Loans to officers and employees	Ps. 2,683	Ps. 2,210
Debtors from liquidation settlements	2,623	2,138
Debtors from cash collateral	6,522	4,010
Real estate property portfolios	1,038	1,303
Fiduciary rights*	9,265	11,162
Sundry debtors in Mexican pesos	3,368	422
Sundry debtors in foreign currency	928	716
Others	631	135
	27,058	**22,096**
Allowance for doubtful accounts	(412)	(393)
	Ps. 26,646	**Ps. 21,703**

* The Financial Group has participation in trusts constituted for housing developments construction. Moreover the Financial Group recognizes an income from the trust's return on its participation based on fulfilling the construction project's progress and/or sale, and suspends recording such income when the progress is not as expected in the plan included in the trust's contract, as described in Note 4. As of December 31, 2014 and 2013, the Financial Group recorded impairment of Ps. 33 and Ps. 51, respectively, in investment projects.

Loans to officers and employees mature in 2 to 30 years, and accrue an interest rate from 6% to 10%.

16 - FORECLOSED ASSETS, NET

As of December 31, 2014 and 2013, the foreclosed assets balance is as follows:

	2014	2013
Moveable property	Ps. 182	Ps. 654
Real estate property	3,791	3,177
Goods pledged for sale	24	69
	3,997	**3,900**
Allowance for losses on foreclosed moveable assets	(49)	(328)
Allowance for losses on foreclosed real estate assets	(1,205)	(761)
Allowance for losses on assets pledged for sale	(11)	(30)
	(1,265)	**(1,119)**
	Ps. 2,732	**Ps. 2,781**

As of December 31, 2014, 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. 2	Ps. -	Ps. 47	Ps. 49

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. 78	Ps. 27	Ps. 259	Ps. 208	Ps. 42	Ps. 591	Ps. 1,205
Goods pledged for sale	-	-	-	2	-	9	11
	Ps. 78	**Ps. 27**	**Ps. 259**	**Ps. 210**	**Ps. 42**	**Ps. 600**	**Ps. 1,216**

17 - PROPERTY, FURNITURE AND EQUIPMENT, NET

This item is made up as follows:

	2014	2013
Furniture and equipment	Ps. 10,894	Ps. 9,633
Property intended for offices	6,931	6,747
Installation costs	5,254	4,347
	23,079	**20,727**
Less - Accumulated depreciation and amortization	(10,234)	(8,694)
	Ps. 12,845	**Ps. 12,033**

Depreciation recorded in 2014 and 2013 results were Ps. 1,262 and Ps. 1,216, 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 %	2014	2013
Afore XXI-Banorte, S.A. de C.V.	50%	Ps. 13,318	Ps. 13,514
Concesionaria Internacional Anzalduas, S.A. de C.V.	40%	32	57
Internacional de Inversiones, S.A.P.I. de C.V.	5.62%	-	105
Capital I CI-3, S.A.P.I. de C.V.	50%	28	28
Maxcom Telecomunicaciones, S.A.B. de C.V.	8.31%	259	250
Controladora PROSA, S.A. de C.V.	19.73%	50	50
Sociedades de Inversion Ixe Fondos	Various	90	86
Fondo Chiapas, S.A. de C.V.	9.15%	15	13
Others	Various	124	102
		Ps. 13,916	**Ps. 14,205**

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 intercompany transactions.

The relevant activities of Afore XXI-Banorte, S.A. de C.V. are directed by both the Financial Group and the Mexican Institute of Social Security [*Instituto Mexicano del Seguro Social*], with equal rights and responsibilities. Therefore the Financial Group has no control over such entity and does not consolidate it.

19 - DEFERRED TAXES, NET

The tax reported by the Financial Group is calculated based on the current taxable result of the year and enacted tax regulations. However, due to temporary differences between how income and expenses are recognized for accounting and tax purposes, as well as the differences between the accounting and tax balance sheet accounts, the Financial Group has recognized a recoverable net deferred tax asset of Ps. 2,311 and (Ps. 200) as of December 31, 2014 and 2013, respectively, as detailed below:

	2014		2013	
	Temporary Differences	Deferred Effect ISR	Temporary Differences	Deferred Effect ISR
Temporary Differences - Assets				
Allowance for loan losses	Ps. 3,811	Ps. 1,156	Ps. 3,519	Ps. 1,075
Tax loss carryforwards	5,979	1,794	3,726	1,119
Tax losses in foreclosure sales	265	93		
Tax losses in stock sales	71	21		
Surplus preventive allowances for credit risks over the net tax limit	7,803	2,341	220	66
Excess of tax over book value of foreclosed and fixed assets	2,893	861	2,011	594
PTU	372	112	319	96
Fees collected in advance	2,813	844	2,780	834
Accounting provisions	2,768	831	1,660	500
Financial instruments valuation	441	132	655	197
Other assets	619	189	1,299	376
Total Assets	**Ps. 27,835**	**Ps. 8,374**	**Ps. 16,189**	**Ps. 4,857**

	2014		2013	
	Temporary Differences	Deferred Effect ISR	Temporary Differences	Deferred Effect ISR
Temporary Differences - Liabilities				
Excess of tax over book value of foreclosed and fixed assets and expected payments	Ps. 8	Ps. 2	Ps. 9	Ps. 3
Portfolios acquired	1,431	429	2,442	718
Capitalizable projects' expenses	4,782	1,435	1,985	596
Provisions	397	119	464	130
Contributions to pension funds	3,640	1,092	3,742	1,123
Intangible assets	1,631	493	1,762	499
Deferred from the IXE purchase method	1,012	304	1,317	395
Other	7,289	2,189	5,305	1,593
Total Liabilities	**20,190**	**6,063**	**17,026**	**5,057**
Net Accumulated Asset	**Ps. 7,645**	**Ps. 2,311**	**(Ps. 837)**	**(Ps. 200)**
Deferred tax, net		**Ps. 2,311**		**(Ps. 200)**

As explained in Note 29, for 2013 and 2014 the applicable ISR rate is 30%. The Financial Group abided by the determination of the IETU only for 2013 as per the effective legislation .

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, as of December 31, 2014 and 2013 a net amount of Ps. 120 and 128, respectively, was added to deferred taxes determined at a rate of 35% as per the tax law of the USA.

20 - OTHER ASSETS

This item is made up as follows:

	2014	2013
Net asset forecast from labor obligations and savings fund	Ps. 3,674	Ps. 3,860
Payments to amortize	10,455	8,856
Accumulated payment amortization	(1,181)	(1,001)
Goodwill	15,771	15,381
	Ps. 28,719	**Ps. 27,096**

As of December 31, 2014 and 2013, goodwill is as follows:

	2014	2013
Ixe Grupo Financiero, S.A.B. de C.V.	Ps. 11,537	Ps. 11,537
INB Financial Corp.	3,202	2,842
Banorte-Ixe Tarjetas, S.A. de C.V., SOFOM, ER	727	727
Uniteller Financial Services	286	254
Generali Mexico Compañia de Seguros, S.A.	19	21
	Ps. 15,771	**Ps. 15,381**

As mentioned in Note 4, goodwill is not amortized since 2007 and since then is subject to annual impairment tests. No impairment to goodwill value was detected as of December 31, 2014 and 2013.

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 2014 and 2013 the Financial Group generated a liquidity requirement of USD 337,487 thousand and USD 104,607 thousand, respectively, and held investments in liquid assets of USD 820,718 thousand and USD 493,062 thousand, representing a surplus of USD 483,231 thousand and USD 387,375 thousand, respectively.

Deposits

The liabilities derived from deposits are made up as follows:

	2014	2013
Demand deposits		
Non-interest bearing checking accounts:		
Cash deposits	Ps. 128,079	Ps. 111,486
Checking accounts in US dollars for individual residents on the Mexican border	1,241	990
Demand deposits accounts	17,713	8,945
Interest bearing checking accounts:		
Other bank checking deposit	70,436	58,018
Savings accounts	3	3
Checking accounts in US dollars for individual residents on the Mexican border	1,457	1,487
Demand deposits accounts	79,923	73,290
	298,852	**254,219**
Time deposits		
General public:		
Fixed-term deposits	16,625	15,739
Retail time deposits	163,967	153,220
Promissory note with interest payable at maturity PRLV primary market for individuals	4,332	9,849
Foreign residents deposits	20	21
Provision for interest	276	317
	185,220	**179,146**
Money market:		
Over the counter promissory notes	8,430	4,675
Provision for interest	14	296
	8,444	**4,971**
	193,664	**184,117**
Senior debt issued	**5,406**	**5,405**
	Ps. 497,922	**Ps. 443,741**

The funding rates which the Financial Group uses as reference are: a) for Mexican pesos, Interbank Interest Rate (TIIE), Average Cost of Funds (CCP) and; b) for foreign currency, the London Interbank Offered Rate (LIBOR).

These liabilities incur interest depending on the type of instrument and average balance held in the investments. The average interest rates and their currency of reference are shown below:

Immediately due and payable deposits:

Foreign exchange	2014 1Q	2014 2Q	2014 3Q	2014 4Q	2013 1Q	2013 2Q	2013 3Q	2013 4Q
Mexican pesos and UDIS	0.56%	0.60%	0.54%	0.51%	0.53%	0.51%	0.58%	0.53%
Foreign currency	0.03%	0.02%	0.03%	0.02%	0.03%	0.03%	0.03%	0.03%
Banorte USA (INB)								
Demand deposits accounts	0.01%	0.01%	0.01%	0.01%	0.05%	0.04%	0.01%	0.01%
Money market	0.03%	0.03%	0.04%	0.04%	0.06%	0.04%	0.04%	0.04%

Time deposits:

Foreign exchange	2014 1Q	2014 2Q	2014 3Q	2014 4Q	2013 1Q	2013 2Q	2013 3Q	2013 4Q
General public								
Mexican pesos and UDIS	2.80%	2.77%	2.46%	2.44%	3.52%	3.29%	3.28%	2.97%
Foreign currency	0.58%	0.60%	0.62%	0.65%	0.59%	0.63%	0.61%	0.57%
Money market	3.68%	3.58%	3.29%	3.05%	4.51%	4.28%	4.16%	3.83%
Banorte USA (INB)	0.33%	0.34%	0.34%	0.34%	0.34%	0.35%	0.35%	0.35%

As of December 31, 2014 and 2013, the terms set for these deposits are as follows:

	2014			
	From 1 to 179 days	**From 6 to 12 months**	**More than 1 year**	**Total**
General public				
Fixed-term deposits	Ps. 15,103	Ps. 1,013	Ps. 509	Ps. 16,625
Retail time deposits	162,213	1,578	176	163,967
Promissory note with interest payable at maturity PRLV primary market for individuals	3,392	320	620	4,332
Foreign residents deposits	20	-	-	20
Provision for interest	239	33	4	276
	180,967	**2,944**	**1,309**	**185,220**
Money market:				
Promissory notes	-	-	8,430	8,430
Provision for interest	-	-	14	14
	-	**-**	8,444	8,444
Senior debt issued	**-**	**-**	5,406	5,406
	Ps. 180,967	**Ps. 2,944**	**Ps. 15,159**	**Ps. 199,070**

	2013			
	From 1 to 179 days	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
Foreign residents deposits	21	-	-	21
Provision for interest	275	37	5	317
	174,369	**2,988**	**1,789**	**179,146**
Money market:				
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**

22 - INTERBANK AND OTHER LOANS

The loans received from other banks as of December 31, 2014 and 2013 are as follows:

	Mexican pesos		Denominated in USD		Total	
	2014	2013	2014	2013	2014	2013
Immediately due						
Domestic banks (Call money)	Ps. -	Ps. 2,974	Ps. -	Ps. -	Ps. -	Ps. 2,974
Short-term:						
Commercial banking	10,383	9,628	65	66	10,448	9,694
Development banking	1,373	2,539	572	427	1,945	2,966
Public trusts	7,753	6,069	930	672	8,683	6,741
Provision for interest	2	1	4	4	6	5
	19,511	**18,237**	**1,571**	**1,169**	**21,082**	**19,406**
Long-term						
Commercial banking	4,929	4,469	-	-	4,929	4,469
Development banking	-	-	2,017	97	2,017	97
Public trusts	1,728	2,953	328	160	2,056	3,113
	6,657	**7,422**	**2,345**	**257**	**9,002**	**7,679**
	Ps. 26,168	**Ps. 28,633**	**Ps. 3,916**	**Ps. 1,426**	**Ps. 30,084**	**Ps. 30,059**

These liabilities incur interest depending on the type of instrument and average balance of the loans.

The average interest rates are shown below:

	2014				2013			
Foreign exchange	**1Q**	**2Q**	**3Q**	**4Q**	**1Q**	**2Q**	**3Q**	**4Q**
<u>Call money</u>								
Mexican pesos and UDIS	3.39%	3.26%	2.99%	2.91%	4.35%	3.75%	3.80%	3.44%
<u>Other bank loans</u>								
Mexican pesos and UDIS	4.77%	4.68%	4.40%	4.19%	4.71%	4.46%	4.64%	4.31%
Foreign currency	1.40%	1.26%	1.71%	1.95%	2.34%	1.49%	2.08%	1.54%

Banorte USA liabilities accrue interest at an average rate of 0.64% and 0.71% as of December 2014 and 2013, respectively. Moreover, the Arrendadora y Factor Banorte, S.A. de C.V. loans accrue an average interest rate of 4.45% and 4.92% in Mexican pesos and 1.82% and 1.93% in U.S. dollars as of December 31, 2013 and 2012, respectively.

23 - TECHNICAL RESERVES

	2014	2013
Current risk:		
Life	Ps. 60,132	Ps. 51,510
Accidents and health	1,431	1,009
Damages	4,330	2,716
	65,893	55,235
Contractual obligations:		
Claims and expirations	3,528	2,415
Unreported claims	1,601	1,780
Dividends on policies	119	417
Insurance funds under management	4	2
Security premiums	155	264
	5,407	4,878
Contingency:		
Catastrophic risk	735	616
Contingencies	1,157	984
Special	501	494
	2,393	2,094
	Ps. 73,693	**Ps. 62,207**

24 - SUNDRY CREDITORS AND OTHER PAYABLES

This item is made up as follows:

	2014	2013
Cashier and certified checks and other negotiable instruments	Ps. 1,857	Ps. 1,715
Provision for employee retirement obligations and saving fund	519	239
Provisions for other obligations	5,778	3,868
Deposits under guardianship	481	415
Visa Travel Money Card	-	410
Withholding taxes	1,623	761
End of month deposits and collects yet to apply	1,329	1,880
Others	3,454	3,648
	Ps. 15,041	**Ps. 12,936**

25 - EMPLOYEE RETIREMENT OBLIGATIONS

The Financial Group recognizes the liabilities for pension plans and seniority premiums using the “Projected Unit Credit Method”, which considers the benefits accrued at the date of the Consolidated Balance Sheets and the benefits generated during the year.

The amount of current and projected benefits as of December 31, 2014 and 2013, related to the Defined Benefit Pension Plan, seniority premiums and retiree medical coverage, determined by independent actuaries, is analyzed below:

	2014			
	Pension plan	Seniority premiums	Medical services	Total
Projected benefit obligation (PBO)	(Ps. 1,184)	(Ps. 255)	(Ps. 3,465)	(Ps. 4,904)
Fund market value	1,500	389	3,997	5,886
Funded status	316	134	532	982
Unrecognized prior service cost	-	1	211	212
Unrecognized actuarial losses	724	20	1,702	2,446
Net projected asset	**Ps. 1,040**	**Ps. 155**	**Ps. 2,445**	**Ps. 3,640**

	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**

Moreover, as of December 31, 2014, a separate fund amounting to Ps. 5,886, (Ps. 5,906 in 2013) 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, 2014 and 2013, the net periodic pension cost is as follows:

	2014	2013
Service cost	Ps. 230	Ps. 234
Interest cost	354	282
Expected return on plan assets	(512)	(381)
Amortizations of unrecognized items:		
Profits (actuarial losses)	65	63
Plan modifications	11	11
Cost for immediate recognition of P/(G)	(26)	(10)
Net periodic pension cost	**Ps. 122**	**Ps. 199**

The rates used in the calculation of the projected benefit obligation and return on plan assets as of December 31, 2014 and 2013, are shown below:

Concept	2014 Nominal	2013 Nominal
Discount rate	8.00%	8.75%
Rate of wage increase	4.50%	4.50%
Long-term inflation rate	3.50%	3.50%
Expected long-term rate of return on plan assets	8.75%	8.75%

The liability for severance indemnities due to causes other than organization restructuring, which was also determined by independent actuaries, is comprised as follows:

Concept	2014	2013
Defined and projected benefit obligations	(Ps. 247)	(Ps. 244)
Net projected liability	**(Ps. 247)**	**(Ps. 244)**

For the years ended December 31, 2014 and 2013, the net periodic pension cost is as follows:

Concept	2014	2013
Service cost	Ps. 33	Ps. 35
Interest cost	18	17
Cost / (income) for immediate recognition of P/(G)	82	123
Net periodic pension cost	**Ps. 133**	**Ps. 175**

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, 2014 and 2013, equivalent to Ps. 2,217 and Ps. 1,758, respectively, which is recorded under "Other assets" and is equivalent to the recorded plan liability.

As of December 31, 2014 and 2013, PTU provision was Ps. 365 and Ps. 318, respectively.

26 - SUBORDINATED DEBENTURES

As of December 31, 2014 and 2013, the subordinated debentures in circulation are as follows:

	2014	2013
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
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.	2,948	2,617
Preferred subordinated nonconvertible debentures, Q BANORTE 08-U maturing in February 2028, paying interest at a 4.95% annual rate.	2,356	2,262
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.	1,769	1,570
Perpetual non preferred subordinated nonconvertible debentures IXEGA66 260299, denominated in US dollars, at an interest rate of 9.75%, payable quarterly.	-	-
Subordinated debentures, maturing in June 2034, denominated in US dollars, at a 3-month LIBOR interest rate plus 2.75%.	152	135
Preferred subordinated debentures maturing in April 2034, denominated in US dollars, at a 3-month LIBOR interest rate plus 2.72%.	152	135
Accrued interest	141	132
	Ps. 16,468	**Ps. 18,001**

The costs related to these debentures are amortized using the straight-line method over the term of the debt. The amortization charged to results were Ps. 14 and Ps. 11 in 2014 and 2013, respectively.

27 - TRANSACTIONS AND BALANCES WITH NON-CONSOLIDATED SUBSIDIARIES AND ASSOCIATED COMPANIES

Pursuant to Article 73 Bis of the LIC, the loans granted by Banking Institutions to related parties may not exceed 35% of the basic part of its net capital.

For the years ended December 31, 2014 and 2013, the amount of the loans granted to related parties were as follows:

Institution granting the loan	2014	% of the limit	2013	% of the limit
Banco Mercantil del Norte, S.A.	Ps. 3,688	15.5%	Ps. 6,778	24.1%

The loans granted by Banorte are under the 100% limit set forth by the LIC.

Loan portfolio sales

Sale of loan portfolio packages between related parties (nominal values)

In February 2003, Banorte sold Ps. 1,925 of its proprietary portfolio (with interest) to its subsidiary 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 2014 and 2013:

	Mexican pesos			Foreign Currency			Total		
Type of portfolio	**Aug 02**	**Dec 13**	**Dec 14**	**Aug 02**	**Dec 13**	**Dec 14**	**Aug 02**	**Dec 13**	**Dec 14**
Performing loan portfolio									
Commercial	Ps. 5	Ps. -	Ps. -	Ps. 5	Ps. -	Ps. -	Ps. 10	Ps. -	Ps. -
Mortgage	54	8	22	-	-	-	54	8	22
Total	**59**	**8**	**22**	**5**	**-**	**-**	**64**	**8**	**22**
Past-due loan portfolio									
Commercial	405	302	251	293	112	111	698	414	362
Consumer	81	72	72	-	-	-	81	72	72
Mortgage	1,112	258	227	-	-	-	1,112	258	227
Total	**1,598**	**632**	**550**	**293**	**112**	**111**	**1,891**	**744**	**661**
Total portfolio	**1,657**	**640**	**572**	**298**	**112**	**111**	**1,955**	**752**	**683**
Allowance for loan losses(1)									
Commercial	326	302	251	246	112	111	572	414	362
Consumer	77	72	72	-	-	-	77	72	72
Mortgage	669	258	238	-	-	-	669	258	238
Total allowance for loan loss	**1,072**	**632**	**561**	**246**	**112**	**111**	**1,318**	**744**	**672**
Net portfolio	**Ps. 585**	**Ps. 8**	**Ps. 11**	**Ps. 52**	**Ps. -**	**Ps. -**	**Ps. 637**	**Ps. 8**	**Ps. 11**

(1) Allowances required based on the classification methodology applied in the Financial Group that maintained a 99.99% equity interest in Solida during 2014 and 2013.

As of December 31, 2014 and 2013, the composition of the Financial Group's loan portfolio excluding its subsidiaries is as follows:

Type of portfolio	Mexican pesos Dec 14	Mexican pesos Dec 13	Foreign Currency Dec 14	Foreign Currency Dec 13	Total Dec 14	Total Dec 13
Commercial loans	Ps. 286,398	Ps. 267,511	Ps. 28,387	Ps. 19,291	Ps. 314,785	Ps. 286,802
Consumer loans	42,321	38,380	-	-	42,321	38,380
Mortgage loans	88,537	80,628	-	1	88,537	80,629
Performing loan portfolio	**417,256**	**386,519**	**28,387**	**19,292**	**445,643**	**405,811**
Commercial loans	10,428	10,327	196	168	10,624	10,495
Consumer loans	1,131	962	-	-	1,131	962
Mortgage loans	1,480	1,352	-	-	1,480	1,352
Past-due loan portfolio	**13,039**	**12,641**	**196**	**168**	**13,235**	**12,809**
Total portfolio	**430,295**	**399,160**	**28,583**	**19,460**	**458,878**	**418,620**
Allowance for loan losses	12,112	11,432	360	345	12,472	11,777
Net portfolio	**Ps. 418,183**	**Ps. 387,728**	**Ps. 28,223**	**Ps. 19,115**	**Ps. 446,406**	**Ps. 406,843**
Allowance for loan losses					**94.24%**	**91.94%**
% of past-due portfolio					**2.88%**	**3.06%**

28 - INFORMATION BY SEGMENT

The main operations and balances per concept and/or business segment in the Consolidated Balance Sheet and the Consolidated Income Statement are comprised as follows:

a. Interest and fees income is made up as follows:

2014	Interest MXP	Interest F.E.	Fees MXP	Fees F.E.	Total MXP	Total F.E.
Cash and cash equivalents	Ps. 1,260	Ps. 5	Ps. -	Ps. -	Ps. 1,260	Ps. 5
Margin securities	28	-	-	-	28	-
Investment in securities	15,874	147	-	-	15,874	147
Securities repurchasing and loans	5,462	-	-	-	5,462	-
Hedging transactions	2,070	-	-	-	2,070	-
Commercial loans	19,128	481	1,634	27	20,762	508
Mortgage loans	8,868	109	362	-	9,230	109
Consumer loans	14,535	5	211	4	14,746	9
Others	2,369	-	-	-	2,369	-
	Ps. 69,594	**Ps. 747**	**Ps. 2,207**	**Ps. 31**	**Ps. 71,801**	**Ps. 778**

2013	Interest MXP	Interest F.E.	Fees MXP	Fees F.E.	Total MXP	Total 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	17,796	197	-	-	17,796	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
Others	524	-	-	-	524	-
	Ps. 68,719	**Ps. 708**	**Ps. 1,542**	**Ps. 22**	**Ps. 70,261**	**Ps. 730**

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:

	2014	2013
Banking sector:		
Net income	Ps. 11,936	Ps. 12,122
Stockholders' equity	94,791	77,926
Total portfolio	477,697	433,147
Past-due loan portfolio	13,912	13,317
Allowance for loan losses	(14,718)	(13,765)
Total net assets	874,908	787,916
Brokerage sector:		
Net income	931	649
Stockholders' equity	2,799	2,569
Portfolio balance	732,713	647,996
Total net assets	102,373	116,576
Long term saving sector		
Net income	4,443	3,576
Stockholders' equity	30,451	29,478
Total net assets	111,164	96,396
Other finance companies sector:		
Net income	569	391
Stockholders' equity	8,044	6,116
Total portfolio	25,163	20,296
Past-due loan portfolio	394	424
Allowance for loan losses	(569)	(531)
Total net assets	39,740	35,598
Grupo Financiero Banorte (Financial Group)		
Net income	15,354	13,754
Stockholders' equity	121,191	104,739
Total assets	121,191	104,739

c. The trading results for the years ended December 31, 2014 and 2013, are as follows:

	2014	2013
Valuation results		
Trading securities	Ps. 202	(Ps. 89)
Decrease in securities	(71)	(41)
Derivatives financial instruments	881	(65)
Total valuation results	**1,012**	**(195)**
Trading results		
Trading securities	1,432	1,155
Securities available for sale	531	871
Securities held to maturity	19	1
Derivatives financial instruments	340	697
Total securities' trading results	**2,322**	**2,724**
Spot foreign currency	1,072	1,105
Foreign currency valuation	3	(219)
Minted metals trading	6	5
Minted metals valuation	5	(6)
Total foreign currency trading results	**1,086**	**885**
Total trading results	**3,408**	**3,609**
Total trading results	**Ps. 4,420**	**Ps. 3,414**

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

Economic sector	2014	%	2013	%
Agriculture	Ps. 6,505	1.4%	Ps. 6,666	1.6%
Commerce	44,046	9.3%	41,397	9.7%
Construction	29,569	6.3%	31,813	7.5%
Manufacturing	27,704	5.9%	23,985	5.6%
Mining	251	0.1%	254	0.1%
Services	14,685	3.1%	13,167	3.1%
Financial and real estate services	31,911	6.8%	36,680	8.6%
Transportation	10,269	2.2%	11,231	2.6%
Government	118,934	25.2%	95,580	22.5%
INB commercial	11,943	2.5%	8,754	2.1%
Mortgage	89,918	19.0%	82,033	19.4%
Credit card	23,209	4.9%	20,362	4.8%
Other consumer loans	45,168	9.6%	37,517	8.8%
Leasing	8,191	1.7%	7,163	1.7%
Factoring	9,436	2.0%	8,187	1.9%
Government aids	29	0.0%	58	0.0%
Fair value adjustment	-	0.0%	191	0.0%
	Ps. 471,768	**100.0%**	**Ps. 425,038**	**100.0%**

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

Economic sector	2014	%	2013	%
Agriculture	Ps. 258	1.8%	Ps. 250	1.8%
Commerce	1,930	13.5%	1,121	8.2%
Construction	6,605	46.2%	7,885	57.8%
Manufacturing	596	4.2%	507	3.7%
Mining	2	0.0%	2	0.0%
Services	680	4.8%	332	2.4%
Financial and real estate services	157	1.1%	78	0.6%
Transportation	229	1.6%	100	0.7%
Government	-	0.0%	2	0.0%
INB commercial	11	0.1%	1	0.0%
Mortgage	1,274	8.9%	1,087	8.0%
Credit card	1,358	9.5%	1,278	9.4%
Other consumer loans	1,012	7.0%	815	6.0%
Leasing	116	0.8%	61	0.4%
Factoring	66	0.5%	148	1.1%
Fair value adjustment	-	0.0%	(12)	(0.1%)
	Ps. 14,294	**100.0%**	**Ps. 13,655**	**100.0%**

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

	2014							
	Geographical location							
Product	Monterrey	Mexico City	West	Northwest	Southeast	Treasury and other	Foreign	Total
Non-interest bearing checking accounts	Ps. 31,131	Ps. 53,027	Ps. 13,828	Ps. 14,442	Ps. 17,881	Ps. 290	Ps. -	Ps. 130,599
Interest-bearing checking accounts	14,394	59,154	8,617	10,156	18,719	334	-	$111,374
Savings accounts	2	1	-	-	-	-	-	$3
Current account Ps. and pre-established	6,785	10,001	2,954	3,639	4,356	217	-	$27,952
Non-interest bearing demand deposits, USD	1,928	3,615	475	2,609	1,083	432	6,002	$16,144
Interest bearing demand deposits, USD	3,679	3,558	360	2,409	547	-	6,136	$16,689
Savings accounts in USD	-	-	-	-	-	-	430	$430
Retail time deposits	22,472	51,352	10,828	9,357	15,430	371	-	$109,810
Time deposits, USD	5,858	4,399	1,319	1,731	604	20	8,661	$22,592
Customers money market	21,212	15,994	3,424	3,438	3,995	517	-	$48,580
Financial intermediaries	-	-	-	-	-	9,326	4,423	$13,749
Total deposits	**Ps.107,461**	**Ps.201,101**	**Ps.41,805**	**Ps.47,781**	**Ps.62,615**	**Ps.11,507**	**Ps.25,652**	**Ps.497,922**

	2013							
	Geographical location							
Product	Monterrey	Mexico City	West	Northwest	Southeast	Treasury and other	Foreign	Total
Non-interest bearing checking accounts	Ps. 27,203	Ps. 41,453	Ps. 9,475	Ps. 13,015	Ps. 13,842	Ps. 279	Ps. -	Ps. 105,267
Interest-bearing checking accounts	14,501	59,314	6,433	9,425	15,376	403	-	105,452
Savings accounts	2	1	-	-	-	-	-	3
Current account Ps. and pre-established	7,299	8,988	2,456	4,387	4,348	226	-	27,704
Non-interest bearing demand deposits, USD	1,437	2,752	283	2,180	568	(9)	5,420	12,631
Interest bearing demand deposits, USD	3,032	2,572	372	2,280	369	(1)	5,019	13,643
Savings accounts in USD	-	-	-	-	-	-	383	383
Retail time deposits	22,151	44,664	9,059	10,343	13,891	690	-	100,798
Time deposits, USD	4,352	3,322	1,399	1,391	645	18	7,938	19,065
Customers money market	22,523	15,536	5,089	4,575	2,608	271	-	50,602
Financial intermediaries	-	-	-	-	-	4,268	3,925	8,193
Total deposits	**Ps.102,500**	**Ps.178,602**	**Ps.34,566**	**Ps.47,596**	**Ps.51,647**	**Ps.6,145**	**Ps.22,685**	**Ps.443,741**

29 - PROFIT TAXES

The Financial Group must pay ISR and up to 2013, IETU as well. Therefore the profit tax is ISR and the greater of ISR and IETU up to 2013.

ISR

Pursuant to the new 2014 ISR Law the rate for 2014 and 2013 was 30% and will continue at the same rate for subsequent years.

As to accounting recording of the concepts included in the 2014 Tax Reform associated with profit tax, the CINIF issued INIF 20 - Accounting Effects of the 2014 Tax Reform, effective as of December 2013.

Reconciliation of the ISR legal rate and the effective rate expressed as a percentage of the profit before ISR and PTU is:

	2014	2013
Legal rate	30%	30%
Provisions	-%	-%
Allowance for loan losses	0%	(5%)
Tax inflation	(2%)	(1%)
Non-tax accounting write-offs	2%	5%
Contribution to pension fund	0%	(1%)
Book profit on real and foreclosed property sales	0%	(1%)
Loan recoveries	0%	(2%)
Investment projects recoveries	0%	(1%)
Other entries	(1%)	(3%)
Effective rate	**29%**	**21%**

30 - STOCKHOLDERS' EQUITY

At the Annual General Shareholders' Meeting held on April 25, 2014, was agreed to transfer the Ps. 13,508 profit of 2013 as follows: Ps. 314 to Legal Reserve and Ps. 13,194 to Earnings from Prior Years.

At the Ordinary General Shareholders' Meeting held on October 22, 2014, was agreed to distribute a cash dividend to be paid in October 2014 for the amount of Ps. 674.

In the same meeting, it was approved to establish an incentive Plan where up to 3% of the representative shares of the Financial Group can be acquire (under market conditions). At first, up to 32 million shares will be purchased over the next 4 years using the Financial Group's available resources, which will be generated mostly by subsidiaries' dividend payments.

The Financial Group's shareholders' common stock as of December 31, 2014 and 2013 is comprised as follows:

Paid-in Capital	Number of shares with a nominal value of Ps. 3.50	
	2014	2013
"O" Series	2,769,343,914	2,773,729,563

Paid-in Capital	Historical Amounts	
	2014	2013
"O" Series	Ps. 9,677	Ps. 9,696
Restatement in Mexican pesos through December 2007	4,955	4,956
	Ps. 14,632	Ps. 14,652

As of December 31, 2014 the outstanding shares performed as follows:

Outstanding shares as of January 1, 2014	2,773,729,563
Share repurchase for executive shares' plan payable in equity instruments	(4,385,649)
Outstanding shares as of December 31, 2014	**2,769,343,914**

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, 2014 and 2013, the legal reserve is Ps. 2,933 and Ps. 2,620 and represents 20% and 18% of paid-in capital, respectively.

Share-based payments

The Financial Group grants stock options to key officers through different payment schemes based on stocks. The Financial Group has established trusts to manage the plans and contributes the necessary funds so that shares can be purchased directly from the market at the initiation of each plan.

The Financial Group records its stock option plans according to the guidelines of NIF D-8, "Share-based payments." The compensation expense is recorded at fair value as of the date the stock options are granted. The NIF D-8 guidelines stipulate that the fair value determined at the beginning is not revalued at a later date.

Capitalization Ratio (Banorte)

The capitalization rules for financial institutions establish requirements for specific levels of net capital, as a percentage of assets subject to both market and credit risk.

The information for December 31, 2014 sent to Banco de Mexico to review is shown below.

- Banorte's capitalization ratio as of December 31, 2014 was 15.26% of total risk (market, credit and operational), and 21.71% 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, 2014	
Tier 1 common equity prior to regulatory adjustments.	**Ps. 94,681**
Goodwill (net of applicable deferred profit taxes)	1,599
Other intangibles different from mortgage service right (net of applicable deferred profit taxes)	4,776
Result from valuation of instruments for cash flow hedging	(896)
Benefits on the remainder in securitization transactions	587
Investments in its own shares	402
Substantial investments in ordinary shares of banks, financial institutions and insurers outside the scope of the regulatory consolidation, net of the short-term demandable positions, where the Financial Group owns over 10% of the capital stock issued (amount over the 10% threshold)	23,246
National regulatory adjustments	79
Total regulatory adjustments to Tier 1 common equity	**29,793**
Tier 1 common equity (CET1)	**64,888**
Additional Tier 1 equity (AT1)	5,107
Tier 1 Equity (T1 = CET1 + AT1)	**69,995**
Capital instruments issued directly, subject to gradual elimination of Tier 2 equity Reserves	7,756
Reserves	245
Tier 2 equity (T1 = CET1 + AT1)	**8,001**
Total capital (TC = T1 + T2)	**Ps. 77,996**

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. 67,448	Ps. 5,396
Floating rate securities' transactions in Mexican pesos	15,496	1,240
Real interest rate or UDI denominated securities' transactions in Mexican pesos	1,321	106
Transactions in domestic currency with a yield rate referenced to the increase in the general minimum wage.	6,976	558
Transactions in domestic currency with a yield rate referenced to the increase in the general minimum Wage.	4	-
Nominal interest rate foreign exchange denominated securities' transaction in Mexican pesos	1,195	96
Positions in shares or whose yield is indexed to the price of a share or group of shares	1,387	111
Total	**Ps. 93,827**	**Ps. 7,507**

Assets subject to credit risk

Concept	Risk Weighted Assets	Capital requirement
Group II (weighted at 20%)	Ps. 54	Ps. 4
Group III (weighted at 10%)	561	45
Group III (weighted at 20%)	6,895	552
Group III (weighted at 23%)	155	12
Group III (weighted at 50%)	14,672	1,174
Group IV (weighted at 20%)	11,059	885
Group V (weighted at 20%)	11,682	935
Group V (weighted at 50%)	10,302	824
Group V (weighted at 150%)	8,579	686
Group VI (weighted at 50%)	20,342	1,627
Group VI (weighted at 75%)	5,043	404
Group VI (weighted at 100%)	80,875	6,470
Group VII_A (weighted at 20%)	4,585	367
Group VII_A (weighted at 50%)	1,651	132
Group VII_A (weighted at 100%)	106,979	8,558
Group VII_A (weighted at 150%)	230	18
Group VIII (weighted at 125%)	5,727	458
Group IX (weighted at 100%)	39,759	3,181
Securitizations with a Risk Degree of 1 (weighted at 20%)	1,257	101
Securitizations with a Risk Degree of 2 (weighted at 50%)	575	46
Securitizations with a Risk Degree of 3 (weighted at 100%)	3,666	293
Securitizations with a Risk Degree of 4 (weighted at 350%)	42	3
Securitizations with a Risk Degree of 4, 5, 6 or Non-rated (weighted at 1250%)	602	48
Sum	**Ps. 335,292**	**Ps. 26,823**
For permanent shares, furniture and real property, and advance payments and deferred charges	24,026	1,922
Total	**Ps. 359,318**	**Ps. 28,745**

Assets subject to operational risk:

	Risk Weighted Assets	Capital requirement
Total	**Ps. 57,911**	**Ps. 4,633**

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.

For more detail, see (annex 1-O), supplementary information to the fourth quarter of 2014, according to the Capitalization ratio's information disclosure obligations. Located in the site www.banorte.com/investor relations.

31 - FOREIGN CURRENCY POSITION

As of December 31, 2014 and 2013, 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. 14.7414 and Ps. 13.0843 per USD 1.00, respectively, as shown below:

	Thousands of US dollars	
	2014	**2013**
Assets	7,274,031	6,501,152
Liabilities	6,859,798	6,104,201
Net asset position in US dollars	**414,233**	**396,951**
Net asset position in Mexican pesos	**Ps. 6,106**	**Ps. 5,194**

32 - POSITION IN UDIS

As of December 31, 2014 and 2013, the Financial Group holds certain assets and liabilities denominated in UDIS, converted to Mexican pesos based on the current conversion factor of Ps. 5.270368 and Ps. 5.058731, per UDI, respectively, as shown below:

	Thousands of UDIS	
	2014	**2013**
Assets	322,562	1,285,865
Liabilities	455,376	454,783
Net asset position in UDIS	**(132,814)**	**831,082**
Net asset position in Mexican pesos	**(Ps. 700)**	**Ps. 4,204**

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, 2014 and 2013 are shown below:

	2014			2013
	Net Income	**Weighted share average**	**Earnings per share**	**Earnings per share**
Net income per share	Ps. 15,228	2,772,539,693	Ps. 5.4924	Ps. 5.3472

Net earnings per diluted share for the years ended December 31, 2014 and 2013 are shown below:

	2014			2013
	Net Income	Weighted share average	Earnings per share	Earnings per share
Net income per share	Ps. 15,228	2,772,992,558	Ps. 5.4915	Ps. 5.3472

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 and Liquidity;
- Market Risk and Liquidity, and Capital 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:

<u>Credit Risk:</u> 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.

<u>Market Risk:</u> 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.

<u>Liquidity Risk:</u> 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.

<u>Operational Risk:</u> 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:

- Comply with the Desired Risk Profile defined by the Financial Group's Board of Directors.
- 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 financing matters.
- Provide the business departments with clear and sufficient tools to support financing 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.
- Measure the Financial Group's vulnerability to extreme conditions, and consider such results for decision-making.

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 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 2014, the total operating portfolio of Banco Mercantil del Norte, S.A. (Banco Mercantil del Norte) is Ps. 458,195. The expected loss represents 1.9% and the unexpected loss represents 3.2% of the total operating portfolio. The average expected loss was 2.0% for the period between October and December 2014.

The credit exposure of the investments made by Casa de Bolsa Banorte-Ixe was Ps. 99,409 and the expected loss represents 0.01% of such exposure. The average expected loss was 0.01% for the period between October and December 2014.

The total leasing and factoring portfolio of Arrendadora y Factor, including pure leasing, was Ps. 21,237 million. The expected loss represents 0.9% and the unexpected loss represents 3.2% of the total operating portfolio. The average expected loss was 0.9% for the period between October and December 2014.

The total portfolio of Solida Administradora de Portafolios is Ps. 3,926 million. The expected loss represents 6.3% and the unexpected loss represents 9.3% of the total operating portfolio. The average expected loss was 6.2% for the period between October and December 2014.

The total operating portfolio of Banorte-IXE Tarjetas was Ps. 23,475. The expected loss represents 10.8% and the unexpected loss represents 10.7% of the total operating portfolio. The average expected loss was 11.3% for the period between October and December 2014.

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, 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, 2014, the investment in securities exposure to credit risk for Banorte is Ps 243,077, of which 98.7% 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 8% of the basic capital as of September 2014. 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 2014 has a rating of at least AAA-(mex) and are comprised of (term in weighted average, amount in pesos and rate): exchange listed debt certificates and Pemex bonds with a 7-year 9-month maturity for Ps. 14,659 at 3.5%; exchange listed debt certificates of Banco Inbursa with a maturity of 2 years and 2 months for Ps. 7,192 at 3.5%; certificates of deposit, exchange listed certificates and promissory notes of Banco Santander Mexicano with a 3-month maturity for Ps. 7,773 at 3.2%; and exchange listed certificates and promissory notes of Banobras with an 8-month maturity for Ps. 6,503 at 3.2%

For derivatives, the exposure is (Ps. 5,396), of which 96% is rated A-(mex) or higher 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 2014.

For Casa de Bolsa Banorte-Ixe, the credit risk exposure of the investments in securities was Ps. 99,409, 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 2014. 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 2014 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 4-year 9-month maturity for Ps. 2,675 at 3.4%; exchange listed debt certificates of Scotiabank with a 1-year 10-month maturity for Ps. 1,931 at 3.4%; exchange listed debt certificates of Banamex with a 1-year 9-month maturity for Ps. 1,821 at 3.4%; exchange listed debt certificates of Banco Inbursa with an 11-month maturity for Ps. 1,782 at 3.4%;

exchange listed debt certificates of HSBC with a 3-year 11-month maturity for Ps. 1,151 at 3.6%; certificates of deposit of Banco del Bajio at a 1-month maturity for Ps. 442 at 3.6%; and Deutsche Bank bonds with an 8-year 5-month maturity for Ps. 411 at 9.9%. 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. 95. All of which are in bank instruments. There are no derivatives financial instruments.

Banorte-IXE Tarjetas has neither investments in securities nor Securities is Ps. 410. all of which are in bank instruments. There are no derivatives financial instruments.

Risk Diversification

In December 2005, the Commission issued the "General Rules for Risk Diversification in Performing Asset and Liability Transactions Applicable to Credit Institutions".

These regulations require that the Banco Mercantil del Norte perform an analysis of the borrowers and/or loans they hold to determine the amount of their "Common Risk". Also, Banco Mercantil del Norte 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 is provided below (millions of pesos):

Basic capital as of September 30, 2014	**67,840**
I. Financing whose individual amount represents more than 10% of basic capital:	
Credit transactions	
Number	2
Overall amount	16,608
% in relation to basic capital	24%
II. Maximum amount of financing with the three largest debtors and common risk groups	**34,527**

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, 2014	**3,696**
I. Financing whose individual amount represents more than 10% of stockholders' equity:	
Credit transactions	
Number	5
Overall amount	3,851
% in relation to stockholders equity	104%
II. Maximum amount of financing with the three largest debtors and common risk groups	**5,124**

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, 2014	**4,007**
I. Financing whose individual amount represents more than 10% of stockholders' equity (group level):	
II. Maximum amount of financing with the three largest debtors and common risk groups	**632**

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, 2014	**4,578**
I. Financing whose individual amount represents more than 10% of stockholders' equity (group level):	
Money market transactions	
Number	1
Overall amount	410
% in relation to stockholders equity	9%
Overnight transactions	
Number	1
Overall amount	56
% in relation to stockholders equity	1%
II. Maximum amount of financing with the three largest debtors and common risk groups	**4**

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. 5,811 for the last quarter 2014.

	4Q13	1Q14	2Q14	3Q14	4Q14
VaR Banorte*	4,616	5,149	5,389	6,261	5,811
Banorte net capital***	69,619	72,938	73,493	75,791	77,996
VaR / net capital Banorte	6.63%	7.06%	7.33%	8.26%	7.45%

* Quarterly Average
*** Sum of net capital at the close of the quarter

Also, the average of the VaR per risk factor for Banco Mercantil del Norte’s portfolio of securities behaved as follows during the fourth quarter of 2014:

Risk factor	VaR
Domestic interest rate	Ps. 4,957
Foreign interest rate	Ps. 1,316
Exchange rate	Ps. 352
Capital	Ps. 83
Total VaR	Ps. 5,811

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 2014 was:

Trading derivatives	4Q14	4Q13
Futures		
MEXDER rate futures	Ps. 3	Ps. 3
Exchange rate derivatives		
Forwards	56	122
Options	-	2
Interest rate options		
TIIE	18	6
Swap options		
TIIE	12	-
Interest rate swaps (IRS) and exchange rate		
TIIE swaps	23	55
LIBOR swaps	23	39
Cross currency exchange rate swaps	159	164
Total trading derivatives	**Ps. 294**	**Ps. 391**

Hedging derivatives	4Q14	4Q13
Swaps		
Cross currency exchange rate swaps for hedging bonds in USD	Ps. 354	Ps. 171
TIIE swaps for hedging obligations in Mexican pesos	3	4
TIIE swaps for hedging promissory note in Mexican pesos	-	-
Interest rate options for hedging fixed rate portfolios	142	161
Total hedging derivatives	**Ps. 499**	**Ps. 336**

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. 23 million. This means that under normal condition, 99 days out of every 100, the maximum potential loss is Ps. 23 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 2014 was:

Trading Securities	4Q14	4Q13
Floating rate government bonds	Ps. 34	Ps. 62
Fixed rate government bonds	18	28
Zero coupon bank bonds	1	1
Exchange listed debt certificates	66	79
CEDES	1	-
Actual rate bonds	-	19
US treasury bonds	10	23
PEMEX Eurobonds	155	164
UMS	106	8
Bank Eurobonds	13	19
Private company Eurobonds	11	6
Private company Eurobonds dollars	18	23
Total	**Ps. 433**	**Ps. 432**

Securities at maturity	4Q14	4Q13
Floating rate government bonds	Ps. 1	Ps. 7
Exchange listed debt certificates	34	33
Bank bonds	-	2
PEMEX bonds	-	7
Private company Eurobonds	-	6
Private company Eurobonds dollars	-	3
Total	**Ps. 35**	**Ps. 58**

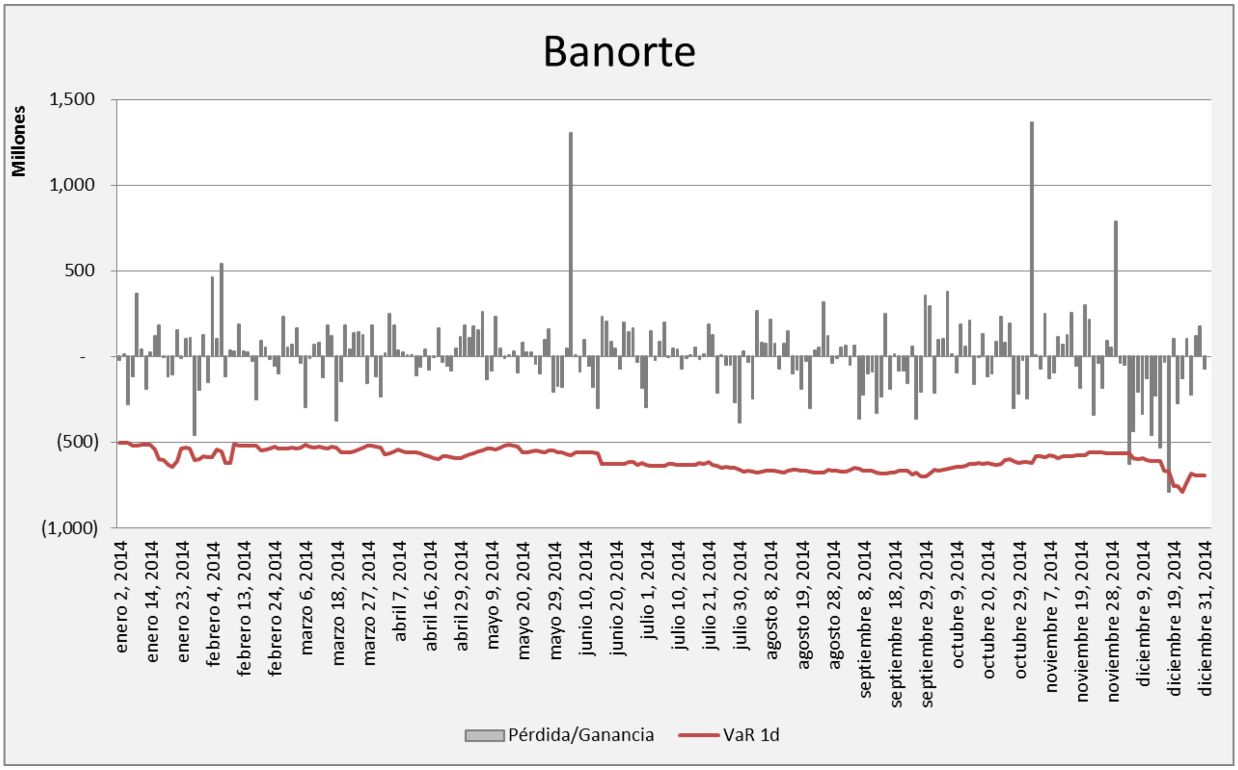
To calculate the VaR for each type of securities listed, the non-parametric historic simulation method is applied to a 99%% level of confidence and a one-day horizon. For instance, the Value at Risk for trading UMS is Ps 106. This means that under normal condition, 99 days out of every 100, the maximum potential loss is Ps. 106 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 2014 are as follows:



During 2014, there were two 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. 26)	Ps. -	Ps. -
Exchange rate derivatives			
Forwards	3	(3)	225
Interest rate options			
TIIE	(98)	-	-
LIBOR	-	(1)	-
Swap options			
TIIE	(8)	-	-
Interest rate swaps (IRS) and exchange rate			
TIIE Swaps	(225)	-	-
LIBOR Swaps	-	164	(14)
Cross exchange rate Swaps	(85)	(161)	(424)
Total trading derivatives	**(Ps. 439)**	**(Ps. 1)**	**(Ps. 213)**

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. 577)	Ps. 191	(Ps. 205)
Cross currency exchange rate swaps for hedging bonds in Mexican pesos	4	(6)	11
TIIE swaps for hedging promissory note in Mexican pesos	699	-	-
Total hedging derivatives	**Ps. 126**	**Ps. 185**	**(Ps. 194)**

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. 255)	Ps. -	Ps. -	(Ps. 230)	Ps. -
Fixed rate government bonds	(82)	-	-	-	-
Zero coupon bank bonds	(12)	-	-	-	-
Exchange listed debt certificates	(50)	-	-	-	-
Promissory note payable upon maturity	(19)	-	-	-	-
CEDES	(1)	-	-	-	-
US treasury bonds	-	(46)	32	-	-
PEMEX bonds	-	(757)	221	-	(272)
UMS	-	(519)	4	-	(265)
Bank bonds in USD	-	(26)	49	-	-
Private company in MXP	(27)	-	-	-	-
Private company Eurobonds	-	(70)	63	-	-
Total	**(Ps. 446)**	**(Ps. 1,418)**	**Ps. 369**	**(Ps. 230)**	**(Ps. 537)**

Securities at 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. 9)	Ps. -	Ps. -	Ps. -	Ps. -
Exchange listed debt certificates	3	-	-	-	-
Total	**(Ps. 6)**	**Ps. -**	**Ps. -**	**Ps. -**	**Ps. -**

In the event of any of above scenarios, the losses or gains of the trading securities 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.

Liquidity and balance sheet risk

In order to provide a measurement of liquidity risk in the Financial Group and provide follow-up consistently, Banco Mercantil del Norte 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. Banorte's liquidity ratio at the end of the fourth quarter of 2014 is 105.1%, while the average during the quarter is 106.1%, as shown below:

	End of quarter				
	4Q13	**1Q14**	**2Q14**	**3Q14**	**4Q14**
Liquid assets	255,285	315,043	324,274	324,059	313,702
Liquid liabilities	257,596	251,164	269,633	274,488	298,472
Liquidity ratio	99.1%	125.4%	120.3%	118.1%	105.1%

	Average				
	4Q13	**1Q14**	**2Q14**	**3Q14**	**4Q14**
Liquid assets	249,265	302,080	317,154	311,896	307,622
Liquid liabilities	237,931	245,161	252,417	268,969	289,999
Liquidity ratio	104.8%	123.2%	125.6%	116.0%	106.1%

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		
Gap	**Asset position**	**Liability position**	**Net**
1 month	Ps. 1,359,557	(Ps. 1,545,041)	(Ps. 185,484)
3 months	4,177,087	(4,896,677)	(719,590)
6 months	3,040,054	(3,223,907)	(183,853)
1 year	5,097,830	(5,093,834)	3,996
2 years	8,820,555	(8,969,777)	(149,222)
3 years	14,806,468	(15,654,909)	(848,441)
4 years	5,854,051	(5,643,942)	210,109
5 years	4,647,244	(4,205,323)	441,921
7 years	12,434,521	(11,806,936)	627,585
10 years	13,594,851	(13,079,928)	514,923
15 years	9,008,218	(8,744,482)	263,736
20 years	165,049	(164,337)	712
> 20 years	71,937	(76,417)	(4,480)
Total	**Ps. 83,077,422**	**(Ps. 83,105,510)**	**(Ps. 28,088)**

The liquidity ratio at the end of 4Q14 for Casa de Bolsa Banorte Ixe is 101.88%.

Casa de Bolsa Banorte Ixe	**4Q13**	**4Q14**
Gap accumulated over 1 month (MXP + UDIS)	Ps. 1,095	Ps. 1,099
Liquid assets	1,770	2,398
Overall capital	2,051	2,353
Liquidity vs. net capital	**86.23%**	**101.88%**

The liquidity ratio at the end of 4Q14 for Arrendadora and Factor Banorte is 0.58%.

Casa de Bolsa Banorte Ixe	**USE - December 2014**
Gap accumulated over 1 month (MXP)	(Ps. 3,213)
Gap accumulated over 3 month (MXP)	1,077
Liquid assets	22
Net capital	3,722
Basic capital	3,722
Liquidity vs. net capital	**0.58%**
Liquidity vs. net capital	**0.58%**

The liquidity ratio vs. net capital for Solida Administradora de Portafolios (previously Ixe Soluciones) as of December 31, 2014 is 4.13%.

Solida Administradora de Portafolios (previously Ixe Soluciones)	**USE - December 2014**
Gap accumulated over 1 month (MXP)	(Ps. 4,031)
Gap accumulated over 3 months (MXP)	(8,702)
Liquid assets	163
Net capital	3,946
Basic capital	3,946
Liquidity vs. net capital	**4.13%**
Liquidity vs. net capital	**4.13%**

The liquidity ratio vs. net capital for Banorte Ixe Tarjetas as of December 31, 2014 is 12.35%.

Banorte Ixe Tarjetas	**USE - December 2014**
Gap accumulated over 1 month (MXP + UDIS)	Ps. 2,727
Gap accumulated over 3 month (MXP + UDIS)	2,787
Liquid assets	466
Net capital	3,771
Basic capital	3,771
Liquidity vs. net capital	**12.35%**
Liquidity vs. net capital	**12.35%**

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:

Types of events	Description
Internal fraud	Losses derived from actions intended to defraud, illegally seize ownership or evade the regulations, law or policies of the Financial Group (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

At the Financial Group, technology risk 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

	2014	2013
Operations on behalf of third parties		
Banks customers (current accounts)	Ps. 52	Ps. 24
Settlement of customer transactions	(21)	(30)
Customer securities received in custody	588,561	536,300
Customer repurchase agreements	98,802	112,839
Collateral pledged on account of clients	97,555	111,486
Managed trusts	76,857	254
Investment banking transactions on account of third parties (net)	90,769	83,170
	Ps. 952,575	**Ps. 844,043**
Proprietary transactions		
Contingent assets and liabilities (unaudited)	Ps. 1	Ps. -
Assets in trust or under mandate (not audited)	221,427	205,061
Managed assets in custody (unaudited)	433,473	451,582
Credit commitments (unaudited)	43,023	28,110
Collateral received	97,855	143,033
Collateral received and sold or given as a pledge	142,005	203,074
Deposits of assets	3,346	2,816
Interest accrued but not charged of past due loans	548	392
	Ps. 941,678	**Ps. 1,034,068**

37 - COMMITMENTS

As of December 31, 2014 and 2013, the Financial Group had the following contingent obligations and commitments:

- Other contingent obligations and opening of credits totaling Ps. 43,024 (Ps. 28,110 in 2013), which are recorded in memorandum accounts.
- Certain operating equipment is leased. Total property lease payments for the years ended December 31, 2014 and 2013, were Ps. 111 and Ps. 115, respectively.

38 - CONTINGENCIES

As of December 31, 2014, 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, 2014, the Financial Group has recorded a reserve for contentious matters of Ps. 486 (Ps. 347 in 2013).

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 2014 and 2013, the amount of contributions to the IPAB payable by Banorte for fees amounted to Ps 1,873 and Ps 1,804, respectively.

40 – NEW ACCOUNTING GUIDELINES

In December 2014, the CINIF decreed a series of Regulations that became effective as of January 1, 2015. The regulations and their main changes are listed below:

2015 NIF Improvements - Enhancements to the 2015 NIF were issued. They do not involve accounting changes, and provide clearer definitions of the terms to align with the international financial reporting standards.

In 2013, the following NIFs were published and will become effective as of January 1, 2018; with the implementation option starting on January 1, 2016, provided they are implemented at the same time:

NIF C-3, Accounts Payable
NIF C-20 - Financing Instruments Payable

The Financial Group is in the process of determining the effects these criteria and regulations may have on its financial information.

On January 9, 2015, the Commission published in the DOF the General Provisions Applicable to Financial Group Holding Companies that regulate the issues jointly related to the Supervisory National Commissions.

Strengthening these Commissions was contemplated regarding their powers of supervision over financial groups. The purpose was for them to use jointly-developed instruments to achieve a consolidated and effective supervision, while establishing a uniform regulation for these entities thereby benefitting the financial system.

In keeping with the above, a regulatory framework was incorporated with the requirements and features that must be fulfilled by the independent external auditors of the Financial Group Holding companies subject to the Supervisory National Commissions oversight, and the contents of their opinions, rules to apply to such Holding Companies, as well as the term for safekeeping their accounting, books and documents.