



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

ANNUAL BUSINESS REPORT 2017

Grupo Financiero Banorte, Annual Business Report 2017.

2017 was the year when our 20/20 Vision was consolidated and, at the same time, a year of great challenges and opportunities that we addressed satisfactorily. This annual report is a summary of the most relevant events and results of the year.

Environment

During 2017, we faced a difficult environment marked by international and local events that generated high volatility in the financial markets. However, Grupo Financiero Banorte focused on working to reach its goals.

The most relevant international events included the uncertainty surrounding the policies that would be adopted by president Trump in the United States government, particularly in foreign trade, and the most ambitious tax reform ever seen in that country.

Domestically, we had two earthquakes that resulted in losses for many families, and substantial material damages in several places in our country. In solidarity with Mexico, Banorte presented the “Banorte Adopta una Comunidad” plan, which focuses on the reconstruction of houses and school equipment in nine communities damaged by the earthquake, for a total amount of up to \$170 million pesos, which were collected from generous contributions by our clients and collaborators, the Group and Fundación Banorte.

In the domestic economic environment, some of the variables that set the pace during the year were the high levels of inflation in Mexico, which reached 6.7%, and an exchange rate which, albeit volatile, appreciated to its levels before the US election. In this environment, Banco de México adopted a restrictive policy, which resulted in a cumulative increase of 150 base points in the reference interest rate during 2017.

As for the growth of Mexican economy, the GDP had a moderate downturn during the year, with 2% growth vs 2.3% in 2016, mainly driven by the service sector.

Group Results

In spite of the difficult environment described above, GFNorte reported very positive results, achieving an annual net profit of \$23,908 million pesos, 24% higher than the previous year, sharing a robust growth in a majority of its subsidiaries: the Bank reported a 30% growth, Almacенadora 48%, Brokerage Firm 16%, Funds 19%, Pensions 57% and Insurance, in spite of a difficult year because of natural disasters, had a 6% increase.

The net interest margin (MIN) increased by 60 base points during the year, reaching 5.5%, as a result of a better product mix and the update of prices in our portfolios by virtue of increases in market interest rates. The income from service commissions increased by 13%, reflecting a higher turnover of transactions in banking services.

In order to further strengthen the transaction turnover, in October 2017, we announced a strategic alliance with PayPal, making Banorte the first bank in Mexico and Latin America to form an alliance with such institution, to offer an integrated experience where its clients can link their credit and debit cards to new or existing PayPal accounts, and make transactions in Mexico and worldwide.

Concerning the Group efficiency index, there was an improvement of 300bp to 41.9%, as a result of a responsible and careful management of operating expenses.

The credit portfolio evolution showed sound results, growing 9% during the year, including the performance of the commercial credit portfolio, which increased by 10%, and of the consumer credit portfolio, which increased by 19%, twice the average growth in the banking system. This increase is derived from a more precise and efficient origination based on the information and analysis of our robust analytic client information system, which we have been building for several years.

Several actions were taken in the year to strengthen the different stages of the credit process, such as origination, information authorization and validation models, in order to decrease the cost of credit, particularly, credit and payroll card products, which write-offs and debt forgiveness in 2017 amounted to \$10,056 million pesos, which is a market situation because the costs are similar to those of our competitors; however, we are taking actions to decrease them.

Concerning the quality of assets, the due portfolio index showed a slight increase at 2%, as a result of strong inflation, moderate delays in the collection of consumer products by virtue of the distortion caused by the earthquakes, and as a natural consequence of our growth in the consumer credit portfolio.

Concerning our capital indicators, during 2017, we strengthened our capitalization index to 17.2%, which had a positive contribution by virtue of the issuance of perpetual capital notes in international markets, in an amount of \$900 million dollars in July, 2017. The funds derived from the issuance were also used for other general corporate purposes. Likewise, in 2017, the Group distributed dividends among its shareholders in the historical amount of \$14,645 million pesos, which resulted in an annual yield of 102.6%.

The return on capital of GFNorte was of 17%, 307 points above 2016, and a return on assets of 1.9%, 28 points over the previous year, consolidating our progress towards the goals established in 20/20 Vision.

Relevant Events

As a part of the corporate restructuring strategy announced in 2016, the sale of Inter National Bank, our United States subsidiary, was successfully formalized in March 2017. With the divestiture of this asset, the Group's goal is to focus all our efforts on Mexico, our natural market.

On the other hand, the execution of the Master Merger Agreement with Grupo Financiero Interacciones was announced in October 2017. As a result of this merger, GFNorte will become the second largest financial group in Mexico, measured by total assets, and by credit portfolio and client deposits.

The transaction was approved by the General Ordinary and Extraordinary Shareholders Meeting of Grupo Financiero Banorte and Grupo Financiero Interacciones held on December 5, 2017, and is still subject to the approval of the financial and economic competition authorities and to the result of integral audits.

I am certain all these results speak about the strong bank that we are building for Mexico, for which 2017 was a key year as we get closer to the goal of becoming the best Financial Group in Mexico according to our 20/20 Vision.

My sincerest thanks to our more than 4 thousand investors for their trust during this year 2017, our Board of Directors, local and regional directors, and each and every one of the 29 thousand collaborators that showed once more their dedication and commitment to the institution of which we are all a part.

Sincerely,

Marcos Ramírez Miguel
CEO of Grupo Financiero Banorte