

Annual Report 2016

Grupo Financiero Banorte, S. A. B. de C. V.

IN ACCORDANCE WITH REGULATIONS APPLICABLE TO THE FINANCIAL INFORMATION OF CONTROLLING COMPANIES OF FINANCIAL GROUPS SUBJECT TO SUPERVISION BY THE NATIONAL BANKING AND SECURITIES COMMISSION (CNBV),

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I. Management's Discussion & Analysis

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 Financial Statements for the years ended December 31, 2016 and 2015, published by Galaz, Yamazaki, Ruiz Urquiza, S. C., a member of Deloitte Touche Tohmatsu Limited dated February 22, 2017. For the year ended December 31, 2014, financial figures are based on GFNorte's Audited Financial Statements published by Galaz, Yamazaki, Ruiz Urquiza, S. C., a member of Deloitte Touche Tohmatsu Limited, dated February 23, 2016.
- ✓ In the fourth quarter of 2016 GFNorte decided to dispose of Inter National Bank ("INB") as part of the corporate restructuring program. As result of the aforementioned, Banco Mercantil del Norte ("Banorte") reclassified its investment in Inter National Bank as a long-term asset available for sale, which was registered at yearend at its estimated sale value. Moreover, INB's net income was registered as Income from Discontinued Operations. Consequently, INB's consolidated results in Banorte were reversed for 2016 and 2015. GFNorte's and Banorte's consolidated figures for 2015 reported in this document differ from those presented in the Annual Report submitted to the authority in April 2016.
- ✓ During the third quarter of 2016 Fees from Commercial and Government Loans were reclassified retroactively to Fees for Commercial and Mortgage Loans from Other Fees Charged in order to make figures comparable. This reclassification amounted to Ps 458 million for 2015.
- ✓ During the second quarter of 2014, GFNorte reclassified retroactively 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" in order to make figures comparable. 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 published on February 19th, 2015- 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").
- ✓ The financial information presented in this report has been calculated in pesos and the tables are in million pesos, thus, differences are the result of rounding effects.

A) OPERATING RESULTS

SELECTED FINANCIAL INFORMATION

	2016	2015 ¹⁾	2014
Net Income Grupo Financiero Banorte (GFNorte)	\$19,308	\$17,108	\$15,228
Total Assets GFNorte	\$1,268,119	\$1,198,476	\$1,097,982
Total Liabilities GFNorte	\$1,125,418	\$1,061,124	\$973,310
Stockholders' Equity GFNorte	\$142,701	\$137,352	\$124,672
Stockholders' Equity GFNorte excluding minority interest	\$140,746	\$135,452	\$122,922

INFORMATION PER SHARE

Net income per share Basic (pesos)	\$7.01	\$6.20	\$5.49
Net income per share Diluted (pesos)	\$6.96	\$6.17	\$5.49
Dividend approved per share (pesos) ²⁾	\$2.47	\$1.65	\$0.97
Book value per share (pesos) (excluding minority interest) ³⁾	\$50.74	\$48.83	\$44.32
Shares outstanding Basic (millions)	2,754.05	2,762.47	2,772.50
Shares outstanding Diluted (millions)	2,773.73	2,772.38	2,773.00

PROFITABILITY RATIOS

NIM	4.80%	4.40%	4.70%
NIM adjusted for credit risk	3.60%	3.39%	3.50%
NIM adjusted w/o Insurance & Annuities	4.61%	4.19%	4.50%
NIM from loan portfolio	7.88%	7.68%	8.20%
Return on assets (ROA)	1.58%	1.47%	1.50%
Return on equity (ROE)	13.91%	13.26%	13.20%

OPERATIONS

Efficiency ratio ⁴⁾	44.94%	47.59%	48.50%
Operating efficiency ratio ⁵⁾	2.55%	2.53%	2.80%
Liquidity ratio			133.70%
Average Liquidity Coverage Ratio for Banorte and SOFOM - Basel III	99.55%	107.78%	

ASSET QUALITY INDICATORS

Past due loan ratio	1.79%	2.25%	2.90%
PDL reserve coverage	139.48%	116.04%	107.00%

CAPITALIZATION RATIO

Banco Mercantil del Norte	15.28%	14.62%	15.26%
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INFRASTRUCTURE AND EMPLOYEES

Bank Branches ⁶⁾	1,175	1,191	1,269
ATMs (automated teller machines)	7,756	7,425	7,297
Points of Sale	151,948	155,893	162,352
Full-time employees	27,913	27,574	27,898
Full-time employees and professional services	27,929	27,594	27,943

Million pesos.

- Figures coming from the Income Statement were reexpressed to reflect INB deconsolidation in 2016 due to the corporate restructure process; therefore, such figures differ from those presented in the Annual Report submitted to the authority in April 2016.
- Dividends approved by the Shareholders' Assemblies in 2014, 2015 and 2016 were: 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). Total dividend decreed in 2015 was Ps 1.64702 per share to be paid in four installments, the first one for Ps 0.2745 per share (November 2015) and the remaining three for an amount of Ps 0.457506549 per share each (February, June and October 2016). Total dividend decreed in 2016 was Ps 2.4671 per share to be paid in two installments of Ps 1.233553556868510 (August 2016 and March 2017).
- Considering the number of issued shares that for the three periods amount to 2,773.7 million.
- Non Interest Expense / (Net Interest Income + Non- Interest Income).
- Non Interest Expense / Average Total Assets.
- Includes bank modules and excludes 1 branch in the Cayman Islands.

MANAGEMENT AND ANALYSIS COMMENTS

GFNorte reported profits of Ps 19.31 billion in 2016, +13% higher YoY and +27% higher than in 2014.

In 2016 the contribution by business sector to accumulated profits is as follows:

The Consolidated Bank's* net profits totaled **Ps 15.04 billion**, Ps 1.53 billion or +11% higher vs. 2015. **Consolidated Bank in 2015 considers Banco Mercantil del Norte, Banorte-Ixe Tarjetas, Banorte USA and Afore XXI Banorte according to its 50% ownership; whereas, in 2016 considers Banco Mercantil del Norte –merging entity of Banorte-Ixe Tarjetas since May- and Banorte USA –deconsolidated and reported in Discontinued Operations as of 4Q16- and excludes Afore XXI Banorte as it is reported within Long Term Savings since 4Q16.* Net Income for the Consolidated Bank –**according to GFNorte's holding-** amounts to **Ps 13.80 billion**, Ps 1.75 billion or +14% higher YoY, accounting for 71% of GFNorte's profits.

Net Income for the **Long Term Savings Sector** comprised of Afore XXI Banorte, Insurance and Annuities Companies was **Ps 5.73 billion** in 2016, +12% higher YoY. **According to GFNorte's participation in this sector, accumulated profits amounted to Ps 4.43 billion**, +16% higher vs. 2015, representing 23% of GFNorte's accumulated earnings. This increase was due to better dynamics in the companies that make up this sector, especially in Seguros Banorte (driven by higher Technical Results and the increase in Other Operating Income (Expenses)) and Pensiones Banorte (benefited by higher Total Income).

During 2016 the **Brokerage Sector** comprised of Casa de Bolsa Banorte Ixe and Operadora de Fondos Banorte-Ixe reported profits of **Ps 832 million**, +5% higher YoY driven by higher Non-Interest Income, Trading and Other Products (Expenses) Net, as well as by lower Non Interest Expense and tax payments. The Brokerage Sector's Net Income for 2016 represented 4% of the Financial Group's profits.

SOFOM and Other Finance Companies comprised of Arrendadora y Factor Banorte, Almacenadora Banorte, Sólida Administradora de Portafolios and Ixe Servicios, recorded profits of **Ps 178 million** in 2016, a (64%) decrease vs. 2015. According to GFNorte's participation in this sector, accumulated profits amounted to Ps 184 million, (63%) lower YoY. The accumulated profit of this sector represented 1% of GFNorte's earnings.

1. Grupo Financiero Banorte

Consolidated Income Statement

	2016	2015 ¹⁾	2014
Interest income	\$80,264	\$69,302	\$72,579
Premium income (Net)	21,307	19,074	18,692
Interest expense	(27,383)	(23,642)	(27,861)
Increase in technical reserves	(8,477)	(7,131)	(9,655)
Casualty rate, Claims and other Contractual Obligations (Net)	(12,654)	(11,027)	(9,659)
NET INTEREST INCOME (NII)	\$53,057	\$46,576	\$44,096
Loan Loss Provisions	(13,313)	(10,687)	(11,196)
NET INTEREST INCOME ADJUSTED FOR CREDIT RISK	\$39,744	\$35,889	\$32,900
Fees Charged	16,683	14,566	12,820
Fees Paid	(6,056)	(4,847)	(4,267)
Trading Income	2,346	2,954	4,420
Other Operating Income	3,491	2,937	3,260
Non-Interest Income	\$16,465	\$15,611	\$16,233
Administration and promotional expenses	(31,243)	(29,594)	(29,232)
OPERATING INCOME	\$24,965	\$21,905	\$19,901
Subsidiaries' Net Income	1,246	1,201	1,220
PRE-TAX INCOME	\$26,211	\$23,106	\$21,121
Income Tax	(7,056)	(5,605)	(8,040)
Deferred Income Tax (Net)	178	(386)	2,372
Taxes	(6,878)	(5,991)	(5,668)
INCOME BEFORE DISCONTINUED OPERATIONS	\$19,333	\$17,115	\$15,453
Discontinued operations	243	233	0
INCOME FROM CONTINUOUS OPERATIONS	19,576	17,348	15,453
Minority interest	(268)	(240)	(225)
NET INCOME	\$19,308	\$17,108	\$15,228

Million pesos.

1. Reexpressed figures to reflect the INB deconsolidation carried out in 2016 as result of the corporate restructuring process; therefore, will differ from those published in the Annual Report submitted to the authority in April 2015.

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

- **Net Interest Income - NII**

	2016	2015 ¹⁾	2014
Interest Income	\$73,204	\$63,623	\$65,303
Interest Expense	26,893	23,260	27,494
Fees Charged	1,206	1,207	2,238
Fees Paid	490	383	367
Net Interest Income without Insurance and Annuities	\$47,027	\$41,187	\$39,680
Premium Income (Net)	21,307	19,074	18,693
Technical reserves	8,477	7,131	9,655
Damages, Claims and Other Obligations	12,654	11,027	9,659
Technical Result	\$176	\$916	(\$622)
Net Interest Income (Expense)	5,854	4,473	5,038
Net Interest Income for Insurance and Annuities	\$6,030	\$5,389	\$4,416
Net Interest Income GFNorte	\$53,057	\$46,576	\$44,096
Credit Provisions	13,313	10,687	11,196
Net Interest Income Adjusted for Credit Risk	\$39,744	\$35,889	\$32,900
Average Earnings Assets	\$1,104,742	\$1,059,044	\$944,776
NIM ²⁾	4.8%	4.4%	4.7%
NIM adjusted for Credit Risk ³⁾	3.6%	3.4%	3.5%
NIM adjusted w/o Insurance and Annuities	4.6%	4.2%	4.5%
NIM from loan portfolio ⁴⁾	7.9%	7.7%	8.2%

Million pesos.

1. Reexpressed figures to reflect the INB deconsolidation carried out in 2016 as result of the corporate restructuring process; therefore, will differ from those published in the Annual Report submitted to the authority in April 2015.
2. NIM (Net Interest Margin) = Annualized Net Interest Income / Average Earnings Assets.
3. NIM adjusted for Credit Risk = Annualized Net Interest Income adjusted for Credit Risk / Average Earnings Assets.
4. NIM from loan portfolio = Annualized Net Interest Margin from loan portfolio / Average Performing Loans.

GFNorte's Net Interest Income (NII) grew +14% YoY amounting to Ps 53.06 billion in 2016 from Ps 46.58 billion in 2015. This result was driven mainly by the **NII excluding Insurance and Annuities** which totaled **Ps 47.03 billion** in 2016, +14% higher vs. 2015, reflecting growth in loans and deposits, as well as the interest rate hikes that Banxico carried out in December 2015 and during 2016, accumulating +275 bp. Favorable results came from a **+16% increase in NII from loans and deposits**, as well as by **+10% in NII from repos**.

The Net Interest Margin (NIM) in 2016 rose to 4.8%, a +40bp increase vs. 2015, mainly result of a better portfolio mix and control in funding cost, as well as the benefit of rising market rates.

• Provisions

In 2016 Loan Loss Provisions totaled Ps 13.31 billion, +25% higher annually, mainly on higher requirements in payroll, credit card and corporate loans, which could not be offset by lower requirements in the commercial portfolio. The +25% increase is not related to deterioration in credit quality (past due loans declined (13%) YoY), but relates to loan loss reserve reversals in March 2015, May 2015 and December 2015 that offset the requirements for those months, respectively. Eliminating these reversals, provisions requirement for 2016 would have been only +11% higher.

Provisions represented 25.1% of Net Interest Income in 2016 %, +2.1 pp higher compared to the same period a year ago.

Likewise, **Provisions for 2016 accounted for 2.5% of the average loan portfolio**, increasing +27bp YoY.

• Non-Interest Income

	2016	2015 ¹⁾	2014
Service Fees	\$10,628	\$9,719	\$8,553
Trading	2,346	2,954	4,420
Other Operating Income (Expenses)	3,491	2,937	3,260
Non-Interest Income	\$16,465	\$15,611	\$16,233

Million pesos.

1. Reexpressed figures to reflect the INB deconsolidation carried out in 2016 as result of the corporate restructuring process; therefore, will differ from those published in the Annual Report submitted to the authority in April 2015.

During 2016, Non-Interest Income totaled Ps 16.47 billion, increasing by +5% or +Ps 854 million vs. 2015, driven mainly by Service Fees.

Service Fees

	2016	2015 ¹⁾	2014
For Commercial and Mortgage Loans *	\$796	\$458	\$9
Fund Transfers	1,303	857	637
Account Management Fees	2,075	1,982	1,499
Fiduciary	347	388	362
Income from Real Estate Portfolios	113	169	187
Electronic Banking Services	5,808	5,070	4,486
For Consumer and Credit Card Loans	3,658	3,077	2,792
Other Fees Charged ²⁾ *	2,583	2,566	2,847
Fees Charged on Services	\$16,683	\$14,566	\$12,820
Fees Paid on Services	\$6,056	\$4,847	\$4,267
Service Fees	\$10,628	\$9,719	\$8,553

Million Pesos

1. Reexpressed figures to reflect the INB deconsolidation carried out in 2016 as result of the corporate restructuring process; therefore, will differ from those published in the Annual Report submitted to the authority in April 2015.

2. Includes fees from letters of credit, transactions with pension funds, warehousing services, financial advisory services and securities trading among others.

* Reclassified figures to Other Fees Charged from Fees for Commercial and Mortgage Loans for 2015.

Service Fees in 2016 increased by +9% annually to **Ps 10.63 billion**, mainly as a result of the **+16% growth in core banking services** (account management, fund transfers, and electronic banking services) and a +19% growth in fees related to the consumer portfolio.

Trading

	2016	2015 ¹⁾	2014
Foreign Exchange	\$1,594	\$1,251	\$1,085
Securities-Realized Gains	497	1,451	2,322
Securities-Unrealized Gains ¹⁾	255	252	1,013
Trading Income	\$2,346	\$2,954	\$4,420

Million pesos

1. Reexpressed figures to reflect the INB deconsolidation carried out in 2016 as result of the corporate restructuring process; therefore, will differ from those published in the Annual Report submitted to the authority in April 2015.

During 2016 Trading Revenues totaled Ps 2.35 billion, (21%) lower year over year; explained by a (Ps 955) million decline in trading revenue, which was not offset by the +27% growth in FX transactions with clients.

Other Operating Income (Expense)

	2016	2015 ¹⁾	2014
Loan Recoveries	\$1,550	\$1,282	\$956
Income from Foreclosed Assets	98	165	(130)
Other Operating Income	393	360	424
Other Operating Expense	(304)	(442)	(229)
Subtotal Recoveries and Others	\$1,737	\$1,366	\$1,022
Other Products	5,260	3,971	3,421
Other Acquired Recoveries	552	587	1,217
Other (Expenses)	(5,076)	(3,752)	(3,060)
Non-Operating Income (Expenses), Net	\$737	\$806	\$1,578

Other from Insurance and Annuities	\$1,017	\$765	\$660
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Other Operating Income (Expense)	\$3,491	\$2,937	\$3,260
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Million pesos

1. Reexpressed figures to reflect the INB deconsolidation carried out in 2016 as result of the corporate restructuring process; therefore, will differ from those published in the Annual Report submitted to the authority in April 2015.

In 2016 Other Operating Income (Expenses) totaled Ps 3.49 billion, rising +19% YoY, driven by:

- i) +Ps 267 million increase in income from Loan Recoveries related to better results on loan collection;
- ii) +Ps 252 million rise in Other Income from the Insurance and Annuities companies;
- iii) +32% in Other Products, mainly on rising revenues from sales at Almacén Banorte, higher cancellations of creditors and provisions at Banorte and the increase in revenues from sales of foreclosed assets; and,
- iv) (Ps 138) million reduction in Other Operating (Expenses) on lower valuation charges.

• Non-Interest Expense

	2016	2015 ¹⁾	2014
Personnel	\$12,876	\$11,997	\$12,986
Professional Fees	2,208	2,359	3,000
Administrative and Promotional	7,366	7,083	5,679
Rents, Depreciation & Amortization	4,689	4,072	3,648
Taxes other than income tax & non-deductible expenses	1,390	1,610	1,653
Contributions to IPAB	2,325	2,101	1,887
Employee Profit Sharing (PTU)	389	374	379
Non-Interest Expense	\$31,243	\$29,594	\$29,232

Million pesos

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Non-Interest Expenses for 2016 totaled Ps 31.24 billion, +6% higher YoY, mainly due to the following increases:

- +Ps 879 million in Personnel Expenses mainly related to provisions for pensions funds and bonus payments;
- +Ps 617 million in Rents, Depreciations and Amortizations, mostly due to amortizations in technology projects and software rents;
- +Ps 283 million in Administration and Promotional Expenses coming from increases in: i) transaction volume in payments; ii) promotional campaigns of products and services, and iii) charges for systems maintenance; and
- +Ps 224 million in Contributions to IPAB, in line with deposits growth.

The Efficiency Ratio for 2016 stood at 44.9%, (2.6 pp) lower YoY -on positive operating leverage-, continuing the trend of historically low levels of Efficiency.

• Net Income

	2016	2015 ¹⁾	2014
Operating Income	\$24,965	\$21,905	\$19,901
Subsidiaries' Net Income	1,246	1,201	1,220
Pre-tax income	26,211	23,107	21,121
Taxes	(6,878)	(5,991)	(5,668)
Discontinued Operations	243	233	-
Minority Interest	(268)	(240)	(225)
Net Income	\$19,308	\$17,108	\$15,228

Million Pesos

1. Reexpressed figures to reflect the INB deconsolidation carried out in 2016 as result of the corporate restructuring process; therefore, will differ from those published in the Annual Report submitted to the authority in April 2015.

In 2016, recurring revenues (NII + Net Fees excluding Portfolio Recoveries - Operating Expenses - Provisions) were Ps 19.02 billion, +20% higher YoY, driven mainly by +14% growth in Net Interest Income.

Moreover, in 2016 **Subsidiaries' Net Income increased +4% YoY**, following the trend of the Afore which

reported earnings for Ps 1.25 billion.

Taxes totaled **Ps 6.88 billion** during 2016, +15% higher vs. the prior year; whereas the **effective tax rate stood at 26.2%**, barely higher vs. the 25.9% reported in 2015.

GFNorte's Net Income in 2016 reached Ps 19.31 billion, up +13% from same period last year, driven by the positive trend in Net Interest Income and Non-Interest Income.

- **Performing loan portfolio**

	2016	2015	2014
Commercial*	\$125,377	\$124,272	\$115,068
Consumer*	203,047	175,561	157,111
Corporate	103,491	88,108	80,464
Government	134,798	130,119	118,963
Subtotal	\$566,713	\$518,059	\$471,606
Recovery Bank	91	129	162
Total	\$566,805	\$518,188	\$471,768
Past due loans	10,312	11,903	14,294
% NPL Ratio	1.8%	2.2%	2.9%

Million pesos.

Performing Consumer Loan Portfolio	2016	2015	2014
Mortgage	\$114,718	\$99,825	\$89,758
Car Loans	15,047	12,400	11,074
Credit Cards*	28,445	24,854	22,181
Payroll	44,838	38,482	34,098
Consumer Loans	\$203,047	\$175,561	\$157,111

Million pesos.

* As of 1Q16, "Tarjeta Empuje Negocios" was reclassified to the SME segment from the Credit Card segment with a performing balance of Ps 995 million. For comparison purposes, 2015's and 2014's balances were reclassified similarly, Tarjeta Empuje Negocios balance in 2015 amounted to Ps 983 million and in 2014 to Ps 1.03 billion in performing loans.

For comparison purposes, the analysis of loans deconsolidating INB and its effects in the payroll, mortgage and commercial loans in 2015 are presented. In this context, the business development was as follows:

	2016	2015	2014
Commercial*	\$125,377	\$109,583	\$115,068
Consumer*	203,047	173,948	157,111
Corporate	103,491	88,108	80,464
Government	134,798	130,119	118,963
Subtotal	\$566,713	\$501,758	\$471,606
Recovery Bank	91	129	162
Total	\$566,805	\$501,887	\$471,768
Past due loans	10,312	11,860	14,294
% NPL Ratio	1.8%	2.3%	2.9%

Million pesos.

Performing Consumer Loan Portfolio	2016	2015	2014
Mortgage	\$114,718	\$98,345	\$89,758
Car Loans	15,047	12,400	11,074
Credit Cards*	28,445	24,854	22,181
Payroll	44,838	38,350	34,098
Consumer Loans	\$203,047	\$173,949	\$157,111

Million Pesos.

* As of 1Q16, "Tarjeta Empuje Negocios" was reclassified to the SME segment from the Credit Card segment with a performing balance of Ps 995 million. For comparison purposes, 2015's and 2014's balances were reclassified similarly, Tarjeta Empuje Negocios balance in 2015 amounted to Ps 983 million and in 2014 to Ps 1.03 billion in performing loans.

• Total Performing Loans

Total Performing Loans increased +12.9% YoY for an ending balance of Ps 566.71 billion in 2016. Outstanding YoY growth was achieved in practically all portfolios, driven by good origination dynamic. Corporate loans grew (+17%), consumer (+17%), and commercial (+14%).

Portfolio growth by segments was as follows:

- ✓ **Mortgages:** up +17% YoY, with an **ending balance of Ps 114.81 billion as of 2016** on higher origination in all products comprising this segment.
- ✓ **Car Loans:** In 2016, the portfolio increased +21% YoY, **totaling Ps 15.05 billion**, on the successful commercial strategy to offset the strong competition from financial firms of car manufacturers.
- ✓ **Credit Cards:** Outstanding performance of the book, with an **ending balance of Ps 28.45 billion**, up +14% YoY -considering the adjustment to 2015 loan balance due to the reclassification of Tarjeta Empuje Negocios in 1Q16-, consolidating the strong growth pace seen in the second half of the year. Such performance on the back of active portfolio management and commercial campaigns.

- ✓ **Payroll:** good increase of +17% YoY, reaching a balance of **Ps 44.84 billion**, driven by higher credit penetration on a larger base of Banorte's payroll account holders.
- ✓ **Commercial:** continue to accelerate its growth pace increasing Ps 15.79 billion or +14% YoY, ending at **Ps 125.38 billion**. There's good increase in SME portfolio. The leasing and factoring books showed outstanding evolution, growing +18% YoY. **SME performing portfolio was Ps 30.73 billion**, +11% higher YoY –considering the adjustment to loan balance of 2015 related to the reclassification of Tarjeta Empuje Negocios into this segment in 1Q16-.
- ✓ **Corporate:** At the end of 2016 the balance was **Ps 103.49 billion**, an important increase of +17% YoY on an excellent and diversified origination dynamics.

As of December 31, 2016 GFNorte's loan exposure to home builders was Ps 2.45 billion in Urbi Desarrollos Urbanos, S.A.B. de C.V., Corporación Geo, S.A.B. de C.V. and Desarrolladora Homex, S.A.B. de C.V. This exposure is lower by (Ps 1.5) billion than the prior quarter. This exposure represented 0.4% of the total loan portfolio, (29pb) lower vs. that of September 2016. The credit exposure has a 100% collateral coverage, higher than the 80% of 3Q16. The loan loss reserve coverage was 38.9% in 2016. **Sólida had a balance of Ps 5.57 billion in investment projects** to these companies, up +2.7% vs. 3Q16.

- ✓ **Government:** At the end of 2016 the balance was **Ps 134.80 billion**, growing +4% YoY. The portfolio's risk profile is adequate with 31.0% of the loans granted to Federal Government entities and 96.7% of loans to States and Municipalities have a fiduciary guarantee (Federal budget transfers and local revenues such as payroll tax), and 3.2% of the loans have short-term maturities (unsecured).

- **Past Due Loans**

During 2016, Past Due Loans were Ps 10.31 billion, lower in (Ps 1.59) billion or (13%) YoY, driven by lower delinquencies in practically all portfolios, but mainly by the decrease in the corporate book given Urbi's portfolio exchange..

In 2016, the credit exposure related to homebuilders classified as non-performing was Ps. 2.23 billion, declining (Ps 1.48) billion vs. September 2016, over settlements with Urbi. In October and as per the final ruling from the judges managing the bankruptcy processes, GFNorte exchanged unsecured past due loans for other assets, among them, shares and warrants to subscribe shares of this company for an amount equivalent to the past due unsecured exposure, net of reserves; therefore, the NPL balance in this company declined by (Ps 1.48) billion.

The shares received were registered as securities available for sale, net of reserves, and the warrants were registered as derivatives, both will be valued at market prices according to the applicable accounting rules. As of December 31, 2016 the valuation loss on the shares was (Ps 756) million, registered in the Equity account Surplus (Deficit) of Securities Available for Sale. Additionally, the valuation loss on the warrants was (Ps 17) million, registered in the year's income in trading results.

The evolution of NPL balances were as follows:

	2016	Var. 2015
Credit Card	\$1,623	\$162
Payroll	1,442	241
Car Loans	182	(15)
Mortgage	1,049	10
Commercial	3,422	(763)
Corporate	2,594	(1,183)
Government	-	-
Total	\$10,312	(\$1,548)

Million pesos.

In 2016, the Past Due Loan Ratio was 1.79%, ratio's historically low level, improving by (52bp) vs. 2015 derived from the decline in all segments on the quality origination strategy now on track and specially on the corporate book derives from Urbi's exchange in the last quarter of the year.

PDL Ratios by segment showed the following trends during the last 12 months.

	2015	2014
Credit Card	5.4%	5.6%
Payroll	3.1%	3.0%
Car Loans	1.2%	1.6%
Mortgage	0.9%	1.0%
Commercial	2.7%	3.7%
<i>SME</i>	6.3%	8.7%
<i>Commercial</i>	1.4%	1.6%
Corporate	2.4%	4.1%
Government	0.0%	0.0%
Total	1.8%	2.3%

- **Deposits**

	2016	2015	2014
Non-Interest Bearing Demand Deposits	\$231,395	\$175,918	\$147,033
Interest Bearing Demand Deposits	152,367	175,127	153,249
Total Demand Deposits	\$383,761	\$351,045	\$300,282
Time Deposits – Retail	167,652	157,718	136,127
Money Market	24,342	54,907	62,287
Total Bank Deposits ¹⁾	\$575,755	\$563,670	\$498,697
GFNorte's Total Deposits ²⁾	\$574,560	\$561,462	\$497,922
Third Party Deposits	148,407	139,099	149,092
Total Assets Under Management	\$724,163	\$702,769	\$647,789

Million pesos.

1. For the integration of Total Demand Deposits, see Note 19 of Banco's Mercantil del Norte Audited Financial Statements.

2. Includes eliminations between subsidiaries. The eliminations during 2014, 2015 and 2016 were , (Ps 774) million, (Ps 2.21) billion and (Ps 1.20) billion, respectively.

For comparison purposes, the analysis of deposits deconsolidating INB from 2015's figures is presented. In this context, the business development was as follows

	2016	2015	2014
Non-Interest Bearing Demand Deposits	\$231,395	\$169,611	\$147,033
Interest Bearing Demand Deposits	152,367	167,275	153,249
Total Demand Deposits	\$383,761	\$336,886	\$300,282
Time Deposits – Retail	167,652	149,733	136,127
Money Market	24,342	54,907	62,287
Total Bank Deposits	\$575,755	\$541,526	\$498,697
GFNorte's Total Deposits ²⁾	\$574,560	\$539,318	\$497,922
Third Party Deposits	148,407	139,099	149,092
Total Assets Under Management	\$724,163	\$702,769	\$647,789

Million pesos.

1. Includes eliminations between subsidiaries. The eliminations during 2014, 2015 and 2016 were , (Ps 774) million, (Ps 2.21) billion and (Ps 1.20) billion, respectively.

At the end of 2016, Banorte's Total Deposits amounted to Ps 575.76 billion, a +6% annual variation, the deceleration in the growth pace is not due to a loss in client's deposits, as these grew +13% YoY, but to a decline in money market funds as a strategy to maintain funding costs under control given market rate hikes. Total Assets under Management grew +7% yearly on the strategy previously mentioned.

2. Consolidated Bank

The Consolidated Bank's* net profits totaled **Ps 15.04 billion**, +Ps 1.53 billion or +11% higher vs. 2015, accounting for 78% of GFNorte's profits.

ROE for 2016 of the Consolidated Bank was 14.4%, +77bp higher YoY; whereas, **ROA stood at 1.5%**, +6bp higher vs. 2015.

**Consolidated Bank in 2015 considers Banco Mercantil del Norte, Banorte-lxe Tarjetas, Banorte USA and Afore XXI Banorte according to its 50% ownership; whereas, in 2016 considers Banco Mercantil del Norte –merging entity of Banorte-lxe Tarjetas since May- and Banorte USA –deconsolidated and reported in Discontinued Operations as of 4Q16- and excludes Afore XXI Banorte as it is reported within Long Term Savings since 4Q16.*

Consolidated Income Statement

	2016	2015 ¹⁾	2014
Interest income	\$69,407	\$58,970	\$58,593
Interest expense	(23,244)	(19,369)	(20,003)
NET INTEREST INCOME (NII)	\$46,163	\$39,601	\$38,590
Loan Loss Provisions	(13,070)	(10,370)	(11,107)
NET INTEREST INCOME ADJUSTED FOR CREDIT RISK	\$33,093	\$29,231	\$27,483
Fees Charged	15,764	13,476	11,723
Fees Paid	(4,498)	(3,527)	(3,091)
Trading Income	1,839	2,606	3,859
Other Operating Income	2,078	1,851	2,478
Non-Interest Income	\$15,183	\$14,406	\$14,969
Administration and promotional expenses	(29,155)	(27,334)	(27,037)
OPERATING INCOME	\$19,121	\$16,303	\$15,415
Subsidiaries' Net Income	1,043	1,280	1,241
PRE-TAX INCOME	\$20,164	\$17,583	\$16,655
Income Tax	(5,479)	(4,063)	(6,874)
Deferred Income Tax (Net)	116	(235)	2,154
Taxes	(\$5,363)	(\$4,298)	(\$4,720)
INCOME BEFORE DISCONTINUED OPERATIONS	\$14,801	\$13,285	\$11,935
Discontinued operations	\$243	\$233	\$0
INCOME FROM CONTINUOUS OPERATIONS	\$15,044	\$13,518	\$11,936

Million pesos.

1. Reexpressed figures to reflect the INB deconsolidation carried out in 2016 as result of the corporate restructuring process; therefore, will differ from those published in the Annual Report submitted to the authority in April 2015.

The following is a breakdown of the most important items of the income statement:

- **Net Interest Income**

	2016	2015 ¹⁾	2014
Interest Income	\$68,208	\$57,770	\$56,356
Interest Expense	22,759	18,993	19,638
Fees Charged	1,199	1,200	2,237
Fees Paid	485	376	365
Net Interest Income	\$46,163	\$39,601	\$38,590
Credit Provisions	13,070	10,370	11,107
Net Interest Income Adjusted for Credit Risk	\$33,093	\$29,231	\$27,483
Average Earnings Assets	\$905,035	\$851,417	\$790,173
NIM ²⁾	5.1%	4.7%	4.9%
NIM adjusted for Credit Risk ³⁾	3.7%	3.4%	3.5%

Million pesos.

1. Reexpressed figures to reflect the INB deconsolidation carried out in 2016 as result of the corporate restructuring process; therefore, will differ from those published in the Annual Report submitted to the authority in April 2015.

2. NIM (Net Interest Margin) = Annualized Net Interest Income / Average Earnings Assets.

3. Annualized Net Interest Income adjusted for Credit Risk / Average Earnings Assets.

In 2016, Net Interest Income totaled Ps 46.16 billion, +17% higher vs. 2015, driven by growth in the credit portfolio, deposits, as well as Banxico's interest rate hikes.

Net Interest Margin (NIM) for 2016 was 5.1%, +45bp YoY, benefited by better loan portfolio margin and funding cost.

Moreover, **NIM adjusted for credit risk during 2016 stood at 3.7%, up +22bp vs. 2015.**

- **Provisions**

Provisions for 2016 totaled Ps 13.07 billion, +26% higher YoY. This increase was mainly on higher requirements mostly in the payroll, credit card, corporate and government portfolios. Such growth was not related to deterioration in credit quality (past due loans fell by 14% YoY), but due to loan loss reserve reversals in March, May, and December of 2015.

- **Non-Interest Income**

	2016	2015 ¹⁾	2014
Services	\$11,266	\$9,949	\$8,632
Trading	1,839	2,606	3,859
Other Operating Income (Expense)	2,078	1,851	2,478
Non-Interest Income	\$15,183	\$14,406	\$14,969

Million pesos.

1. Reexpressed figures to reflect the INB deconsolidation carried out in 2016 as result of the corporate restructuring process; therefore, will differ from those published in the Annual Report submitted to the authority in April 2015.

During 2016 Non-Interest Income totaled Ps 15.18 billion, +5% higher vs. 2015, mainly as a result of the positive performance of Net Fees.

Moreover, revenues from core banking services (account management, fund transfers and electronic banking services) grew +17% YoY in 2016.

- **Non-Interest Expense**

	2016	2015 ¹⁾	2014
Personnel	\$12,290	\$11,435	\$12,441
Professional Fees	1,845	1,916	2,591
Administrative and promotional expenses	6,753	6,336	4,995
Rents, depreciations and amortizations	4,400	3,807	3,391
Other Taxes and Non-deductible Expenses	1,159	1,372	1,364
Contributions to IPAB	2,325	2,101	1,887
Employee Profit Sharing (PTU)	383	368	369
Non-Interest Expense	\$29,155	\$27,334	\$27,037

Million pesos.

1. Reexpressed figures to reflect the INB deconsolidation carried out in 2016 as result of the corporate restructuring process; therefore, will differ from those published in the Annual Report submitted to the authority in April 2015.

Non-Interest Expenses in 2016 totaled Ps 29.16 billion, up +7% YoY; as a result of growth in all items, except for Other Non-Deductible Expenses and Taxes and Professional Fees which coupled decreased (Ps 285) million.

The Efficiency Ratio for 2016 was 47.5%, lower by (3.1 pp) YoY derived from a positive operating leverage.

- **Performing Loan Portfolio**

	2016	2015	2014
Commercial *	\$113,936	\$114,788	\$107,346
Consumer*	201,348	174,058	154,408
Corporate	108,057	92,051	84,213
Government	133,540	128,567	117,656
Subtotal	\$556,880	\$509,464	\$463,622
Recovery Bank	91	129	162
Total performing loans	\$556,971	\$509,593	\$463,785
Past due loans	\$10,060	\$11,634	\$13,912
% NPL Ratio	1.8%	2.2%	2.9%

Million Pesos.

Performing Consumer Loan Portfolio	2016	2015	2014
Mortgage	\$114,718	\$99,825	\$89,758
Car Loans	15,042	12,396	11,068
Credit Cards *	28,445	25,838	23,209
Payroll	43,143	36,001	30,373
Consumer loans	\$201,348	\$174,058	\$154,408

Million Pesos.

* As of 1Q16, "Tarjeta Empuje Negocios" was reclassified to the SME segment from the Credit Card segment with a performing balance of Ps 995 million. For comparison purposes, 2015's and 2014's balances were reclassified similarly, Tarjeta Empuje Negocios balance in 2015 amounted to Ps 983 million and in 2014 to Ps 1.03 billion in performing loans.

For comparison purposes, the analysis of loans deconsolidating INB and its effects in the payroll, mortgage and commercial loans in 2015 are presented. In this context, the business development was as follows:

	2016	2015	2014
Commercial *	\$113,936	\$101,082	\$108,374
Consumer*	201,348	171,463	153,380
Corporate	108,057	92,051	84,213
Government	133,540	128,567	117,656
Subtotal	\$556,880	\$493,163	\$463,622
Recovery Bank	91	129	162
Total performing loans	\$556,971	\$493,292	\$463,784
Past due loans	\$10,060	\$11,591	\$13,912
% NPL Ratio	1.8%	2.3%	2.9%

Million Pesos.

Performing Consumer Loan Portfolio	2016	2015	2014
Mortgage	\$114,718	\$98,344	\$89,758
Car Loans	15,042	12,396	11,068
Credit Cards *	28,445	24,855	22,181
Payroll	43,143	35,868	30,373
Consumer loans	\$201,348	\$171,463	\$153,380

Million Pesos.

* As of 1Q16, "Tarjeta Empuje Negocios" was reclassified to the SME segment from the Credit Card segment with a performing balance of Ps 995 million. For comparison purposes, 2015's and 2014's balances were reclassified similarly, Tarjeta Empuje Negocios balance in 2015 amounted to Ps 983 million and in 2014 to Ps 1.03 billion in performing loans.

Total Performing Loans increased 13% YoY in 2016, to Ps 556.88 billion from Ps 493.16 billion. Outstanding YoY growth was achieved in all portfolios, driven by good origination dynamic. Corporate loans grew (+17%), consumer (+17%), and commercial (+13%).

In 2016, The Consolidated Bank's Past due Loans were Ps 10.06 billion, (13%) lower YoY; the NPL Ratio was 1.8%, ratio's historically low level, improving by (48bp) vs. 2015, derived from the decline in all segments on the quality origination strategy now on track.

- **Deposits**

	2016	2015	2014
Non-Interest Bearing Demand Deposits	\$231,395	\$175,918	\$147,033
Interest Bearing Demand Deposits	152,367	175,127	153,249
Total Demand Deposits	\$383,761	\$351,045	\$300,282
Time Deposits – Retail	167,652	157,718	136,127
Money Market	24,342	54,907	62,287
Total Bank Deposits ¹⁾	\$575,755	\$563,670	\$498,697

Million pesos.

1. For the integration of Total Demand Deposits, see Note 19 of Banco's Mercantil del Norte Audited Financial Statements.

For comparison purposes, the analysis of deposits deconsolidating INB from 2015's figures is presented. In this context, the business development was as follows

	2016	2015	2014
Non-Interest Bearing Demand Deposits	\$231,395	\$169,611	\$147,033
Interest Bearing Demand Deposits	152,367	167,275	153,249
Total Demand Deposits	\$383,761	\$336,886	\$300,282
Time Deposits – Retail	167,652	149,733	136,127
Money Market	24,342	54,907	62,287
Total Bank Deposits ¹⁾	\$575,755	\$541,526	\$498,697

Million pesos.

1. For the integration of Total Demand Deposits, see Note 19 of Banco's Mercantil del Norte Audited Financial Statements.

At the end of 2016, Banorte's Total Deposits amounted to Ps 575.76 billion, a +6% annual variation, the deceleration in the growth pace is not due to a loss in client's deposits, as these grew +13% YoY, but to a decline in money market funds as a strategy to maintain funding costs under control given market rate hikes.

3. Brokerage

	2016	2015	2014
Net Income	\$832	\$790	\$931
Stockholders' Equity	2,753	3,309	2,799
Total Assets	81,175	149,848	102,373
Assets Under Management	757,423	724,410	732,713

Million pesos.

The Brokerage Sector (Casa de Bolsa Banorte Ixe and Operadora de Fondos Banorte Ixe) **reported profits of Ps 832 million, +5% YoY** due to higher non-interest income, on the back of the good annual performance of trading revenues and other income (expense) net, lower operating expenses and tax payment. Net Income in 2016 represented 4.3% of the Financial Group's profits.

4. Long-Term Savings

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.

On August 16, 2016, the National Insurance and Bonding Commission ("CNSF") authorized Seguros Banorte to directly invest in Banorte Futuro's equity, and to invest indirectly in the equity of Afore XXI's. Then, on August 26, the National Commission for the Retirement Savings System ("CONSAR") authorized Seguros Banorte to indirectly acquire a 50% stake in Afore XXI Banorte, as a result of its spin-off from Banco Mercantil del Norte.

Additionally, the Tax Administration Service ("SAT") on October 12, authorized to transfer shares at fiscal cost from Banorte Futuro i) to Banorte Ahorro y Previsión, and ii) then to Seguros Banorte.

These transactions became effective as of October 17, 2016. Therefore, as of that date, 50% of Afore's XXI Banorte profits are registered in the Subsidiaries' Net Income line.

	2016	2015	2014
Long-Term Savings Sector			
Net Income	\$5,727	\$5,097	\$4,443
Stockholders' Equity	22,513	31,628	30,451
Total Assets	119,283	120,194	111,164
Seguros Banorte			
Net Income	\$2,902	\$2,210	\$1,759
Stockholders' Equity	20,364	6,331	5,094
Total Assets	41,593	26,139	24,153
Afore XXI Banorte			
Net Income	\$2,541	\$2,485	\$2,408
Stockholders' Equity	24,008	23,667	23,982
Total Assets	25,336	25,067	25,282
AUM ¹⁾	645,213	625,821	605,816
Pensiones Banorte			
Net Income	\$561	\$402	\$276
Stockholders' Equity	2,150	1,629	1,375
Total Assets	77,690	68,988	61,729

Million pesos.

1. Source: CONSAR

• Seguros Banorte

In 2016, net profits amounted to Ps 2.90 billion, which also considers Afore XXI Banorte's net income of the last quarter. For comparison purposes – excluding Afore – net income in 2016 increased +19% vs. 2015.

During 2016, operating income was Ps 3.62 billion, up +14%YoY, arising from: i) +13% increase in Technical Results, benefited from an additional + Ps 2.16 billion in premium income and ii) +32% increase in Other Operating Income (Expenses); these offset higher acquisition costs – mainly on lower reinsurers revenues - and higher operating expenses and tax payments.

Seguros Banorte's profits - excluding Afore XXI Banorte - represented 13.6% of GFNorte's net income in 2016.

ROE for the insurance company was 33.9% for 2016, lower vs. the 38.1% in 2015.

Regarding the disclosure requested by the General Provisions applicable to Financial Groups' holding companies, for this reporting period:

- i. Risks assumed through the issuance of insurance premiums and bonds, with respect to operations and authorized branches of cancelled operations.
 - *No cancellations were registered during 4Q16 that involved any technical risk.*
- ii. Damages and claims, as well as the fulfillment with reinsurers and bonding companies according to their participation.
 - *In 4Q16 damage ratios remained under control.*
- iii. Costs derived from placement of insurance policies and bonds.
 - *There were no relevant events to disclose in 4Q16.*
- iv. Transfer of risks through reinsurance and bonding contracts
 - *In the P&C book two important businesses, one related to the government, and the other one to the manufacturing industry, were ceded to reinsurers, mainly foreign entities.*
- v. Contingencies arising from non-fulfillment by reinsurers and bonding companies.
 - *There were no relevant events in 4Q16.*

During 2016 accounting changes related to life policies required by the *CNSF*, affected as follows:

- i) Premium income is fully accounted when originated, as opposed to the former rule in which premium income was registered following the payment calendar of the short-term life policy. This change also affected technical reserves and acquisitions costs.
- ii) Changes to the calculation of technical reserves using internal methodologies authorized by the *CNSF* and recognizes a risk margin component related to each segment, which accelerate the premium accrual.

- **Afore XXI Banorte**

In 2016 Afore XXI Banorte posted net profits of Ps 2.54 billion, +2% YoY, on the positive performance of results on subsidiaries, valuation gains in the investment portfolios and the important decline in tax payments.

ROE for Afore XXI Banorte in 2016 stood at 11.0%, higher in +31bp yearly; excluding goodwill, **Tangible ROE would be 39.5% in 2016**, +1.8 pp above that of 2015.

Afore XXI Banorte contributed with 6.5% of the Financial Group's profits in 2016.

Assets under management as of December 2016 totaled Ps 645.21 billion, +3% higher YoY.

According to CONSAR, as of December 2016 Afore XXI Banorte had a 23.3% share in managed funds, ranking 1st in the market, with 9.67 million accounts (this number does not include 8.0 million accounts managed by Afore XXI with resources deposited in Banco de Mexico), which represent a 19.6% share of the total number of accounts in the system, ranking second in the market.

- **Pensiones Banorte**

In 2016, Pensiones Banorte's net profits were Ps 561 million, +39% YoY, reflecting higher net interest income and non-interest income.

Pensiones Banorte contributed with 2.9% of the Financial Group's yearly profits. ROE for 2016 stood at 29.8%, +2.8 pp higher YoY.

5. 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.*

	2016	2015	2014
SOFOM and Other Finance Companies			
Net Income	\$178	\$496	\$569
Stockholders' Equity	9,050	9,563	8,044
Total Portfolio	29,170	25,795	25,163
Past Due Loans	253	269	394
Loan Loss Provisions	(442)	(478)	(569)
Total Assets	43,483	41,096	39,740
Leasing and Factoring			
Net Income	\$693	\$571	\$700
Stockholders' Equity	4,482	4,297	3,735
Total Portfolio*	27,402	23,220	21,237
Past Due Loans	180	175	181
Loan Loss Provisions	(319)	(310)	(309)
Total Assets	27,768	23,336	21,623
Warehousing			
Net Income	\$28	\$31	\$45
Stockholders' Equity	184	246	218
Inventories	438	462	922
Total Assets	586	619	1,127
Sólida Administradora de Portafolio ¹⁾			
Net Income	(\$538)	(\$106)	(\$178)
Stockholders' Equity	4,243	4,874	3,946
Total Portfolio	1,768	2,575	3,926
Past Due Loans	73	94	213
Loan Loss Provisions	(123)	(168)	(260)
Total Assets	14,988	16,995	16,843
Ixe Servicios			
Utilidad neta	(\$4.9)	\$0.4	\$1.5
Capital contable	141	146	145
Activo total	141	146	147

Million pesos.

1. Figures for Sólida includes the effect of its spin-off from Banorte and subsequent merger with Ixe Soluciones, (both effective as of May 24th, 2013) in order to consolidate the recovery banking operations.

* Includes pure leasing portfolio and fixed asset amounting to Ps 6, Ps 28 and Ps 40 in 2014, 2015 and 2016, respectively registered in property, furniture and equipment (net).

- **Leasing and Factoring**

In 2016 Arrendadora y Factor Banorte reported profits of Ps 693 million, +22% higher annually as a result of greater income from the portfolio's expansion and to an outstanding performance of non-interest income. The Leasing and Factoring Company contributed 3.6% of the Financial Group's profits in 2016.

At the end of 2016, the **Past Due Loans Ratio was 0.7%**, lower vs. the 0.8% in 2015. **The Coverage ratio was 177.7%**, +0.8 pp vs. last year. **The Capitalization ratio as of December was 15.6%** considering total risk-weighted assets of Ps 28.62 billion.

The leverage ratio as of December was 14.23%; considering adjusted assets of Ps 31.36 billion.

- **Warehouse**

In 2016, Warehouse posted profits of Ps 28 million, a (10%) decline vs. the same period of the last year driven by fewer operating income; which could not be offset by higher non-interest income and a decrease in administrative and promotional expenses. Almacenadora Banorte contributed 0.1% of the Financial Group's profits in 2016.

ROE for 2016 was 11.6%, (1.9 pp) lower YoY. **At the end of 2016, the Capitalization Ratio was 142%** considering net capital of Ps 150 million and certificates for sale issued in warehouses of Ps 2.10 billion. Almacenadora Banorte ranks fifth among the 16 warehouses of this sector in terms of profits generated.

- **Sólida Administradora de Portafolios**

During 2016, Sólida Administradora de Portafolios reported a loss of (Ps 432) million YoY to (Ps 538) million as a result of lower NII and non-interest income, which was not offset by the (18%) reduction in administrative expenses.

The Past Due Loan Ratio was 4.1% at the end of December 2016. The Coverage ratio was 170%, (10 pp) lower YoY. **The estimated Capitalization ratio at the end of 2016 was 13.1%**, +0.6 pp YoY.

The leverage ratio as of December was 15.60%; considering adjusted assets of Ps 33.19 billion.

As part of the restructuring agreement instructed by the Judge in Urbi's bankruptcy process, Sólida received, among other assets, shares and warrants to subscribe shares of this company in exchange for an overdue account recognized in the bankruptcy process and which net book value amounted to Ps. 320 million. The shares were registered as securities held for sale and the valuation loss recorded at yearend was (Ps 298) million in the equity accounts. Additionally, the valuation loss on the warrants was (Ps 9) million, registered in the year's income in trading results.

B) FINANCIAL SITUATION, LIQUIDITY AND CAPITAL RESOURCES**NET INCOME AND PROFITABILITY INDICES****GFNorte's Equity**

	2016	2015	2014
Paid-in Capital	14,574	14,606	14,632
Premium of Subscribed & Issued Shares	36,427	36,424	36,201
Subscribed Capital	\$51,001	\$51,030	\$50,833
Capital Reserves	4,825	5,765	6,657
Retained Earnings	68,492	62,860	50,407
Surplus (Deficit) from Valuation of Securities Available for Sale	(2,592)	(1,552)	634
Results from Valuation of Hedging Instruments	(2,089)	(828)	(762)
Results from Valuation of the reserve for unexpired risks on changes in rates	87	-	
Results from Conversions	2,084	1,069	(75)
Remeasurements on defined benefits for employees	(370)	-	
Net Income	19,308	17,108	15,228
Earned Capital	\$89,745	\$84,422	\$72,089
Minority Interest	1,955	1,900	1,750
Total Shareholders' Equity	\$142,701	137,352	\$124,672

Million pesos.

Consolidated Bank's Equity (*)

	2016	2015	2014
Paid-in Capital	18,105	20,074	20,074
Premium of Subscribed & Issued Shares	72	11,682	11,099
Subscribed Capital	\$18,177	\$31,756	\$31,173
Capital Reserves	11,509	10,157	8,968
Retained Earnings	50,215	48,398	43,201
Surplus (Deficit) from Valuation of Securities Available for Sale	(1,645)	(1,310)	510
Results from Valuation of Hedging Instruments	(2,131)	(936)	(869)
Results from Valuation of Hedging Instruments	1,985	990	(138)
Results from Valuation of the reserve for unexpired risks on changes in rates	(377)	-	
Results from Conversions	15,044	13,518	11,936
Remeasurements on defined benefits for employees	\$74,600	\$70,817	\$63,608
Net Income	10	10	10
Earned Capital	\$92,787	\$102,583	\$94,791

Million pesos.

(*) Does not include the Afore.

Banco Mercantil del Norte's Capitalization Ratio*

See Note 30 of GFNorte's 2015 Audited Financial Statements

	Dec-16	Dec-15	Dec-14
Tier 1 Capital	81,348	72,817	69,995
Tier 2 Capital	16,643	7,692	8,001
Net Capital	\$97,991	\$80,509	\$77,996
Credit Risk Assets	477,880	398,684	359,318
Market & Operational Risk Assets	163,422	151,970	151,739
Total Risk Assets ¹⁾	\$641,302	\$550,654	\$511,057
Net Capital / Credit Risk Assets	20.51%	20.19%	21.70%
Capitalization Ratio			
Tier 1	12.68%	13.22%	13.70%
Tier 2	2.60%	1.40%	1.56%
Total Capitalization Ratio	15.28%	14.62%	15.26%

Million pesos.

Banorte has fully adopted the capitalization requirements established to date by Mexican authorities and international standards, so-called Basel III, which came into effect as of January 2013.

Moreover, in 2016, Banorte was designated as Level II - Domestic Systemically Important Financial Institution, which implies that Banorte must maintain a capital buffer of 0.90 pp, to be constituted progressively in up to four years, starting on December 2016. Therefore, the minimum regulatory Capitalization Ratio for Banorte amounts to 10.73% as of 2016 (corresponding to the regulatory minimum of 10.5% plus the constituent capital supplement to date).

At the end of 2016 the estimated Capitalization Ratio (CR) for Banorte was 15.28% considering credit, market and operational risk; and, 20.51% if only credit risks are considered. The Core Tier 1 ratio was 12.09%, Total Tier 1 ratio was 12.68% and Tier 2 was 2.60%.

The Capitalization Ratio increased + 0.66 pp vs. 2015, as follows:

1.	Profit growth for the period	+2.35 pp
2.	Net effect of the Issuance and Settlement of Subordinated Notes	+1.26 pp
3.	Investment in Subsidiaries and Intangibles	+0.50 pp
4.	Valuation of Financial Instruments	-0.42 pp
5.	2016 Dividends to GFNorte	-0.93 pp
6.	Growth in risk assets	-2.07 pp

At the end of 2015 the estimated Capitalization Ratio (CR) for Banorte was 14.62% considering credit, market and operational risk; and, 20.18% if only Credit Risks are considered. The Core Tier 1 ratio was 12.41%, Total Tier 1 ratio was 13.22% and Tier 2 was 1.40%.

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 2016, available cash amounted to Ps 65.89 billion, (39%) lower than the Ps 107.85 billion registered in December 2015.

GFNorte's Cash Flow Statement

	2016	2015
Net income	\$19,308	\$17,108
Items not requiring (generating) resources:		
Depreciation and amortization	1,170	1,325
Technical reserves	8,477	7,131
Provisions	3,449	(3,570)
Current and deferred income tax	6,878	5,991
Discontinued Operations	243	-
Subsidiaries' Net Income	(978)	(961)
	38,547	27,024
OPERATING ACTIVITIES:		
Changes in margin accounts	(2,094)	(46)
Changes in investments in securities	(24,797)	(8,709)
Changes in repo debtors	493	379
Changes in derivatives (assets)	(22,051)	(2,543)
Change in loan portfolio	(62,669)	(43,178)
Changes in acquired collection rights	192	767
Changes in accounts receivable from insurance and annuities, net	(20)	46
Changes in debtor premiums, net	169	88
Changes in reinsurance (net) (asset)	(1,294)	95
Changes in receivables generated by securitizations	29	403
Change in foreclosed assets	611	482
Change in other operating assets	(23,467)	(10,258)
Change in deposits	35,268	60,141
Change in interbank and other loans	7,556	931
Change in creditor balances under repurchase and sale agreements	(6,378)	8,553
Collateral sold or pledged	(1)	(152)
Change in liability position of derivative financial instruments	20,464	2,669
Change in technical reserves (net)	947	121
Changes in reinsurance (net) (liability)	11	116
Change in subordinated debentures	4,464	865
Change in other operating liabilities	6,958	10,777
Change in hedging instruments related to operations	3,706	991
Assets from Discontinued Operations	(1,224)	-
Income tax	(6,976)	(9,912)
Net cash generated or used from operations	(31,556)	39,650
INVESTING ACTIVITIES:		
Proceeds on disposal of property, furniture and equipment	1,033	1,003
Payments for acquisition of property, furniture and equipment	(4,083)	(3,914)
Charges on acquisitions of Subsidiaries and associated companies	2	-
Payment on acquisitions of Subsidiaries and associated companies	(2)	(71)
Assets from Discontinued Operations	(10)	-
Charges for cash Dividends	1,122	1,419
Net cash flows from investment activity	(1,938)	(1,563)
FINANCING ACTIVITIES:		
Dividends paid	(7,229)	(2,787)
Repurchase of shares	(1,394)	(1,551)
Net financing activity cash flows	(8,623)	(4,338)
Net (decrease) increase in cash and cash equivalents	(42,117)	33,749
Effects from changes in the value of cash and cash equivalents	155	261
Cash and cash equivalents at the beginning of the year	107,848	73,838
Cash and cash equivalents at the end of the year	\$65,886	\$107,848

Million pesos.

DIVIDENDS

GFNorte's Ordinary General Shareholders' Meeting held on November 19th, 2015, approved to modify the Dividend Policy, which was effective since October 2011.

As of November 2015, the Policy establishes that the dividend payment can be between 16% and up to 40% of the net income of the prior year.

- For reference, the former Policy which decreed dividends established a payment between 16% and 20% of the recurring net income depending on its annual growth.

POLICIES GOVERNING TREASURY ACTIVITIES OF THE BANK

Regulatory Framework

All operations carried out by the Treasury will be executed in strict accordance with regulations established by Banking Institution regulatory authorities, such as the Central Bank (BANXICO), the National Banking and Securities Commission (CNBV), the Ministry of Finance and Public Credit (SHCP), as well as those set forth in the Law of Credit Institutions.

Moreover, the Treasury is subject to the policies regarding the management of liquidity, market and counterparty credit risks established by the Risk Policy Committee and which are set according to limits established annually to the following operation parameters:

Market Risk:

- VaR (Value at Risk).
- DV01 (sensitivity by security, term and currency).

Liquidity Risk:

- LCR (Liquidity Coverage Ratio)
- ACLME (Regime of liabilities admission and investment in foreign currency and regime of FX risk position).
- Survival horizon.

Credit Risk:

- Lines with Counterparties.

Capital Management:

- Tier 1, Core Tier 1 and Net Capital (these are monitoring thresholds, the Treasury will set mechanisms to the extent that the Bank or any of its subsidiaries approaches the limits established by the CPR).

Treasury Management

In order to maintain a prudent strategy for the management of assets and liabilities through stable funding sources, constitute and maintain liquid assets at optimum levels, the Treasury applies the following limits:

1. Diversification of funding sources in national and international markets.
2. Structure liabilities in such a way as to avoid the accumulation of maturities that significantly influence the administration and control of the Treasury's resources.

3. Ensure liquidity by tapping mid and long-term liabilities.
4. Manage and maintain liquid assets to total assets considering its effects on profitability and liquidity needs.
5. Determine and propose to the General Management the Transfer Costs Policy according to the current business plan.

Treasury's Funding sources

Sources of financing for the International Treasury must be classified in a monthly report indicating the sources of available resources, their use and concentration:

1. Public:
 - Checking accounts (via the network of branches and corporations).
2. Market:
 - Commercial paper.
 - Cross Currency Swaps
 - Syndicated Loans.
 - Securitizations
 - Deposit Certificate.
3. National Banks and Development Funds:
 - National Banks.
 - Funds.
4. Correspondent Banks:
 - Foreign Banks
5. Available credit lines: (not available)
 - Commercial paper.
 - Correspondent banks.

Through diverse Long Term Financing Programs, proposals will be studied, analyzed and implemented, in order to consolidate an adequate debt profile.

The Treasury, in coordination with the Head of Risk Management, will monitor the results of its daily calculations of liquidity coefficients established by the CPR and authorities.

PAID AND DEFERRED TAX

Concept	As of December 31, 2016
Income Tax (ISR)	6,193
Profit Sharing (PTU)	383
Updated caused taxes	0
Deferred ISR & PTU	(263)
Updated deferred taxes	0
Total	\$6,313

Million pesos.

Temporary Asset Differences	ISR	PTU	Net
Allowance for loan losses	83	0	83
Fiscal losses	1,557	0	1,557
Surplus of loan loss provisions over the net fiscal limit	4,466	0	4,466
Excess of tax over book value of foreclosed and fixed assets	1,051	0	1,051
PTU	115	0	115
Fees collected in advance	970	0	970
Accounting provisions	1,048	0	1,048
Other items	47	0	47
Total Assets	\$9,337	\$0	\$9,337

Temporary Liability Differences	ISR	PTU	Net
Excess of book over tax value of foreclosed and prepayments	(95)	0	(95)
Portfolios acquired	(307)	0	(307)
Capitalizable projects' expenses	(2,693)	0	(2,693)
Valuation of Financial Instruments	(564)	0	(564)
Anticipated contributions to the pension fund	(958)	0	(958)
Intangible Assets	(422)	0	(422)
Deferred from the IXE purchase method	(235)	0	(235)
Other liabilities	(69)	0	(69)
Total liabilities	(\$5,343)	\$0	(\$5,343)

Assets (Liabilities) Accumulated Net	\$3,994	\$0	\$3,994
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Million pesos.

GFNorte recognizes the effect of deferred taxes determined under the assets and liabilities method, in accordance with NIF D-4 "Income Tax", through a comparison of their accounting and fiscal values. Temporary differences arise from this comparison to which the corresponding tax rate was applied.

On the other hand, employee profit sharing (PTU) is determined using the guidelines established by the *Constitución Política de los Estados Unidos Mexicanos*, so deferred taxes are not generated.

The net effect of all the aforementioned operations are shown in the Balance Sheet under assets entitled "Deferred Taxes".

The deferred taxes for each subsidiary as of December 31, 2016 are as follows:

Deferred Taxes	As of December 31, 2016
Banco Mercantil del Norte S.A.	4,227
Grupo Financiero Banorte S.A.B. de C.V.	(40)
Arrendadora y Factor Banorte S.A. de C.V.	49
Banorte Ahorro y Previsión S.A. de C.V.	(1,056)
Casa de Bolsa Banorte Ixe, S. A. de C. V.	(11)
Almacenadora Banorte S.A. de C.V.	4
Sólida Administradora de Portafolios S.A. de C.V.	821
Total	\$3,994

Million pesos.

TAX CREDITS OR DEBTS

The tax credits listed below are currently in litigation:

	As of December 31, 2016
CASA DE BOLSA BANORTE IXE	\$33
Fiscal credit review - year 2007 (document 900 06 05-2010-03968)	33
UNITELLER	\$6
Philippines 2007 - 2008	6
AFORE XXI BANORTE	\$2
Loan # 4429309391 Payroll Tax of the state of Coahuila	2
IXE BANCO	\$13
Income Tax-Profit Sharing for the 2005 fiscal year – inflation adjustment	13

Million pesos

C) Internal Control

At Grupo Financiero Banorte, S.A.B. de C.V. (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 Internal Control System (ICS) of GFNorte has been structured in accordance with guidelines set by its Board of Directors which 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 with regard to effectiveness and efficiency of operations, the dependability of financial information and 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 (CPR), Audit and Corporate Practices Committee (CAPS), 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, which applies only to GFNorte's subsidiaries, as additional support structures to check how the Internal Control System functions and provide reasonable assurance regarding the reliability of the generated data. The Internal Audit Department reports to the Audit and Corporate Practices Committee (CAPS) and maintains full independence from the administrative areas.
- D. The Executive Group as main responsible persons for 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. The Code of Conduct that 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 Group 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 2016, 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, authorized the update to the basic documents of Corporate Governance related to the SCI: Code of Conduct, Objectives and Guidelines of Internal Control and General Policies for the usage of Human and Material Resources.

- B. The various Corporate Governance Committees have had the required financial, economic, accounting and/or legal information for proper decision-making.
- C. The policies and procedure manuals have been updated as per changes in external regulations, new products, and changes in the Institution's processes or improvements to internal controls.
- D. There has been continuous follow-up of the improvement actions regarding the observations made by the different members of the SCI.
- E. The Supervisory Authorities' requirements have been addressed, the ordinary inspection visits were attended and the information required by the external regulations has been submitted.
- F. Through Process and Management Controllers, various business and support processes that make up the operation in GFNorte are monitored, to report periodically on compliance and identifying where areas of opportunity for timely remediation.
- G. According to the work plan developed at the beginning of the year, various activities in terms of accounting internal control were carried out.
- H. We comply with the annual effectiveness testing program of the Business Continuity Plan, as well as with the procedure's changes review and the update of the Continuity Plan itself
- I. Requests regarding internal control subjects from diverse internal departments were handled, to the development of new institutional projects, as well as those derived from changes in the Regulation.

II. Main Transactions and Intragroup Exposure

OPERATIONS WITH RELATED PARTIES AND CONFLICTS OF INTEREST

At Banco Mercantil del Norte, GFNorte's main subsidiary, loans to related individuals and companies do not exceed the 35% limit of tier 1 capital for December 2016, 2015 and 2014.

	Banorte		
	Dec-16	Dec-15	Dec-14
Portfolio Art. 73	\$9.79	\$7.55	\$3.69
Portfolio Art. 73 / Tier 1 Capital	11.8%	10.5%	5.4%
Portfolio Art. 73 / Limit established of tier 1 Capital	33.7%	30.0%	15.5%

As of **December 31, 2016**, total loans granted to related parties, under Article 73 of the Law of Credit Institutions, was Ps 9.79 billion (including Ps 816 million in — Credit Letters “CC”, which are registered in memorandum accounts), representing 1.7% of Banorte's total loan portfolio (excluding the balance of CC). Of the total related loans, Ps 8.34 billion were loans granted to clients linked to members of the Board of Directors; Ps 320 million were granted to clients linked to shareholders and Ps 1.14 billion were linked to companies related to GFNorte.

In accordance with Article 73 of the Law for Credit Institutions, the balance of GFNorte's loan portfolio for individuals and corporations at the end of December 2016 was 11.8% of the basic part of the equity.

Related party loans have been granted under 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 dispositions applicable to credit institutions with regard to rating of loan portfolios issued by CNBV. 96% of the related party loans are rated in Category "A", and the majority of these loans were classified as commercial loans.

As of **December 31, 2015**, total loans granted to related parties, under Article 73 of the Law of Credit Institutions, was Ps 7.55 billion (including Ps 914 million in — Credit Letters “CC”, which are registered in memorandum accounts), representing 1.5% of the total loan portfolio (excluding the balance of CC). Of the total related loans, Ps 6.33 billion were loans granted to clients linked to members of the Board of Directors; Ps 15 million were granted to clients linked to shareholders and Ps 1.21 billion were linked to companies related to GFNorte.

In accordance with Article 73 of the Law for Credit Institutions, the balance of GFNorte's loan portfolio for individuals and corporations at the end of December 2015 was 10.5% of the basic part of the equity.

Related party loans have been granted under 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 dispositions applicable to credit institutions with regard to rating of loan portfolios issued by CNBV. 91% of the related party loans are rated in Category "A", and the majority of these loans were classified as commercial loans.

III. Board of Directors

The Board of Directors of Grupo Financiero Banorte, S.A.B. de C.V. is made up of 15 Proprietary Members, and when appropriate their respective Alternates, of which 11 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 Chairmans of the Audit and Corporate Practices' Committees.

Quorum: 51% of the Board Members which should always include at least one independent member.

- All proprietary members of the Board have voice and vote in the meetings.
- In the absence of a proprietary member, the alternate is entitled to vote and his/her presence is considered part of the required quorum.
- When a proprietary member is present, the alternate is not entitled to vote and his/her presence is not considered part of the required quorum.
- Decisions are made by the majority of votes of those present.

The Board of Directors was approved during the Annual General Shareholders' Meeting held on April 22, 2016. It 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	<ul style="list-style-type: none"> • He was Vice President of Gruma's Board of Directors. • He was CEO of Grupo Financiero Interacciones, Interacciones Casa de Bolsa and Grupo Hermes. • He was Deputy Managing Director of Grupo Financiero Banorte. • He holds a Bachelor's Degree in Business Management from Universidad Iberoamericana.
Juan Antonio Gonzalez Moreno	Proprietary Member	April 2004	<ul style="list-style-type: none"> • 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 President of Central and East Regions of MissionFoods, Chairman and Vice President of sales of Azteca Milling. • He graduated in Business Management from Universidad Regiomontana and holds an MBA from San Diego University.
David Juan Villarreal Montemayor	Proprietary Member	October 1993	<ul style="list-style-type: none"> • 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

NAME	POSITION	WITH THE COMPANY SINCE	PROFESSIONAL BACKGROUND
			<p>de Mexico, S.A. (Banamex) and Financial Advisor and Business Developer for SISMEEX, Sistemas Mexicanos S.A. de C.V.</p> <ul style="list-style-type: none"> • He is a Mechanical and Electrical Engineer from Instituto Tecnológico y de Estudios Superiores de Monterrey (ITESM), holds a Master's Degree in Science in Automatic Control from the same institution and participated in the Advanced Management program from Instituto Panamericano de Alta Dirección (IPADE).
Jose Marcos Ramirez Miguel	Proprietary Member	July 2011	<ul style="list-style-type: none"> • 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 appointed Chairman of Asociación Mexicana de Intermediarios Bursátiles. 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 was CFO, Managing Director of Wholesale Banking, Managing Director of Santander Brokerage and Executive Vice President of Grupo Financiero Santander. • He holds a Bachelor's Degree in Actuarial Science from Universidad Anahuac, a Post-graduate Degree in Finance from Instituto Tecnológico Autónomo de México (ITAM) and an MBA from E.S.A.D.E. in Barcelona, Spain.
Everardo Elizondo Almaguer	Proprietary Independent Member	April 2010	<ul style="list-style-type: none"> • 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, Economía Aplicada S.A. • He was Deputy Governor of the Bank of Mexico. • 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..
Carmen Patricia Armendariz Guerra	Proprietary Independent Member	April 2009	<ul style="list-style-type: none"> • 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 GFNorte's Chairman Emeritus, Roberto Gonzalez Barrera, and Director of Special Projects at the same Institution. • She was advisor to the Minister of Finance

NAME	POSITION	WITH THE COMPANY SINCE	PROFESSIONAL BACKGROUND
			<p>and Public Credit and Vice President of Supervision at the National Banking and Securities Commission.</p> <ul style="list-style-type: none"> • She has been international advisor in banking crises, Economics professor at Instituto Tecnológico Autónomo de México (ITAM) and author of several academic and specialized publications in Banking and Macroeconomics. • She is an Actuary from Universidad Nacional Autónoma de México (UNAM), holds a Master's Degree in Economics from the same institution and a Ph.D. in Economics from Columbia University.
Hector Federico Reyes-Retana y Dahl	Proprietary Independent Member	July 2011	<ul style="list-style-type: none"> • 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 México (Banxico). • He was CEO of Grupo Financiero Mifel and Banca Mifel, and was Vice President of the Mexican Banking Association. • He is an Industrial Engineer from Universidad Iberoamericana and holds an MBA from Cornell University.
Eduardo Livas Cantu	Proprietary Independent Member	April 1999	<ul style="list-style-type: none"> • Member of the Executive Committee of Gruma. • He was Chief Operating Officer and Managing Director of Central America of Gimsa. • He was CEO of Gruma Corp. (U.S.A. division) and Chief Corporate Officer of Gimsa and Gruma. • Additionally he served as independent financial adviser. • He holds a Bachelor's Degree in Law from the Universidad Autónoma de Nuevo León (UANL) and has a Ph.D. in Economics from the University of Austin, Texas.
Alfredo Elias Ayub	Proprietary Independent Member	April 2012	<ul style="list-style-type: none"> • 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 was CEO of the Comisión 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 México and Banco Internacional. • He was Chairman of the Board of the Mexican Institute of Electric Research and of the Mexico Foundation at Harvard.

NAME	POSITION	WITH THE COMPANY SINCE	PROFESSIONAL BACKGROUND
			<ul style="list-style-type: none"> • He is a Civil Engineer from Universidad Anahuac and holds an MBA from Harvard Business School.
Adrian Sada Cueva	Proprietary Independent Member	April 2013	<ul style="list-style-type: none"> • 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 Comegua, Club Industrial de Monterrey, Universidad de Monterrey and Camara de la Industria de Transformacion (CAINTRA) and GFNorte's Northern Regional Board. • He graduated in Business from Instituto Tecnológico y de Estudios Superiores de Monterrey (ITESM) and holds an MBA from Stanford Business School.
Alejandro Burillo Azcarraga	Proprietary Independent Member	April 2013	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • He is Executive Vice President 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 President 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. • He is Chairman of the Board of Kardias Foundation and member of the UNAM Foundation and the Mexican Health Foundation. • 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. and The American School Foundation. • He holds a Bachelor's Degree in Law from the Universidad Autonoma de Mexico (UNAM).

NAME	POSITION	WITH THE COMPANY SINCE	PROFESSIONAL BACKGROUND
Olga Maria del Carmen Sanchez Cordero Davila	Proprietary Independent Member	April 2016	<ul style="list-style-type: none"> • She is Public Notary 182 of Mexico City. • Member of the International Women's Forum, International Federation of University Women and International Association of Women Judges. • She was appointed Minister of Mexico's Supreme Court (1995-2015) and Numerary Judge of the Superior Justice Court of the Federal District (1993 to January 1995). • She holds a Bachelor's Degree in Law from Universidad Nacional Autonoma de Mexico (UNAM) with a Postgraduate Degree in Social Policy and Management from University College of Swansea in Great Britain. She was awarded Doctor Honoris Causa by Universidad Autonoma de Morelos and Universidad Autonoma de Nuevo Leon.
Thomas Stanley Heather Rodriguez	Proprietary Independent Member	April 2016	<ul style="list-style-type: none"> • Partner at Ritch Mueller, Heather and Nicolau, S.C. and specializes in external funding, restructurings and securities offerings. • He is Legal Advisor of the Consejo Coordinador Empresarial (CCE) and is permanent member of the Committee for drafting the CCE's Code of Best Corporate Practices. • He is member of the Board of Directors and of the Audit and Corporate Practices Committee (CAPS) of Grupo Bimbo, S.A.B. de C.V.; Independent member and Chairman of the CAPS at Gruma, S.A.B. de C.V. and Grupo Industrial Maseca, S.A.B. de C.V. • He holds a Bachelor's Degree in Law from Escuela Libre de Derecho with a Masters Degree from Texas (Austin) University - "Master o Comarative Jurisprudence-Financial Law". Moreover, he holds several specialties from Universidad Panamericana, Universidad Nacional Autónoma de México and New York University.
Graciela Gonzalez Moreno	Alternate Member	April 2013	<ul style="list-style-type: none"> • She is private accountant, graduated from the Universidad Labastida in Monterrey, N.L. • She was accountant at the air conditioning factory Trane-Realven in Monterrey from 1967 to 1970. • From 1988 to 2010, she participated as founding partner and member of the Board of Directors of Asociacion Gilberto, A.C., being Vice President of it from 2007 to 2010.
Juan Antonio Gonzalez Marcos	Alternate Member	April 2014	<ul style="list-style-type: none"> • He was Director of Marketing Projects at Mission Foods. • He holds a Bachelor's Degrees in Audio Production from SAE Institute of Melbourne and in Fine Arts from the University of North Texas. Furthermore, holds a Master in Fine Arts from University of Texas at Dallas.

NAME	POSITION	WITH THE COMPANY SINCE	PROFESSIONAL BACKGROUND
Carlos de la Isla Corry	Alternate Member	April 2016	<ul style="list-style-type: none"> • He was Director of Administration and Finance of Hermes Group from 2003 to 2014, responsible for the industrial corporate, including tourism, transportation, construction and concessions' operations. He was member of the Board of Directors of the Industrial Group. • He was member of the Board of Directors of Grupo Financiero Interacciones companies. • He also served as Chairman of the Credit Committee of Banco Interacciones and in the Financial Group as Chairman of the Risk Committee and member of the Audit, Compensations and Corporate Practices Committees. • He is an Engineer in Electronics and Digital Systems from the Universidad Nacional Autonoma de Mexico (UNAM) and holds an MBA from Texas University in Austin.
Juan Carlos Braniff Hierro	Alternate Member	July 2011	<ul style="list-style-type: none"> • He is Chairman of the Board of Directors of Corporacion Geo, S.A.B. de C.V. • Member of the Board of Directors of Maxcom. • At Grupo Financiero BBVA Bancomer, he was Vice President 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. • He holds a Bachelor's Degree in Industrial Design from Universidad Autonoma Metropolitana (UAM) and a Postgraduate Degree in Finance from Instituto Tecnologico Autonomo de Mexico (ITAM).
Alberto Halabe Hamui	Alternate Independent Member	April 2014	<ul style="list-style-type: none"> • Deputy Managing Director of Inmobiliaria IHM S.A. de C.V., Director of Comercializadora de Viviendas Albatros S.A. de C.V. and Nueva Imagen Construcciones S.A. de C.V. • Member of the Management and Operations Committee of St. Regis Mexico and Banorte's Metropolitan Regional Board; furthermore, he was Member of the Board of Directors in Microfinanciera Finsol. • He holds a Bachelor's Degree in Economics from Instituto Tecnologico Autonomo de Mexico (ITAM) and a Construction and Real Estate Management Degree from the same Institution.
Roberto Kelleher Vales	Alternate Independent Member	April 2014	<ul style="list-style-type: none"> • He is Chairman and partner in Volkswagen, Seat, and Audi dealerships and a tire company in Merida. • He is shareholder and Vice President of Inmobilia Desarrollos. • He was Chairman and member of the

NAME	POSITION	WITH THE COMPANY SINCE	PROFESSIONAL BACKGROUND
			<p>Volkswagen National Dealers Association and member of the Mexican Association of Car Dealers.</p> <ul style="list-style-type: none"> • He is Industrial and Systems Engineer from Instituto Tecnológico y de Estudios Superiores de Monterrey (ITESM) and has several financial and management specializations from the same institution, also participated in the Advanced Management program from Instituto Panamericano de Alta Dirección (IPADE).
Manuel Aznar Nicolin	Alternate Independent Member	March 2007	<ul style="list-style-type: none"> • Founder partner at Kuri Breña, Sánchez Ugarte y Aznar. • He is attorney of Mexican banks in national and international funding operations. • Has participated in securities issuances from Mexican companies and domestic and international offerings. • He worked at Baker & McKenzie in Mexico and New York. Moreover, he was international partner of this firm. • He holds a Bachelor's Degree in Law from Escuela Libre de Derecho and a Master in American Legal System from Chicago-Kent College of Law.
Robert William Chandler Edwards	Alternate Independent Member	April 2015	<ul style="list-style-type: none"> • Partner at Sanchez DeVanny Eseverri, S.C. since 1991. • He is member of the Board of Banco de Bajío, S.A. • He has been officer in various financial entities such as Chase Manhattan Bank, Banco Mercantil Agrícola de Caracas, Banco de Comercio de Bogotá and Banco Mercantil del Norte. • He participated in the Board of Directors of Banco del Centro, Banpais and Cydsa. • He holds an Art, Economics and Anthropology degree from Stanford University.
Isaac Becker Kabacnik	Alternate Independent Member	April 2002	<ul style="list-style-type: none"> • Chairman of the textile company Becktel S.A. de C.V. and the jewelry company Becker e Hijos, S.A. de C.V. • He served as member of the Board of Directors of Multibanco Mercantil de México. Participated as an active partner in Seguros Atlantida Multiba S.A. and as a member of its Executive Committee. • He was member of the Board of Directors of Multifac, S.A. de C.V., advisor of Value Casa de Bolsa S.A., and member of the board of the Asociación de Joyeros de México A.C. • He is Civil Engineer graduated from Universidad Nacional Autónoma de México.
Jose Maria Garza Treviño	Alternate Independent Member	April 2014	<ul style="list-style-type: none"> • Chairman of Grupo Garza Ponce. • He was member of the Board of Directors in Grupo Financiero BITAL, Finanzas Monterrey, Banca Afirme and Banca Confia-

NAME	POSITION	WITH THE COMPANY SINCE	PROFESSIONAL BACKGROUND
			<p>Abaco Grupo Financiero.</p> <ul style="list-style-type: none"> • He served as Vice President 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. • He is Civil Engineer from Instituto Tecnológico y de Estudios Superiores de Monterrey (ITESM) and holds an MBA from the same institution.
Javier Braun Burillo	Alternate Independent Member	April 2015	<ul style="list-style-type: none"> • He is Director of Operations and member of the Board of Directors at Grupo Pegaso. • He was Senior Commercial Manager in Pegaso PCS and responsible for launching the first WiFi service in Mexico • 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	<ul style="list-style-type: none"> • 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 was Director of Administration and Finance of Grupo Domino's Pizza de México, S.A. de C.V. • He served as member of associations as Engineering Alumni of Universidad Panamericana. Member of the Advisory Board of the Mexican Institute of Finance Executives (Instituto Mexicano de Ejecutivos en Finanzas) and the Mexican Equestrian Federation (Federación Ecuéstrea Mexicana). • He is Industrial Engineer from Universidad Panamericana and participated in the Advanced Management program from Instituto Panamericano de Alta Dirección (IPADE).
Guadalupe Phillips Margain	Alternate Independent Member	April 2015	<ul style="list-style-type: none"> • She is Restructuring Director at ICA. • 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 was Vice President and Director of Finance and Risk at Grupo Televisa, furthermore, she has held several positions such as Deputy Director of Foreigners Financial Intermediaries in the Minister of Finance (Secretaría de Hacienda y Crédito Público), Finance Director in Empresas Cablevision. • She holds a Bachelor's degree in Law from Instituto Tecnológico Autónomo de México and a Master's degree and Ph.D. from Tufts University.

NAME	POSITION	WITH THE COMPANY SINCE	PROFESSIONAL BACKGROUND
Eduardo Alejandro Francisco Garcia Villegas	Alternate Independent Member	April 2016	<ul style="list-style-type: none"> • He is Public Notary 15 of Mexico City and Professor at the UNAM's Law faculty (Bachelor and Post Graduate studies), specializing in Notarial and Registry Law. • He was Academic Secretary of the Asociacion Nacional del Notariado Mexicano, S.A. from 2005 to 2006 and Advisor of the Notaries Association of Mexico City from 2002 to 2003. • He holds a Bachelor's degree and a Ph.D in Law from Universidad Nacional Autonoma de Mexico (UNAM).
Ricardo Maldonado Yañez	Alternate Independent Member	April 2016	<ul style="list-style-type: none"> • He is a partner of the Law firm Mijares, Angoitia, Cortes y Fuentes, S.C. since 1999. • Member of the Board of Directors of several companies, such as: Biossman Group, Endeavor Mexico and Seadrill Couragious and Secretary of the Board of Directors of companies such as: Grupo Televisa, Consorcio Ara, Controladora Vuela Compañia de Aviacion (Volaris) and Cablevision. • He was an Associate of the Law firm, White & Case, New York Office from 1993 to 1995. • He holds a Bachelor's degree in Law from Universidad Nacional Autonoma de Mexico (UNAM) and a Master's degree in Law from the Law School of Chicago University

IV. Remuneration and Benefits

The total amount of compensations and benefits paid to GFNorte's main officers in 2016 was approximately Ps 204.0 million.

Compensations and Benefits are as follows:

- **Fixed Compensation:** Salary.
- **Annual Bonus Plan for 2016:**

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 are evaluated based on the attainment of estimated profit for the Group, as well as individual performance in accordance with the achievement of each candidate's goals and objectives.

For the senior management, year bonus is covered by 60% and the remaining 40% is covered in three annual installments of 13%, 13% and 14% respectively.

- **Banorte's Long Term Incentive Plans:**

Stock Options:

The long term scheme for incentives consists in assign to designated Officers by the Compensation Committee, a stock options package through a trust with a vesting period up to 4 years having right in 100%. 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.
- **Vacation Premium:** From 8 to 23 days of salary payable in each employee's anniversary, 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) corresponding to the pension's benefits for past services accumulated to date of the plan's creation. The maximum monthly contribution is 10% of the gross nominal wage (5% employee and 5% company). The total amount accumulated by Banorte in pension, retirement or similar plans for the company's main officers amounts to Ps 66.5 billion.

V. Responsible Officers

The undersigned hereby 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.

Act. José Marcos Ramírez Miguel
Chief Executive Officer of Grupo Financiero Banorte

Eng. Rafael Arana de la Garza
Chief Operating Officer

C.P. Isaías Velázquez González
Managing Director of Internal Audit

Lic. Jorge Eduardo Vega Camargo
Deputy Managing Director of Comptrollership

C.P.C. Mayra Nelly López López
Executive Director of Accounting

VI. Audited Financial Statements

The Audited Financial Statements are available online (www.banorte.com) in Investor Relations/ Financial Information/ Annual Reports/ Financial Statement 2016.

This report is available in this same link, in the "Annual Reports" section under the title: "CNBV 2016 Annual Report".