

2Q17

Financial Results
as of June 30, 2017

Contact: investor@banorte.com

www.banorte.com/ri

+52 (55) 1670 2256



GFNORTE



OTC **QX**

GBOOY



XNOR

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I. Summary

GFNorte reports Net Income of Ps 11.2 billion in 1H17, up 23% from same period last year

(BMV: GFNORTEO; OTCQX: GBOOY; Latibex: XNOR)

Grupo Financiero Banorte, S.A.B. de C.V. reported results for the period ended June 30th, 2017. The main highlights include:

- The **second quarter of 2017 with Net Income of Ps 5.68 billion** shows a **sequential growth of +3%**. Key indicators continue to achieve improved quarterly performance: **loan growth +4%**; **NPL ratio stable at 1.8%**; **ROE increased to 16.4%** from 15.7%; **ROA to 1.81%** from 1.76% and **Efficiency Ratio improved to 41.9%** from 44.5%.
- In the **first half of the year**, **GFNorte's Net Income stood at Ps 11.21 billion**, composed of robust YoY growth across subsidiaries: **Bank +36%**, **Brokerage +26%**, **Pensions Fund +8%**, **Insurance +7 %** and **Annuities +34%**.
- Key ratios and YoY changes are worth noting in 1H17: **MIN increases to 5.4%** from 4.8%, **NPL ratio to 1.8%** from 2.3%, **Coverage Ratio to 149%** from 119%, **Efficiency Ratio improved by 2.1pp to 43.2%**, **ROE increased +264bp to 16.1%** from 13.5% and **ROA increased +26bp to 1.78%**
- Net Interest Income (**NII**) in **1H17** increased **+20%** while **provisions** increased **+9%** versus the same period in 2016.
- **Net Fees** increased **+15%** YoY, driven by a higher number of transactions and electronic banking services. **Trading Income** grew annually **+41%**. In summary, we obtained a **record high in Operating Income** of Ps 15.04 billion pesos in 1H17, **+31% higher than the same period of the previous year**.
- **Performing Loans** increased **+13% YoY**, due to a strong quarter in each of its components: **consumer portfolio** grew **+20%** vs. 1Q16; **commercial portfolio +15%** YoY; **corporate +17%**; **government** rose **+2%** in the quarter but decreased **(1%) annually**. On the other hand, Non-Performing Loans grew +5% in the quarter; however, decreased (14%) YoY.
- **Total Deposits** increased **+11%** in the year: **Demand Deposits +9%** and **Time Deposits +15%**.
- **Capital ratios remain solid, at 15.1%** while leverage ratio maintained at 7.48%.

Income Statement Highlights - GFNorte (Million Pesos)	2Q16	1Q17	2Q17	Change		1H16	1H17	Change 1H16
				1Q17	2Q16			
Net Interest Income	12,404	15,555	15,289	(2%)	23%	25,763	30,844	20%
Fees on Services	2,670	2,571	2,985	16%	12%	4,840	5,556	15%
Trading	761	737	961	30%	26%	1,205	1,698	41%
Other Operating Income (Expenses)	914	619	653	6%	(29%)	1,520	1,272	(16%)
Non Interest Income	4,345	3,927	4,599	17%	6%	7,565	8,526	13%
Total Income	16,749	19,482	19,889	2%	19%	33,328	39,370	18%
Non Interest Expense	7,334	8,665	8,337	(4%)	14%	15,086	17,002	13%
Provisions	3,515	3,268	4,058	24%	15%	6,747	7,326	9%
Operating Income	5,900	7,549	7,494	(1%)	27%	11,495	15,042	31%
Taxes	1,590	2,279	2,074	(9%)	30%	3,055	4,354	43%
Subsidiaries & Minority Interest	244	184	255	39%	5%	517	439	(15%)
Discontinued Operations	72	74	6	(92%)	(92%)	131	79	(39%)
Net Income	4,626	5,527	5,680	3%	23%	9,088	11,207	23%

Balance Sheet Highlights - GFNorte (Million Pesos)	2Q16	1Q17	2Q17	Change	
				1Q17	2Q16
Asset Under Management	2,229,180	2,293,278	2,352,407	3%	6%
Performing Loans (a)	525,884	569,147	593,997	4%	13%
Past Due Loans (b)	12,624	10,284	10,818	5%	(14%)
Total Loans (a+b)	538,508	579,432	604,815	4%	12%
Total Loans Net (d)	523,463	565,197	588,696	4%	12%
Acquired Collection Rights (e)	1,946	2,082	1,986	(5%)	2%
Total Credit Portfolio (d+e)	525,409	567,279	590,682	4%	12%
Total Assets	1,211,186	1,245,334	1,265,675	2%	4%
Total Deposits	553,820	576,800	613,142	6%	11%
Total Liabilities	1,073,110	1,101,552	1,129,036	2%	5%
Equity	138,076	143,782	136,639	(5%)	(1%)

Financial Ratios GFNorte	2Q16	1Q17	2Q17	1H16	1H17
Profitability:					
NIM (1)	4.6%	5.5%	5.4%	4.8%	5.4%
ROE (2)	13.8%	15.7%	16.4%	13.5%	16.1%
ROA (3)	1.55%	1.76%	1.8%	1.52%	1.8%
Operation:					
Efficiency Ratio (4)	43.8%	44.5%	41.9%	45.3%	43.2%
Operating Efficiency Ratio (5)	2.4%	2.8%	2.7%	2.5%	2.7%
CCL for Banorte and SOFOM - Basel III (6)	118.5%	93.2%	91.5%	118.5%	91.5%
Asset Quality:					
Past Due Loan Ratio	2.3%	1.8%	1.8%	2.3%	1.8%
Coverage Ratio	119.2%	138.4%	149.0%	119.2%	149.0%
Cost of Risk	2.7%	2.3%	2.8%	2.6%	2.5%
Market References					
Banxico Reference Rate	4.25%	6.50%	7.00%	4.25%	7.00%
TIIE 28 days (Average)	4.08%	6.40%	7.02%	3.94%	6.71%
Exchange Rate Peso/Dolar	18.46	18.80	18.06	17.85	18.43

- 1) NIM= Annualized Net Interest Income / Average Earnings Assets.
- 2) Annualized earnings as a percentage of the average quarterly equity over the period, minus minority interest of the same period.
- 3) Annualized earnings as a percentage of the average quarterly assets over the period, minus minority interest of the same period.
- 4) Non-Interest Expense / Total Income
- 5) Annualized Non-Interest Expense / Average Total Assets.
- 6) CCL calculation is preliminary and will be updated once Banco de Mexico publishes official indicators.

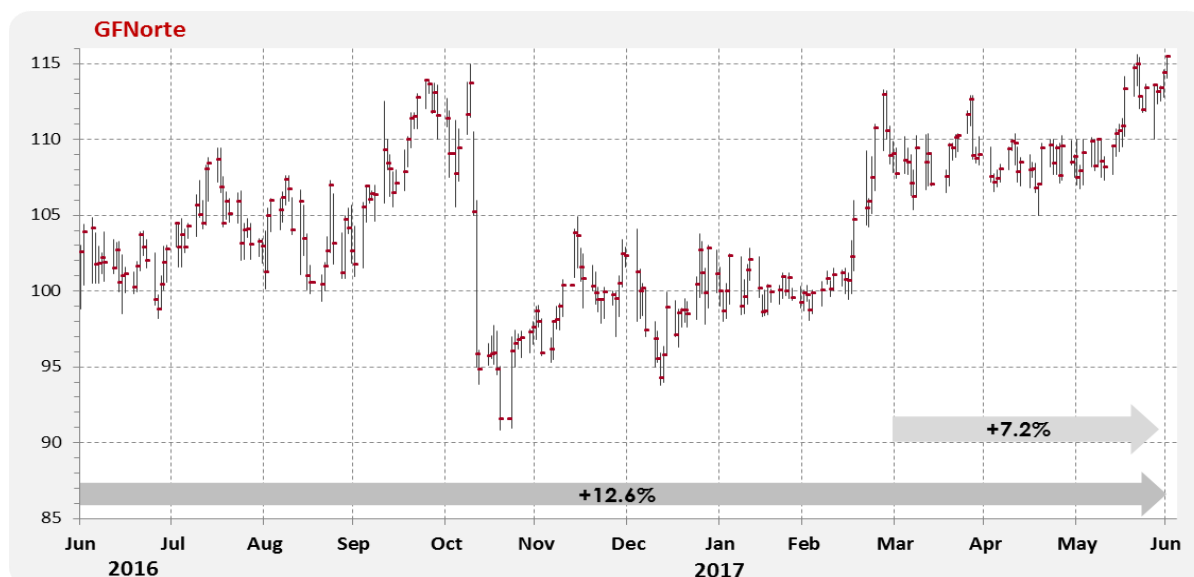
The financial information presented in this report has been calculated in pesos and the tables are in million pesos, thus, differences are the result of rounding effects.

Subsidiaries Net Income (Million Pesos)	2Q16	1Q17	2Q17	Change		1H16	1H17	Change 1H16
				1Q17	2Q16			
Banco Mercantil del Norte	3,283	4,229	4,116	(3%)	25%	6,129	8,345	36%
Banorte- Ixe-Broker Dealer	163	231	167	(28%)	2%	316	398	26%
Operadora de Fondos Banorte-Ixe	58	56	68	21%	16%	114	124	9%
Retirement Funds - Afore XXI Banorte	305	362	310	(14%)	2%	623	673	8%
Insurance	547	885	674	(24%)	23%	1,462	1,560	7%
Annuities	149	174	190	9%	28%	271	364	34%
Leasing and Factoring	153	182	178	(2%)	17%	310	360	16%
Warehousing	7	7	14	89%	96%	14	21	51%
Sólida Administradora de Portafolios	(32)	(630)	(103)	84%	(225%)	(256)	(733)	187%
Ixe Servicios	1	(1)	(0)	34%	NA	1	(1)	NA
G. F. Banorte (Holding)	(6)	31	66	112%	NA	103	96	(7%)
Total Net Income	4,626	5,527	5,680	3%	23%	9,088	11,207	23%

Share Data	2Q16	1Q17	2Q17	Change		1H16	1H17	Change 1H16
				1Q17	2Q16			
Earnings per share (Pesos)	1.668	1.993	2.048	3%	23%	3.276	4.041	23%
Earnings per share Basic (Pesos)	1.680	2.008	2.068	3%	23%	3.300	4.077	24%
Dividend per Share (Pesos) (1)	0.46	1.23	4.05	228%	784%	0.92	5.28	477%
Dividend Payout (Recurring Net Income)	33.3%	40.0%	40.0%	0%	20%	33.3%	40.0%	20%
Book Value per Share (Pesos)	49.08	51.12	48.59	(5%)	(1%)	49.08	48.59	(1%)
Issued Shares (Million)	2,773.7	2,773.7	2,773.7	0%	0%	2,773.7	2,773.7	0%
Stock Price (Pesos)	102.52	107.66	115.39	7%	13%	102.52	115.39	13%
P/BV (Times)	2.09	2.11	2.37	13%	14%	2.09	2.37	14%
Market Capitalization (Million Dollars)	15,400	15,888	17,720	12%	15%	15,400	17,720	15%
Market Capitalization (Million Pesos)	284,363	298,620	320,061	7%	13%	284,363	320,061	13%

1) Excluding Minority Interest.

Stock Performance



II. Management's Discussion & Analysis

As in 1Q17 was done and derived from the sale of Inter National Bank finalized on March 31st, 2017, the consolidation of INB's quarterly and accumulated figures in Banorte's Balance and Sheet and Income Statement were fully reversed for 2016. Hence, the consolidated figures and ratios of GFNorte and Banorte presented in this report differ from those published in the Quarterly Releases of 1Q, 2Q, 3Q and 4Q of 2016, as these have been modified retroactively to be comparable and to reflect the INB deconsolidation.

Grupo Financiero Banorte

Net Interest Income

Net Interest Income (NII) (Million Pesos)	2Q16	1Q17	2Q17	Change		1H16	1H17	Change 1H16
				1Q17	2Q16			
Interest Income	17,418	23,221	24,615	6%	41%	34,198	47,836	40%
Interest Expense	6,244	9,778	10,985	12%	76%	12,211	20,763	70%
Loan Origination Fees	294	282	295	4%	0%	601	577	(4%)
Fees Paid	112	144	167	16%	49%	214	311	46%
NII excluding Insurance and Annuities Co.	11,356	13,581	13,758	1%	21%	22,375	27,339	22%
Premium Income (Net)	4,512	7,784	6,507	(16%)	44%	12,253	14,291	17%
Technical Reserves	675	5,544	2,654	(52%)	N.A.	4,828	8,198	70%
Damages, Claims and Other Obligations	3,252	3,306	3,645	10%	12%	6,134	6,951	13%
Technical Results	585	(1,065)	208	N.A.	(65%)	1,290	(858)	N.A.
Interest Income (Expenses) net	462	3,038	1,324	(56%)	N.A.	2,098	4,363	108%
Insurance and Annuities NII	1,048	1,973	1,532	(22%)	46%	3,388	3,505	3%
GFNORTE's NII	12,404	15,555	15,289	(2%)	23%	25,763	30,844	20%
Credit Provisions	3,515	3,268	4,058	24%	15%	6,747	7,326	9%
NII Adjusted for Credit Risk	8,889	12,287	11,231	(9%)	26%	19,016	23,518	24%
Average Earning Assets	1,076,513	1,126,094	1,132,946	1%	5%	1,080,076	1,133,081	5%
Net Interest Margin (1)	4.6%	5.5%	5.4%			4.8%	5.4%	
NIM after Provisions (2)	3.3%	4.4%	4.0%			3.5%	4.2%	
NIM adjusted w/o Insurance & Annuities	4.6%	5.3%	5.3%			4.5%	5.3%	
NIM from loan portfolio (3)	8.0%	8.4%	8.5%			7.9%	8.4%	

1) NIM = Annualized Net Interest Income / Average Interest Earnings Assets.

2) NIM = Annualized Net Interest Income adjusted by Loan Loss Provisions / Average Interest Earnings Assets.

3) NIM = Annualized Net Interest Income from loans / Average Performing Loans

Net Interest Income (NII) excluding Insurance and Annuities: amounted to **Ps 27.34 billion** in the first semester of 2017, +22% higher vs. 1H16, benefited from the balance sheet re-pricing on the progressive interest rate hikes of +400bp that Banxico has carried out since December 2015 which reflect on:

- a +21% YoY increase in NII from loans and deposits; and
- a +64% annual growth in NII from investments in securities and repos

In 2Q17 Net Interest Income (NII) excluding Insurance and Annuities totaled Ps 13.76 billion, Ps 176 million or +1% higher vs. 1Q17; Interest Expenses rose +12% QoQ as result of the increases in the benchmark rate in May and June, while Interest Income increased +6% during the period.

Insurance and Annuities NII: In 1H17 totaled **Ps 3.51 billion**, +3% higher vs. the same period a year ago. It is worth noting the one-time effect of Ps 565 million included in 1H16's NII of the insurance company related to the accounting changes implemented in 2016 from the Solvency II regulation. Eliminating this effect, adjusted NII grew 24% annually.

Moreover, in 2Q17 Insurance and Annuities NII were **Ps 1.53 billion**, (22%) below QoQ, mainly on lower volume of retained premiums from the insurance company, considering that in the first quarter of the year premiums are seasonally higher. The UDI (investment units) valuation result registered at Pensiones Banorte was Ps 278 million in 2Q17, in contrast to Ps 2.05 billion registered in 1Q17.

Technical Results: in the first half of 2017 amounted to **(Ps 858) million**, unfavorably compared YoY, given a +70% increase in Technical Reserves due to a high volume of premiums and a +13% growth in Damages & Claims.

In 2Q17 the Technical Results improved to reach **Ps 208 million**, benefited by the reduction in Technical Reserves at the Annuities Company (40%) and Seguros Banorte (76%), which reflects the normalization of seasonal factors that affected the first quarter and also because of a lower inflation factor.

According to new regulation Premium Income and Technical Reserves of life policies are fully accounted when originated, as opposed to the former rule in which Premium Income and Costs were registered following the payment calendar of the policies. This change resulted in a distortion in 1Q16 results because of the increase in Premiums and Reserves.

In 1H17 GFNorte's Net Interest Income (NII) amounted to Ps 30.84 billion, increasing +20% YoY on better performance in practically all lines, **while in 2Q17 it totaled Ps 15.29 billion**, which is (2%) lower sequentially mainly from a temporary lower result in NII from the investment book, as well as a lower inflation factor at Pensiones Banorte.

The Net Interest Margin (NIM) both in 1H17 and 2Q17 stood at 5.4%, up +67bp vs. the accumulated of 2016 and (13bp) below 1Q17, respectively. The NIM expansion reflects a better mix in the loan book, controlled funding costs and the benefit of rising market rates on the re-pricing of the balance. The minor QoQ contraction is explained mainly by lower premium income in Seguros Banorte and to a lesser extent by lower net interest income on the investment book.

Loan Loss Provisions

During 1H17 Loan Loss Provisions totaled Ps 7.33 billion, +9% higher vs. the same period a year ago. LLP increased +24% sequentially to reach **Ps 4.06 billion in 2Q17**.

The annual increase vs. 1H16 is explained by higher requirements in the portfolios with the most dynamic growth (credit card and payroll); though, it is worth noting the reduction of provisions related to wholesale banking (commercial and corporate). Furthermore, the sequential rise came from a Ps 400 million requirement in the wholesale portfolios and, in lesser extent, from monthly requirements in the consumer books.

Provisions represented 23.8% of Net Interest Income in the first half of 2017, decreasing by (2.4 pp) on a yearly basis **and in 2Q17 stood at 26.5%**, up +5.5 pp QoQ.

Additionally, **Provisions in 1H17 accounted for 2.5% of the average loan portfolio**, while **in 2Q17 represented 2.8%**, rising +5bp vs. 1H16 and +49bp sequentially.

Non-Interest Income

Non-Interest Income (Million Pesos)	2Q16	1Q17	2Q17	Change		1H16	1H17	Change 1H16
				1Q17	2Q16			
Fees on Services	2,670	2,571	2,985	16%	12%	4,840	5,556	15%
Trading	761	737	961	30%	26%	1,205	1,698	41%
Other Operating Income (Expenses)	914	619	653	6%	(29%)	1,520	1,272	(16%)
Non-Interest Income	4,345	3,927	4,599	17%	6%	7,565	8,526	13%

Non-Interest Income totaled Ps 8.53 billion in 1H17, +13% vs. a year ago; while in 2Q17 amounted to Ps 4.60 billion, +17% up QoQ. Service Fees explained almost two thirds of the positive performance of Non-Interest Income, both in the accumulated and quarterly comparisons. Trading income was also strong.

Service Fees

Service Fees (Million Pesos)	2Q16	1Q17	2Q17	Change		1H16	1H17	Change 1H16
				1Q17	2Q16			
Fund Transfers	313	368	390	6%	25%	586	758	29%
Account Management Fees	504	596	624	5%	24%	973	1,220	25%
Electronic Banking Services	1,394	1,639	1,709	4%	23%	2,735	3,348	22%
Basic Banking Services Fees	2,211	2,604	2,723	5%	23%	4,294	5,326	24%
For Commercial and Mortgage Loans *	181	94	198	111%	9%	372	291	(22%)
For Consumer Loans	786	999	1,055	6%	34%	1,617	2,054	27%
Fiduciary	86	92	101	10%	17%	167	193	16%
Income from Real Estate Portfolios	19	7	17	N.A.	(8%)	52	24	(53%)
Mutual Funds	287	282	329	17%	14%	564	611	8%
Other Fees Charged (1) *	242	264	205	(22%)	(15%)	441	469	6%
Fees Charged on Services	3,919	4,455	4,795	8%	22%	7,757	9,250	19%
Interchange Fees	602	722	762	6%	27%	1,186	1,484	25%
Insurance Fees	107	379	269	(29%)	151%	732	648	(11%)
Other Fees Paid	540	783	779	(1%)	44%	999	1,562	56%
Fees Paid on Services	1,249	1,884	1,810	(4%)	45%	2,917	3,694	27%
Service Fees	2,670	2,571	2,985	16%	12%	4,840	5,556	15%

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

* Numbers for 2016 were reclassified to Other Fees Charged from Fees for Commercial and Mortgage Loans.

In 1H17 Service Fees totaled Ps 5.56 billion, +15% higher vs. on a yearly basis:

- driven by a significant +24% increase in Core Banking Services fees supported by larger transaction volume and +27% higher fees related to Consumer Loans on the back of strong loan origination,
- in contrast, the increase in Fees Charged comes from loan placements, debt issuance and the interchange fee.

In 2Q17 Service Fees were Ps 2.99 billion, up +16% QoQ. It is worth mentioning that this revenue line recovered from the (16%) sequential seasonal decline in 1Q17, as result of:

- +Ps 119 million increase in Core Banking Services, derived mainly from larger transaction volume in mainly electronic banking channels,
- +Ps 164 million rise in fees related to Consumer, Commercial and Mortgage loans,
- +45% up in Fees from Financial Advisory Services and +17% in Mutual Funds, and
- (4%) reduction in Fees Paid, mainly due to the (Ps 110) decrease in the acquisition costs of Seguros Banorte, which is related to the change in the insurance portfolio mix, which today carries a lower proportion of reinsurance.

Trading

Trading Income (Million Pesos)	2Q16	1Q17	2Q17	Change		1H16	1H17	Change 1H16
				1Q17	2Q16			
Currency and Metals	31	(151)	(15)	90%	N.A.	39	(166)	N.A.
Derivatives	(32)	(195)	(56)	71%	72%	(141)	(251)	78%
Negotiable Instruments	329	27	56	N.A.	(83%)	529	82	(84%)
Valuation	328	(319)	(15)	95%	(105%)	426	(335)	(178%)
Currency and Metals	366	520	523	1%	43%	620	1,043	68%
Derivatives	(93)	281	73	(74%)	N.A.	(90)	354	N.A.
Negotiable Instruments	161	255	381	49%	137%	249	636	N.A.
Trading	433	1,056	977	(8%)	126%	779	2,033	N.A.
Trading Income	761	737	961	30%	26%	1,205	1,698	41%

During 1H17 Trading Income rose +41% reaching Ps 1.69 billion. Positive trading results in FX and fixed income largely offset minor mark-to-market losses.

Trading income was Ps 961 million in 2Q17, +30% up vs. 1Q17, as result of the positive performance in all the lines, except for Derivative Trading, lower than the Ps 281 million registered in 1Q17.

Other Operating Income (Expenses)

Other Operating Income (Expenses) (Million Pesos)	2Q16	1Q17	2Q17	Change		1H16	1H17	Change 1H16
				1Q17	2Q16			
Loan Recovery	366	413	462	12%	26%	713	874	23%
Loan Portfolios	50	42	46	11%	(7%)	100	88	(12%)
Income from foreclosed assets	69	21	(273)	N.A.	N.A.	104	(252)	N.A.
Provisions Release	170	164	86	(48%)	(50%)	325	249	(23%)
Losses and Estimates	(340)	(298)	(422)	(42%)	24%	(660)	(720)	9%
Impairment of Assets	(60)	(428)	(10)	NA	(84%)	(225)	(437)	94%
Lease Income	69	111	105	(5%)	54%	148	216	46%
From Insurance	287	234	213	(9%)	(26%)	495	446	(10%)
Others	305	360	446	24%	47%	521	807	55%
Other Operating Income (Expenses)	914	619	653	6%	(29%)	1,520	1,272	(16%)

Other Operating Income (Expenses) stood at Ps 1.27 billion in 1H17, (16%) lower on a yearly basis, explained mainly by i) a (Ps 437) million charge to adjust the value of investment projects and ii) and a loss of (Ps 252) million on provisions made to adjust the value of some foreclosed assets.

In 2Q17 Other Operating Income (Expenses) amounted to Ps 653 million, +6% above the first quarter of the year.

Non-Interest Expense

Non-Interest Expense (Million Pesos)	2Q16	1Q17	2Q17	Change		1H16	1H17	Change 1H16
				1Q17	2Q16			
Personnel	2,983	3,512	3,285	(6%)	10%	6,137	6,796	11%
Professional Fees	569	567	712	25%	25%	1,048	1,279	22%
Administrative and Promotional	1,645	2,022	1,954	(3%)	19%	3,569	3,977	11%
Rents, Depreciation & Amortization	1,118	1,306	1,274	(2%)	14%	2,232	2,580	16%
Taxes other than income tax & non deductible expenses	347	523	374	(28%)	8%	770	898	17%
Contributions to IPAB	575	634	636	0%	11%	1,138	1,270	12%
Employee Profit Sharing (PTU)	97	101	101	1%	5%	193	202	5%
Non-Interest Expense	7,334	8,665	8,337	(4%)	14%	15,086	17,002	13%

In 1H17 Non-Interest Expense totaled Ps 17.00 billion, up by +13% vs. the same period a year ago, mainly as result of the following changes:

- +11% in Personnel Expenses related to actuarial requirements in the employee pension plan,
- +14% in Administrative and Promotional Expenses on advances to supplier payments and higher expenses related to increased transaction volume in banking services,
- +16% in Rents, Depreciations and Amortizations due to higher amortizations of IT projects and software maintenance and,
- +22% up in Professional Fees.

In 2Q17, **Non-Interest Expense** decreased (4%) sequentially to reach **Ps 8.34 billion**, derived from the following changes: Personnel Expenses (-Ps 227 million), Other Taxes and Non-deductible Expenses (-Ps 149 million) and Administrative and Promotional Expenses (-Ps 111 million).

The **Efficiency Ratio improved continuously** -both vs. 1H16 and 1Q17-, to **43.1% in 1H17**, (221bp) lower vs. the same period a year ago, due to positive operating leverage; while **in 2Q17 it was 41.7%**, (281bp) below QoQ, benefited by the Non-Interest Expense reduction.

Net Income

Net Income (Million Pesos)	2Q16	1Q17	2Q17	Change		1H16	1H17
				1Q17	2Q16		
Operating Income	5,900	7,549	7,494	(1%)	27%	11,495	15,042
Subsidiaries' Net Income	309	263	335	27%	8%	636	598
Pre-Tax Income	6,209	7,812	7,828	0%	26%	12,132	15,640
Taxes	1,590	2,279	2,074	(9%)	30%	3,055	4,354
Discontinued Operations	72	74	6	(92%)	(92%)	131	79
Minority Interest	(65)	(79)	(80)	1%	23%	(120)	(159)
Net Income	4,626	5,527	5,680	3%	23%	9,088	11,207

During 1H17 recurring revenues (NII + Net Fees excluding Portfolio Recoveries - Operating Expenses - Provisions) were **Ps 28.61 billion**, higher by +29% vs. the same period a year ago, driven by a +20% growth in Net Interest Income and +21% higher Net Fees (without recoveries). Recurring revenues **in 2Q17 amounted to Ps 14.39 billion**, +Ps 163 million above vs. 1Q17, reflecting an +8% QoQ growth in Net Fees (without recoveries) and a (4%) reduction in Expenses.

In 1H17 Net Income from Subsidiaries stood at **Ps 598 million**, (6%) below YoY. This result includes Ps 673 million from Afore XXI Banorte's profits and a (Ps 733 million) loss at Sólida, related to the mark-to-market valuation on some equity holdings. In contrast, **in 2Q17 Net Income from Subsidiaries amounted to Ps 335 million**, rising +27% QoQ on Afore's Net Income of Ps 310 million and a smaller loss of (Ps 103 million) at Sólida.

Taxes totaled **Ps 4.35 billion in 1H17**, +43% higher YoY, on both a higher taxable base and a rise in deferred taxes; while **in 2Q17 stood at Ps 2.07 billion**, (Ps 205) million or (9%) lower. **The effective tax rate in 1H17 was 27.8%**, +2.7 pp above YoY and **in 2Q17 was 26.5%**, favorably compared as it declined (268bp) QoQ.

In 2Q17, Income from Discontinued Operations, which represented INB's profits (and currently Banorte USA's) totaled only Ps 6 million, decreasing by (Ps 68 million) QoQ after the sale of this company on March 31st, 2017.

GFNorte reported Net Income of Ps 11.21 billion in 1H17 (+23% YoY), driven by solid growth in: Banorte Bank +36%, Broker Dealer +26%, Afore +8%, Insurance +7% and Annuities +34%. Key ratios and YoY changes are worth noting: **MIN increases to 5.4%** from 4.8%, **NPL ratio to 1.8%** from 2.3%, **Coverage Ratio to 149%** from 119%, **Efficiency Ratio improved** by 2.1pp to **43.2%**, **ROE increased +264bp to 16.1%** from 13.5% and **ROA increased +26bp to 1.78%**.

In 2Q17 Net Income amounted to Ps 5.68 billion, +3% QoQ. Key indicators continue to record a better quarterly performance: **loan growth +4%**; **NPL ratio stable at 1.8%**; **ROE increased to 16.4%** from 15.7%; **ROA to 1.81%** from 1.76% and **Efficiency Ratio improved to 41.9%** from 44.5%.

Profitability

	2Q16	1Q17	2Q17
ROE	13.8%	15.7%	16.4%
Goodwill & Intangibles (billion pesos)	23.6	25.3	25.5
Average Tangible Equity (billion pesos)	108.6	115.5	113.4
ROTE	16.7%	19.1%	20.1%

ROE in 1H17 accelerated its YoY growth by +264bp **to reach 16.1%**, favored by rapid growth in earnings; while **in 2Q17 stood at 16.4%**, +79bp up QoQ, also driven by a (5%) reduction in Equity.

Return on Tangible Capital (ROTE) was 20.1% in 2Q17, increasing +348bp YoY and +99bp sequentially.

	2Q16	1Q17	2Q17
ROA	1.5%	1.8%	1.8%
Average Risk Weighted Assets (billion pesos)	563.0	621.0	621.5
RRWA	3.3%	3.3%	3.4%

ROA for the first semester of 2017 and 1Q17 was 1.8%, up by +26bp vs. 1H16 and +5bp above 1Q17. **Return on Risk-Weighted Assets was 3.4%**, +17bp higher QoQ and +19bp YoY, respectively.

Regulatory Capital (Banco Mercantil del Norte)

Capitalization (Million Pesos)	2Q16	1Q17	2Q17	Change	
				1Q17	2Q16
Core Tier 1	78,994	85,080	77,392	(9.0%)	(2.0%)
Tier 1 Capital	82,824	87,336	79,559	(8.9%)	(3.9%)
Tier 2 Capital	7,331	15,808	12,221	(22.7%)	66.7%
Net Capital	90,155	103,143	91,780	(11.0%)	1.8%
Credit Risk Assets	442,375	479,075	503,784	5.2%	13.9%
Net Capital / Credit Risk Assets	20.4%	21.5%	18.2%	(3.3 pp)	(2.2 pp)
Total Risk Assets	606,577	622,068	608,748	(2.1%)	0.4%
Core Tier 1	13.02%	13.68%	12.71%	(1.0 pp)	(0.3 pp)
Tier 1	13.65%	14.04%	13.07%	(1.0 pp)	(0.6 pp)
Tier 2	1.21%	2.54%	2.01%	(0.5 pp)	0.8 pp
Capitalization Ratio	14.86%	16.58%	15.08%	(1.5 pp)	0.2 pp

(*) The reported capitalization ratio of the period is submitted to the Central Bank.

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.

In April 2017, Banorte was confirmed 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 Capitalization Ratio required for Banorte amounts to 10.73% as of June 2017** (corresponding to the regulatory minimum of 10.5% plus the constituent capital supplement to date).

At the end of 2Q17 the estimated Capitalization Ratio (CR) for Banorte was 15.08% considering credit, market and operational risk; and, 18.22% if only credit risks are considered.

The Capitalization Ratio increased (1.50 pp) vs. 1Q17, as follows:

1.	Profits for 2Q17	+ 0.69 pp
2.	Change in risk assets	+ 0.36 pp
3.	Valuation of Financial Instruments	+ 0.05 pp
4.	Other Capital Effects	- 0.02 pp
5.	Investment in Subsidiaries ad Intangibles	- 0.05 pp
6.	Change in Reserves' Model	- 0.12 pp
7.	Subordinated Notes	- 0.60 pp
8.	Dividend	- 1.81 pp

The Capitalization Ratio increased +0.21 pp vs. 2Q16, as follows:

1.	Profit growth for the period	+ 2.69 pp
2.	Subordinated Notes	+ 0.53 pp
3.	Investment in Subsidiaries and Intangibles	+ 0.13 pp
4.	Growth in risk assets	- 0.05 pp
5.	Other Capital Effects	- 0.07 pp
6.	Valuation of Financial Instruments	- 0.11 pp
7.	Change in Reserves' Model	- 0.12 pp
8.	Dividends of the period	- 2.79 pp

Leverage Ratio (Banco Mercantil del Norte)

The Leverage Ratio, according to CNBV's regulation, is presented below:

Leverage <i>(Million Pesos)</i>	2Q16	1Q17	2Q17	Change	
				1Q17	2Q16
Tier 1 Capital	82,824	87,336	79,559	(8.9%)	(3.9%)
Adjusted Assets	967,981	1,094,203	1,063,240	(2.8%)	9.8%
Leverage Ratio	8.56%	7.98%	7.48%	(0.5 pp)	(1.1 pp)

Adjusted Assets are defined according to the General Provisions applicable to Credit Institutions.

Deposits

Deposits (Million Pesos)	2Q16	1Q17	2Q17	Change	
				1Q17	2Q16
Non-Interest Bearing Demand Deposits	177,764	214,194	215,069	0%	21%
Interest Bearing Demand Deposits	159,998	153,670	154,225	0%	(4%)
Total Demand Deposits	337,762	367,864	369,295	0%	9%
Time Deposits – Retail	157,641	173,891	181,614	4%	15%
Core Deposits	495,403	541,755	550,909	2%	11%
Money Market	60,129	36,437	63,716	75%	6%
Total Bank Deposits	555,532	578,191	614,625	6%	11%
GFNorte's Total Deposits	553,820	576,800	613,142	6%	11%
Third Party Deposits	162,454	190,537	151,556	(20%)	(7%)
Total Assets Under Management	717,986	768,728	766,180	(0%)	7%

*For comparison purposes 2016 results were adjusted to reflect the INB deconsolidation in 4Q16. Therefore, they will differ from those published in the Quarterly Reports of that year.

Banorte's Total Deposits amounted to Ps 614.63 billion, an +11% annual variation, coming from good growth in non-interest bearing demand and time deposits, while the strategy continues maintain funding costs under control. In this period, **client's deposits grew +11% YoY. In the quarter, total deposits increased +Ps 36.43 billion led by an expansion in time deposits. Total Assets under Management grew +7% yearly.**

Loans

Performing Loan Portfolio (Million Pesos)	2Q16	1Q17	2Q17	Change	
				1Q17	2Q16
Commercial	112,936	123,547	129,783	5%	15%
Consumer	185,270	211,619	222,603	5%	20%
Corporate	91,855	102,345	107,107	5%	17%
Government	135,717	131,551	134,423	2%	(1%)
Sub Total	525,778	569,062	593,916	4%	13%
Recovery Bank	106	85	81	(5%)	(24%)
Total	525,884	569,147	593,997	4%	13%

Performing Consumer Loan Portfolio (Million Pesos)	2Q16	1Q17	2Q17	Change	
				1Q17	2Q16
Mortgages	104,629	119,227	124,126	4%	19%
Car Loans	13,495	15,916	16,809	6%	25%
Credit Card*	25,287	29,516	31,560	7%	25%
Payroll	41,860	46,960	50,108	7%	20%
Consumer Loans	185,270	211,619	222,603	5%	20%

*For comparison purposes 2016 results were adjusted to reflect the INB deconsolidation in 4Q16. Therefore, they will differ from those published in the Quarterly Reports of that year.

Total Performing Loans increased +13% YoY for an ending balance of Ps 593.92 billion in 2Q17. Outstanding +20% annual growth in the consumer book: auto loans +25%, credit cards +25%, payroll loans +20% and mortgage +19%. These results continue to show advances in the alignment of products and segments to provide the right product offer to our customers. During the quarter, there was a strong loan growth in all segments.

- **Mortgages:** up +19% YoY, with an ending **balance of Ps 124.13 billion as of 2Q17**. During the quarter the portfolio grew Ps 4.90 billion or +4% on higher origination in all products comprising this segment. As of May 2017, Banorte had a 17.7% market share in mortgage balances, ranking third in the system, and growing above its main peers.
- **Car Loans:** In 2Q17, the portfolio increased +25% YoY and +6% QoQ, totaling **Ps 16.81 billion**, on the successful commercial strategy to offset the strong competition from financial firms of car manufacturers. As of May 2017, Banorte's market share was 15.3%, and had the best annual performance in the banking industry.
- **Credit Cards:** Outstanding performance of the book, with an **ending balance of Ps 31.56 billion**, up +25% YoY and +7% QoQ, consolidating the strong growth pace seen since last year on the back of active portfolio management and continued commercial campaigns. As of May 2017, Banorte held a 9.0% market share in credit card balances, ranking fourth in the banking system and leading growth among its main peers.
- **Payroll Loans:** showed a good increase of +20% YoY and +7% QoQ, **reaching a balance of Ps 50.11 billion**, driven by higher credit penetration on a larger base of payroll account holders. Banorte holds a market share in payroll loans of 20.6% as of May 2017, ranking third in the system.
- **Commercial Book:** accelerated growth with an **ending balance of Ps 129.78 billion**, +Ps 16.88 billion or +15% higher YoY. It increased +5% in the quarter. The leasing and factoring books grew +1.18% annually. As of May 2017, the market share in commercial loans (including the corporate book according to the CNBV's classification) was 10.3%, ranking fourth in the system.

GFNorte's SME performing portfolio amounted to Ps 32.51 billion, +15% higher YoY on higher loan origination. The NPL ratio continues to improve, showing important reduction in the comparisons.

SMEs Portfolio Evolution (million pesos)

	2Q16	1Q17	2Q17
Performing Portfolio	28,227	30,878	32,507
% of Performing Commercial Portfolio	25.0%	25.0%	25.0%
% of Total Performing Portfolio	5.4%	5.4%	5.5%
NPL Ratio	7.8%	6.1%	5.5%

- **Corporate Loans:** The ending balance in 2Q17 stood at **Ps 107.12 billion**, an important increase of +17% YoY on good loan demand. Sequentially it increased +5%. GFNorte's corporate loan book is well diversified by sectors and regions and shows a low concentration risk. GFNorte's 20 main corporate borrowers accounted for 10.7% of the group's total portfolio, increasing by 28bp vs. 1Q17 and decreasing (68bp) vs. a year ago. The group's largest corporate loan represents 1.0% of the total portfolio; whereas number 20 represent 0.3%. 100% of GFNorte's main corporate borrowers have an A1 rating.

As of June 30, 2017 GFNorte's **loan exposure to home builders was Ps 2.57 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., +4.7% higher than the prior quarter. This exposure represented 0.4% of the total loan portfolio, unchanged from March 2017. The credit exposure has 100% collateral coverage, unchanged vs. 1Q17. The loan loss reserve coverage was 38.4% in 2Q17. **Sólida had a balance of Ps 5.21 billion in investment projects** to these companies, (1%) lower vs. 1Q17.

- **Government Book:** the ending balance at 2Q17 was **Ps 134.42 billion**, lower by (1%) YoY. Sequentially, it increased +2%. GFNorte's government portfolio is diversified by sectors and regions, and shows adequate concentration risk. GFNorte's 20 largest government loans account for 19.7% of the group's total portfolio, a decline of (2.80 pp) vs. 2Q16 and (2bp) vs. 1Q17. The largest government loan represents 3.0% of the total portfolio and is rated A1; whereas, number 20 represents 0.3%, also rated A1. The portfolio's risk profile is adequate with 29.8% of the loans granted to Federal Government entities and 99.1% of loans to States and Municipalities have a fiduciary guarantee (Federal budget transfers and local revenues such as payroll tax), and 0.9% of the loans have short-term maturities. As of May 2017, Banorte held a 24.4% market share of the total system, ranking first.

Past Due Loans

(Million Pesos)	2Q16	1Q17	2Q17	Change	
				1Q17	2Q16
Past Due Loans	12,624	10,284	10,818	5%	(14%)
Loan Loss Reserves	15,045	14,235	16,119	13%	7%
Acquired Rights	1,946	2,082	1,986	(5%)	2%

*For comparison purposes 2016 results were adjusted to reflect the INB deconsolidation in 4Q16. Therefore, they differ from those published in the Quarterly Reports of that year.

During 2Q17, Past Due Loans were Ps 10.82 billion, lower by (Ps 1.81) billion or (14.3%) YoY. During 2Q17 there was a seasonal deterioration in all of the consumer books, while the commercial and corporate books showed improved performance.

The quarterly evolution of NPL balances were as follows:

Past Due Loans (Million Pesos)	2Q16	1Q17	2Q17	Change	
				1Q17	2Q16
Credit Cards	1,671	1,660	2,073	413	402
Payroll	1,488	1,218	1,662	444	173
Car Loans	183	150	183	33	0
Mortgages	1,141	1,019	1,161	143	21
Commercial	4,041	3,667	3,468	(199)	(572)
Corporate	4,101	2,569	2,270	(299)	(1,830)
Government	-	-	-	-	-
Total	12,624	10,284	10,818	534	(1,806)

*For comparison purposes 2016 results were adjusted to reflect the INB deconsolidation in 4Q16. Therefore, they differ from those published in the Quarterly Reports of that year.

In 2Q17, the Past Due Loan Ratio remained at historically low levels of 1.79%, improving by (56bp) vs. 2Q16 on improvements in all books. During the quarter, it deteriorated slightly +1bp.

PDL Ratios by segment showed the following trends:

Past Due Loans Ratios	2Q16	3Q16	4Q16	1Q17	2Q17
Credit Cards	6.2%	5.7%	5.4%	5.3%	6.2%
Payroll	3.4%	3.2%	3.1%	2.5%	3.2%
Car Loans	1.3%	1.3%	1.2%	0.9%	1.1%
Mortgages	1.1%	1.0%	0.9%	0.8%	0.9%
Commercial	3.5%	3.2%	2.7%	2.9%	2.6%
SMEs	7.8%	7.3%	6.3%	6.1%	5.5%
Commercial	1.9%	1.7%	1.4%	1.8%	1.6%
Corporate	4.3%	4.2%	2.4%	2.4%	2.1%
Government	0.0%	0.0%	0.0%	0.0%	0.0%
Total	2.3%	2.2%	1.8%	1.8%	1.8%

*For comparison purposes 2016 results were adjusted to reflect the INB deconsolidation in 4Q16. Therefore, they will differ from those published in the Quarterly Reports of that year.

The expected loss for Banco Mercantil del Norte was 2.2% and the unexpected loss 4.0%, both with respect to the total portfolio at 2Q17. These ratios were 2.0% and 4.1%, respectively in 1Q17 and 2.2% and 3.4% 12 months ago, considering that in 2Q16, the unexpected loss was reported with a 99.50% level of confidence, whereas as of 4Q16, it is reported with a 99.95% level, as the portfolio's model improve and strengthen.

Banco Mercantil del Norte's Net Credit Losses (NCL) including write-offs and considering its merger with Banorte Ixe Tarjetas was 2.0%, (10bp) lower vs. 1Q17.

Quarterly changes in accounts that affect Non Performing Loans' balances for the Financial Group were:

Past Due Loan Variations (Million Pesos)	
Balance as of March '17	10,284
Transfer from Performing Loans to Past Due Loans	5,491
Portfolio Purchase	-
Renewals	(88)
Cash Collections	(786)
Discounts	(95)
Charge Offs	(2,590)
Foreclosures	(28)
Transfer from Past Due Loans to Performing Loans	(1,367)
Loan Portfolio Sale	-
Foreign Exchange Adjustments	(2)
Fair Value Ix	-
Balance as of June '17	10,818

Out of the loan book 85% is rated A Risk, 10% B Risk and 5% as Risk C, D and E combined.

Risk Rating of Performing Loans as of 2Q17 - GFNorte

(Million Pesos)

CATEGORY	LOANS	LOAN LOSS RESERVES					
		COMMERCIAL			CONSUMER	MORTGAGES	TOTAL
		MIDDLE MARKET COMPANIES	GOVERNMENT ENTITIES	FINANCIAL INTERMEDIARIES			
A1	486,521	968	432	98	729	190	2,417
A2	58,823	286	210	6	441	32	974
B1	31,073	124	24	6	768	20	942
B2	19,722	67	4	4	710	29	814
B3	13,578	144	26	2	495	16	682
C1	8,332	95	11	3	473	69	652
C2	6,987	123	-	-	611	180	914
D	11,405	2,114	-	0	1,636	461	4,210
E	6,250	1,001	-	4	3,271	45	4,322
Total	642,690	4,922	706	124	9,134	1,041	15,926
Not Classified	(68)						
Exempt	-						
Total	642,622	4,922	706	124	9,134	1,041	15,926

Reserves **16,119**

Preventive Reserves **193**

Notes:

- 1) Loan grading and reserves are as of as of June 30, 2017.
- 2) The loan portfolio is graded following rules issued by the Ministry of Finance and Public Credit (SHCP), and the methodology established by the CNBV.

The Institution uses regulatory methodologies to grade all credit portfolios.

The Institution uses risk ratings: A1, A2, B1, B2, B3, C1, C2, D and E to classify provisions according to the portfolio segment and percentage of the provisions representing the outstanding balance of the loan, and which are set forth in Fifth Section of the "De la constitución de reservas y su clasificación por grado de riesgo" contained in Chapter 5, Title Section of such regulation.

- 3) The additional loan loss reserves follow the rules applicable to banks and credit institutions.

Based on B6 Credit Portfolio criteria of the CNBV, a Distressed Portfolio is defined as the pool of commercial loans unlikely to be recovered fully, including both principal and interest pursuant to terms and conditions originally agreed. Such determination is made based on actual information and data and on the loan review process. Performing loans and past-due loans are susceptible of being identified as Distressed Portfolios. The D and E risk degrees of the commercial loan rating are as follows:

(Million Pesos)	Total
Distressed Portfolio	7,020
Total Loans	642,622
Distressed Portfolio / Total Loans	1.1%

Loan Loss Reserves and Loan Loss Provisions

Loan Loss Reserves (Million Pesos)	2Q17
Previous Period Ending Balance	14,235
Provisions charged to results	3,971
Cargos a utilidades retenidas	1,054
Created with profitability margin	0
Reserve Portfolio Sold	0
Other items	(187)
<u>Charge offs and discounts:</u>	
Commercial Loans	(378)
Consumer Loans	(2,296)
Mortgage Loans	(266)
Foreclosed assets	0
	(2,941)
Cost of debtor support programs	(2)
Valorization and Others	(11)
Adjustments	0
Loan Loss Reserves at Period End	16,119

Loan Loss Reserves in 2Q17 totaled Ps 16.12 billion, +13% higher vs. 1Q17, in part supported by the quarterly provision charge of Ps 4,058m, but also includes the Ps 1,054 billion charge recorded in equity related to the new Reserves Methodology for non-revolving consumer loans and mortgages issued by the CNBV, effective as of June 1st, 2017.

Charge-offs during the quarter amounted to Ps 2,941 million, resulting in a charge-off rate of 0.4%, (10 bps) lower than the prior quarter. Of this amount 78% of write-offs, are related to the consumer portfolio, 13% to commercial and 9% to mortgages.

The loan loss coverage ratio was 149% in 2Q17, increasing +29.8 pp YoY and +10.6 pp QoQ.

Recent Events

1. ISSUANCE OF TIER 1 CAPITAL NOTES FOR USD 900 MILLION AND PREPAYMENT OF SUBORDINATED OBLIGATIONS Q BANORTE 12

On July 6, Banco Mercantil del Norte, S.A., Institución de Banca Múltiple, Grupo Financiero Banorte ("Banorte") successfully issued **Subordinated NonPreferred Non-Cumulative Tier 1 Capital Notes** for USD 900 million in the international markets.

Tier 1 Capital Notes were issued in two series:

- **BANORT 6 7/8 PERP** for US 350 million, callable at the fifth year, carrying a coupon rate of 6.875%.
- **BANORT 7 5/8 PERP** for US 550 million, callable at the tenth year, carrying a coupon rate of 7.625%.

Both series were rated by Moody's and S&P Ba2 and BB, respectively. The Capital Notes are Basel III-compliant.

Proceeds from the issuance will be used for general corporate purposes and to strengthen the bank's regulatory capital.

In line with the above, on June 30, 2017 Banorte prepaid subordinated preferred & nonconvertible obligations Q Banorte 12 amounting to Ps 3.2 billion, issued on June 8, 2012 and due on May 27, 2022.

2. CREDIT RATINGS

Fitch assigns 'Excellent (mex)' fund quality rating to Operadora de Fondos Banorte Ixe as asset manager

On May 16, Fitch Ratings assigned 'Excellent (mex)' fund quality rating to Operadora de Fondos Banorte Ixe, S.A. de C.V., Sociedad Operadora de Fondos de Inversión, Grupo Financiero Banorte ("OBI") as asset manager. The factors to assign the highest rating are:

- superior investment process and operational framework compared to the standards applied by institutional investors in Mexico,
- broad expertise of Operadora's management team,
- adequate Corporate Governance fostering interest alignment with investors, and
- OBI's relevance as subsidiary of GFNorte.

3. SHAREHOLDERS' MEETINGS

GFNorte's Annual General Shareholders' Meeting was held on April 28th with a 80.06% representation of the total subscribed, paid and voting shares of the Company's capital. The resolutions adopted by the Assembly were:

1. Approval of the reports referred in section IV, Article 28 of the Securities Market Law and section IV, Article 39 of the Law Regulating Financial Groups, corresponding to the year ended December 31st, 2016.
2. Distribution of the 2016 net income amounting to Ps 19.29 billion, applied into the account "Retained Earnings from prior Years", as it was not necessary to allocate resources into the account "Legal Reserve" since it was fully constituted.
3. Approval that the Board of Directors be integrated by 15 Members and if the case, by their respective Substitutes, appointing the following people and their duties for the year 2017, qualifying the corresponding members' independence since they do not fall within the restrictions outlined in the Securities Market Law and the Law Regulating Financial Groups:

Proprietary Members		Substitute Members	
Carlos Hank González	Chairman	Graciela González Moreno	
Juan Antonio González Moreno		Juan Antonio González Marcos	
David Juan Villarreal Montemayor		Carlos de la Isla Corry	
José Marcos Ramírez Miguel		Clemente Ismael Reyes Retana Valdés	Independent
Everardo Elizondo Almaguer	Independent	Alberto Halabe Hamui	Independent
Carmen Patricia Armendáriz Guerra	Independent	Manuel Aznar Nicolín	Independent
Héctor Federico Reyes-Retana y Dahl	Independent	Roberto Kelleher Vales	Independent
Eduardo Livas Cantú	Independent	Robert William Chandler Edwards	Independent
Alfredo Elías Ayub	Independent	Isaac Becker Kabacnik	Independent
Adrián Sada Cueva	Independent	José María Garza Treviño	Independent
Alejandro Burillo Azcárraga	Independent	Javier Braun Burillo	Independent
José Antonio Chedraui Eguía	Independent	Rafael Contreras Grosskelwing	Independent
Alfonso de Angoitia Noriega	Independent	Guadalupe Phillips Margain	Independent
Olga María del Carmen Sánchez Cordero Dávila	Independent	Eduardo Alejandro Francisco García Villegas	Independent
Thomas Stanley Heather Rodríguez	Independent	Ricardo Maldonado Yáñez	Independent

- Héctor Ávila Flores was designated as Secretary of the Board of Directors; nevertheless, he is not a board member.
- Designation of Héctor Reyes-Retana y Dahl as Chairman of the Audit and Corporate Practices Committee.
- Approval to allocate the amount of Ps. 4.26 billion, equivalent to 1.5% of the Financial Groups' market capitalization value as of December 2016, charged against equity, to purchase Company's shares during 2017, and will consider those transactions to be carried out in 2017 and until April 2018, subject to the Treasury's Policy for Transactions with Shares.
- Approval to certify GFNorte's By-Laws in order to comply with Section V, Article 34 of the General Provisions Applicable to Issuers and Other Market Participants requiring certification of the Company's By-Laws every three years. These By-laws include amendments approved by different Shareholders' Assemblies, being the last, those deriving from the Meeting held on August 19th, 2016.

Moreover, GFNorte held an Ordinary General Shareholders' Meeting on June 20th with a 77.68% representation of the total subscribed, paid and voting shares of the Company's capital. The resolutions adopted by the Assembly were:

- Approval to distribute a cash dividend of Ps 7.72 billion or Ps 2.784391033549680 per share, against delivery of coupon 7. This disbursement was approved by the Board of Directors on April 27th and represents 40% of the net profits of 2016, which derived from the Fiscal Net Income as of December 31st, 2013.
- Approval to distribute a cash dividend of Ps 3.50 billion or Ps 1.261838950230780 per share, against delivery of coupon 8. This disbursement corresponds to the extraordinary dividend approved by the Board of Directors on April 27th as result of the sale of Inter National Bank and derived from the Fiscal Net Income as of December 31st, 2013.

Both payments were delivered on June 29, 2017.

4. INTERBRAND – BEST MEXICAN BRANDS 2017

In April, Interbrand, global brand advisor, published the Best Mexican Brands 2017 report of the 25 most valuable brands in the country. Banorte ranked as the most valuable in the financial sector, occupying the sixth position with a value of Ps 25.94 billion.

5. PRINCIPLES FOR RESPONSIBLE INVESTMENT

In April, GFNorte became signatory of the Principles for Responsible Investment ("PRI"), independent initiative supported by the United Nations Global Compact and the United Nations Environment Programme Finance Initiative.

As signatory, the Financial Group commits to consider the impact on climate change, biodiversity and social welfare of that the financed projects.

The PRI imply the adoption of six principles on:

- incorporation of ESG issues into investment analysis and decision-making processes,
- incorporation of ESG issues into ownership policies and practices,
- appropriate disclosure on ESG issues by the entities in which we invest,
- promotion to accept and implement the principles within the investment industry,
- enhancement of effectiveness in implementing the principles, and
- report activities and progress towards implementing the principles.

Consolidated Bank

As in 1Q17 was done and derived from the sale of Inter National Bank finalized on March 31st, 2017, the consolidation of INB's quarterly and accumulated figures in Banorte's Balance and Sheet and Income Statement were fully reversed for 2016. Hence, the consolidated figures and ratios of GFNorte and Banorte presented in this report differ from those published in the Quarterly Releases of 1Q, 2Q, 3Q and 4Q of 2016, as these have been modified retroactively to be comparable and to reflect the INB deconsolidation.

Consolidated Bank: Banco Mercantil del Norte, Banorte- Ixe Tarjetas*, Afore XXI Banorte** (50% ownership) and Banorte USA***.

Income Statement and Balance Sheet Highlights - Consolidated Bank				2Q16		1Q17		2Q17		Change		1H16		1H17		Change	
(Million Pesos)										1Q17		2Q16				1H16	
Net Interest Income				11,133		13,272		13,463		1%		21%		21,901		26,735	
Non-Interest Income				3,583		4,077		4,102		1%		14%		7,045		8,179	
Total Income				14,717		17,349		17,565		1%		19%		28,946		34,914	
Non-Interest Expense				6,859		8,043		7,822		(3%)		14%		14,072		15,865	
Provisions				3,444		3,227		3,977		23%		15%		6,614		7,205	
Operating Income				4,414		6,078		5,766		(5%)		31%		8,261		11,844	
Taxes				1,155		1,861		1,597		(14%)		38%		2,172		3,458	
Discontinued Operations				72		74		6		(92%)		(92%)		131		79	
Subsidiaries & Minority Interest				322		14		17		17%		(95%)		654		31	
Net Income				3,652		4,305		4,191		(3%)		15%		6,875		8,496	
Balance Sheet																	
Performing Loans (a)				516,055		560,589		583,853		4%		13%		516,055		583,853	
Past Due Loans (b)				12,328		10,034		10,598		6%		(14%)		12,328		10,598	
Total Loans (a+b)				528,383		570,622		594,452		4%		13%		528,383		594,452	
Total Loans Net (d)				513,772		556,818		578,953		4%		13%		513,772		578,953	
Acquired Collection Rights (e)				1,165		1,477		1,394		(6%)		20%		1,165		1,394	
Total Loans (d+e)				514,937		558,294		580,347		4%		13%		514,937		580,347	
Total Assets				964,962		975,193		1,003,031		3%		4%		964,962		1,003,031	
Total Deposits				555,532		578,191		614,625		6%		11%		555,532		614,625	
Demand Deposits				336,538		366,454		367,839		0%		9%		336,538		367,839	
Time Deposits				218,994		211,737		246,786		17%		13%		218,994		246,786	
Total Liabilities				859,594		880,289		915,480		4%		7%		859,594		915,480	
Equity				105,367		94,904		87,551		(8%)		(17%)		105,367		87,551	
Financial Ratios - Consolidated Bank				2Q16		1Q17		2Q17						1H16		1H17	
Profitability:																	
NIM (1)				5.1%		5.7%		5.8%						5.0%		5.7%	
NIM after Provisions (2)				3.5%		4.3%		4.1%						3.5%		4.2%	
ROE (3)				14.1%		18.4%		18.4%						13.3%		18.5%	
ROA (4)				1.5%		1.7%		1.7%						1.5%		1.7%	
Operation:																	
Efficiency Ratio (5)				46.6%		46.4%		44.5%						48.6%		45.4%	
Operating Efficiency Ratio (6)				2.9%		3.2%		3.2%						3.0%		3.2%	
Average Liquidity Coverage Ratio for Banorte and SOFOM - Basel III (7)				118.52%		93.20%		91.48%						118.52%		91.48%	
Asset Quality:																	
Past Due Loan Ratio				2.3%		1.8%		1.8%						2.3%		1.8%	
Coverage Ratio				118.5%		137.6%		146.2%						118.5%		146.2%	
Past Due Loan Ratio w/o Banorte USA				2.3%		1.8%		1.8%						2.3%		1.8%	
Coverage Ratio w/o Banorte USA				118.5%		137.6%		146.2%						118.5%		146.2%	
Growth (8)																	
Performing Loans (9)				8.3%		10.5%		13.1%						8.3%		13.1%	
Core Deposits				7.8%		13.3%		11.2%						7.8%		11.2%	
Total Deposits				6.0%		7.6%		10.6%						6.0%		10.6%	
Capitalization:																	
Net Capital/ Credit Risk Assets				20.4%		21.5%		18.2%						20.4%		18.2%	
Total Capitalization Ratio				14.9%		16.6%		15.1%						14.9%		15.1%	
Leverage																	
Basic Capital/ Adjusted Assets				8.6%		8.0%		7.5%						8.6%		7.5%	

1) NIM = Annualized Net Interest Income for the quarter / Average of Performing Assets.

2) NIM = Annualized Net Interest Income for the quarter adjusted for Credit Risks / Average of Performing Assets.

3) Net Income of the period annualized as a percentage of the quarterly average of Equity (excluding minority interest) for the same period.

4) Net Income of the period annualized as a percentage of the quarterly average of Total Assets (excluding minority interest) for the same period.

5) Non-Interest Expenses / Total Income.

6) Annualized Non-Interest Expenses of the quarter / Average of Total Assets.

7) CCL calculation is preliminary and will be updated once Banco de Mexico publishes official indicators.

8) Growth compared to the same period of the previous year.

9) Excludes Fobaproa / IPAB and proprietary portfolio managed by the Recovery Bank.

* On May 2, 2016, the merger between Banorte-Ixe Tarjetas – as the merged and extinguished company – and Banorte - merging and surviving entity- became effective.

**On October 17, 2016 the corporate restructure became effective through which Afore XXI Banorte reports its results within Seguros Banorte as of 4Q16.

*** Derived from the Inter National Bank divestiture, Banorte USA will not consolidate this subsidiary's results as of 4Q16.

Net Interest Income

Net Interest Income in 1H17 amounted to Ps 26.74 billion, +22% up vs. 1H16 in line with the +22% rise in the NII from loans and deposits – driven by the loan portfolio growth and the interest rate hikes that Banxico carried out during the year- and +59% acceleration in NII from repos

Net Interest Margin (NIM) in 1H17 stood at 5.7%, +67bp above the same period a year ago and at **5.8% in 2Q17**, +10bp higher vs. 1Q17. Both comparisons were driven by better loan portfolio mix and the repricing of the balance sheet as a result of the interest rate cycle.

Additionally, **in 1H17 NIM adjusted for credit risk was 4.2%**, increasing +65bp vs. 1H16 and **in 2Q17 stood at 4.1%**, (0.2 pp) lower QoQ.

Loan Loss Provisions

In 1H17 Loan Loss Provisions totaled Ps 7.21 billion, +9% up YoY on higher requirements in consumer portfolios, mainly credit card and payroll. Moreover, **Provisions in 2Q17 rose to Ps 3.98 billion**, +23% above QoQ as result of higher requirements coming from wholesale portfolios and, to a lesser extent, from monthly requirements in the consumer books.

Non-Interest Income

In 1H17, Non-Interest Income was Ps 8.18 billion, +16% higher vs. the same period a year ago, driven by the +13% growth in Net Fees and +67% increase in Trading Income. **In 2Q17 Non-Interest Income stood at Ps 4.10 billion** – recovering from the QoQ seasonal decline registered in 1Q17- +1% up QoQ on the +Ps 260 million increase in Net Fees.

Moreover, **revenues from core banking services** (account management, fund transfers and electronic banking services) **grow continuously: +24% vs. 1H16 and +4% vs. 1Q17** on higher transaction volume and on an improved fee structure in products and segments.

Non-Interest Expenses

Non-Interest Expenses in 1H17 were Ps 15.87 billion, +13% higher vs. the same period a year ago, as result of increases in all lines. **In the second quarter of 2017, Non-Interest Expenses declined (3%) vs. 1Q17 to Ps 7.82 billion**, benefited mainly by the reduction in Personnel Expenses (-Ps 234 million) and Other Taxes and Non-deductible Expenses (-Ps 122 million).

The Efficiency Ratio improved continuously -both vs. 1H16 and 1Q17-, **to 45.3% at June 2017**, (333bp) lower vs. the same period a year ago, due to positive operating leverage; while **in 2Q17 was 44.2%**, (213bp) below QoQ, benefited by the Non-Interest Expense contraction.

Net Income

Net Income in 1H17 was Ps 8.50 billion, up by +24% on a yearly basis, driven by positive traction in total revenues. **In 2Q17 Profits amounted to Ps 4.19 billion**, (3%) lower QoQ, affected by higher Provisions.

Consolidated Bank's profits – according to GFNorte's holding - **in 1H17 were Ps 8.35 billion**, +36% higher YoY, while **in 2Q17 stood at Ps 4.12 billion**. The bank contributed with 74.5% of the Group's accumulated results and with 72.5% of the quarterly profits.

ROE for the Consolidated Bank in 1H17 was 18.5%, up by +520bp vs. 1H16, explained by the good level of profits generated by the bank, as well as by the decrease in equity on the divestment of the bank in Texas. Likewise, **ROA for 1H17 was 1.7%**, growing +23bp YoY.

NPL Ratio

The Consolidated Bank's Non-Performing Loan Ratio in 2Q17 **was 1.8%**, unchanged QoQ but (55bp) lower vs. YoY.

Long Term Savings

On August 16th, 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 26th, 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 12th, 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 17th, 2016. Therefore, as of that date, 50% of Afore's XXI Banorte profits are registered in the Subsidiaries' Net Income line.

Seguros Banorte

Income Statement and Balance Sheet Highlights - Insurance - Seguros Banorte (Million Pesos)	2Q16	1Q17	2Q17	Change		1H16	1H17	Change
				1Q17	2Q16			1H16
Interest Income (Net)	132	174	254	46%	93%	258	428	66%
Premium Income (Net)	2,627	5,986	4,336	(28%)	65%	9,015	10,323	15%
Net Increase in Technical Reserves	(529)	1,920	463	(76%)	N.A.	1,755	2,384	36%
Damages, Claims and Other Obligations	2,312	2,325	2,602	12%	13%	4,307	4,927	14%
Technical Results	843	1,741	1,271	(27%)	51%	2,953	3,012	2%
Net Interest Income (Nil)	975	1,916	1,524	(20%)	56%	3,210	3,440	7%
Other Fees (acquisition costs)	(264)	(564)	(469)	17%	78%	(1,101)	(1,033)	(6%)
Securities-Realized Gains	18	12	(5)	(140%)	(127%)	19	7	(61%)
Other Operating Income (Expenses)	284	228	172	(25%)	(40%)	433	400	(8%)
Total Operating Income	1,013	1,592	1,222	(23%)	21%	2,561	2,814	10%
Non Interest Expense	226	322	252	(22%)	11%	461	574	24%
Operating Income	534	1,270	970	(24%)	82%	2,100	2,241	7%
Taxes	239	384	295	(23%)	23%	636	678	7%
Subsidiaries' Net Income	(0)	369	316	(14%)	N.A.	(0)	685	N.A.
Minority Interest	(1)	(8)	(7)	9%	N.A.	(2)	(15)	N.A.
Net Income	547	1,247	985	(21%)	80%	1,462	2,232	53%
Shareholder's Equity	5,689	21,346	22,091	3%	N.A.	5,689	22,091	N.A.
Total Assets	28,567	46,137	49,353	7%	73%	28,567	49,353	73%
Technical Reserves	16,472	18,623	20,346	9%	24%	16,472	20,346	24%
Premiums sold	3,361	7,727	6,185	(20%)	84%	12,144	13,912	15%
Coverage ratio of technical reserves	1.3	1.3	1.3	0.0 pp	0.0 pp	1.3	1.3	0.1 pp
Capital coverage ratio of minimum guarantee	1.8	2.6	3.0	0.4 pp	1.1 pp	1.8	3.0	1.1 pp
Coverage ratio of minimum capital	61.0	228.8	229.2	0.4 pp	168.2 pp	61.0	229.2	168.2 pp
Claims ratio	74%	58%	68%	9.9 pp	(6.0 pp)	60%	63%	3.0 pp
Combined ratio	81%	67%	77%	10.2 pp	(3.9 pp)	70%	72%	2.1 pp
ROE	39.7%	24.3%	18.4%	(5.9 pp)	(21.3 pp)	50.6%	21.3%	(29.4 pp)
ROE ex-Afore	39.7%	57.0%	38.8%	(18.2 pp)	(0.9 pp)	50.6%	47.4%	(3.2 pp)

Operating Income stood at Ps 2.24 billion in 1H17, +7% larger than the prior year, driven by improvement in Net Interest Income and lower Acquisition Costs. Operating Income in 2Q17 amounted to Ps 970 million, (24%) below sequentially, mainly on the seasonality effect in Premium Income, as in the first quarter of the year issuances are seasonally high due to renewals of large insurance policies.

Even though insurance claims and damages increased, the deterioration rate is lower than the one recorded in prior periods. The increase in claims in the quarter continues to be largely explained by higher than normal claims in the auto book, which have increased across the industry on the back of larger theft and higher prices of spare parts of vehicles and transportation.

Seguros Banorte (including *Afore XXI Banorte*) reported net income of Ps 2.23 billion in 1H17, +53% higher YoY and in 2Q17 declined (21%) to Ps 985 million.

Excluding *Afore XXI Banorte*, the Insurance Company's profits in the first semester totaled Ps 1.56 billion and Ps 674 million in the second quarter, accounting for 13.9% and 11.9% of GFNorte's net income, respectively.

ROE for the insurance company was 18.4% in 2Q17, sequentially (5.9 pp) below. Excluding *Afore*, this indicator stands at 38.8%, (18.2 pp) lower QoQ, and at 47.4% in 1H17, (3.2 pp) lower YoY.

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 2Q17 that involved any technical risk.
- ii. Damages and claims, as well as the fulfillment with reinsurers and bonding companies according to their participation.
 - In 2Q17 damage ratios remained under control.
- iii. Costs derived from placement of insurance policies and bonds.
 - There were no relevant events to disclose in 2Q17.
- iv. Transfer of risks through reinsurance and bonding contracts
 - In the Damages and Life books, eight important businesses: four related to the government, two to the manufacturing industry, and other two the services industry, were ceded to reinsurers, mainly foreign entities.
- v. Contingencies arising from non-fulfillment by reinsurers and bonding companies.
 - In April the Superintendency of Panama announced the forced liquidation of Istmo Panamá. Currently, Seguros Banorte has an outstanding balance to recover from Istmo Panamá of Ps 4.5 million and a contingency of Ps 276 million from Istmo México.

Afore XXI Banorte

Afore XXI Banorte (1) (Million Pesos)	2Q16	1Q17	2Q17	Change		1H16	1H17	Change
				1Q17	2Q16			1H16
Net Income	621	737	632	(14%)	2%	1,269	1,370	8%
Shareholder's Equity	22,736	22,446	23,078	3%	2%	22,736	23,078	2%
Total Assets	23,983	23,787	24,500	3%	2%	23,983	24,500	2%
AUM (SIEFORE)*	647,090	670,135	689,867	3%	7%	647,090	689,867	7%
ROE	11.1%	12.7%	11.1%	(1.6 pp)	0.0 pp	11.1%	11.8%	0.7 pp

1) The results up to 3Q16, were presented on Banco Mercantil del Norte's results through participation method; as of 4Q16, results are reported in Seguros Banorte, through participation method. For sector comparisons, Afore XXI Banorte's results are shown at 100% in this chart.

Afore XXI Banorte posted net profits of Ps 1.37 billion in the first half of 2017, up +8% vs. 1H16, explained by the positive evolution of financial income coming from the mark to market capital investment in the SIEFORES (+174% YoY). **In 2Q17 net income totaled Ps 632 million**, (14%) lower QoQ on higher operating costs.

ROE for Afore XXI Banorte for 1H17 was 11.8%, higher in +71bp YoY, and **for 2Q17 stood at 11.1%**, sequentially (1.6 pp) lower. Excluding goodwill, **Tangible ROE was 42.7% in 1H17**, +95bp higher YoY and **in 2Q17 was 42.2%**, (3.5 pp) lower vs. 1Q17.

Afore XXI Banorte contributed with 6.0% of the Financial Group's profits in 1H17 and with 5.5% in 2Q17, decreasing in both cases vs. the 6.9% and 6.0% of 1H16 and 1Q17, respectively.

Assets under management as of June 2017 totaled Ps 689.87 billion, an increase of +3% and +7% QoQ and YoY, respectively.

According to CONSAR, as of June 2017 Afore XXI Banorte had a 23.1% share in managed funds, ranking 1st in the market, with 9.62 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 19.0% share of the total number of accounts in the system, ranking second in the market.

Pensiones Banorte

Income Statement and Balance Sheet Highlights - Insurance - Pensiones Banorte (Million Pesos)	2Q16	1Q17	2Q17	Change		1H16	1H17
				1Q17	2Q16		
Interest Income (Net)	331	2,864	1,071	(63%)	N.A.	1,840	3,935
Premium Income (Net)	2,069	1,979	2,354	19%	14%	3,561	4,333
Net Increase in Technical Reserves	1,203	3,623	2,191	(40%)	82%	3,073	5,814
Claims and Other Obligations	940	981	1,043	6%	11%	1,827	2,024
Technical Results	(74)	(2,626)	(880)	66%	N.A.	(1,339)	(3,506)
Net Interest Income (NII)	257	238	191	(20%)	(26%)	501	429
Net Fees	-	-	-	N.A.	N.A.	-	-
Securities-Realized Gains	37	89	146	65%	N.A.	41	235
Other Operating Income (Expenses)	2	(2)	(4)	(141%)	N.A.	0	(6)
Total Operating Income	295	325	333	2%	13%	542	658
Non Interest Expense	78	78	77	(1%)	(1%)	146	155
Operating Income	218	247	255	3%	17%	397	502
Taxes	70	75	67	(10%)	(4%)	128	141
Subsidiaries' Net Income	1	1	1	2%	27%	2	3
Minority Interest	-	-	-	N.A.	N.A.	-	-
Net Income	149	174	190	9%	28%	271	364
Shareholder's Equity	1,868	2,320	2,513	8%	35%	1,868	2,513
Total Assets	72,595	81,517	84,023	3%	16%	72,595	84,023
Technical Reserves	69,877	78,241	80,488	3%	15%	69,877	80,488
Premiums sold	2,069	1,979	2,354	19%	14%	3,561	4,333
Coverage ratio of technical reserves	1.0	1.0	1.0	0.0 pp	0.0 pp	1.0	1.0
Coverage ratio of minimum capital	12.4	15.4	16.1	0.0 pp	0.3 pp	12.4	16.1
ROE	32.9%	31.1%	31.4%	0.3 pp	(1.5 pp)	31.0%	23.4%

During 1H17, Pensiones Banorte reported profits of Ps 364 million, +34% higher YoY, driven by financial income (+Ps 194 million) and higher income from the inflation indexed investment book.

Moreover, in 2Q17 the annuities company's net income totaled Ps 190 million, up +9% vs. 1Q17, as result of the significant reduction in Technical Reserves, the continuous increase in financial income and lower taxes.

In 1H17 Pensiones Banorte's profits represented 3.2% and 3.3% in 2Q17 of the Financial Group's profits.

The UDI valuation result registered at Pensiones Banorte in 1H17 was Ps 2.32 billion compared to Ps 338 million in 1H16; while this number stood at Ps 278 million in 2Q17, in contrast to the Ps 2.05 billion amount registered in 1Q17.

ROE stood at 31.3% 1H17 and at 31.4% in 2Q17, in both cases comparing favorably by +24bp vs. 1H16 and +26bp vs. 1Q17

Brokerage

Brokerage Sector (Million Pesos)	2Q16	1Q17	2Q17	Change		1H16	1H17	Change 1H16
				1Q17	2Q16			
Net Income	221	287	234	(18%)	6%	430	522	21%
Shareholder's Equity	3,065	3,019	2,708	(10%)	(12%)	3,065	2,708	(12%)
Assets Under Custody	800,420	791,671	828,254	5%	3%	800,420	828,254	3%
Total Assets	107,711	109,700	93,828	(14%)	(13%)	107,711	93,828	(13%)
ROE	26.7%	39.8%	32.8%	(7.1 pp)	6.0 pp	26.0%	36.9%	10.9 pp
Net Capital								
Net Capital (1)	2,355	2,338	2,168	(7%)	(8%)	2,355	2,168	(8%)

1) Net capital structure: Tier 1 =Ps 2.17 billion, Tier 2 = Ps 0 million.

Net Income

The Brokerage Sector (Casa de Bolsa Banorte Ixe and Operadora de Fondos Banorte Ixe) reported profits of Ps 522 million in 1H17, +21% YoY driven by the important increase in net interest income, slightly better non-interest income and stable expenses. Net Income in 1H17 represented 6.1% of the Financial Group's profits.

In 2Q17, net profits accounted for Ps. 234 million, (18%) lower QoQ on the back of lower net interest income and lower trading. Fees had a good performance during the quarter and were up +17%, while, operating expenses declined (4%).

Assets under Management

At the end of 2Q17 AUMs totaled Ps 828 billion, growing +3% YoY and +5% QoQ.

Mutual fund assets totaled Ps 157.9 billion, increasing by +3.2% YoY and +5.5% QoQ. Assets held in fixed income funds totaled Ps 145 billion, higher in +4.4% annually and +5.8% quarterly, while equity funds held assets amounting to Ps 13.2 billion, decreasing (8%) vs. the same period of last year and increasing +2% vs. 1Q17. At the end of 2Q17, Banorte had a 7.6% share of the mutual fund market, comprised of 9.6% in fixed income funds and 2.3% in equity funds.

SOFOM & Other Finance Companies

SOFOM & Other Finance Companies <i>(Million Pesos)</i>	2Q16	1Q17	2Q17	Change		1H16	1H17	Change
				1Q17	2Q16			1H16
Leasing and Factoring								
Net Income	153	182	178	(2%)	17%	310	360	16%
Shareholder's Equity	4,098	4,664	4,742	2%	16%	4,098	4,742	16%
Loan Portfolio (1)	25,636	26,261	26,295	0%	3%	25,636	26,295	3%
Past Due Loans	210	190	144	(24%)	(31%)	210	144	(31%)
Loan Loss Reserves	283	318	331	4%	17%	283	331	17%
Total Assets	25,629	26,534	26,606	0%	4%	25,629	26,606	4%
ROE	14.3%	16.0%	15.1%	(0.8 pp)	0.9 pp	14.5%	15.6%	1.1 pp
Warehousing								
Net Income	7	7	14	89%	96%	14	21	51%
Shareholder's Equity	260	191	205	7%	(21%)	260	205	(21%)
Inventories	951	399	1,309	228%	38%	951	1,309	38%
Total Assets	1,112	535	1,489	178%	34%	1,112	1,489	34%
ROE	11.1%	15.7%	28.0%	12.3 pp	16.9 pp	11.1%	22.0%	10.9 pp
Sólida Administradora de Portafolios								
Net Income	(32)	(635)	(104)	(84%)	223%	(259)	(738)	185%
Shareholder's Equity	5,084	3,419	3,999	17%	(21%)	5,084	3,999	(21%)
Loan Portfolio	2,115	1,701	5,229	207%	147%	2,115	5,229	147%
Past Due Loans	86	60	76	26%	(12%)	86	76	(12%)
Loan Loss Reserves	151	112	289	158%	91%	151	289	91%
Total Assets	16,152	13,853	17,134	24%	6%	16,152	17,134	6%
Ixe Servicios								
Net Income	0.6	(0.5)	(0.4)	(34%)	(165%)	0.5	(0.9)	(281%)
Shareholder's Equity	146	140	140	(0%)	(4%)	146	140	(4%)
Total Assets	146	140	140	(0%)	(4%)	146	140	(4%)
ROE	1.5%	(1.6%)	(1.0%)	0.5 pp	(2.6 pp)	0.7%	(1.3%)	(2.0 pp)

1) Includes pure leasing portfolio for Ps 3.06 billion and fixed asset amounting to Ps 46 million, both registered in property, furniture and equipment (net).

Leasing and Factoring

Arrendadora y Factor Banorte reported profits of Ps 360 million in 1H17, up +16% YoY, enhanced by an increase in net interest income arising from the expansion in its loan book. Net profits declined (2%) sequentially, on higher interest expenses.

The Leasing and Factoring Company contributed 3.2% of the Financial Group's profits in 2Q17.

At the end of 2Q17, the **Past Due Loans Ratio was 0.6%**, and the **Coverage ratio was 230**. The **estimated Capitalization ratio as of June was 15.7%** considering total risk-weighted assets of Ps 30.14 billion.

The leverage ratio as of March and June 2017, was 15.41% and 15.54%, respectively; considering adjusted assets of Ps 30.14 billion and Ps 30.39 billion in each case.

Warehouse

In 1H17, Warehouse posted profits of Ps 21 million, a +51% increases vs. 1H16 on higher loan recoveries, other operating income and net interest income. On a quarterly basis, it went up +89% as a result of higher loan recoveries. Almacénadora Banorte contributed 0.2% of the Financial Group's profits in 2Q17.

ROE for 2Q17 was 28%, higher in +15 pp and +17 pp vs. 1Q17 and 2Q16, respectively.

At the end of 2Q17, the Capitalization Ratio was 146% considering net capital of Ps 161 million and certificates for sale issued in warehouses of Ps 2.217 billion. Almacénadora Banorte ranks third among the 14 warehouses of this sector in terms of profits generated.

Sólida Administradora de Portafolios

Sólida Administradora de Portafolios reported a loss of (Ps 738) million, explained by the valuation loss on derivatives related to the equity securities received from the restructuring agreements with the homebuilders.

Sólida posted a net loss of (Ps 104) million in 2Q17, mainly reflecting a larger requirements for loan loss reserves on the payroll portfolio.

The Past Due Loan Ratio was 1.5% at the end of June 2017, improving (2 pp) vs. 1Q17. **The Coverage ratio was 380.9%**, +205 pp higher YoY. **The estimated Capitalization ratio in 2Q17 was 13.4%**, considering total risk-weighted assets of Ps 19.96 billion.

The leverage ratio as of March and June 2017, was 15.17% and 16.83%, respectively; considering adjusted assets of Ps 12.55 billion and Ps 15.89 billion in each case.

Recovery Banking

Income Statement Highlights - Recovery Banking

(Million Pesos)	1H16	1H17	Var. Vs. 1S16
Net Interest Income	8	(7)	(180%)
Loan Loss Provisions	0	0	22%
Non Interest Income	1,110	1,288	16%
Non Interest Expense	(496)	(568)	15%
Pre-tax Income & Subsidiaries	622	713	15%
Income Tax and Profit Sharing	(176)	(204)	16%
Net Income	446	509	14%

Assets Under Management (Million Pesos)	2Q17	ACCOUNTING IN THE BALANCE SHEET	ACCOUNTING IN THE INCOME STATEMENT
Banking Sector Portfolio- Banorte:	113,375	Banorte's Portfolio and Repossessed Assets	Net Interest Income and Other Revenues and Expenses
Loans purchased and managed:	27,729	Solida Asset Management and Banorte	Non Interest Income and Other Revenues and Expenses (Sólida / Banorte)
Investment Projects:	5,862	Solida Asset Management and Banorte	Non Interest Income
Total	146,966		

Net Income

Recovery Banking posted profits of Ps 509 million in 2Q17, up +14% YoY, on higher revenues coming from loan recoveries by Ps 198 million as well as an increase in revenue from sale foreclosed assets for Ps 22 million.

Assets Under Management

The Recovery Bank managed total assets of Ps 113 billion in 2Q17, of which 27% are mortgage loans, 20% are credit cards, 18% are payroll loans, 17% relate to Crediactivo, 7% are foreclosed assets, 6% are auto loans, 3% relate to middle market companies and 2% to other loans. Gross revenues in 2Q17 amounted to Ps 902 million, +29% higher YoY.

The composition of the inventory of **assets managed by the Recovery Bank** include mortgages which make up 39% , 19% were assets managed on behalf of the Mexican mortgages agency SHF, 16% were real estate portfolios, 14% were loans to middle market companies and other commercial loans, and 12% were foreclosed assets and payments in kind. Gross income from these portfolios was Ps 309 million in 2Q17, (13%) lower YoY.

III. General Information

Infrastructure

INFRASTRUCTURE	2Q16	1Q17	2Q17
Employees (1)	27,323	27,572	28,376
Banorte - Ixe Branches	1,173	1,139	1,143
ATM's	7,631	7,242	7,409
POS's	156,262	153,322	157,019

GFNorte's Analyst Coverage

In compliance with the BOLSA MEXICANA DE VALORES, S.A.B. DE C.V requirement, the information of Brokers that have analyst coverage to:

TICKER: GFNORTEO

BROKER	ANALYST	RECOMMENDATION	DATE
Actinver	Enrique Mendoza	Buy	27-Apr-17
Barclays	Benjamín Theurer	Buy	28-Oct-16
BBVA	Germán Velasco	Buy	13-Feb-17
Brasil Plural	Eduardo Nishio	Buy	27-Jan-17
BTG Pactual	Eduardo Rosman	Buy	27-Apr-17
BX+	José Eduardo Coello	Buy	27-Jan-17
Citi	Carlos Rivera	Buy	27-Apr-17
Credit Suisse	Marcelo Telles	Buy	28-Apr-17
GBM	Lilian Ochoa	Buy	14-Dec-16
HSBC	Carlos Gómez	Buy	27-Jan-17
Invex	-----	Buy	19-Sep-16
Itaú BBA	Thiago Batista	Buy	27-Apr-17
JP Morgan	Domingos Falavina	Buy	27-Apr-17
Morgan Stanley	Jorge Kuri	Buy	5-May-17
Santander	Claudia Benavente	Buy	2-May-17
UBS	Philip Finch	Buy	27-Jan-17
Bradesco	Bruno Chemmer	Hold	10-Feb-17
BOFA - Merrill Lynch	Mario Pierry	Hold	27-Apr-17
Deutsche Bank	Tito Labarta	Hold	27-Apr-17
Goldman Sachs	Carlos Macedo	Hold	17-Apr-17
Intercam	Sofía Robles	Hold	27-Jan-17
Nau	Iñigo Vega	Hold	20-Jun-17
Punto	Ana María Telleria	Hold	31-Mar-17
Scotia	Jason Mollin	Sell	28-Apr-17

Ratings

International Ratings - GFNorte				
Rating Agency	Rated Institutions	Rating	Category	Date
Standard & Poor's	Banco Mercantil del Norte	Negative	Outlook	March, 2017
		BBB+	Counterparty credit - Long term foreign currency	
		BBB+	Counterparty credit - Long term local currency	
		A-2	Counterparty credit - Short term foreign currency	
		A-2	Counterparty credit - Short term local currency	
		BBB	Senior Unsecured Notes	
		BB	Subordinated Junior Notes (from the merged Ixe Banco)	
Fitch	Grupo Financiero Banorte	Negative	Outlook	March, 2017
		bbb+	Viability	
		BBB+	Long term foreign currency (IDR'S)	
		F2	Short term foreign currency (IDR'S)	
		5	Support Rating-GFNorte	
		NF (Not Floor)	Support Rating Floor - GFNorte	
	Banco Mercantil del Norte	Negative	Outlook	
		bbb+	Viability	
		BBB+	Long term foreign currency	
		F2	Short term foreign Currency	
		C	Individual - Foreign Currency	
Moody's	Banco Mercantil del Norte	BBB-	Support Rating Floor	September, 2016
		2	Support Rating - Banco Mercantil del Norte	
		BB+ (EXP)	Long term foreign currency subordinated debt	
		BB	Subordinated Junior Notes (from the merged Ixe Banco)	
		Negative	Outlook BFSR	
		baa2	Baseline Credit Assessment	
		Negative	Outlook	
		A3	Long term local currency deposits*	
		A3	Long term foreign currency deposits	
		P-2	Short term local currency deposits*	
		P-2	Short term foreign currency deposits	
		A3	Long term foreign currency senior debt*	
		Baa3	Long term local currency subordinated debt	
		Baa2 (hyb)	Long term foreign currency subordinated debt	
		Ba1 (hyb)	Long term local currency junior subordinated debt	
		(P)Ba1 (hyb)	Long term foreign currency subordinated debt	
	Arrendadora y Factor Banorte	Ba1	Long term foreign currency junior subordinated debt	November, 2016
		baa2	Adjusted baseline credit assesment	
		A2 (cr)	Long term counterparty risk assesment	
		Prime-1 (cr)	Short term counterparty risk assesment	
		Stable	Outlook	
	Arrendadora y Factor Banorte	(P)P-2	Short term local currency issuer	November, 2016
		(P)P-2	Short term local currency senior debt	

Domestic Ratings - GFNorte

Rating Agency	Rated Institutions	Rating	Category	Date
Standard & Poor's	Banco Mercantil del Norte	Stable	Outlook	March, 2017
		mxA-1+	National Scale Counterparty credit - Short term	
		mxAAA	National Scale Counterparty - Long term	
	Casa de Bolsa Banorte Ixe	Stable	Outlook	
		mxA-1+	National Scale Counterparty credit - Short term	
		mxAAA	National Scale Counterparty credit - Long term	
Fitch	Banco Mercantil del Norte	Stable	Outlook	March, 2017
		AAA (mex)	National Scale Counterparty - Long term	
		F1+ (mex)	National Scale Counterparty - Short term	
		F1 + (mex)	Depo. Certi. y P.R.L.V. short Term	
		AA+ (mex)	Depo. Certi. y P.R.L.V. long term	
	Casa de Bolsa Banorte Ixe	Stable	Outlook	
		F1+ (mex)	National Scale - Short term	
		AAA (mex)	National Scale - Long term	
	Arrendadora y Factor Banorte	F1+ (mex)	National Scale Counterparty - Short term	
		AAA (mex)	National Scale Counterparty - Long term	
		F1+ (mex)	National Scale - Unsecured Debt - Short term	
		AAA (mex)	National Scale - Unsecured Debt - Long term	
	Almacenadora Banorte	F1+ (mex)	National Scale Counterparty - Short term	
		AAA (mex)	National Scale Counterparty - Long term	
	Pensiones Banorte	Stable	Outlook	
		AAA (mex)	National Scale	
	Seguros Banorte	Stable	Outlook	
		AAA (mex)	Financial Strenght	
Moody's	Banco Mercantil del Norte	Negative	Outlook	June, 2016
		Aaa.mx	National Scale - Long term deposits	
		MX-1	National Scale - Short term deposits	
		Aa3.mx	Subordinated debt - Long term	
		A1.mx	Junior Subordinated debt - Long term	
	Arrendadora y Factor Banorte	Stable	Outlook	Noviembre, 2016
		MX-1	National Scale - Short term issuer	
		Aa2.mx	National Scale - Long term senior debt*	
		MX-1	National Scale - Short term senior debt	
HR Ratings	Banco Mercantil del Norte	Stable	Outlook	May, 2016
		HR AAA	Long term debt	
		HR+1	Short term debt	
		HR AA+	Subordinated Debt Preferential	

Ownership on Subsidiaries

GFNorte Ownership of Subsidiaries	2Q17
Banco Mercantil del Norte, S.A.	98.22%
Arrendadora y Factor Banorte, S.A. de C.V., SOFOM	99.99%
Almacenadora Banorte, S.A. de C.V.	99.99%
Casa de Bolsa Banorte Ixe, S.A. de C.V.	99.99%
Operadora de Fondos Banorte Ixe, S.A. de C.V.	99.99%
Ixe Servicios, S.A. de C.V.	99.99%
Sólida Administradora de Portafolios, S.A. de C.V., SOFOM	99.37%
Banorte Ahorro y Previsión, S.A. de C.V.	99.99%

Holding Company Capital Structure

Number of Shares (Million)	SERIES O As of June 2017
Number of Issued Shares	2,773.73
Number of Shares Outstanding	2,773.73
Shares held in GFNorte's Treasury	0

Group's Main Officers

Group's Main Officers 2Q17	
Name	Current Position
José Marcos Ramírez Miguel	Chief Executive Officer, Grupo Financiero Banorte
BUSINESS UNITS	
Armando Rodal Espinosa	Managing Director – Wholesale Banking
Carlos Eduardo Martínez González	Managing Director – Retail Banking
Manuel Romo Villafuerte	Managing Director – Consumer Products
Fernando Solís Soberón	Managing Director – Long Term Savings
STAFF	
Rafael Arana de la Garza	Chief Operating Officer & Chief Financial Officer
Guillermo Chávez Eckstein	Chief Credit & Risk Officer
Isaías Velázquez González	Managing Director - Internal Audit

Integration of the Board of Directors

Board of Directors for the fiscal year 2017, appointed and approved in the Annual General Shareholders' Meeting held on April 28, 2017.

Grupo Financiero Banorte

Board of Directors

PROPRIETARY

Carlos Hank González	Chairman
Juan Antonio González Moreno	
David Juan Villarreal Montemayor	
José Marcos Ramírez Miguel	
Everardo Elizondo Almaguer	Independent
Carmen Patricia Armendáriz Guerra	Independent
Héctor Federico Reyes-Retana y Dahl	Independent
Eduardo Livas Cantú	Independent
Alfredo Elías Ayub	Independent
Adrián Sada Cueva	Independent
Alejandro Burillo Azcárraga	Independent
José Antonio Chedraui Eguía	Independent
Alfonso de Angoitia Noriega	Independent
Olga María del Carmen Sánchez Cordero Dávila	Independent
Thomas Stanley Heather Rodríguez	Independent

SUBSTITUTE

Graciela González Moreno	
Juan Antonio González Marcos	
Carlos de la Isla Corry	
Clemente Ismael Reyes Retana Valdés	Independent
Alberto Halabe Hamui	Independent
Manuel Aznar Nicolás	Independent
Roberto Kelleher Vales	Independent
Robert William Chandler Edwards	Independent
Isaac Becker Kabacnik	Independent
José María Garza Treviño	Independent
Javier Braun Burillo	Independent
Rafael Contreras Grosskelwing	Independent
Guadalupe Phillips Margain	Independent
Eduardo Alejandro Francisco García Villegas	Independent
Ricardo Maldonado Yáñez	Independent

IV. Financial Statements

Holding

Income Statement-Holding <i>(Million Pesos)</i>	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17
Income Subsidiaries	4,352	4,632	5,005	5,265	5,496	5,615
Interest Income	8	18	17	11	47	89
Interest Expense	-	-	-	-	-	-
Fund Transfers	-	-	-	-	-	-
Trading Income	-	-	-	-	-	-
Other Operating Income (Expenses)	2	1	1	2	0	0
Non-Interest Expense	26	25	28	27	27	25
Pre-Tax Income	4,336	4,626	4,994	5,251	5,516	5,678
Income Tax	-	-	-	-	-	-
Tax on Assets	-	-	-	-	-	-
Deferred Income Tax	(62)	(6)	(4)	(13)	(4)	(2)
Taxes	(62)	(6)	(4)	(13)	(4)	(2)
Net Income from Continuous Operations	4,398	4,632	4,998	5,264	5,520	5,680
Discontinued Operations	-	-	-	-	-	-
Net Income	4,398	4,632	4,998	5,264	5,520	5,680

Holding - Balance Sheet <i>(Million Pesos)</i>	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17
ASSETS						
Cash and Due from Banks	62	60	90	43	21	40
Margin Accounts	-	-	-	-	-	-
Investment in Securities	-	-	-	-	-	-
Non-assigned Securities for Settlement	-	-	-	-	-	-
Debtor Balance in Repo Trans,net	1,507	1,508	700	3,482	1,451	611
Securities Lending	-	-	-	-	-	-
Transactions with Derivatives	-	-	-	-	-	-
Operations w/Derivatives & Securities	1,507	1,508	700	3,482	1,451	611
Valuation adjustments for Asset Coverage	-	-	-	-	-	-
Performing Loans	-	-	-	-	-	-
Past Due Loans	-	-	-	-	-	-
Gross Loan Portfolio	-	-	-	-	-	-
Preventive Loan Loss Reserves	-	-	-	-	-	-
Net Loan Portfolio	-	-	-	-	-	-
Acquired Collection Rights	-	-	-	-	-	-
Total Credit Portfolio	-	-	-	-	-	-
Benef.receiveab.securization transactions	-	-	-	-	-	-
Sundry Debtors & Other Accs Rec, Net	58	53	17	0	0	0
Inventories	-	-	-	-	-	-
Foreclosed Assets, Net	-	-	-	-	-	-
Real Estate, furniture & equipment, Net	-	-	-	-	-	-
Investment in Subsidiaries	118,413	122,840	123,739	124,341	127,454	121,286
Long-term assets held for sale	-	-	-	-	-	-
Deferred Taxes, Net	172	178	181	194	198	200
Goodwill and Intangibles	10,728	10,705	10,682	10,659	10,638	10,615
Other Assets Short and Long Term	-	-	-	-	-	-
Other Assets						
	129,371	133,775	134,620	135,195	138,291	132,101
TOTAL ASSETS	130,941	135,344	135,410	138,720	139,762	132,753

Holding - Balance Sheet <i>(Million Pesos)</i>	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17
LIABILITIES						
Demand Deposits	-	-	-	-	-	-
Senior Unsecured Debt	-	-	-	-	-	-
Deposits	-	-	-	-	-	-
Due to Banks & Correspondents	-	-	-	-	-	-
Total Collateral sold	-	-	-	-	-	-
Total Operations w/ Derivatives & Securities	-	-	-	-	-	-
Margin Accounts Payable	-	-	-	-	-	-
Other Creditors & Accounts Payable	0	1,269	2	0	1	1
Subordinated Non Convertible Debt	-	-	-	-	-	-
Deferred Taxes, Net	-	-	-	-	-	-
Deferred Credits	-	-	-	-	-	-
TOTAL LIABILITIES	0	1,269	2	0	1	1
EQUITY						
Paid-in Capital	14,597	14,593	14,599	14,578	14,582	14,568
Provision for future capital increase not formalized by its governing entity	-	-	-	-	-	-
Share Subscription Premiums	36,189	36,301	36,115	36,263	35,934	35,758
Subordinated Convertible Debentures	-	-	-	-	-	-
Subscribed Capital	50,785	50,894	50,714	50,841	50,516	50,326
Capital Reserves	5,419	5,334	5,421	4,825	4,870	4,827
Retained Earnings	73,410	70,292	66,730	66,626	82,129	69,718
Surplus (Deficit) of Secs Available for Sale	(1,964)	(894)	(516)	(2,576)	(2,731)	(2,442)
Results from Valuation of Hedging Secs	(1,677)	(1,739)	(2,368)	(2,089)	(1,790)	(1,943)
Result in the valuation reserve for unexpired risks variations in rates	(352)	(24)	15	88	82	68
Results from Conversions	1,042	1,430	1,760	2,084	1,660	1,616
Remeasurements defined benefits for employees	(121)	(249)	(376)	(370)	(494)	(618)
Surplus (Deficit) in Capital Restatement	-	-	-	-	-	-
Adjustments in the Employee's Pensions	-	-	-	-	-	-
Accumulated Effect of Deferred Taxes	-	-	-	-	-	-
Net Income	4,398	9,030	14,028	19,292	5,520	11,201
Earned Capital	80,155	83,180	84,694	87,879	89,245	82,426
Minority Interest	-	-	-	-	-	-
Total Equity	130,940	134,074	135,408	138,720	139,762	132,752
TOTAL LIABILITIES & EQUITY	130,941	135,344	135,410	138,720	139,762	132,753

Holding - Memorandum Accounts <i>(Million Pesos)</i>	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17
TOTAL ON BEHALF OF THIRD PARTIES	-	-	-	-	-	-
Properties in Custody or Management	3,716	3,716	3,716	3,716	3,716	35,685
Collateral Received	1,503	1,506	698	3,479	1,452	607
Proprietary Transactions	5,219	5,223	4,414	7,196	5,168	36,292
TOTAL PROPRIETARY	5,219	5,223	4,414	7,196	5,168	36,292

Grupo Financiero Banorte

Income Statement -GFNorte <i>(Million Pesos)</i>	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17
Interest Income	18,422	17,874	20,059	22,703	26,264	25,938
Interest Expense	5,973	6,238	6,804	7,879	9,783	10,984
Charged Fees	306	294	301	305	282	295
Fees Paid	102	112	123	153	144	167
Net Interest Income from interest & fees (NII)	12,654	11,819	13,433	14,976	16,620	15,082
Premium Income (Net)	7,741	4,512	4,210	4,844	7,784	6,507
Net Increase in Technical Reserves	4,154	675	994	2,655	5,544	2,654
Damages, Claims and Other Obligations	2,882	3,252	3,248	3,271	3,306	3,645
Net Interest Income (NII)	13,359	12,404	13,400	13,894	15,555	15,289
Preventive Provisions for Loan Losses	3,232	3,515	3,277	3,289	3,268	4,058
Net Interest Income Adjusted for Credit Risk	10,127	8,889	10,123	10,605	12,287	11,231
Fund Transfers	273	313	334	367	368	390
Account Management Fees	469	504	505	597	596	624
Electronic Banking Services	1,341	1,394	1,444	1,628	1,639	1,709
For Commercial and Mortgage Loans *	191	181	193	231	94	198
For Consumer and Credit Card Loans	830	786	925	1,116	999	1,055
Fiduciary	81	86	73	107	92	101
Income from Real Estate Portfolios	33	19	38	24	7	17
Mutual Funds	276	287	298	302	282	329
Trading & Financial Advising Fees	145	106	130	140	115	167
Other Fees Charged (1) *	198	242	244	231	264	205
Fees Charged on Services	3,838	3,919	4,184	4,742	4,455	4,795
Interchange Fees	584	602	613	706	722	762
Insurance Fees	625	107	279	360	379	269
Other Fees Paid	459	540	554	627	783	779
Fees Paid on Services	1,667	1,249	1,447	1,692	1,884	1,810
Service Fees	2,170	2,670	2,738	3,050	2,571	2,985
Currency and Metals	8	31	8	36	(151)	(15)
Derivatives	(108)	(32)	554	(85)	(195)	(56)
Negotiable Instruments	199	329	(575)	(26)	27	56
Valuation	99	328	(14)	(75)	(319)	(15)
Currency and Metals	254	366	454	437	520	523
Derivatives	3	(93)	62	14	281	73
Negotiable Instruments	88	161	210	52	255	381
Trading	346	433	726	503	1,056	977
Trading Income	444	761	713	428	737	961
Loan Recovery	347	366	403	434	413	462
Loan Portfolios	50	50	44	6	42	46
Income from foreclosed assets	35	69	(35)	29	21	(273)
Provisions Release	155	170	28	39	164	86
Losses and Estimates	(320)	(340)	(127)	(173)	(298)	(422)
Impairment of Assets	(165)	(60)	(17)	(0)	(428)	(10)
Lease Income	79	69	97	80	111	105
From Insurance	208	287	248	275	234	213
Other Operating Expense	216	305	294	347	360	446
Total Other Operating Income (Expense)	606	914	934	1,037	619	653
Total Non Interest Income	3,221	4,345	4,384	4,515	3,927	4,599
Total Operating Income	13,347	13,234	14,507	15,120	16,214	15,831
Personnel	3,154	2,983	3,382	3,357	3,512	3,285
Employee Profit Sharing (PTU)	97	97	97	99	101	101
Professional Fees	479	569	554	606	567	712
Administrative and Promotional Expenses	1,923	1,645	1,823	1,974	2,022	1,954
Rents, Depreciation & Amortization	1,113	1,118	1,203	1,254	1,306	1,274
Taxes other than income tax & non deductible	423	347	315	306	523	374
Contributions to IPAB/Fobaproa	562	575	580	607	634	636
Total Non Interest Expense	7,752	7,334	7,954	8,203	8,665	8,337
Operating Income	5,595	5,900	6,553	6,917	7,549	7,494
Subsidiaries' Net Income	328	309	353	257	263	335
Pre-Tax Income	5,923	6,209	6,906	7,173	7,812	7,828
Income Tax	1,667	1,397	2,126	1,865	2,070	2,015
Tax on Assets	-	-	-	-	-	-
Deferred Income Tax	(202)	193	(224)	55	210	59
Taxes	1,465	1,590	1,902	1,921	2,279	2,074
Net Income from Continuous Operations	4,458	4,619	5,004	5,253	5,532	5,754
Discontinued Operations	59	72	44	68	74	6
Minority Interest	(55)	(65)	(72)	(77)	(79)	(80)
Net Income	4,462	4,626	4,976	5,244	5,527	5,680

GFNorte - Balance Sheet <i>(Million Pesos)</i>	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17
ASSETS						
Cash and Due from Banks	94,384	89,996	70,750	65,886	60,422	65,840
Margin Accounts	269	513	745	2,185	1,909	2,635
Negotiable Instruments	249,531	253,957	250,061	181,777	244,183	240,223
Securities Available for Sale	105,600	121,630	119,522	195,087	136,570	139,264
Securities Held to Maturity	77,339	77,909	79,054	81,920	85,347	87,127
Investment in Securities	432,470	453,496	448,636	458,784	466,100	466,614
Non-assigned Securities for Settlement	-	-	-	-	-	-
Debtor Balance in Repo Trans, net	402	62	72	0	2	0
Securities Lending	-	-	-	-	-	-
For trading purposes	18,154	21,030	16,516	41,133	22,780	20,387
For hedging purposes	100	76	113	742	387	216
Operations w/Derivatives & Securities						
Transactions with Derivatives	18,254	21,107	16,630	41,875	23,167	20,603
Operations w/Derivatives & Securities	18,656	21,169	16,702	41,876	23,168	20,604
Valuation adjustments for Asset Coverage	124	121	117	113	110	106
Commercial Loans	198,477	201,478	204,870	224,218	220,656	231,284
Financial Intermediaries' Loans	2,875	3,313	4,253	4,650	5,237	5,607
Consumer Loans	77,731	80,643	84,437	88,332	92,394	98,478
Mortgage Loans	100,743	104,733	108,955	114,807	119,310	124,206
Medium and Residential	97,003	100,950	105,020	110,825	115,226	120,197
low income housing	62	48	43	40	37	33
Loans acquired from INFONAVIT or FOVISSSTE	3,679	3,735	3,892	3,942	4,048	3,975
Restructuring or improvement guaranteed by development banks or public trusts	-	-	-	-	-	-
Government Entities' Loans	137,144	135,717	131,409	134,798	131,551	134,423
Performing Loans	516,970	525,884	533,925	566,804	569,147	593,997
Commercial PDL's	7,969	7,797	7,524	5,672	5,893	5,739
Financial Intermediaries PDL's	0	344	344	344	344	0
Consumer PDL's	2,684	3,343	3,263	3,247	3,029	3,918
Mortgage PDL's	1,094	1,141	1,119	1,049	1,019	1,161
Medium and Residential	1,034	1,064	1,044	952	911	1,044
low income housing	7	2	2	1	1	1
Loans acquired from INFONAVIT or FOVISSSTE	53	74	74	96	106	117
Restructuring or improvement guaranteed by development banks or public trusts	-	-	-	-	-	-
Government Entities PDL's	-	-	0	-	-	-
Past Due Loans	11,747	12,624	12,250	10,312	10,284	10,818
Gross Loan Portfolio	528,717	538,508	546,175	577,117	579,432	604,815
Preventive Loan Loss Reserves	13,918	15,045	15,104	14,384	14,235	16,119
Net Loan Portfolio	514,799	523,463	531,071	562,733	565,197	588,696
Acquired Collection Rights	2,120	1,946	2,223	2,025	2,082	1,986
Total Credit Portfolio	516,919	525,409	533,294	564,759	567,279	590,682
Account Receivables from Insurance and Annuities	1,718	1,781	1,827	1,908	1,620	1,769
Premium Debtors (Net)	9,252	7,627	5,653	4,245	8,406	8,223
Account Receivables from Reinsurance	6,462	6,936	6,966	7,166	7,189	8,878
Benef. receivab. securization transactions	149	153	202	155	151	152
Sundry Debtors & Other Accs Rec, Net	39,620	38,422	39,689	50,366	46,084	36,699
Inventories	416	951	703	438	399	1,309
Foreclosed Assets, Net	2,132	1,998	1,801	1,610	1,569	1,149
Real Estate, Furniture & Equipment, Net	13,922	14,428	14,723	15,828	15,770	15,981
Investment in Subsidiaries	12,858	13,155	13,503	13,764	12,875	13,104
Long-term assets held for sale	4,481	4,801	5,036	5,299	-	-
Deferred Taxes, Net	3,395	2,965	3,406	3,994	3,750	3,729
Goodwill and Intangibles	23,393	23,563	23,760	26,315	25,281	25,493
Other Assets Short and Long Term	3,915	3,702	3,424	3,427	3,253	2,709
Other Assets						
	121,712	120,482	120,693	134,516	126,347	119,194
TOTAL ASSETS	1,184,534	1,211,186	1,190,937	1,268,119	1,245,334	1,265,675

GFNorte - Balance Sheet <i>(Million Pesos)</i>	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17
LIABILITIES						
Demand Deposits	323,700	334,812	348,116	381,203	365,031	366,429
Time Deposits-Retail	207,504	216,587	193,862	190,461	209,159	227,113
Time Deposits-Money Market	2,904	1,068	1,400	1,459	1,115	15,394
Global Account of deposits without movements	1,171	1,224	1,250	1,352	1,410	1,456
Senior Unsecured Debt	130	130	58	85	85	2,750
Deposits	535,410	553,820	544,685	574,559	576,800	613,142
Demand Loans	6,928	0	0	4,019	1,137	1,591
Short Term Loans	16,333	17,887	17,338	17,155	13,264	14,886
Long Term Loans	14,187	14,054	15,870	17,462	17,984	18,222
Due to Banks & Correspondents	37,448	31,941	33,208	38,636	32,385	34,698
Technical Reserves	86,054	86,535	87,495	90,369	97,016	100,982
Non-assigned Securities for Settlement	-	-	-	-	-	-
Creditor Balance in Repo Trans, Net	316,634	317,232	309,116	308,777	314,163	307,161
Secs to be received in Repo Trans, Net	-	0	0	-	-	-
Repos (Credit Balance)	0	17	21	0	2	0
Securities' Loans	-	-	-	-	-	-
Transactions with Derivatives	-	-	-	-	-	-
Other sold collateral	-	-	-	-	-	-
Total Collateral sold	0	17	21	0	2	0
For trading purposes	18,829	21,961	18,597	40,403	22,092	19,445
For hedging purposes	6,161	6,825	8,671	9,372	6,555	6,552
Operations w/ Derivatives & Securities						
Transactions with Derivatives	24,990	28,786	27,268	49,776	28,647	25,997
Total Operations w/ Derivatives & Securities	341,624	346,036	336,405	358,553	342,812	333,158
Valuation adjustments for financial liability coverage	-	-	-	-	-	-
Obligations in securitization transactions	-	-	-	-	-	-
Payable Accounts for Reinsurance	2,575	2,412	2,455	1,747	2,526	3,348
Income Tax Payable	1,321	1,777	2,354	3,114	2,021	1,933
Profit Sharing Payable	135	206	299	396	494	222
Provision for future capital increase not formalized by its governing entity	-	-	-	-	-	-
Creditors for settlement of transactions	7,451	12,625	8,435	7,348	6,609	6,956
Margin Accounts Payable	-	-	-	-	-	-
Other Creditors & Accounts Payable	19,157	19,131	17,278	28,364	23,072	20,612
Other Payable Accounts	28,064	33,740	28,366	39,221	32,196	29,722
Subordinated Non Convertible Debt	17,475	17,821	18,246	21,917	17,551	13,733
Deferred Taxes, Net	-	-	-	(0)	0	(0)
Deferred Credits	1,003	805	660	415	265	252
TOTAL LIABILITIES	1,049,653	1,073,110	1,051,519	1,125,418	1,101,552	1,129,036
EQUITY						
Paid-in Capital	14,593	14,590	14,595	14,574	14,578	14,564
Provision for future capital increase not formalized by its governing entity	-	-	-	-	-	-
Share Subscription Premiums	36,345	36,465	36,279	36,427	36,098	35,932
Subordinated Convertible Debentures	-	-	-	-	-	-
Subscribed Capital	50,937	51,054	50,874	51,001	50,676	50,496
Capital Reserves	5,419	5,334	5,421	4,825	4,870	4,827
Retained Earnings	75,276	72,158	68,596	68,492	84,011	71,600
Surplus (Deficit) of Secs Available for Sale	(1,976)	(911)	(532)	(2,592)	(2,754)	(2,471)
Results from Valuation of Hedging Secs	(1,677)	(1,739)	(2,368)	(2,089)	(1,790)	(1,943)
Result in the valuation reserve for unexpired risks variations in rates	(352)	(24)	15	88	82	68
Results from Conversions	1,042	1,430	1,760	2,084	1,660	1,616
Remeasurements defined benefits for employees	(121)	(249)	(376)	(370)	(494)	(618)
Surplus (Deficit) in Capital Restatement	-	-	-	-	-	-
Adjustments in the Employee's Pensions	-	-	-	-	-	-
Accumulated Effect of Deferred Taxes	-	-	-	-	-	-
Net Income	4,462	9,088	14,064	19,308	5,527	11,207
Earned Capital	82,073	85,088	86,580	89,745	91,112	84,287
Minority Interest	1,872	1,934	1,964	1,956	1,994	1,856
Total Equity	134,882	138,076	139,418	142,701	143,782	136,639
TOTAL LIABILITIES & EQUITY	1,184,534	1,211,186	1,190,937	1,268,119	1,245,334	1,265,675

GFNorte - Memorandum Accounts (Million Pesos)	1Q16	2Q16	3Q16	4Q17	1Q17	2Q17
On behalf of Third Parties						
Customer's Banks	93	98	64	118	154	53
Dividends Receivable from Customers	-	-	-	-	-	-
Interest Receivable from Customers	-	-	-	-	-	-
Settlement of Customer Transactions	208	(18)	(10)	(3)	(3)	5
Customer Premiums	-	-	-	-	-	-
Settlement with Clients' Foreign Currency	-	-	-	-	-	-
Margin Accounts in Futures' Operations	-	-	-	-	-	-
Other Current Accounts	-	-	-	-	-	-
Customers' Current Account	301	80	54	114	150	58
Client Securities Received in Custody	616,579	647,418	647,173	609,288	642,019	670,333
Securities and Documents Received in Guarantee	-	-	-	-	-	-
Client Securities Abroad	-	-	-	-	-	-
Clients' Securities	616,579	647,418	647,173	609,288	642,019	670,333
Clients' Repurchase Operations	102,988	102,541	85,315	77,781	106,095	90,620
Clients' Repo Transactions w/ Securities	-	-	-	-	-	-
Collateral received in guarantee for customer accounts	102,953	102,522	85,295	77,746	106,060	90,585
Purchase of Futures & Forward Contracts, national	-	-	-	-	-	-
Sale of Futures and Forward Contracts, national	-	-	-	-	-	-
Clients' Option Purchase Operations	-	-	-	-	-	-
Clients' Option Sales Operations	-	-	-	-	-	-
Purchase Operations of derivatives	-	-	-	-	-	-
Clients' Sales Operations of derivatives	-	-	-	-	-	-
Trusts under Management	99,220	102,029	96,297	90,205	108,323	113,681
Transactions On Behalf of Clients	305,161	307,092	266,908	245,732	320,478	294,885
Investment Bank Trans. on behalf of Third (Net)	71,038	65,031	92,104	93,307	90,367	77,102
TOTAL ON BEHALF OF THIRD PARTIES	993,079	1,019,622	1,006,238	948,441	1,053,014	1,042,379
Endorsement Guarantees Granted	-	-	-	-	-	-
Loan Obligations	164,071	170,431	258,537	324,528	326,160	259,402
Trusts	306,517	320,511	309,671	289,905	271,144	279,574
Mandates	8,571	9,824	9,557	2,268	2,712	13,148
Properties in Trusts and Warrant	315,088	330,336	319,228	292,174	273,856	292,722
Properties in Custody or Management	457,665	480,655	470,481	446,626	475,934	553,930
Collateral Received	103,030	72,198	89,904	89,288	164,657	101,105
Collateral Received or sold or delivered	146,735	114,133	114,103	101,473	203,465	123,597
Drafts in Transit	-	-	-	-	-	-
Assets' Deposit	2,343	1,943	1,484	2,550	2,368	2,415
Letters of Credit to the Corporation as Guarantee	-	-	-	-	-	-
Securities to the Corporation for Custody	-	-	-	-	-	-
Government Secs of the Corp under Custody	-	-	-	-	-	-
Securities of the Corp given as Guarantee	-	-	-	-	-	-
Securities of the Corp Abroad	-	-	-	-	-	-
Settlement with FX of the Corp Abroad	-	-	-	-	-	-
Debts with the Contingency Fund	-	-	-	-	-	-
Contingent assets & Liabilities	26	33	40	45	63	73
Uncollected Accrued Interest from Past Due Loans	491	526	465	439	437	471
Investments of Retirement Savings Funds	-	-	-	-	-	-
Integration of the Credit Portfolio	-	-	-	-	-	-
Amounts Contracted in Derivatives	-	-	-	-	-	-
Proprietary Transactions	1,189,450	1,170,254	1,254,243	1,257,123	1,446,941	1,333,715
Repo Securities to be Received	-	-	-	-	-	-
(Minus) Repo Creditors	-	-	-	-	-	-
Net Repo Transactions	-	-	-	-	-	-
Repo Debtors	-	-	-	-	-	-
(Minus) Repo Securities to be Delivered	-	-	-	-	-	-
Net Repo Transactions	-	-	-	-	-	-
TOTAL PROPRIETARY	1,189,450	1,170,254	1,254,243	1,257,123	1,446,941	1,333,715

GFNORTE - CONSOLIDATED STATEMENT OF CASH FLOW**JANUARY 1, 2017 – JUNE 30, 2017***(Million Pesos)*

Net Income	11,207
Items charged to results that do not generate or require use of resources	
Depreciation	842
Technical Reserves	8,198
Provisions	(2,521)
Income taxes and deferred	4,353
Minority Interest	0
Discontinued Operations	79
	21,719
Change in items related to operations	
Change in Margin Accounts	(449)
Change in Investment in Securities	(7,830)
Change in repo debtors	0
Change in derivatives (assets)	20,754
Change in Loan Portfolio (net)	(25,938)
Change in purchased receivables (net)	39
Change in accounts receivable insurance and bonding institutions (net)	140
Change in debtor premiums (net)	(3,978)
Change in Reinsurance (net)	(1,712)
Change in benefits to receive from securitizations	3
Change in foreclosed assets (net)	461
Change in other operating assets (net)	13,156
Change in core deposits	38,582
Change in interbank loans and other entities	(3,922)
Change in repo creditors	(1,616)
Change in collateral pledged sold	0
Change in derivatives (liability)	(20,959)
Change in Technical Reserves (net)	2,415
Change in Reinsurance (net) (liability)	1,602
Change in subordinated debt with characteristics of liabilities	(7,759)
Change in other operating liabilities	(5,662)
Change in hedging instruments (the related hedged transaction activities)	(2,295)
Discontinued Operational Assets	(59)
Income Tax Payments	(5,355)
Net cash generated or used from operations	11,337
Investment Activities	
Charges for disposal of property, furniture and equipment	466
Payments for acquisition of property, furniture and equipment	(1,492)
Charges for disposal of subsidiaries, associated and agreements with mutual control	3,195
Payments for other permanent investmentes	0
Charges for cash dividends	2,364
Discontinued Operational Assets	0
Net cash generated or used from investment activities	4,533
Financing Activities	
Payments of cash dividends	(14,645)
Payments associated with the repurchase of proprietary shares	(1,181)
Net cash flows from financing activities	(15,826)
Net Cash Increase (decrease) and equivalents value	44
Effects for changes in cash and equivalents value	(90)
Cash and cash equivalents at beginning of period	65,886
Cash and cash equivalents at end of period	65,840

GNORTE - CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

JANUARY 1, 2017 – JUNE 30, 2017
(Million Pesos)

	CONTRIBUTED CAPITAL		EARNED CAPITAL									
	Fixed Paid-in Capital	Premium from sale of securities	Capital Reserves	Retained Earnings	Valuation Effects of Securities Available for Sale	Results from val of instrum Cash flow hedges	Results in the val. reserve for unexpired risks variations in rates	Results from Conversions	Remeasurements defined benefits for employees	Net Income	Minority Interest	Total Stockholders' Equity
Balance as of December 31, 2016	14,574	36,427	4,825	68,492	(2,592)	(2,089)	87	2,084	(370)	19,308	1,956	142,702
Changes stemming from stockholders' decisions												
Repurchase of payment plan based on shares payable in equity instruments	(10)	(487)	(453)		(12)							(962)
Capitalization of profits				19,308						(19,308)		
Dividend Declared by the Ordinary General Shareholders' Meeting on February 24, 2017 and on April 27, 2017				(14,645)								(14,645)
INB's Sale Accounting Effect				(358)								(358)
Reserve creation for share repurchase				(455)								0
Total	(10)	(487)	2	3,850	(12)	0	0	0	0	(19,308)	0	(15,965)
Changes stemming from profits												
Total profits:												
Net Income										11,207		11,207
Result from valuation of securities available for sale					133							133
Effect of subsidiaries, associates and mutual funds		(8)		(17)				(468)				(493)
Result from valuation of instruments of cash flow hedges						146						146
Result in valuation of current risk reserve due to changes in rates							(19)					(19)
Remeasurements defined benefits for employees									(247)			(247)
Modification in the disposition of the non-revolving consumer book and mortgage house book's rating				(725)								(725)
Total	0	(8)	0	(742)	133	146	(19)	(468)	(247)	11,207	0	10,002
Recognition of minority interest											(100)	(100)
Balance as of June 30, 2017	14,564	35,932	4,827	71,600	(2,471)	(1,943)	68	1,616	(617)	11,207	1,856	136,639

Consolidated Bank

Income Statement - Consolidated Bank (Million Pesos)	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17
Interest Income	15,530	16,064	17,545	19,070	21,747	23,165
Interest Expense	4,966	5,112	5,874	6,808	8,614	9,831
Charged Fees	305	292	299	303	282	294
Fees Paid	101	111	122	151	143	165
Net Interest Income (NII)	10,768	11,133	11,847	12,414	13,272	13,463
Preventive Provisions for Loan Losses	3,170	3,444	3,240	3,216	3,227	3,977
Net Interest Income Adjusted for Credit Risk	7,598	7,690	8,607	9,198	10,044	9,486
Transferencia de Fondos	273	313	334	367	368	390
Manejo de Cuenta	484	519	523	612	614	639
Servicios de Banca Electrónica	1,341	1,394	1,444	1,628	1,639	1,709
Por Créditos Comerciales y Vivienda	191	181	193	231	94	193
Por créditos de Consumo	835	786	924	1,106	997	1,052
Fiduciario	80	86	72	107	91	101
Ingresos por Portafolios Inmobiliarios	8	2	31	11	5	9
Fondos de Inversión	-	-	-	-	-	-
Asesoría e Intermediación financiera	1	1	1	1	1	1
Otras Comisiones Cobradas (1) *	364	431	443	446	473	464
Comisiones por Servicios Cobrados	3,577	3,713	3,966	4,508	4,282	4,557
Cuotas de Intercambio	584	602	613	706	722	762
Comisiones de Seguros	-	-	-	-	-	-
Other Fees Paid	398	500	512	583	742	717
Fees Paid on Services	982	1,102	1,126	1,288	1,464	1,479
Net Fees	2,595	2,612	2,840	3,220	2,817	3,078
Divisas y Metales	6	21	(5)	32	(124)	(11)
Derivados	80	(36)	341	1	16	(49)
Títulos	93	103	(349)	28	(63)	26
Valuación	179	88	(14)	62	(172)	(34)
Divisas y Metales	254	366	454	437	520	523
Derivados	3	(93)	62	14	281	73
Títulos	31	13	98	(113)	64	149
Compra-venta	288	285	614	337	865	745
Trading Income	467	373	600	399	693	711
Recuperación de cartera de crédito	335	364	400	432	409	459
Portafolios de crédito	44	41	35	21	30	30
Resultado por bienes adjudicados	28	97	(28)	28	12	(266)
Liberación de Provisiones	142	170	28	39	160	85
Quebrantos y Estimaciones	(242)	(319)	(155)	(156)	(280)	(325)
Deterioro de Activos	-	-	-	-	(58)	(9)
Ingresos por Arrendamiento	6	7	15	13	8	8
Provenientes de Seguros	-	-	-	-	-	-
Otros	87	238	218	188	285	333
Total Other Operating Income (Expenses)	400	599	513	566	566	314
Total Non-Interest Income	3,462	3,583	3,953	4,185	4,077	4,102
Total Operating Income	11,059	11,273	12,561	13,383	14,121	13,588
Personnel	3,017	2,833	3,230	3,209	3,361	3,127
Employee Profit Sharing (PTU)	95	95	95	97	99	99
Professional Fees	424	491	456	474	463	612
Administrative and Promotional Expenses	1,708	1,522	1,689	1,834	1,809	1,827
Rents, Depreciation & Amortization	1,044	1,045	1,133	1,178	1,219	1,184
Taxes other than income tax & non-deductible expenses	361	298	261	239	458	337
Contributions to IPAB/Fobaproa	562	575	580	607	634	636
Total Non-Interest Expense	7,212	6,859	7,445	7,638	8,043	7,822
Operating Income	3,847	4,414	5,115	5,745	6,078	5,766
Subsidiaries' Net Income	333	322	371	18	14	17
Pre-Tax Income	4,180	4,735	5,486	5,763	6,092	5,783
Income Tax	1,122	1,023	1,703	1,631	1,541	1,509
Tax on Assets	-	-	-	-	-	-
Deferred Income Tax	(105)	131	(239)	96	320	89
Taxes	1,017	1,155	1,464	1,727	1,861	1,597
Net Income from Continuous Operations	3,163	3,580	4,022	4,036	4,232	4,185
Discontinued Operations	59	72	44	68	74	6
Minority Interest	(0)	(0)	(0)	(0)	0	(0)
Net Income	3,222	3,652	4,066	4,104	4,305	4,191

Consolidated Bank - Balance Sheet (Million Pesos)	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17
ASSETS						
Cash and Due from Banks	93,984	89,964	70,693	65,844	60,405	65,822
Margin Accounts	269	513	745	2,185	1,909	2,635
Negotiable Instruments	153,455	155,285	167,884	129,477	150,913	159,894
Securities Available for Sale	87,079	101,129	100,691	153,128	106,886	110,750
Securities Held to Maturity	7,730	7,678	6,279	6,258	6,245	6,202
Investment in Securities	248,265	264,091	274,854	288,863	264,044	276,846
Non-assigned Securities for Settlement	-	-	-	-	-	-
Debtor Balance in Repo Trans,net	342	16	72	0	2	0
Securities Lending	-	-	-	-	-	-
For trading purposes	18,045	20,703	16,191	40,881	22,738	20,352
For hedging purposes	100	76	113	742	387	216
Operations w/Derivatives & Securities	-	-	-	-	-	-
Transactions with Derivatives	18,145	20,779	16,304	41,623	23,125	20,568
Operations w/Derivatives & Securities	18,487	20,796	16,376	41,623	23,126	20,568
Valuation adjustments for Asset Coverage	124	121	117	113	110	106
Commercial Loans	179,187	181,016	184,411	201,753	199,150	208,717
Financial Intermediaries' Loans	16,222	18,071	18,386	20,240	21,122	23,538
Consumer Loans	75,457	78,610	82,589	86,632	90,824	93,999
Mortgage Loans	100,743	104,733	108,955	114,807	119,310	124,206
Medium and Residential	97,003	100,950	105,020	110,825	115,226	120,197
low income housing	62	48	43	40	37	33
Loans acquired from INFONAVIT or FOVISSSTE	3,679	3,735	3,892	3,942	4,048	3,975
Restructuring or improvement guaranteed by development banks or public trusts	-	-	-	-	-	-
Government Entities' Loans	135,866	133,626	128,981	133,540	130,183	133,394
Loans granted as Federal Agent	-	-	-	-	-	-
Performing Loans	507,476	516,055	523,323	556,971	560,589	583,853
Commercial PDL's	7,756	7,562	7,326	5,467	5,677	5,570
Financial Intermediaries PDL's	0	344	344	344	344	0
Consumer PDL's	2,627	3,281	3,205	3,200	2,993	3,867
Mortgage PDL's	1,094	1,141	1,119	1,049	1,019	1,161
Medium and Residential	1,034	1,064	1,044	952	911	1,044
low income housing	7	2	2	1	1	1
Loans acquired from INFONAVIT or FOVISSSTE	53	74	74	96	106	117
Restructuring or improvement guaranteed by development banks or public trusts	-	-	-	-	-	-
Government Entities PDL's	-	-	-	-	-	-
Past Due Loans	11,477	12,328	11,995	10,060	10,034	10,598
Gross Loan Portfolio	518,953	528,383	535,318	567,031	570,622	594,452
Preventive Loan Loss Reserves	13,455	14,612	14,694	13,941	13,805	15,499
Net Loan Portfolio	505,498	513,772	520,623	553,090	556,818	578,953
Acquired Collection Rights	1,310	1,165	1,473	1,400	1,477	1,394
Total Credit Portfolio	506,808	514,937	522,096	554,490	558,294	580,347
Benef. receivab. securization transactions	149	153	202	155	151	152
Sundry Debtors & Other Accs Rec, Net	27,130	27,118	28,856	39,989	36,363	26,519
Inventories	-	-	-	-	-	-
Foreclosed Assets, Net	1,681	1,588	1,402	1,222	1,182	791
Real Estate, Furniture & Equipment, Net	10,807	11,178	11,444	11,927	12,120	12,306
Investment in Subsidiaries	12,543	12,843	13,214	185	199	119
Long-term assets held for sale	4,481	4,801	5,036	5,299	-	-
Deferred Taxes, Net	3,247	3,148	3,491	4,227	3,602	3,651
Goodwill and Intangibles	10,359	10,331	10,300	11,214	10,775	10,805
Other Assets Short and Long Term	3,609	3,379	3,095	3,097	2,914	2,364
	74,006	74,539	77,039	77,316	67,306	56,707
TOTAL ASSETS	941,943	964,962	961,921	1,030,435	975,193	1,003,031

Consolidated Bank - Balance Sheet (Million Pesos)	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17
LIABILITIES						
Demand Deposits	325,725	336,538	349,118	382,409	366,454	367,839
Time Deposits-Retail	207,637	216,703	193,991	190,535	209,212	227,186
Time Deposits-Money Market	2,904	1,068	1,400	1,459	1,115	15,394
Global Account of deposits without movements	1,171	1,224	1,250	1,352	1,410	1,456
Senior Unsecured Debt	-	-	-	-	-	2,750
Deposits	537,438	555,532	545,759	575,755	578,191	614,625
Demand Loans	6,928	0	0	4,019	1,137	1,591
Short Term Loans	6,845	7,018	6,535	8,063	7,204	7,557
Long Term Loans	7,197	7,593	8,667	9,178	8,702	8,495
Due to Banks & Correspondents	20,970	14,612	15,202	21,260	17,043	17,642
Non-assigned Securities for Settlement	-	-	-	-	-	-
Creditor Balance in Repo Trans, Net	215,119	216,288	224,490	234,490	210,936	218,158
Secs to be received in Repo Trans, Net	-	-	-	-	-	-
Repos (Credit Balance)	0	(0)	6	0	2	0
Securities' Loans	-	-	-	-	-	-
Transactions with Derivatives	-	-	-	-	-	-
Other sold collateral	-	-	-	-	-	-
Total Collateral sold	0	(0)	6	0	2	0
For trading purposes	18,829	21,961	18,597	40,403	22,092	19,445
For hedging purposes	6,161	6,825	8,671	9,372	6,555	6,552
Operations w/ Derivatives & Securities	-	-	-	-	-	-
Transactions with Derivatives	24,990	28,786	27,268	49,776	28,647	25,997
Total Operations w/ Derivatives & Securities	240,109	245,074	251,765	284,265	239,585	244,155
Valuation adjustments for financial liability coverage	-	-	-	-	-	-
Obligations in securitization transactions	-	-	-	-	-	-
Income Tax Payable	751	1,062	1,305	1,965	1,477	1,143
Profit Sharing Payable	135	206	299	396	494	222
Creditors for settlement of transactions	8,291	11,086	8,072	6,988	6,516	6,828
Margin Accounts Payable	-	-	-	-	-	-
Other Creditors & Accounts Payable	14,345	13,519	13,561	24,770	19,290	17,026
Other Payable Accounts	23,522	25,873	23,237	34,120	27,777	25,218
Subordinated Non Convertible Debt	17,475	17,821	18,246	21,917	17,551	13,733
Deferred Taxes, Net	-	-	-	-	-	-
Deferred Credits	861	682	557	331	142	107
TOTAL LIABILITIES	840,375	859,594	854,765	937,648	880,289	915,480
EQUITY						
Paid-in Capital	20,074	20,074	20,074	18,105	18,105	18,105
Provision for future capital increase not formalized by its governing entity	-	-	-	-	-	-
Share Subscription Premiums	11,754	11,862	11,976	72	180	294
Subordinated Convertible Debentures	-	-	-	-	-	-
Subscribed Capital	31,828	31,936	32,050	18,177	18,285	18,399
Capital Reserves	10,157	11,509	11,509	11,509	11,509	13,013
Retained Earnings	58,434	56,480	53,876	50,215	62,685	49,462
Surplus (Deficit) of Secs Available for Sale	(1,224)	(768)	(108)	(1,645)	(1,139)	(752)
Results from Valuation of Hedging Secs	(1,708)	(1,770)	(2,411)	(2,131)	(1,827)	(1,982)
Result in the valuation reserve for unexpired risks variations in rates	-	-	-	-	-	-
Results from Conversions	972	1,350	1,673	1,985	1,579	1,544
Remeasurements defined benefits for employees	(123)	(253)	(382)	(377)	(503)	(629)
Surplus (Deficit) in Capital Restatement	-	-	-	-	-	-
Adjustments in the Employee's Pensions	-	-	-	-	-	-
Accumulated Effect of Deferred Taxes	-	-	-	-	-	-
Net Income	3,222	6,875	10,941	15,044	4,305	8,496
Earned Capital	69,730	73,422	75,096	74,600	76,609	69,152
Minority Interest	10	10	10	10	10	0
Total Equity	101,568	105,367	107,156	92,787	94,904	87,551
TOTAL LIABILITIES & EQUITY	941,943	964,962	961,921	1,030,435	975,193	1,003,031

Consolidated Bank - Memorandum Accounts (Million Pesos)	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17
Investment Banking transactions for third parties, net	71,038	65,031	92,104	93,307	90,367	77,102
TOTAL ON BEHALF OF THIRD PARTIES	71,038	65,031	92,104	93,307	90,367	77,102
Proprietary Transactions						
Endorsement Guarantees Granted	-	-	-	-	-	-
Loan Obligations	164,071	170,431	221,960	285,690	287,187	217,510
Trusts	306,517	320,511	309,671	289,905	271,144	279,574
Mandates	8,571	9,824	9,557	2,268	2,712	13,148
Properties in Trusts and Warrant	315,088	330,336	319,228	292,174	273,856	292,722
Properties in Custody or Management	310,030	322,924	308,394	294,203	321,987	359,766
Collateral Received	86,437	65,935	73,162	82,197	158,596	97,317
Collateral Received or sold	28,941	6,975	12,846	20,124	94,204	30,833
Drafts in Transit	-	-	-	-	-	-
Deposits of assets	-	-	-	-	-	-
Letters of Credit to the Corporation as Guarantee	-	-	-	-	-	-
Securities to the Corporation for Custody	-	-	-	-	-	-
Government Secs of the Corp under Custody	-	-	-	-	-	-
Securities of the Corp given as Guarantee	-	-	-	-	-	-
Securities of the Corp Abroad	-	-	-	-	-	-
Settlement with FX of the Corp Abroad	-	-	-	-	-	-
Debts with the Contingency Fund	-	-	-	-	-	-
Contingent assets & liabilities	26	33	40	45	63	73
Uncollected Accrued Interest from Past Due Loans	449	483	465	439	436	470
Investments of Retirement Savings Funds	-	-	-	-	-	-
Integration of the Credit Portfolio	-	-	-	-	-	-
Amounts Contracted in Derivatives	-	-	-	-	-	-
Proprietary Transactions	905,041	897,117	936,095	974,870	1,136,328	998,692
Repo Securities to be Received	-	-	-	-	-	-
(Minus) Repo Creditors	-	-	-	-	-	-
Net Repo Transactions	-	-	-	-	-	-
Repo Debtors	-	-	-	-	-	-
(Minus) Repo Securities to be Delivered	-	-	-	-	-	-
Net Repo Transactions	-	-	-	-	-	-
TOTAL PROPRIETARY	905,041	897,117	936,095	974,870	1,136,328	998,692

BANORTE - CONSOLIDATED STATEMENT OF CASH FLOW**JANUARY 1, 2016 – JUNE 30, 2017***(Million Pesos)*

Net Income	8,496
Items charged to results that do not generate or require use of resources	
Depreciation	765
Provisions	(2,503)
Income taxes and deferred	3,458
Minority Interest	(31)
Discontinued Operations	79
	10,264
Change in items related to operations	
Change in Margin Accounts	(449)
Change in Investment in Securities	12,909
Change in repo debtors	0
Change in derivatives (assets)	20,537
Change in Loan Portfolio (net)	(26,549)
Change in purchased receivables (net)	6
Change in accounts receivable insurance and bonding institutions (net)	
Change in debtor premiums (net)	
Change in Reinsurance (net)	
Change in benefits to receive from securitizations	3
Change in foreclosed assets (net)	431
Change in other operating assets (net)	14,442
Change in core deposits	38,869
Change in interbank loans and other entities	(3,602)
Change in repo creditors	(16,332)
Change in collateral pledged sold	0
Change in derivatives (liability)	(20,959)
Change in Technical Reserves (net)	
Change in Reinsurance (net) (liability)	
Change in subordinated debt with characteristics of liabilities	(7,759)
Change in other operating liabilities	(5,782)
Change in hedging instruments (the related hedged transaction activities)	(2,146)
Discontinued Operational Assets	(59)
Income Tax Payments	(3,789)
Net cash generated or used from operations	10,035
Investment Activities	
Charges for disposal of property, furniture and equipment	49
Payments for acquisition of property, furniture and equipment	(1,225)
Charges for disposal of subsidiaries, associated and agreements with mutual control	3,195
Charges for cash dividends	1,214
Net cash generated or used from investment activities	3,233
Financing Activities	
Payments of cash dividends	(13,200)
Net cash flows from financing activities	(13,200)
Net Cash Increase (decrease) and equivalents value	68
Effects for changes in cash and equivalents value	(90)
Cash and cash equivalents at beginning of period	65,844
Cash and cash equivalents at end of period	65,822

BANORTE - CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

JANUARY 1, 2017 – JUNE 30, 2017
(Million Pesos)

	CONTRIBUTED CAPITAL		EARNED CAPITAL								
	Fixed Paid-in Capital	Premium from sale of securities	Capital Reserves	Retained Earnings	Valuation Effects of Securities Available for Sale	Results from val of instrum Cash flow hedges	Results from Conversions	Remeasurements defined benefits for employees	Net Income	Minority Interest	Total Stockholders' Equity
Balance as of December 31, 2016	18,105	72	11,509	50,215	(1,645)	(2,131)	1,985	(377)	15,044	10	92,787
<u>Changes stemming from stockholders' decisions</u>											
Capitalization of profits				15,044					(15,044)		
Dividends declared by the General Assembly of Shareholders on February 17, 2017 and April 28, 2017				(13,200)							(13,200)
Creation of Reserves according to Annual General Ordinary Shareholders Meeting held on April 28, 2017.			1,504	(1,504)							0
- Payment plan based on equity-settle shares in equity instrument		222									222
INB's Sale Accounting Effect				(365)							(365)
Total	0	222	1,504	(25)	0	0	0	0	(15,044)	0	(13,343)
<u>Changes stemming from profits</u>											
<u>Total profits:</u>											
Net Income									0		0
Result from valuation of securities available for sale					893						893
Conversion accumulated effect							0				0
Result from valuation of instruments of cash flow hedges						0					0
Remeasurements defined benefits for employees				0				0			0
Modification in the norms of the qualification of non-revolving consumer and mortgage housing portfolio				(711)				0			(711)
Total	0	0	0	(728)	893	149	(441)	(252)	8,496	0	8,117
Recognition of minority interest	0	0	0	0	0	0	0	0	0	(10)	(10)
Balance as of June 30, 2017	18,105	294	13,013	49,462	(752)	(1,982)	1,544	(629)	8,496	0	87,551

Seguros Banorte

Income Statement - Insurance - Seguros Banorte (Million Pesos)	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	2016	1H17
Interest Income	133	125	143	172	179	252	572	431
Interest Expense	7	(7)	-	-	5	(2)	-	3
Premium Income (Net)	6,389	2,627	2,304	3,215	5,986	4,336	14,534	10,323
Net Increase in Technical Reserves	2,284	(529)	(1,097)	(114)	1,920	463	544	2,384
Damages, Claims and Other Obligations	1,995	2,312	2,298	2,321	2,325	2,602	8,927	4,927
Net Interest Income	2,236	975	1,245	1,179	1,916	1,524	5,635	3,440
Fees Charged on Services	-	-	-	-	-	-	-	-
Fees Paid on Services	838	264	424	517	564	469	2,042	1,033
Securities-Valuation Gains	-	-	-	-	-	-	-	-
Securities Trading	1	18	27	(3)	12	(5)	43	7
Trading Income	1	18	27	(3)	12	(5)	43	7
From Insurance	205	282	248	264	232	213	999	445
Losses and Estimates	(56)	2	44	8	(7)	(43)	(2)	(50)
Other Operating Income (Expense)	0	0	0	2	3	2	3	5
Total Other Operating Income (Expenses)	149	284	292	274	228	172	999	400
Total Non-Interest Income	(688)	38	(105)	(246)	(324)	(302)	(1,000)	(626)
Total Operating Income	1,548	1,013	1,141	934	1,592	1,222	4,635	2,814
Personnel	82	88	85	94	84	90	349	174
Employee Profit Sharing (PTU)	1	1	1	2	1	1	4	2
Professional Fees	24	34	59	50	60	56	166	116
Administrative and Promotional Expenses	77	58	72	78	101	66	285	168
Rents, Depreciation & Amortization	21	22	23	36	38	38	102	76
Taxes other than income tax & non-deductible expenses	30	23	24	35	38	(0)	113	38
Contributions to IPAB/Fobaproa	-	-	-	-	-	-	-	-
Total Non-Interest Expense	235	226	265	294	322	252	1,020	574
Operating Income	1,313	787	876	640	1,270	970	3,615	2,241
Subsidiaries' Net Income	0	(0)	0	281	369	316	281	685
Pre-Tax Income	1,313	787	876	920	1,639	1,287	3,896	2,925
Income Tax	397	239	320	86	387	298	1,042	685
Deferred Income Tax	-	-	(49)	(10)	(4)	(4)	(59)	(7)
Taxes	397	239	271	76	384	295	983	678
Net Income from Continuous Operations	917	548	604	844	1,255	992	2,913	2,247
Discontinued Operations	-	-	-	-	-	-	-	-
Minority Interest	(1)	(1)	(1)	(8)	(8)	(7)	(12)	(15)
Net Income	916	547	603	836	1,247	985	2,902	2,232

Insurance - Seguros Banorte - Balance Sheet <i>(Million Pesos)</i>	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17
ASSETS						
Cash and Due from Banks	61	69	69	67	55	37
Margin Accounts	-	-	-	-	-	-
Negotiable Instruments	8,795	9,504	9,734	10,848	11,834	13,264
Securities Available for Sale	3,570	2,655	2,415	2,264	2,232	2,093
Securities Held to Maturity	(0)	(0)	(0)	(0)	(0)	-
Investment in Securities	12,364	12,159	12,150	13,112	14,066	15,356
Debtor Balance in Repo Trans,net	60	46	0	0	1,150	927
Securities Lending	-	-	-	-	-	-
Transactions with Derivatives	-	-	-	-	-	-
Operations w/Derivatives & Securities	60	46	0	0	1,150	927
Valuation adjustments for Asset Coverage	-	-	-	-	-	-
Acquired Collection Rights	-	-	-	-	-	-
Account Receivables	578	604	622	667	360	480
Premium Debtors (Net)	9,196	7,566	5,589	4,189	8,319	8,105
Account Receivables from Reinsurance	6,462	6,936	6,966	7,166	7,189	8,878
Benef.receiveab.securization transactions	-	-	-	-	-	-
Sundry Debtors & Other Accs Rec, Net	-	-	-	-	-	-
Inventories	-	-	-	-	-	-
Real Estate, Furniture & Equipment, Net	289	315	319	343	337	330
Investment in Subsidiaries	2	2	2	13,332	12,551	12,867
Long-term assets held for sale	-	-	-	-	-	-
Deferred Taxes, Net	79	79	128	134	134	134
Goodwill and Intangibles	470	713	897	2,501	1,891	2,152
Other Assets Short and Long Term	76	78	81	81	85	86
	17,151	16,293	14,604	28,414	30,866	33,033
TOTAL ASSETS	29,637	28,567	26,823	41,593	46,137	49,353

Insurance - Seguros Banorte - Balance Sheet <i>(Million Pesos)</i>	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17
LIABILITIES						
Technical Reserves	17,275	16,472	15,347	15,539	18,623	20,346
Total Operations w/ Derivatives & Securities	-	-	-	-	-	-
Valuation adjustments for financial liability coverage	-	-	-	-	-	-
Obligations in securitization transactions	-	-	-	-	-	-
Payable Accounts for Reinsurance	2,575	2,412	2,455	1,747	2,526	3,348
Income Tax Payable	399	633	948	1,028	409	702
Profit Sharing Payable	-	-	-	-	-	-
Provision for future capital increase not formalized by its governing entity	-	-	-	-	-	-
Creditors for settlement of transactions	-	-	-	-	-	-
Margin Accounts Payable	-	-	-	-	-	-
Other Creditors & Accounts Payable	3,838	3,259	2,590	2,447	2,770	2,413
Other Payable Accounts	4,237	3,892	3,538	3,475	3,179	3,115
Subordinated Non Convertible Debt	-	-	-	-	-	-
Deferred Taxes, Net	-	-	-	401	397	394
Deferred Credits	140	102	84	68	66	60
TOTAL LIABILITIES	24,227	22,878	21,424	21,229	24,791	27,262
EQUITY						
Paid-in Capital	709	709	709	13,766	13,766	13,766
Provision for future capital increase not formalized by its governing entity	-	-	-	-	-	-
Share Subscription Premiums	-	-	-	-	-	-
Subordinated Convertible Debentures	-	-	-	-	-	-
Subscribed Capital	709	709	709	13,766	13,766	13,766
Capital Reserves	540	717	717	1,499	1,499	1,789
Retained Earnings	3,451	2,674	1,774	1,768	4,419	3,879
Surplus (Deficit) of Secs Available for Sale	109	113	80	48	31	52
Results from Valuation of Hedging Secs	-	-	-	-	-	-
Result in the valuation reserve for unexpired risks variations in rates	(352)	(24)	15	88	82	68
Results from Conversions	-	-	-	-	-	-
Remeasurements defined benefits for employees	-	-	-	-	-	-
Surplus (Deficit) in Capital Restatement	-	-	-	-	-	-
Adjustments in the Employee's Pensions	-	-	-	-	-	-
Accumulated Effect of Deferred Taxes	-	-	-	-	-	-
Net Income	916	1,462	2,065	2,902	1,247	2,232
Earned Capital	4,665	4,943	4,652	6,304	7,278	8,020
Minority Interest	36	37	38	294	302	305
Total Equity	5,410	5,689	5,399	20,364	21,346	22,091
TOTAL LIABILITIES & EQUITY	29,637	28,567	26,823	41,593	46,137	49,353

Information by Segments

GFNorte - Income Statement as of June '17
(Million Pesos)

	Holding	Banorte	Ahorro y Previsión	Arrendadora y Factor	Almacenadora	Casa de Bolsa Banorte Ixe
Interest Income	136	45,488	4,367	983	35	3,586
Premium Income (Net)	-	-	14,642	-	-	-
Interest Expense	-	18,754	3	594	1	3,367
Net Increase in Technical Reserves	-	-	8,198	-	-	-
Damages, Claims and Other Obligations	-	-	6,951	-	-	-
Net Interest Income (Nil)	136	26,735	3,858	390	34	219
Preventive Provisions for Loan Losses	-	7,205	-	48	-	-
Net Interest Income Adjusted for Credit Risk	136	19,530	3,858	341	34	219
Loan Origination Fees	-	8,838	-	13	-	537
Fees Paid	-	2,943	1,033	25	0	79
Trading Income	-	1,404	242	(2)	-	291
Other Operating Income (Expenses)	0	880	394	310	14	27
Non Interest Income	0	8,179	(397)	297	14	777
Total Operating Income	136	27,709	3,460	638	48	996
Administrative and Promotional Expenses	52	15,865	716	123	18	445
Operating Income	84	11,844	2,744	515	30	551
Subsidiaries' Net Income	11,111	31	685	-	-	(0)
Pre-Tax Income	11,195	11,875	3,429	515	30	551
Income Tax	-	3,049	685	181	9	110
Deferred Income Tax	(6)	409	134	(27)	(1)	43
Net Income from Continuous Operations	11,201	8,417	2,609	360	21	398
Discontinued Operations	-	79	-	-	-	-
Minority Interest	-	(0)	(12)	(0)	-	-
Net Income	11,201	8,496	2,597	360	21	398

GFNorte - Income Statement as of June '17
(Million Pesos)

	Operadora de Fondos Banorte Ixe	IXE Servicios	Sólida Administradora de Portafolios	Total	Charges Intercompany Eliminations	Credits Intercompany Eliminations	Final Balance
Interest Income	9	1	211	54,816	2,037	-	52,779
Premium Income (Net)	-	-	-	14,642	351	-	14,291
Interest Expense	-	-	386	23,104	-	2,026	21,078
Net Increase in Technical Reserves	-	-	-	8,198	-	-	8,198
Damages, Claims and Other Obligations	-	-	-	6,951	-	-	6,951
Net Interest Income (Nil)	9	1	(175)	31,206	-	-	30,844
Preventive Provisions for Loan Losses	-	-	207	7,460	-	134	7,326
Net Interest Income Adjusted for Credit Risk	9	1	(382)	23,747	-	(134)	23,518
Loan Origination Fees	611	-	48	10,048	797	-	9,250
Fees Paid	426	-	0	4,506	-	812	3,694
Trading Income	-	-	(247)	1,688	-	10	1,698
Other Operating Income (Expenses)	0	-	(198)	1,428	157	1	1,272
Non Interest Income	185	-	(397)	8,657	954	(801)	8,526
Total Operating Income	194	1	(779)	32,404	954	(935)	32,045
Administrative and Promotional Expenses	24	2	107	17,352	375	724	17,002
Operating Income	170	(1)	(885)	15,051	-	-	15,042
Subsidiaries' Net Income	3	-	(121)	11,709	11,111	-	598
Pre-Tax Income	173	(1)	(1,006)	26,760	-	-	15,640
Income Tax	49	-	-	4,085	-	-	4,085
Deferred Income Tax	(0)	-	(267)	285	3	19	269
Net Income from Continuous Operations	124	(1)	(738)	22,391	-	-	11,287
Discontinued Operations	-	-	-	79	-	-	79
Minority Interest	-	-	-	(12)	146	-	(159)
Net Income	124	(1)	(738)	22,458	14,974	3,574	11,207

GFNorte - Balance Sheet as of June 30 '17

(Million Pesos)

ASSETS	Holding	Banorte	Ahorro y Previsión	Arrendadora y Factor	Almacenadora	Casa de Bolsa Banorte Ixe
Cash and Due from Banks	40	65,822	38	60	6	797
Margin Accounts	-	2,635	-	-	-	-
Investment in Securities	-	276,846	97,905	0	-	91,500
Negotiable Instruments	-	159,894	15,475	-	-	64,854
Securities Available for Sale	-	110,750	2,169	0	-	25,953
Securities Held to Maturity	-	6,202	80,261	-	-	693
Debtor Balance in Repo Trans, net	611	0	928	-	-	-
Transactions with Derivatives For trading purposes	-	20,352	-	0	-	-
Transactions with Derivatives For hedging purposes	-	216	-	-	-	-
Valuation adjustments for Asset Coverage	-	106	-	-	-	-
Gross Loan Portfolio	-	580,347	-	22,860	-	-
Net Loan Portfolio	-	578,953	-	22,860	-	-
Performing Loans	-	583,853	-	23,047	-	-
Commercial Loans	-	208,717	-	21,901	-	-
Financial Intermediaries' Loans	-	23,538	-	115	-	-
Government Entities' Loans	-	133,394	-	1,029	-	-
Consumer Loans	-	93,999	-	3	-	-
Mortgage Loans	-	124,206	-	-	-	-
Medium and Residential	-	120,197	-	-	-	-
Low income housing	-	33	-	-	-	-
Loans acquired from INFONAVIT or FOVISSSTE	-	3,975	-	-	-	-
Past Due Loans	-	10,598	-	144	-	-
Commercial PDL's	-	5,570	-	144	-	-
Financial Intermediaries PDL's	-	0	-	-	-	-
Consumer PDL's	-	3,867	-	0	-	-
Mortgage PDL's	-	1,161	-	-	-	-
Medium and Residential	-	1,044	-	-	-	-
Low income housing	-	1	-	-	-	-
Loans acquired from INFONAVIT or FOVISSSTE	-	117	-	-	-	-
Preventive Loan Loss Reserves	-	15,499	-	331	-	-
Acquired Collection Rights	-	1,394	-	-	-	-
Account Receivables from Insurance and Annuities	-	-	1,769	-	-	-
Premium Debtors (Net)	-	-	8,223	-	-	-
Account Receivables from Reinsurance	-	-	8,878	-	-	-
Benef. receivab. securization transactions	-	152	-	-	-	-
Sundry Debtors & Other Accs Rec, Net	0	26,519	0	439	87	733
Inventories	-	-	-	-	1,309	-
Foreclosed Assets, Net	-	791	-	4	-	-
Real Estate, Furniture & Equipment, Net	-	12,306	356	3,104	69	44
Investment in Subsidiaries	121,286	119	12,867	-	-	1
Long-term assets held for sale	-	-	-	-	-	-
Deferred Taxes, Net	200	3,651	-	76	5	-
Total other Assets	10,615	13,169	2,239	64	13	370
Goodwill	9,696	1,356	-	-	-	-
Intangible	919	9,449	2,152	64	1	125
Other Assets	-	2,364	87	-	12	246
TOTAL ASSETS	132,753	1,003,031	133,203	26,606	1,489	93,444

GFNorte - Balance Sheet as of June 30 '17

(Million Pesos)

ASSETS	Operadora de Fondos Banorte Ixe	IXE Servicios	Sólida Administradora de Portafolios	Total	Charges Intercompany Eliminations	Credits Intercompany Eliminations	Final Balance
Cash and Due from Banks	184	33	47	67,028	297	1,484	65,840
Margin Accounts	-	-	-	2,635	-	-	2,635
Investment in Securities	0	-	504	466,756	208	349	466,614
Negotiable Instruments	0	-	-	240,223	-	-	240,223
Securities Available for Sale	-	-	504	139,376	-	112	139,264
Securities Held to Maturity	-	-	-	87,156	208	237	87,127
Debtor Balance in Repo Trans, net	-	-	75	1,614	-	1,614	0
Transactions with Derivatives For trading purposes	-	-	35	20,387	-	-	20,387
Transactions with Derivatives For hedging purposes	-	-	-	216	-	-	216
Valuation adjustments for Asset Coverage	-	-	-	106	-	-	106
Gross Loan Portfolio	-	-	5,532	608,738	-	18,057	590,682
Net Loan Portfolio	-	-	4,939	606,752	-	18,057	588,696
Performing Loans	-	-	5,153	612,053	-	18,057	593,997
Commercial Loans	-	-	677	231,295	-	11	231,284
Financial Intermediaries' Loans	-	-	-	23,653	-	18,046	5,607
Government Entities' Loans	-	-	-	134,423	-	-	134,423
Consumer Loans	-	-	4,476	98,478	-	-	98,478
Mortgage Loans	-	-	-	124,206	-	-	124,206
Medium and Residential	-	-	-	120,197	-	-	120,197
Low income housing	-	-	-	33	-	-	33
Loans acquired from INFONAVIT or FOVISSSTE	-	-	-	3,975	-	-	3,975
Past Due Loans	-	-	76	10,818	-	-	10,818
Commercial PDL's	-	-	25	5,739	-	-	5,739
Financial Intermediaries PDL's	-	-	-	0	-	-	0
Consumer PDL's	-	-	51	3,918	-	-	3,918
Mortgage PDL's	-	-	-	1,161	-	-	1,161
Medium and Residential	-	-	-	1,044	-	-	1,044
Low income housing	-	-	-	1	-	-	1
Loans acquired from INFONAVIT or FOVISSSTE	-	-	-	117	-	-	117
Preventive Loan Loss Reserves	-	-	289	16,119	-	-	16,119
Acquired Collection Rights	-	-	592	1,986	-	-	1,986
Account Receivables from Insurance and Annuities	-	-	-	1,769	-	-	1,769
Premium Debtors (Net)	-	-	-	8,223	-	-	8,223
Account Receivables from Reinsurance	-	-	-	8,878	-	-	8,878
Benef.receiveab.securization transactions	-	-	-	152	-	-	152
Sundry Debtors & Other Accs Rec, Net	142	5	8,994	36,918	62	281	36,699
Inventories	-	-	-	1,309	-	-	1,309
Foreclosed Assets, Net	-	-	354	1,149	201	201	1,149
Real Estate, Furniture & Equipment, Net	0	102	-	15,979	212	210	15,981
Investment in Subsidiaries	100	-	114	134,488	767	122,151	13,104
Long-term assets held for sale	-	-	-	-	-	-	-
Deferred Taxes, Net	0	-	1,274	5,206	431	1,907	3,729
Total other Assets	0	0	204	26,676	2,453	927	28,201
Goodwill	-	-	-	11,052	2,453	876	12,628
Intangible	0	0	204	12,915	-	51	12,864
Other Assets	-	-	-	2,709	-	-	2,709
TOTAL ASSETS	427	140	17,134	1,408,227	4,630	147,182	1,265,675

GFNorte - Balance Sheet as of June 30 '17

(Million Pesos)

LIABILITIES & EQUITY	Holding	Banorte	Ahorro y Previsión	Arrendadora y Factor	Almacenadora	Casa de Bolsa Banorte Ixe	Operadora de Fondos Banorte Ixe
Deposits	-	614,625	-	-	-	-	-
Demand Deposits	-	367,839	-	-	-	-	-
Time Deposits	-	242,580	-	-	-	-	-
Time Deposits-Retail	-	227,186	-	-	-	-	-
Time Deposits-Money Market	-	15,394	-	-	-	-	-
Senior Unsecured Debt	-	2,750	-	-	-	-	-
Cuenta global de captación sin movimientos	-	1,456	-	-	-	-	-
Due to Banks & Correspondents	-	17,642	-	20,785	1,263	-	-
Immediate Redemption Loans	-	1,591	-	-	-	-	-
Short Term Loans	-	7,557	-	11,059	1,263	-	-
Long Term Loans	-	8,495	-	9,727	-	-	-
Technical Reserves	-	-	100,834	-	-	-	-
Non-assigned Securities for Settlement	-	-	-	-	-	-	-
Creditor Balance in Repo Trans, Net	-	218,158	-	-	-	90,617	-
Collateral sold or pledged as collateral	-	0	-	-	-	-	-
Transactions with Derivatives for trading purposes	-	19,445	-	-	-	-	-
Transactions with Derivatives for hedging purposes	-	6,552	-	-	-	-	-
Valuation adjustments for financial liability coverage	-	-	-	-	-	-	-
Payable Accounts for Reinsurance	-	-	3,348	-	-	-	-
Other Payable Accounts	1	25,218	3,206	946	20	340	139
Income Tax Payable	-	1,143	702	71	6	-	11
Profit Sharing Payable	-	222	-	-	-	-	-
Creditors for settlement of transactions	(0.00)	6,828	-	-	-	128	-
Creditors for collateral received in cash	-	3,110	-	-	-	-	-
Other Creditors & Accounts Payable	0.65	13,916	2,504	875	14	212	128
Subordinated Non Convertible Debt	-	13,733	-	-	-	-	-
Deferred Taxes, Net	-	-	1,190	-	-	67	-
Deferred Credits	-	107	60	133	-	0	-
TOTAL LIABILITIES	1	915,480	108,639	21,864	1,284	91,024	139
EQUITY							
Subscribed Capital	50,326	18,399	20,944	526	87	1,429	112
Paid-in Capital	14,568	18,105	15,740	526	87	1,354	112
Share Subscription Premiums	35,758	294	5,204	-	-	75	-
Contributions for future capital increases agreed by the governing body	-	-	-	-	-	-	-
Earned Capital	82,426	69,152	3,356	4,208	118	991	175
Capital Reserves	4,827	13,013	62	526	49	182	22
Retained Earnings	69,718	49,462	673	3,332	47	216	29
Surplus (Deficit) of Secs Available for Sale	(2,442)	(752)	(39)	(10)	-	96	-
Results from Valuation of Hedging Secs	(1,943)	(1,982)	-	-	-	-	-
Result in the valuation reserve for unexpired risks variations in rates	68	-	63	-	-	-	-
Results from Conversions	1,616	1,544	-	-	-	99	-
Surplus (Deficit) in Capital Restatement	-	-	-	-	-	-	-
Remeasurements defined benefits for employees	(618)	(629)	-	-	-	-	-
Net Income	11,201	8,496	2,597	360	21	398	124
Capital Mayoritario	132,752	87,551	24,300	4,734	205	2,420	288
Minority Interest	-	0	264	8	0	-	-
Total Equity	132,752	87,551	24,564	4,742	205	2,420	288
TOTAL LIABILITIES & EQUITY	132,753	1,003,031	133,203	26,606	1,489	93,444	427

GFNorte - Balance Sheet as of June 30 '17

(Million Pesos)

LIABILITIES & EQUITY	IXE Servicios	Sólida Administradora de Portafolios	Total	Charges Intercompany Eliminations	Credits Intercompany Eliminations	Final Balance
Deposits	-	-	614,625	1,483	-	613,142
Demand Deposits	-	-	367,839	1,410	-	366,429
Time Deposits	-	-	242,580	73	-	242,507
Time Deposits-Retail	-	-	227,186	73	-	227,113
Time Deposits-Money Market	-	-	15,394	-	-	15,394
Senior Unsecured Debt	-	-	2,750	-	-	2,750
Cuenta global de captación sin movimientos	-	-	1,456	-	-	1,456
Due to Banks & Correspondents	-	13,064	52,755	18,057	-	34,698
Immediate Redemption Loans	-	-	1,591	-	-	1,591
Short Term Loans	-	13,064	32,942	18,057	-	14,886
Long Term Loans	-	-	18,222	-	-	18,222
Technical Reserves	-	-	100,834	44	192	100,982
Non-assigned Securities for Settlement	-	-	-	-	-	-
Creditor Balance in Repo Trans, Net	-	-	308,775	1,614	-	307,161
Collateral sold or pledged as collateral	-	-	0	-	-	0
Transactions with Derivatives for trading purposes	-	-	19,445	-	-	19,445
Transactions with Derivatives for hedging purposes	-	-	6,552	-	-	6,552
Valuation adjustments for financial liability coverage	-	-	-	-	-	-
Payable Accounts for Reinsurance	-	-	3,348	-	-	3,348
Other Payable Accounts	0	68	29,938	321	105	29,722
Income Tax Payable	0	-	1,933	-	-	1,933
Profit Sharing Payable	-	-	222	-	-	222
Creditors for settlement of transactions	-	-	6,956	-	-	6,956
Creditors for collateral received in cash	-	-	3,110	-	-	3,110
Other Creditors & Accounts Payable	0	68	17,718	321	105	17,502
Subordinated Non Convertible Debt	-	-	13,733	-	-	13,733
Deferred Taxes, Net	-	-	1,258	1,258	-	-
Deferred Credits	-	2	303	51	-	252
TOTAL LIABILITIES	0	13,135	1,151,565	22,826	297	1,129,036
EQUITY						
Subscribed Capital	144	6,201	98,169	47,995	322	50,496
Paid-in Capital	144	5,348	55,985	41,420	-	14,564
Share Subscription Premiums	-	4	41,335	5,724	322	35,932
Contributions for future capital increases agreed by the governing body	-	850	850	850	-	-
Earned Capital	(4)	(2,202)	158,220	77,223	3,289	84,287
Capital Reserves	2	117	18,802	13,974	-	4,827
Retained Earnings	(6)	230	123,702	55,361	3,260	71,600
Surplus (Deficit) of Secs Available for Sale	-	(1,815)	(4,963)	(2,492)	-	(2,471)
Results from Valuation of Hedging Secs	-	4	(3,921)	(1,978)	-	(1,943)
Result in the valuation reserve for unexpired risks variations in rates	-	-	130	63	-	68
Results from Conversions	-	-	3,259	1,643	-	1,616
Surplus (Deficit) in Capital Restatement	-	-	-	-	-	-
Remeasurements defined benefits for employees	-	-	(1,246)	(629)	-	(618)
Net Income	(1)	(738)	22,458	11,279	29	11,207
Capital Mayoritario	140	3,999	256,390	125,217	3,610	134,783
Minority Interest	-	-	271	-	1,584	1,856
Total Equity	140	3,999	256,661	125,217	5,195	136,639
TOTAL LIABILITIES & EQUITY	140	17,134	1,408,227	148,044	5,492	1,265,675

V. Appendix

Accounting Changes & Regulation

Numbers in this section are stated in million pesos.

Changes to the rating methodologies for non-revolving consumer and mortgage portfolios.

On January 6, 2017, the CNBV issued a resolution modifying the provisions regarding the rating methodologies for non-revolving consumer and mortgage portfolios which continue to have and expected loss approach and incorporate more recent information of the industry performance to the new variables incorporated. The main change in both methodologies is that, in addition to analyzing the credit history of the borrower with the lender, it also requires analysis of the credit behavior the borrower with other Institutions according to the information of Sociedades de Información Crediticia. This new methodologies came into effect on June 1, 2017.

The financial effect applied to Banorte at the end of June 2017 was Ps 1.054 billion and derived from the new provision methodologies minus the provisions of the previous methodologies. The accounting record of this financial effect was an increase in the estimated credit risk of Ps 1.054 billion (liabilities), a deferred tax increase of Ps. 316 million (assets) and a decrease in prior years' income of Ps. 725 million (stockholders' equity).

Special accounting treatment to the support program derived from PEMEX's budgetary adjustments.

On May 2, 2016 the National Banking and Securities Commission issued a special accounting criterion applicable to credit institutions related to MiPYMES; indirect suppliers to PEMEX, as well as to individuals and MiPYMES located in the states of Tamaulipas, Veracruz, Campeche, Chiapas and Tabasco, which were identified as affected areas by PEMEX's budgetary adjustments. Under this special accounting criteria, that will apply to those restructured and renewed performing loans before December 31, 2016, will not be considered as restructured loans as per criterion B-6 "Loan Portfolio" and will remain as performing loans during the specified period in the Plan while meeting the terms of its restructuring, then, they would be considered as performing loans for the loan loss provisions' determination.

As of this date, the institution has not granted supports under this special criterion, if applied, we will comply with the required disclosure.

Amendments to the revolving consumer portfolio's rating methodology

On December 16, 2015, the CNBV published a ruling modifying the provisions regarding the rating methodology for revolving consumer loans, which still has an expected loss application, adding recent information on industry's performance towards new elements. The main amendment to such methodology besides taking into consideration the credit experience of the borrower with the institution granting the loan, address the credit behavior of such borrowers with other institutions according to the information from Credit Information Societies. The new methodology became effective as of April 2016.

The financial impact on Banorte as of April 2016, derived from the modified methodology minus the expected reserves on the balance of the portfolio with the prior methodology was Ps 672. The accounting registration of this financial effect was an increase in loan loss provisions of Ps 672 (liabilities), an increase in deferred tax of Ps 201 (assets) and a decrease in the results from prior years for Ps 471 (equity).

The financial effect for GFNorte, considering its participation in Banorte, was Ps 462 as a decrease to the result from prior years net of deferred taxes.

Changes in Seguros Banorte and Pensiones Banorte.

Seguros Banorte

On April 4th, 2015 the Law for Insurance and Bonding Institutions came into effect, with new requirements in terms of corporate governance systems, disclosure of information, documentation and enhanced processes; furthermore, new methodologies for Reserves calculation in accordance with the new Law were registered.

During the first quarter of 2016, the National Insurance and Bonding National Commission (CNSF) authorized to use internal methodologies of reserves, the preliminary calculations of the final test with figures as of December 2015 had no impact on Capital Solvency Requirement and Margin of Solvency.

Recognition of rate variation of reserve for Long-Term Unexpired Risks

The variations that occur between the reserve for unexpired risks valuation and the recoverable long-term reinsurance amounts due to differences in interest rates used in the valuation, will correspond to unrealized losses or gains, which could subsequently be reversed depending on the movements of rates used for the valuation; therefore, registration shall affect Equity in the line "Surplus / Deficit in the valuation of the reserve for long-term unexpired risks" in accordance with the criteria defined by the CNSF.

Registration of changes in calculation methodology for Unexpired Risks

In accordance to the amendment circular 1/16, to institutions – that as a result of the application as of January 1st, 2016 regarding internal calculation methods for unexpired risks and reserves for pending outstanding obligations for occurred and non-reported claims– that determine a net decrease in such reserves related to the amounts determined in accordance with the provisions in force to December 31st, 2015. Such net decrease could be registered in accordance with that established under Title 22 of current regulations, which must be carried out in a maximum period of 2 years.

Securities Portfolio

Securities classified as "Held to Maturity" were reclassified as "Available for Sale", the foregoing in adherence to Title 22 (of accounting and financial statements) Chapter 22.1.2 (of accounting criteria for the estimation of the assets and liabilities of institutions) which states that Securities Held to Maturity will be used exclusively by the insurance companies that operate the insurance of Annuities companies, considering the nature of their obligations.

Registration of Short-Term Life Insurance Premiums

Until December 2015 registration of income was carried out according to the payment periodicity for each premium and as from January 2016 is recognized in accordance with the policy's term. This effect has a corresponding impact in the constitution of reserves.

Afore XXI Banorte's acquisition

On August 16th, 2016 the 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 26th, the 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 on October 12th, the SAT authorized to transfer shares at fiscal cost from Banorte Futuro i) to Banorte Ahorro y Previsión, and ii) then to Seguros Banorte.

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

Pensiones Banorte

Securities Portfolio

Also, in January 2016 Pensiones Banorte changed its classification of securities "Held to Maturity" to "Available for Sale" reflecting a deficit of Ps 7.86 in equity as of January 31st, 2016.

Changes to the calculation of the Severity of Loss for debtors in bankruptcy.

On October 30, 2014 the CNBV published an amendment to Regulations for the rating methodology of commercial loan portfolios, to make it congruent with Bankruptcy Law reforms published in January 2014 for loans granted to debtors applying for bankruptcy who had previously submitted a restructuring plan.

The resolution amends Article 114 of the Regulations and applies to the part not covered by real guarantees for loans granted to individuals or corporations who have filed for bankruptcy, with a previous restructuring plan. The amendment establishes that for such cases, Institutions may calculate an Updated Loss Estimate that reflects the best estimate of loss as a percentage of the past due portfolio, considering possible payments or mitigated losses that could be received as payment for the portion of the loan that is not covered.

The Severity of Loss to be used in these cases would be the maximum between the Updated Loss Estimate and the 45% established in the regulation as Severity of Loss for un-subordinated, uncovered positions with less than 18 months in arrears. This calculation can be maintained until an agreement between lender(s) and borrower is reached or until the borrower has been declared in bankruptcy in which case this modification would not apply and the uncovered portion of the loan will be set aside in accordance to the existing regulation which requires up to 100% of Loss Severity for loans 18 months or more in default.

Main changes in the accounting criterion NIF D-3 "Employee Benefits".

On December 31, 2015, the Commission issued a resolution amending provisions corresponding to the application of the "NIF D-3 Employee Benefits". This provision is intended to publicize transitory articles that identify the options that institutions have to recognize accounting effects as a result of the new NIF-D-3.

Under the above, the institution took the option set forth in the third transitional article of progressively registering in equity formula changes referred to in paragraphs a) and b) of paragraph 81.2 of the NIF D-3 "Employees' Benefits", issued by the "*Consejo Mexicano de Normas de Información Financiera, A.C.*", which became effective on January 1st, 2016 and promptly reported to the Commission in accordance with the deadlines set in the provisions.

The registration of balances in paragraphs a) and b) of paragraph 81.2 of the NIF D-3, started in 2016 recognizing 20% of the balances in that year and an additional 20% in each of the subsequent years, up to 100% in a maximum period of 5 years.

The total amounts to register regarding paragraphs a) and b) of paragraph 81.2 of the NIF D-3 were determined using the corporate bond discount rate for market valuation, of the Defined Benefits Obligation in accordance with the new NIF D-3, in the following terms:

- I. The amendments balance of the unrecognized plan, is recognized progressively, registering 20% annually the "results from prior years" line, using as a counterpart the "Provision for employee benefits" account, corresponding to the liability line "Other creditors & accounts payable", as follows:

Discount rate	Total balance to be applied	20% annual application	Progressive recognition as of 2Q17
Corporate bonds	\$183.0	\$36.6	\$54.90

- II. In the case of an accumulated balance of gains or losses of the unrecognized plan (broker approach), its perceived progressively, registering 20% in 2016, and increasing the "Provision for employee benefits" account, corresponding to the liability line "Other creditors & accounts payable", using as a counterpart the "Measurements of defined benefits for employees" of the "Earned Capital" line as follows:

Discount rate	Total balance to be applied	20% annual application	Progressive recognition as of 2Q17
Corporate bonds	\$2,728.7	\$545.7	\$818.61

The 20% annual application is registered proportionally each month in 2017.

The amounts that would have been registered and presented in the balance sheet as of June 30, 2017, having not implemented the aforementioned option in the affected lines are:

Other short and long term assets ⁽¹⁾	670
Total assets	1,263,636
Results from prior years	71,472
Measurements of defined benefits for employees	(2,528)
Total equity	134,407
Total liabilities plus equity	1,263,636

1. Under this line, the "Provision for employee benefits" account is netted to show "Net asset for defined benefits" driven by the institutions' prepayments.

Early termination of the mortgage debtor support programs

On June 30, 2010, the Ministry of Finance and Public Credit (SHCP) on behalf of the Federal Government agreed (the Agreement) to the early termination of mortgage debtor support programs (end point and UDIS trusts) with banks. Consequently, as of January 1, 2011, the Holding Company absorbed the corresponding part of the discount offered in advance to mortgage debtors that participated in the program.

In the Agreement a series of Federal Government's obligations were established, payable in 5 annual amortizations whose maturity date was June 1, 2015. On such date the last payment for an amount of Ps 29 was received. This includes a monthly financial cost as of the day immediately following the cut-off date and until the end of the month immediately preceding the payment date.

As of June 30, 2017, the remaining balance of the SPECIAL CETES that haven't been repurchased by the Federal Government is of Ps. 967, and its maturities are between 2017 and 2027.

Accounting Registration applicable to the investment in International Bank ("INB")

As part of the divestment that Banorte decided over Inter National Bank (INB), in December 2016 certain accounting amendments were made in compliance with the requirements established in NIF C15 "Deterioration of long-term assets and their disposal", according to the following.

Banorte classified its investment in INB as a long-term asset available for sale, which was registered at the end of 2016 at its estimated sale value. Moreover, INB's 2016 fiscal year income of Ps 243 million was registered in the Income from discontinued operations line. The consolidation of INB figures in Banorte's Balance Sheet and Income Statement was reversed for the entire year as of yearend 2016. Hence, the consolidated figures of GFNorte and Banorte for 4Q16 and 2016 are not comparable with the results published for the first three quarters of 2016 and those for 2015, which are consolidated line by line with INB.

In 1Q17 Banorte finalized INB's sale, therefore, the long-term asset available for sale item against the cash entrance received from the sale. Moreover, INB's 1Q17 net income of Ps 74 million was registered in Income from discontinued operations.

The accounting record of the sale was made based of the Official Letter P071/2016. Said Office authorizes Banorte to recognize profits derived from the sale of INB shares in the "Income from Prior Years" and not in the results of the corresponding year. As per requirements set forth in the NIF C-15 "Deterioration of long-term assets and their disposal".

The comparison between the book value of the investment, net of expenses associated to the sale, and the estimated sale value generated a difference of (Ps 4.01) billion, of which (Ps 3.74) billion were recorded in 4Q16 and (Ps 358) million in 1Q17, both decreasing the item of "Income from Prior Years" and not against the results of the fiscal year as established in NIF C-15.

By not being applying the authorized Special Accounting Register, the amounts that would have been recognized and presented in the Balance Sheet as of June 30, 2017 and December 31st, 2016 in the affected accounts would have been:

Accounting effect in 2Q17 including expenses associated with the sale.

<i>2Q17</i>	Numbers without Special Accounting Register	Numbers with Special Accounting Register	Variation
Income from prior years	71,958	71,600	(358)
Net Income	10,777	11,135	358
Total equity	136,445	136,445	0
Total liabilities + equity	1,265,675	1,265,675	0

Accounting effect in 4Q16 including expenses associated with the sale.

<i>4Q16</i>	Numbers without Special Accounting Register	Numbers with Special Accounting Register	Variation
Income from prior years	72,233	68,492	(3,741)
Net Income	15,567	19,308	3,741
Total equity	142,701	142,701	0
Total liabilities + equity	1,268,119	1,268,119	0

Loan Portfolio Sales to Sólida

As instructed by the CNBV in the document 601-II-323110, we show the integration of the loan portfolio sold in 1Q03 by Banorte to its subsidiary Solida Administradora de Portafolios, S.A. de C.V. The Purpose of this sale was to concentrate the portfolio in this unit as it had been managing the collections of these loans previously. This was a one-time operation and not a permanent transfer procedure of the Solida's portfolio.

On February, 2003 Banorte sold Ps 1.9 billion (Ps 1.861 billion in past due loans and Ps 64 million in Performing loans) of its own portfolio (including interests) to its subsidiary, Solida Administradora de Portafolios, S.A. de C.V. for Ps 378 million. The transaction was done based on August 2002 figures, and therefore the final figure that affected the February balance was Ps 1.86 billion, once the collections made since August 2002 are considered. The past due portfolio, as well as Ps 1.577 billion in associated loan reserves, were cancelled.

(Million of Nominal Pesos)	Local Currency			Foreign Currency (USD)			Total		
	ago-02	mar-17	jun-17	ago-02	mar-17	jun-17	ago-02	mar-17	jun-17
Commercial	5	0	0	5	0	0	10	0	0
Consumer	0	0	0	0	0	0	0	0	0
Mortgage	54	21	20	0	0	0	54	21	20
Performing Loans	59	21	20	5	0	0	64	21	20
Commercial	405	192	192	293	1	1	698	193	193
Consumer	81	71	71	0	0	0	81	71	71
Mortgage	1,112	201	200	0	0	0	1,112	201	200
Non Performing Loans	1,598	464	463	293	1	1	1,891	465	464
TOTAL LOANS	1,657	485	483	298	1	1	1,955	486	484
Commercial	326	192	192	246	1	1	572	193	193
Consumer	77	71	71	0	0	0	77	71	71
Mortgage	669	211	210	0	0	0	669	211	210
Loan Loss Reserves (1)	1,072	474	473	246	1	1	1,318	476	474

(1) Reserve requirements using the same classification method used for the bank.

(*) There was a reserve difference of Ps 12 million as of June 2017.

(*) The dollar portfolio and reserves are re-expressed in pesos.

(*) Local Currency includes UDIS valued at the new exchange rate.

In 2Q17 the Loan portfolio showed changes due to charge offs of PS 0.01 million, discounts of Ps 0.04 million, foreclosed assets for Ps 0.8 million and Ps 0.001 million in restructure. In the Loan loss provisions, there were changes of Ps 2.0 million. No transfers to performing loans or to past due loans were made.

As instructed by the CNBV in document 601-II-323110 for purposes of determining financial indicators and a general disclosure referred to regulations, we show the integration of the Banorte's portfolio including the portfolio which was sold to Solida Administradora de Portafolios, S.A. de C.V.

	Local Currency (1)		Foreign Currency (USD) (2)		Total	
<i>(Million of Nominal Pesos)</i>	mar-17	jun-17	mar-17	jun-17	mar-17	jun-17
Commercial	315,321	327,808	35,162	37,867	350,483	365,676
Consumer	90,824	93,999	0	0	90,824	93,999
Mortgage	119,331	124,225	0	0	119,331	124,226
Government	0	0	0	0	0	0
Fobaproa / IPAB	0	0	0	0	0	0
Performing Loans	525,476	546,033	35,162	37,868	560,638	583,901
Commercial	6,149	5,711	66	52	6,214	5,763
Consumer	3,065	3,938	0	0	3,065	3,938
Mortgage	1,220	1,361	0	0	1,220	1,361
Government	0	0	0	0	0	0
Non Performing Loans	10,433	11,010	66	52	10,499	11,062
TOTAL LOANS	535,909	557,043	35,227	37,920	571,136	594,963
Loan Loss Reserves	14,038	13,579	253	269	14,291	13,849
Net Loan Portfolio	521,871	543,464	34,974	37,651	556,846	581,114
Loan Loss Reserves					136.12%	125.19%
% Past Due Loans					1.84%	1.86%

1. Includes UDIS.

2. The dollar portfolio and reserves are re-expressed in pesos.

Notes to Financial Statement

FINANCIAL INSTRUMENTS AND VALUATION EFFECTS 2Q17

(Million Pesos)

Negotiable Instruments	Book Value	Interest	Unrealized gain (loss)	Market Value
Government Securities	203,333	1,277	300	204,909
Unrestricted	11,447	231	8	11,686
CETES	7,929	222	(16)	8,136
BONDES	13	0	0	13
BPA	1	0	0	1
Bonds	154	1	(2)	153
Udibonds	3,203	5	25	3,233
UMS	147	3	0	151
Treasury Notes	-	0	-	0
Restricted	191,885	1,046	291	193,223
CETES	2,533	-	(0)	2,533
BONDES	16,165	47	8	16,221
BPA	162,453	974	219	163,646
Bonds	6,090	18	60	6,168
Udibonds	4,644	7	4	4,655
Treasury Bonds	0	-	-	0
Banking Securities	31,138	58	(4)	31,193
Unrestricted	2,447	1	(0)	2,448
Notes	2,059	0	(0)	2,059
Stock Certificates	149	1	(0)	150
Other Banking Securities	239	-	-	239
Restricted	28,691	58	(4)	28,745
Notes	4,012	-	(0)	4,012
CEDES	7,847	11	(2)	7,857
Stock Certificates	16,105	45	(2)	16,148
Other Banking Securities	727	2	0	729
Private Securities	3,792	5	324	4,121
Unrestricted	1,728	1	331	2,060
Stock Certificates	402	1	(6)	397
PEMEX Bonds	3	0	0	3
BMV stocks	694	-	319	1,013
Mutual Funds stocks	562	-	21	583
Other Private Securities	66	-	(3)	64
Restricted	2,064	4	(6)	2,062
Stock Certificates	2,064	4	(6)	2,061
BMV stocks	0	-	0	0
Other Private Securities	0	-	-	0
Total	238,263	1,340	620	240,223

FINANCIAL INSTRUMENTS AND VALUATION EFFECTS 2Q17

(Million Pesos)

Securities Held for Sale	Book Value	Interest	Unrealized gain (loss)	Market Value
Government Securities	97,618	1,930	188	99,735
Unrestricted	24,168	207	157	24,532
CETES	6	-	(0)	6
BONDES	100	0	0	100
BREMS	7,778	22	-	7,801
Bonds	376	1	(28)	349
CBIC	34	0	5	40
UMS	15,874	183	180	16,237
Treasury Notes	-	0	-	0
Restricted	73,449	1,723	30	75,203
CETES	96	-	(0)	96
BPA	70,960	1,704	(157)	72,507
Bonds	0	0	-	0
Udibonds	0	-	-	0
UMS	2,393	20	187	2,600
Banking Securities	8,219	20	24	8,263
Unrestricted	8,219	20	24	8,263
CEDES	7,132	17	91	7,239
Stock Certificates	254	3	33	290
Structured Notes	774	-	(100)	674
Other Banking Securities	60	0	0	60
Restricted	(0)	(0)	-	(0)
Stock Certificates	(0)	(0)	-	(0)
Private Securities	35,277	274	(4,285)	31,266
Unrestricted	24,480	236	(2,694)	22,021
Stock Certificates	5,943	47	(417)	5,573
PEMEX Bonds	9,079	154	11	9,243
Euro Bonds	2,986	35	7	3,027
BMV stocks	2,952	-	(2,448)	504
Mutual Funds stocks	3,521	-	153	3,673
Restricted	10,796	39	(1,590)	9,245
Stock Certificates	6,299	24	(30)	6,293
PEMEX Bonds	2,955	14	(48)	2,922
BMV stocks	1,542	-	(1,512)	30
Total	141,113	2,224	(4,073)	139,264

FINANCIAL INSTRUMENTS AND VALUATION EFFECTS 2Q17

(Million Pesos)

Securities Held to Maturity	Book Value	Interest	Unrealized gain (loss)	Market Value
Government Securities	73,328	114	-	73,442
Unrestricted	73,328	114	-	73,442
CETES (Special)	967	-	-	967
CBIC	250	2	-	251
Udibonds	72,112	112	-	72,224
Restricted	0	0	-	0
Bonds	(0)	0	-	0
CBIC	0	0	-	0
Udibonds	0	0	-	0
Banking Securities	1,827	1,017	-	2,844
Unrestricted	1,827	1,017	-	2,844
CEDES	677	796	-	1,473
Stock Certificates	700	14	-	713
Structured Notes	449	208	-	657
Private Securities	10,646	224	-	10,870
Unrestricted	5,398	201	-	5,600
Stock Certificates	5,398	201	-	5,600
Restricted	5,248	22	-	5,270
Stock Certificates	5,248	22	-	5,270
Fair Value Adjustment Ixe Banco	(29)	-	-	(29)
Total	85,772	1,355	-	87,127

REPURCHASE AGREEMENT OPERATIONS 2Q17

(Million Pesos)

Repo Debtors			Repo Creditors		
	MV Repo Debtors	VM Collateral received sold in Repo Trans	Debtor Balance	Creditor Balance	MV Repo Creditors
Government securities	29,212	29,212	0	0	260,510
Banking securities	2,711	2,711	0	0	26,732
Private Securities	1,113	1,113	0	0	19,919
Total	33,037	33,036	0	0	307,161

**DERIVATES FINANCIAL INSTRUMENTS
OPERATIONS 2Q17
(Million Pesos)**

Creditor Balance	
Instrument	Fair Value
Futures	
TIIE 28 Futures	-
Forward	
Fx Forward	58
Options	
Rate options	623
Fx options	35
Warrants	41
Swaps	
Rate swap	15,311
Fx swap	4,318
Negotiable Total	20,387
Options	
Rate Options	10
Fx options	-
Swaps	
Rate swap	206
Fx swap	-
Hedging total	216
Position total	20,603

**DERIVATES FINANCIAL INSTRUMENTS
OPERATIONS 2Q17
(Million Pesos)**

Debtor Balance	
Instrument	Fair Value
Futures	
TIIE 28 Futures	-
Forward	
Fx Forward	116
Options	
Rate options	563
Fx options	44
Swaps	
Rate swap	13,323
Fx swap	5,398
Negotiable Total	19,445
Swaps	
Rate swap	485
Fx swap	6,066
Hedging total	6,552
Position total	25,997

NOTIONAL PRINCIPAL AMOUNT IN DERIVATIVE OPERATIONS 2Q16 - Banorte

(Million Pesos)

PRODUCT	TYPE	UNDERLYING	NOTIONAL	OPERATIONS
FX Forwards	Purchases	Exchange Rate (USD/MXN)	1,306	28
FX Forwards	Sales	Exchange Rate (USD/MXN)	1,090	58
FX Forwards	Purchases	Exchange Rate (CAD/MXN)	0	0
FX Forwards	Sales	Exchange Rate (CAD/MXN)	0	0
FX Forwards	Purchases	Exchange Rate (EUR/MXN)	4	2
FX Forwards	Sales	Exchange Rate (EUR/MXN)	4	2
FX Options	Purchases	Exchange Rate (Dollar)	2,800	3
FX Options	Sales	Exchange Rate (Dollar)	2,894	14
Interest Rate Options	Purchases	TIE	65,563	131
Interest Rate Options	Sales	TIE	79,920	551
Interest Rate Options	Purchases	LIBOR	6,190	23
Interest Rate Options	Sales	LIBOR	6,346	23
Interest Rate Swaps	USD LIBOR	LIBOR	396,556	2,969
Interest Rate Swaps	MXN TIE	TIE	1,299,825	4,121
Interest Rate and FX Swaps	CS USDMXN	FIX/VARIABLE	137	3
Interest Rate and FX Swaps	CS USDMXN	VARIABLE/VARIABLE	70,677	78
Interest Rate and FX Swaps	CS USDMXN	FIX/FIX	5,853	21
Interest Rate and FX Swaps	CS EURMXN	FIX/VARIABLE	8,251	64
Interest Rate and FX Swaps	CS GBPMXN	FIX/VARIABLE	2,334	11

LOAN PORTFOLIO

(Million Pesos)

	Local Currency		UDIS		Foreign Currency		Total	
	2Q16	2Q17	2Q16	2Q17	2Q16	2Q17	2Q16	2Q17
Performing Loans								
Commercial Loans	161,932	192,760	-	-	39,546	38,524	201,478	231,284
Financial Intermediaries' Loans	1,349	5,607	-	-	1,965	-	3,313	5,607
Consumer Loans	80,643	98,478	-	-	-	-	80,643	98,478
Mortgage Loans	104,523	124,035	210	170	-	-	104,733	124,206
Government Entities' Loans	134,203	131,861	-	-	1,514	2,562	135,717	134,423
Total	482,649	552,741	210	170	43,025	41,085	525,884	593,997
Past Due Loans								
Commercial Loans	7,742	5,688	0	0	56	51	7,797	5,739
Financial Intermediaries' Loans	344	0	-	-	-	-	344	0
Consumer Loans	3,343	3,918	-	-	-	-	3,343	3,918
Mortgage Loans	1,125	1,143	15	18	0	0	1,141	1,161
Government Entities' Loans	-	-	-	-	-	-	-	-
Total	12,554	10,749	15	18	56	51	12,624	10,818
Total Proprietary Loans	495,203	563,490	225	188	43,080	41,136	538,508	604,815

**COST OF BALANCES OF FINAPE, FOPYME, MORTGAGE UDIS AND
MORTGAGE FOVI LOAN PORTFOLIOS AS OF 2Q17- GFNorte**

(Million Pesos)

	PERIOD COST	TOTAL BALANCE OF LOAN PORTFOLIO
FINAPE	-	-
FOPYME	-	-
Mortgage UDIS	5.7	0.0
Mortgage FOVI	-	-
	5.7	0.0

DEFERRED TAXES 2Q17

(Million Pesos)

ASSETS	INCOME TAX	NET
Global Loss Reserves Loan Portfolio	4,650	4,650
Non deductible provisions and cumulative income	1,036	1,036
Excess of accounting value over fiscal value on Repossessed Assets	1,010	1,010
Diminishable profit sharing	146	146
Fees received in advance	983	983
Effects from valuation of instruments	1,336	1,336
Tax losses pending amortization	1,390	1,390
Provisions for possible loss in loans	553	553
Loss on sale of foreclosed assets and credits	-	-
State Tax on Assets Deferred	-	-
Loss on sale of foreclosed assets and credits	-	-
Loss on sale of foreclosed assets and credits	29	29
Total Assets	11,132	11,132
LIABILITIES		
Pension Funds Contribution	(906)	(906)
Loan Portfolio Acquisitions	(289)	(289)
Projects to be capitalized	(3,207)	(3,207)
Intangibles' amortizations	(2)	(2)
Effects from valuation of instruments	(2,287)	(2,287)
Intangibles' amortizations	(630)	(630)
Unrealized Loss on Securities held for Sale	(82)	(82)
Total Liabilities	(7,402)	(7,402)
Assets (Liabilities) Accumulated Net	3,729	3,729

LONG TERM DEBT AS OF JUNE '17 - BANCO MERCANTIL DEL NORTE

(Million Pesos)

TYPE OF DEBT	CURRENCY	DATE OF ISSUE	ORIGINAL AMOUNT	ORIGINAL AMOUNT (VALUED)	CURRENT AMOUNT	TERM	RATE	MATURITY	INTEREST PAYMENT
Non Convertible Subordinated Bonds 2016 (BANOC36 311004)	USD	04-oct-16	500	9,607	9,031	15 years	5.750%	04-oct-31	E/ 180 days
Non Convertible Subordinated Bonds Q Banorte 08U	UDIs	11-mar-08	447	1,749	2,572	20 years	4.950%	15-feb-28	E/ 182 days
Non-Preferred Non-Cumulative Subordinated Fixed Rate Notes due 2020 (IXEGB40 141020)	USD	14-oct-10	120	1,484	2,167	10 years	9.25%	14-oct-20	E/ 180 days

BANK AND OTHER ENTITIES LOANS' AS OF 2Q17*(Million Pesos)*

	LOCAL CURRENCY	FOREIGN CURRENCY	TOTAL
Loans from Foreign Banks generated from foreign country	-	2,259	2,259
Loans from Development Banks	10,593	3,871	14,464
Loans from Public Funds	9,518	1,146	10,665
Call Money & Loans from Banks	25,111	-	25,111
Loans from Fiduciary Funds	117	-	117
Provisions for Interest	140	-	140
	45,479	7,276	52,755
Eliminations			(18,057)
Total			34,698

**CORE DEPOSITS AND DUE TO BANKS & CORRESPONDENTS -
INTEREST RATES 2Q17**
CORE DEPOSITS (BANORTE)**Demand Deposits**

Local Currency and UDIs	0.66%
Foreign Currency	0.02%

Time Deposits - Retail

Local Currency and UDIs	5.50%
Foreign Currency	0.18%

Time Deposits - Money Market

Local Currency and UDIs	6.64%
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DUE TO BANKS & CORRESPONDENTS (BANORTE)**Immediate Redemption Loans**

Local Currency and UDIs	6.80%
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Public Funds and Development Banks

Local Currency and UDIs	10.66%
Foreign Currency	2.53%

MAIN CREDIT LINES RECEIVED 2Q16 (BANORTE)*Million pesos*

	2Q16	1Q17	2Q17	Change vs. 2Q16	Change vs. 1Q17
Banxico (Monetary Regulation Deposits)	33,449	33,449	33,449	0%	0%
Banxico (Repos with the System of Payments)	46,962	51,623	53,517	14%	4%
Call Money	111,746	111,923	111,531	(0%)	(0%)
TOTAL	192,157	196,995	198,497	3%	1%

TRADING INCOME 2Q17*Million Pesos*

Trading income	Consolidated
Securities - Unrealized gains	92
Negotiable instruments	126
Derivative instruments - Negotiation	21
Derivative instruments - Hedging	(55)
Impairment loss or revaluation increase	(141)
Result from foreign exchange valuation	(165)
Result from valuation of precious metals	-2
Result from purchase/sale of securities and derivatives	990
Negotiable instruments	610
Securities held for sale	26
Securities held to maturity	0
Derivative instruments - Hedging	354
Result from purchase/sale of foreign exchange	1,041
Result from purchase/sale of precious metals	2
Total	1,818

Risk Management

Risk management at Grupo Financiero Banorte is a key element in determining and implementing Group's strategic planning. The Group's risk management and policies comply with regulations and market best practices.

1. OBJECTIVES, SCOPE AND RISK MANAGEMENT FUNCTIONS

GFNorte's Risk Management main objectives are:

- Provide to different business areas, clear rules that contribute to minimize risk and ensure compliance with the parameters established and approved by the Board of Directors and the Risk Policies Committee (CPR by its acronym in Spanish).
- Establish mechanisms to monitor risk taking across GFNorte, through the use of robust systems and processes.
- Verify the observance of Risk Appetite.
- Estimate and control GFNorte's capital, under regular and stressed scenarios, aiming to provide coverage for unexpected losses from market movements, credit bankruptcies, and operational risks.
- Implement pricing models for different types of risks.
- Establish procedures for portfolio's optimization and credit portfolio management.
- Update and monitor Contingency Plan in order to restore capital and liquidity levels in case of adverse events.

Moreover, GFNorte owns sound methodologies to manage quantifiable risks such as Credit Risk, Market Risk, Liquidity Risk, Operational Risk, Concentration Risk and Counterparty Risk.

Credit Risk: revenue volatility due to constitution of provisions for impaired loans, and potential losses on borrower or counterparty defaults.

Market Risk: revenue volatility due to market changes, which affect the valuation of book positions for active, liabilities or contingent liabilities operations, such as: interest rates, spread over yields, exchange rates, price indices, etc.

Liquidity Risk: potential loss by the impossibility of renewing liabilities or securing resources in normal conditions, and by early or forced sale of assets at unusual discounts to meet their obligations.

Operational Risk: loss resulting from inadequate or failed internal processes, employees, internal systems or external events. This definition includes Technology Risk and Legal Risk. Technology Risk, groups all those potential losses from damage, interruption, disruption or failures resulting from use of or reliance on hardware, software, systems, applications, networks and any other information distribution channel, while the Legal Risk involves the potential loss by sanctions for noncompliance with laws and administrative or judicial decisions unfavorable related to GFNorte's operations.

Concentration Risk: potential loss by high and disproportional exposure to particular risk factors within a single category or among different risk categories.

Likewise, regarding unquantifiable risks, Risk Management's Manual in GFNorte establish specific objectives for:

Reputational Risk: potential loss in the performance of Institution's activities, due to an inappropriate or unethical perception of the different stakeholders, internal or external, on their solvency and viability.

1.1 Risk Management – Structure and Corporate Governance

Regarding the structure and organization for a comprehensive Risk Management, the Board of Directors is responsible for authorizing policies and overall strategies such as:

- GFNorte's Risk Appetite.
- Comprehensive Risk Management Framework.
- Risk exposure limits, risk tolerance levels and mechanisms for corrective actions.
- Contingency Plan and the Contingency Funding Plan.
- The outcome of the internal and regulatory capital adequacy scenarios.

The Board of Directors designates the CPR (Risk Policy Committee) as accountable for managing the risks that GFNorte is exposed to, in order to ensure that operations comply with objectives, policies and procedures established by Risk Management.

The CPR also monitors the overall limits of risk exposure approved by the Board of Directors, in addition to approving specific limits for exposure to different types of risk.

The CPR is integrated by members and deputies of the Board, the CEO, the Managing Directors of the Group's Entities, the Risk Managing Director and the Audit Managing Director, the latter participates with voice but no vote.

Moreover, the Assets and Liabilities Committee (ALCO) and the Capital and Liquidity Group, analyze, monitors, and decide regarding interest rate risks in the balance sheet, the financial margin, liquidity and net capital of the Institution.

The Unit for the Comprehensive Risk Management (UAIR by its acronym in Spanish) is in charge of the Risk Management Department (DGAR), and among its functions, is responsible to identify measure, monitor, limit, control, report and disclose the different types of risk to which the GFNorte is exposed to.

The DGAR reports to CPR, in compliance with the regulation related to its independence from the Business areas.

1.2 Scope and Nature of GFNorte's Risk Management

The function of the Risk Management extends to all subsidiaries comprising GFNorte. Depending on each of the Businesses' lines, Credit, Concentration, Market, Liquidity and Operational Risks are measured, managed and controlled.

For this purpose, DGAR relies on different information and risks measurement systems, which comply with regulatory standards and are aligned with best international practices in Risk Management's matters. It's worth mentioning that information and reports contained and produced in the risks systems are constantly backed up following institutional procedures in IT security matters. Furthermore, risks systems enclose transactions susceptible to Credit, Market, Liquidity and Operational Risks, processed through revised models and methodologies, thus generating periodic reports for each one of these risks.

At GFNorte, there are policies and procedures for hedging, risk mitigation and compensation strategies for each type of risk in and off balance, all of them enclosed in models, methodologies and procedures for Risk Management. Within these policies and procedures, are detailed among others: features, loan to value, legal terms, instrumentation and the hedging level when mitigating or compensating risk. These policies and procedures also consider collateral execution as a risk compensation mechanism in the case of non-fulfillment by debtors. As part of the strategies and processes for monitoring the coverage or mitigation effectiveness for each type of risk, there are limits for each one of them (Credit, Market, Liquidity and Operational Risks), which are monitored continuously, as well as procedures established for the documentation of excesses and its causes, and the corrective actions implemented to return to acceptable risk levels.

2. CREDIT RISK

It is the risk that clients, issuers or counterparts do not fulfill their payment obligations. Therefore, proper management is essential to maintain loan quality of the portfolio.

The objectives of Credit Risk Management at GFNorte are:

- Comply with the Risk Appetite defined by the Board of Directors.
- Improve the quality, diversification and composition of the loan portfolio in order to optimize the risk- reward ratio.
- Provide Executive Management with reliable, timely information to assist decision making regarding funding.
- Provide Business Areas with clear and sufficient tools to support and monitor funding placement.
- Create economic value for shareholders through an efficient Credit Risk Management.
- Define and update the regulatory framework for the Credit Risk Management.
- Comply with the information requirements that the authorities establish regarding Credit Risk Management.
- Perform Risk Management in accordance with the best practices, implementing models, methodologies, procedures and systems based on best practices worldwide.
- Measure Institution's vulnerability to extreme conditions and consider those results for decisions making.

GFNorte's Risk Management policies are:

- Grant and Manage Retail Credit Risk according to best market practices through Parametric Models aimed to identify risk, minimize losses and increase loan origination with quality.
- Grant and Manage Wholesale Loans to companies and other entities, according to best market practices through a credit strategy including Target Markets and Risk Acceptance Criteria, identifying and managing risk through Loan Rating and Early Alerts methodologies.
- Monitor and control asset quality through Loan Classification System which provides treatment and general actions for defined situations, as well as departments or officers responsible for carrying out such actions.
- Surveillance and Control through Global and Specific Limits, loan rating policies and Credit Risk models that identifies expected and unexpected losses at specific confidence intervals.
- Inform and disclose Credit Risks to risk taking areas, CPR, Board of Directors, Financial Authorities and Investors.
- Define faculties for Credit Risks taking at Institution.

In order to comply with objectives and policies, a series of strategies and procedures have been defined including origination, analysis, approval, management, monitoring, recovery and collections.

2.1 Credit Risk Scope and Methodology

2.1.1 Individual Credit Risk

GFNorte segments the loan portfolio into two large groups: retail loans and wholesale loans.

The individual Credit Risk for retail loans is identified, measured and controlled through a parametric system (scoring) that includes models for each of the SME (small and medium enterprises) and consumer products (mortgage, auto, payroll, personal loans and credit cards).

Individual risk for wholesale loans is identified, measured and controlled through Objective Markets, Criteria for Risk Acceptance, Early Alerts and GFNorte's Internal Risk Rating (CIR Banorte).

The Objective Markets, Criteria for Risk Acceptance and Early Alerts are tools that, together with the Internal Risk Rating, are part of GFNorte's Loan Strategy and support the estimated level of Credit Risk.

The Target Markets are categories of economic activity by region, backed by economic research and loan behavior analysis as well as by expert opinions, where GFNorte is interested in granting loans.

The Risk Acceptance Criteria are parameters that describe different types of risks by industry, in order to estimate the risk taking when granting loans to customers based on their economic activity. The types of risk observed in the Risk Acceptance Criteria are: Financial, Operation, Market, Enterprise's life cycle, Legal and Regulatory Risks, besides credit experience and management quality.

Early Alerts are a set of criteria based on borrower information and indicators, as well as their environment, as a mechanism for timely prevention and identification of a probable deterioration in the loan portfolio, thereby enabling Institution to take prompt preventive actions to mitigate Credit Risk.

Banorte's CIR is a borrower's rating methodology which assesses quantitative and qualitative criteria in order to determine credit quality. CIR applies to commercial loans equal to or greater than the equivalent of four million investment units (UDIS) in Mexican pesos equivalent on the qualification date.

2.1.2 Portfolio Credit Risk

GFNorte developed a portfolio Credit Risk methodology that, besides including international standards for identifying, measuring, controlling and monitoring, has been adapted to function within the context of the Mexican Financial System.

This Credit Risk methodology provides current value of the entire loan's portfolio at GFNorte, that is, the loan exposure, in order to monitor risk concentration levels through risk ratings, geographical regions, economic activities, currency and type of product in order to observe the portfolio's profile and take action to improve diversification, which will maximize profitability with the lowest risk.

The model considers the loan portfolio exposure directly to the balance of each loan, whereas for the financial instruments' portfolio, considers the present value of the instruments and their future cash flows. This exposure is sensible to changes in the market, thereby facilitating estimations under different economic scenarios

The methodology, besides loan exposure, takes into consideration the probability of default, recovery level associated to each client and the classification of the debtor based on the Merton model. The probability of default is the probability that the debtor will not fulfill his/her debt obligation with the institution according to the originally agreed terms and conditions. The probability of default is based on transition matrixes estimated by GFNorte based on the migration of the debtors through different risk rating levels. The recovery ratio is the percentage of total exposure that is estimated to be recovered if the debtor defaults. The classification of the debtor, based on the Merton model, associates the debtor's future behavior to loan and market factors on which his "credit health" depends, as determined by statistical techniques.

The results of this methodology, are risk measures such as the expected and unexpected loss at a one-year horizon. The expected loss is the average of credit portfolio's loss distribution, which is used to measure the following year's expected loss due to default or variations in debtors' credit quality. The unexpected loss is an indicator of the loss in extreme scenarios and is measured as the difference between the maximum losses given the distribution of losses, at a specific confidence level that for GFNorte's is 99.95% and expected loss.

These results are used as a tool for better decision-making in granting loans and in the diversification of the portfolio, according to GFNorte's strategy. The individual risk identification tools and the portfolio Credit Risk methodology are periodically verified and updated to in order to include the application of new techniques that may support or strengthen them.

2.1.3 Credit Risk of Financial Instruments

Credit Risk Management of financial instruments is managed through a series of key pillars with a robust framework of policies for origination, analysis, authorization and management.

Origination policies define the types of eligible negotiable financial instruments, as well as the methodology for assessing Credit Risk of the different types of originators / issuers and counterparties. Credit Risk is allocated through: a risk rating obtained with an internal methodology, evaluations of external rating agencies or a combination of both. Maximum parameters of operation are also defined depending on the type of originator / issuer or counterparty, rating and type of operation.

The Loan Committee authorizes operation lines with financial instruments for clients and counterparties in accordance with authorization policies. The authorization request is submitted by the business area and other areas involved in the operation, with all the relevant information for analysis by the Committee who, if considered appropriate, issues its authorization. Nevertheless, the UAIR is empowered to authorize counterparty credit lines (mainly financial entities) that comply with certain criteria through a parametric methodology approved by the CPR.

In the specific case of derivatives contracts, and in line with best practices, a methodology for calculating potential exposure of credit lines is used, which are analyzed and approved within the Credit Committee and are monitored on daily and monthly basis in the CPR, where guarantee analysis for derivative transaction is held both for clients and financial counterparties.

The National Credit Committee holds the minimum faculty to approve credit lines for derivatives (in case of applying facilities, the UAIR will hold the faculty). For these transactions, the use of derivatives with margin calls shall be privileged in order to mitigate the risk of potential exposure to these transactions.

To determine the lines of credit adversely correlated (Wrong Way Risk "WWR") a potential exposure adjustment is considered.

On an individual level, the risk concentration on financial instruments is managed on a continuous basis, establishing and monitoring maximum parameters of operation for each counterparty or issuer depending on the qualification and type of operation. There are defined risk diversification policies for portfolios, for economic groups and internal groups. Additionally, the concentration of counterparty type or issuer, size of financial institutions and the region in which it operates, are monitored so that an appropriate diversification is obtained and undesired concentrations are avoided.

Credit Risk is measured through a rating associated with the issuer, security or counterparty which has a previously assigned risk level based on two fundamentals:

- 1) The probability of nonfulfillment of the issuer, security or counterparty, which is expressed as a percentage between 0% and 100% where the better the rating or lower rate differential vs. the instrument of an equivalent government bond, the lower the probability of non-fulfillment and vice versa.

- 2) The loss given default that could be experienced with respect of the total of the operation in the event of non-fulfillment, is expressed as a percentage between 0% and 100% where the better the guarantees or credit structures, the smaller the loss given default and vice versa. To mitigate Credit Risk and to reduce the loss given default in the event of non-fulfillment, the counterparties have signed ISDA contracts and agreements to net out, in which credit lines and the use of collateral to mitigate loss in the event of non-fulfillment are implemented.

2.2 Credit Risk Exposure

As of June 30, 2017 the total amount of the exposure subject to the Standard Method to estimate the Capital Ratio is the following:

Gross Exposures subject to the Standard Method (Million pesos)	Banorte	Arrendadora y Factor*	Sólida	Total Loans
Commercial	164,641	22,056	702	187,399
YoY Revenues or Sales < 14 MM UDIS	67,343	843	0	68,185
YoY Revenues or Sales >= 14 MM UDIS	97,298	21,213	702	119,214
States or Municipalities	87,101	237	0	87,338
Decentralized Federal Government Agencies and State Companies	46,293	780	0	47,073
Projects with own source of payment	49,672	0	0	49,672
Financial Institutions	23,538	114	0	23,652
Mortgage	125,367	0	0	125,367
Consumer	97,866	5	4,526	102,397
Credit Card	33,633	0	0	33,633
Non-revolving	64,233	5	4,526	68,764
Total Loans subject to the Standard Method	594,479	23,191	5,229	622,899
Eliminations				(18,084)
Total Loans				604,815

*Excludes pure leasing

For transactions subject to Credit Risk, the Institution uses external ratings issued by the rating agencies S&P, Moody's, Fitch, HR Ratings and Verum. Only ratings issues by rating agencies are considered, and are not assigned based on comparable assets.

2.2.1 Loan Portfolio

GFNorte's Credit Risk loan portfolio as of June 2017 presented an exposure of Ps 604,815 million, higher in Ps 25,383 million or +4.4% QoQ and Ps 48,032 million or +8.6% YoY.

Variations per product of GFNorte's total portfolio are:

Product / Segment (Million pesos)	Total Loan			Var. vs 1Q17		Var. vs 2Q16	
	2Q16	1Q17	2Q17	\$	%	\$	%
Government	135,717	131,551	134,423	2,872	2.2%	(1,294)	(1.0%)
Commercial	133,517	127,214	133,252	6,037	4.7%	(265)	(0.2%)
Mortgage	107,455	120,329	125,367	5,038	4.2%	17,913	16.7%
Corporate	95,956	104,914	109,378	4,464	4.3%	13,422	14.0%
Payroll	43,503	48,180	51,771	3,591	7.5%	8,267	19.0%
Credit Card	26,958	31,176	33,633	2,457	7.9%	6,675	24.8%
Auto Loans	13,678	16,067	16,992	925	5.8%	3,314	24.2%
Total Loans	556,783	579,432	604,815	25,383	4.4%	48,032	8.6%

Subsidiary (Million pesos)	Loans		Distressed Portfolio		Total	Total Reserves
	Performing	Past-due	Performing	Past-due		
Banorte*	564,244	5,300	1,553	5,298	576,395	15,316
Arrendadora y Factoraje	23,028	19	19	125	23,191	322
Sólida	5,153	51	0	25	5,229	288
Accounting Records						193
Total Loans	592,425	5,370	1,572	5,448	604,815	16,119

* Banorte's total loans include eliminations for (Ps 18,084)

Total reserves Ps 16,119 million, includes rating reserves for Ps 15,926 million and accounting records (to reserve 100% overdue interests, valuation, negative debts in the Credit Bureau and registered in recoveries) for Ps 193 million.

GFNorte's performing, past-due and distressed portfolios in 2Q17 grouped by sector and subsidiary are detailed in the two following tables:

Sector (Million pesos)	Loans		Distressed		Total Loans	Reserves		QoQ Charge offs	Days Past-Due**
	Performing	Past-Due	Performing	Past-Due		2Q17	Var. vs 1Q17		
Government	134,423	0	0	0	134,423	707	67	0	0
Services*	56,926	26	294	544	57,790	886	58	67	375
Construction	46,270	124	788	2,819	50,001	2,063	225	70	1,184
Commerce	44,698	93	251	1,446	46,488	1,111	18	140	307
Manufacturing	39,245	22	173	366	39,805	528	(34)	46	310
Top 5 Sectors	321,561	265	1,507	5,174	328,507	5,295	333	323	
Other Sectors	48,180	25	65	274	48,545	457	(232)	14	
Mortgage	124,206	1,161	0	0	125,367	1,040	380	256	
Consumer	98,478	3,918	0	0	102,396	9,134	1,413	1,997	
Accounting Records						193			
Total Group	592,425	5,370	1,572	5,448	604,815	16,119	1,894	2,590	

* Includes Financial, Real Estate and Other Services

**Days past due from Non-Performing Loans.

Sector/Subsidiary (Million pesos)	Banorte*	AyF	Sólida	Total Loans
Government	133,394	1,029	0	134,423
Services**	53,037	4,753	0	57,790
Construction	46,350	3,551	100	50,001
Commerce	40,971	4,915	602	46,488
Manufacturing	33,345	6,461	0	39,805
Top 5 Sectors	307,097	20,707	702	328,507
Remaining	269,297	2,484	4,526	276,308
Total Loans	576,395	23,191	5,229	604,815

* Banorte's total loans include eliminations for (Ps 18,084)

** Includes Financial and Real Estate services

As of 2Q17, GFNorte's performing, past due and distressed portfolios grouped by federal entity and subsidiary are detailed in the following two tables:

	Federal Entities	Loans		Distressed		Total Loans	Total Reserves
	(Million pesos)	Performing	Past-Due	Performing	Past-Due		
1	Ciudad de México	174,165	1,294	933	3,457	179,848	5,165
2	Nuevo León	94,366	616	93	315	95,390	2,022
3	Estado de México	48,133	604	81	317	49,136	1,421
4	Jalisco	34,850	378	58	154	35,441	863
5	Tamaulipas	19,733	170	41	131	20,076	517
6	Sinaloa	16,137	146	36	85	16,404	329
7	Veracruz	15,726	250	33	118	16,126	552
8	Coahuila	15,451	110	12	45	15,618	360
9	Sonora	14,608	69	22	63	14,762	296
10	Chihuahua	13,883	119	9	61	14,072	335
	Top 10	447,053	3,757	1,318	4,746	456,875	11,862
	Other Federal Entities	145,371	1,613	254	702	147,940	4,064
	Accounting Records						193
	Total Loans	592,425	5,370	1,572	5,448	604,815	16,119

* Banorte's total loans include eliminations for (Ps 18,084)

As of 2Q17, GFNorte's performing, past due and distressed portfolios grouped by term are detailed below:

Remaining Term	Portfolio		Distressed		Total Loans	Total Reserves
(Million pesos)	Performing	Past-Due	Performing	Past-Due		
0 - 1 years	85,849	2,369	224	3,966	92,408	6,910
1 - 5 years	115,436	1,109	661	1,130	118,335	3,009
5 - 10 years	92,245	142	91	203	92,681	622
> 10 years	270,714	1,680	577	0	272,971	4,775
Banorte*	564,244	5,300	1,553	5,298	576,395	15,316
Factoring	11,036	16	3	36	11,091	112
Leasing	11,992	4	16	88	12,100	211
Sólida	5,153	51	0	25	5,229	288
Accounting Records						193
Total Loans	592,425	5,370	1,572	5,448	604,815	16,119

* Banorte's total loans include eliminations for (Ps 18,084)

The total distressed portfolio is Ps 7,020 million. Below is the quarterly balance of loan loss provisions for this portfolio:

Loan Loss Reserves for Distressed Portfolio (Million pesos)	2Q17			
	Banorte	Arrendadora y Factor	Sólida	GFNorte
Initial Loan Loss Provisions	3,204	91	15	3,310
Charged to results	362	15	0	377
Loans' write offs	103	0	0	103
FX changes	(1)	0	0	(1)
Adjustments in Credit Risk	260	15	0	275
Other Concepts	(187)	0	0	(187)
Received in lieu of payment	0	0	0	0
Write-offs, charge-offs and discounts	(291)	(26)	0	(317)
Final Loan Loss Reserves	3,088	80	15	3,183
Loan Recoveries	54	0	0	54

2.2.2 Exposure to Financial Instruments

As of June 30, 2017, exposure to Credit Risk for Securities Investments of Banco Mercantil del Norte was Ps 274.83 billion, of which 99.3% is rated higher or similar to A+(mex) on a local scale, placing them in investment grade and the 3 main counterparties other than the Federal Government, State Governments and National Financial Institutions represent 10% of the Tier 1 Capital as of March 2017. Additionally, the exposure of investments with the same counterparty other than the Federal Government that represents a higher or similar concentration to 5% of the Net Capital as of March 2017 has higher or similar rating to AA-(mex) and is comprised of (*average considered term, amount in million pesos and average return to annualized maturity*): market and bond certificates from Pemex to 5 years and 7 months for Ps 14.9 million at 4.9%; deposit certificates from HSBC for 7 months for Ps 6.33 billion at 1.5%; and market and deposits from Bancomer for 1 year and 4 months for Ps 5.17 billion at 7.5%.

For Derivatives operations, the exposure of the 3 main counterparties other than the Federal Government, State Governments and National Financial Institutions represent 1% of the Tier 1 Capital as of March 2017

The exposure to Credit Risk for Securities Investments of Casa de Bolsa Banorte Ixe was Ps 90.789 billion, of which 100% is rated higher or similar to A+(mex) on a local scale, placing them in investment grade and the 3 main counterparties other than the Federal Government, State Governments and National Financial Institutions represent 29% of the Capital as of March 2017. Additionally, the exposure of investments with the same counterparty other than the Federal Government that represents a higher or similar concentration to 5% of the Capital as of March 2017 has a higher or similar rating to A+(mex) and are comprised of (*average considered term, amount in million pesos and average return to annualized maturity*): market certificates of CFE to 2 years and 1 month for Ps 2.01 billion at 7.8%; market certificates of PEMEX to 1 year and 11 months for Ps 1.45 billion at 7.9%; market certificates of HSBC Mexico for 1 year and 5 months for Ps 1.14 billion at 7.7%; market certificates of Banamex for 2 months for Ps 905 million at 7.4%; market certificates of Scotiabank Inverlat for 9 months for Ps 732 million at 7.5%; market certificates of Bancomer for 9 months for Ps 623 million at 7.4%; bonds of Deutsche Bank for 5 years and 11 months for Ps 547 million at 10.1%; market certificates of Banco Inbursa for 1 year and 4 months for Ps 400 at 7.5%; market certificates of Banco Interacciones for 2 years and 7 months for Ps 388 million at 7.8%; bonds of CABEL for 1 year and 6 months for Ps 159 million at 7.3%; and market certificates of Banco Monex for 1 year for Ps 144 million at 8.3%. In the case of derivatives, there are no operations.

Arrendadora y Factor Banorte had an exposure to securities for Ps 130 thousand, 100% of them are shares. In derivatives, its exposure is Ps 213 thousand with private counterparties.

Sólida Administradora de Portafolios had an exposure to securities for Ps 504 million. The 100.0% of them are shares. Its exposure to derivatives was Ps 35 million with private counterparties.

Banorte's exposure to counterparty risk from transactions with derivatives is presented below, as well as the netting effect and risk mitigation based on the aggregate of guarantees related to transactions (includes operations with Banxico. Excludes settled transactions through central counterparties).

Position (Million Pesos)	2Q17	2Q17 Average
Forwards	(57)	(23)
Options	61	36
Interest Rate Swaps	3,458	3,169
Cross Currency Swap	(7,136)	(7,886)
Total	(3,674)	(4,705)
Positive Fair Value (Positive Fair Value)	6,678	8,143
Netting Effect*	10,352	12,847
Delivered Guarantees(-) /Received(+)		
Cash	(5,954)	(5,809)
Securities	7.7	7.9
Total	(5,946)	(5,801)

* Difference between the positive fair value (not considering the net positions) and the portfolio market value.
Operations settled in *Camara de Compensación* are not included because they have no counterparty risk.

The following table represents the current and potential levels of exposure at the end and the average of the quarter, respectively.

(Million Pesos)	Potential Risk		Current Risk	
Financial Counterparties	2Q17	2Q17 Average	2Q17	2Q17 Average
FWD	75	96	(76)	(40)
OPTIONS	770	891	493	629
INTEREST RATE SWAP	8,292	10,596	2,459	3,586
CCS	990	763	(7,135)	(7,880)
Total	6,959	9,168	(4,258)	(3,704)
Clients (Non-Financial)	2T17	Promedio 2T17	2T17	Promedio 2T17
FWD	35	40	19	17
OPTIONS	28	14	(432)	(594)
INTEREST RATE SWAP	1,955	1,036	999	(417)
CCS	21	16	(1)	(7)
Total	1,990	1,078	584	(1,001)

Based on conditions established in derivative agreements, tolerance levels of exposure are considered according to the rating of involved entities. The following table presents the amount of guarantees to be delivered, in case of a rating downgrade (it's worth noting that with most counterparties we've migrated to zero threshold, thus, guarantees to be delivered do not depend on credit rating but to market movements).

Net Cash Outflows (Million pesos)	2Q17	2Q17 Average
Cash Outflow with 1-notch Downgrade	0	0
Cash Outflow with 2-notch Downgrade	0	0
Cash Outflow with 3-notch Downgrade	0	0

In the following table, the market value is detailed according to the ratings for derivatives' counterparties

Rating (Thousand pesos)	2Q17	2Q17 Average
AAA/AA-	0	0
A+/A-	(4,206)	(3,331)
BBB+/BBB-	(57)	(393)
BB+/BB-	(18)	(691)
B+/B-	18	(50)
CCC/C	(6)	(7)
SC	595	(233)
Total	(3,674)	(4,705)

2.3 Credit Collaterals

Collaterals represent the second credit recovery source when its coverage, through the predominant activity of the applicant, is compromised. Collaterals may be real or personal.

The main types of real collaterals are the following:

- Civil Mortgage
- Industrial Mortgage
- Regular Pledge
- Pledge w/o possession transfers
- Pledge / Pledge Bond
- Pledge Bond
- Caution Securities
- Securities Pledge
- Management and Payments Trust
- Development Funds

For assets granted in guarantee, the Company has policies and procedures to monitor and make periodic inspection visits to ensure the existence, legitimacy, value and quality of the guarantees accepted as an alternative credit support. Furthermore, when guarantees are securities, there are policies and procedures to monitor its market's valuation and require additional guarantees if needed.

The covered loan portfolio by type of collateral is as follows:

Collateral Type (Million pesos)	2Q17			
	Banorte	Arrendadora y Factor**	Sólida	GFNorte*
Total Loan Portfolio	594,479	23,191	5,229	604,815
Covered Loan Portfolio by type of collateral				
Real Financial Guarantees	21,020	0	0	21,020
Real Non-Financial Guarantees	306,377	5,661	25	312,063
Pari Passu	19,186	0	0	19,186
First Losses	31,742	0	0	31,742
Personal Guarantees	16,667	5,106	0	21,773
Total Loan Portfolio Covered	394,992	10,766	25	405,783

*Total Loans includes eliminations for (Ps 18,084).

** Excludes pure leasing

2.4 Expected Loss

As of June 30, 2017, Banco Mercantil del Norte's total portfolio was Ps 594.48 billion. The expected loss represents 2.2% and the unexpected loss is 4.0% with respect to the total portfolio. The average expected loss is 2.1% during the period April – June 2017.

Regarding Casa de Bolsa Banorte-Ixe, the credit exposure of investments is Ps 90.79 billion and the expected loss represents 0.02% of the exposure. The average expected loss is 0.02% between April – June 2017.

The total portfolio of Arrendadora and Factor, including pure leasing is Ps 26.25 billion. The expected loss represents 0.9% and the unexpected loss is 3.9% of the total portfolio. The average expected loss represents 0.9% during the April – June 2017 period.

The total portfolio of Sólida Administradora de Portafolios was Ps 5.23 billion. The expected loss of the portfolio represents 10.0% and the unexpected loss 12.3%, both with respect to the total portfolio. The average expected loss for the period of April - June 2017 was 9.2%.

2.5 Risk Diversification

In December 2005, the CNBV issued “General Dispositions Applicable to Credit Institutions regarding to Risk Diversification”. These guidelines state that the institutions must carry-out an analysis of their borrowers and/or loans to determine the amount of “Common Risk”; also, the institutions must have the necessary information and documentation to prove that the person or group of persons represent common risk in accordance with the assumptions established in those Rules.

In compliance with the risk diversification regulation in asset and liability operations, Banco Mercantil del Norte submits the following information (million pesos):

Tier 1 as of March 31, 2017		87,336
I. Financings whose individual amounts represent more than 10% of basic equity:		
<u>Loan Operations</u>		
Number of financings		0
Total amount of financings		0
% in relation to Tier 1		0%
<u>Money Market Operations</u>		
Number of financings		0
Total amount of financings		0
% in relation to Tier 1		0%
<u>Overnight Operations</u>		
Number of financings		1
Total amount of financings		9,703
% in relation to Tier 1		11%
II. Maximum amount of financing with the 3 largest debtors and common risk groups:		41,779

In compliance with the risk diversification regulation in asset and liability operations, Leasing and Factoring (Arrendadora y Factor Banorte) submits the following information (million pesos):

Equity as of March 31, 2017		4,657
I. Financings whose individual amounts represent more than 10% of equity:		
<u>Loan Operations</u>		
Number of financings		5
Total amount of financings		3,478
% in relation to Equity		75%
<u>Money Market Operations</u>		
Number of financings		0
Total amount of financings		0
% in relation to Equity		0%
<u>Overnight Operations</u>		
Number of financings		0
Total amount of financings		0
% in relation to Equity		0%
II. Maximum amount of financing with the 3 largest debtors and common risk groups:		4,615

In compliance with the risk diversification regulation in asset and liability operations, Sólida Administradora de Portafolios submits the following information (million pesos):

Equity as of March 31, 2017		3,419
I. Financings whose individual amounts represent more than 10% of equity:		
<u>Loan Operations</u>		
Number of financings		1
Total amount of financings		602
% in relation to Equity		18%
<u>Money Market Operations</u>		
Number of financings		0
Total amount of financings		0
% in relation to Equity		0%
<u>Overnight Operations</u>		
Number of financings		0
Total amount of financings		0
% in relation to Equity		0%
II. Maximum amount of financing with the 3 largest debtors and common risk groups:		863

3. MARKET RISK (Bank and Brokerage House)

GFNorte's objectives regarding Market Risk are:

- Comply with the Desired Profile Risk defined by the Group's Board of Directors.
- Maintain an adequate monitoring on Market Risk.
- Maintain the Senior Management adequately informed in time and form.
- Quantify exposure to Market Risk through the use of various methodologies.
- Define maximum risk levels the Institution is willing to maintain.
- Measure the Institution's vulnerability to extreme market conditions and consider such results when making decisions.

GFNorte's Market Risk Policies are:

- New products subject to market risk must be evaluated and approved through the new products' guidelines approved by the CPR.
- The Board of Directors is the entitled body to approve global limits and market risk's appetite metrics, as well as their amendments.
- The CPR is the entitled body to approve models, methodologies and specific limits, as well as their amendments.
- Market risk models will be valid by and independent area, which is different from the one that develop and manage them.
- Market risk inputs and models will be valid as per a properly approved policy by the CPR.

3.1 Market Risk Methodology

Market Risk Management is controlled through a series of fundamental pillars, highlighting the use of models and methodologies such as Value at Risk (VaR), Back Testing and Stress Testing, which are used to measure the risk of traded products and portfolios in the financial markets.

Risk management is supported by a framework of policies and manuals through which the implementation and monitoring on market risk limits, the disclosure of the aforementioned risk metrics and its tracking regarding the established limits, are set.

Key risk ratios are disclosed in monthly reports to the Risk Policy Committee and through a daily report to top executives at the Institution, related to the Market Risk risk-taking.

3.2 Market Risk Exposure

Exposure of the Institution's financial portfolios to Market Risk is quantified using the standard methodology in the industry known as Value at Risk (VaR).

The VaR model considers a one day horizon base, and considers a non-parametric historical simulation with a 99% confidence level and 500 historical observations on risk factors. Furthermore, it considers all the positions (money market, treasury, equities, FX and derivatives for trading purposes) classified for accounting purposes as trading assets, both on and off the balance sheet.

The average VaR of the portfolio for 2Q17 was Ps 69.8 million (Ps 13 million lower than the average VaR for 4Q16).

The result shows that the Bank's potential loss will be above Ps 69.8 million in one out of a hundred days.

VaR Million Pesos	Average 2Q17
VaR Total	69.8
Net Capital	91,780
VaR/Net Capital	0.08%

VaR by risk factor for Banorte's portfolio had the following behavior during the first quarter of the year:

Risk Factor Million Pesos	2Q17	Average 2Q17
Rates	80.2	72.3
FX	2.0	15.0
Equity	9.2	10.4
Diversification Effect	(11.1)	(28.0)
Bank's Total VaR	80.2	69.8

VaR for 2Q17 was Ps 80.2 million.

VaR by risk factor is determined by simulating 500 historical scenarios to each risk factor and assessing instruments by their main risk factor. It is important to note that all positions classified as trading were considered, positions classified as held to maturity and available for sale were excluded.

The proportion by market risk factor excluding the diversification effect is:

Risk Factor	2Q17
Rates	88%
FX	2%
Equity	10%

3.2.1 Sensibility Analysis and Stress Testing under extreme conditions

Since VaR indicates the potential losses under normal market conditions, Banorte complements its risk analysis enforcing tests under extreme conditions known as Stress Testing. This is presented to the Risk Policy Committee on monthly basis with the main objective of assessing the impact on the Institution's positions of extreme movements in risk factors.

3.2.2 Backtesting

In order to validate the effectiveness and accuracy of the VaR, a monthly Back testing analysis is presented to the Risk Policy Committee. Through this analysis, it is possible to compare losses and gains observed with respect to the estimated Value at Risk and if necessary make the required adjustments to the parameter.

3.2.3 Value at Risk Casa de Bolsa (VaR)

The average VaR of the portfolio for 2Q17 was Ps 12.6 million, +Ps 2 million lower vs. 1Q17.

The result shows that potential loss will be above Ps 12.6 million in one out of a hundred days.

VaR Million Pesos	Average 2Q17
Total VaR	12.6
Net Capital	2,168
VaR/Net Capital	0.58%

VaR by risk factor for Casa de Bolsa Banorte Ixe portfolio had the following behavior during the second quarter of the year:

Risk Factor (Million Pesos)	2Q17	Average 2Q17
Rates	12.6	12.3
FX	0	0
Equity	0	0
Diversification effect	0	0
Casa de Bolsa Total VaR	12.6	12.3

VaR at the end of 2Q17 was Ps 12.3 million.

The VaR per risk factor is determined by simulating 500 historical scenarios and assessing instruments by their main risk factor. It is important to note that all positions that were taken into account for the analysis were those classified as trading, excluding held to maturity and available for sale positions.

Risk Market concentration factor is in domestic interest rates.

3.2.4 Sensitivity Analysis and Stress Testing under extreme conditions

Since VaR indicates the potential losses under normal market conditions, Casa de Bolsa Banorte-Ixe complements its risk analysis enforcing tests under extreme conditions known as Stress Testing. This is presented to the Risk Policy Committee on a monthly basis with the main objective of assessing the impact on the Institution's positions of extreme movements in risk factors

3.2.5 Back testing

In order to validate the effectiveness and accuracy of the VaR, a monthly Back testing analysis is presented to the Risk Policy Committee. Through this analysis it is possible to compare losses and gains observed with respect to the estimated Value at Risk and if necessary make the required adjustments to the parameter.

4. BALANCE AND LIQUIDITY RISK

GFNorte's Balance and Liquidity Risk objectives are:

- Comply with the Risk Appetite defined by the Group's Board of Directors.
- Give proper monitoring of Balance and Liquidity Risk.
- Assessing through the use of different methodologies, Balance and Liquidity Risk exposure.
- Measure Institution's vulnerability to extreme market conditions and consider such results for decision making.
- Maintain Senior Management properly informed in a timely manner on Balance and Liquidity Risk exposure and on any limits' and risk profile's deviation.
- Follow-up on the institution's coverage policy and review it at least annually.
- Maintain a sufficient level of liquid assets eligible to guarantee the institution's liquidity even under stress conditions.

GFNorte's Liquidity Risk Policies are:

- Establishment of specific global limits of Balance and Liquidity Risk Management.
- Measurement and monitoring of Balance and Liquidity Risk.
- Information and disclosure of Liquidity Risk to risk-taking areas, CPR, Board of Directors, Financial Authorities and to public investors.

4.1 Liquidity Risk Methodology and Exposure

Balance and Liquidity risk is managed through a series of fundamental pillars that include the use of key indicators such as the Liquidity Coverage Ratio (LCR), re-price gaps and liquidity, as well as stress testing. The latter, based on a framework of policies and manuals, including a funding contingency plan, and a contingency plan to preserve solvency and liquidity. Similarly, is enhanced with monitoring limits and Risk Appetite metrics of Balance and Liquidity Risk. The disclosure of metrics and indicators and their compliance with the established limits and the Risk Appetite are reviewed through monthly reports to the CPR, weekly reports to the capital and liquidity management group and quarterly reports to the Board of Directors.

4.2 Profile and Funding Strategy

The composition and evolution of the Bank's funding during the quarter is shown in the following table:

Funding Source (Million Pesos)	1Q17	2Q17	Change vs. 1Q17
Demand Deposits			
Local Currency ⁽¹⁾	316,759	321,414	1.5%
Foreign Currency ⁽¹⁾	51,168	47,896	(6.4%)
Demand Deposits	367,927	369,310	(0.4%)
Time Deposits – Retail			
Local Currency ⁽²⁾	159,385	167,253	4.9%
Foreign Currency	14,505	14,361	(1.0%)
Core Deposits	541,817	550,924	1.7%
Money Market			
Local Currency ⁽³⁾	36,449	60,982	67.3%
Banking Sector Deposits	578,266	611,906	5.8%

1. Includes balance of the Global Deposits without Movement.

2. Includes eliminations among subsidiaries

3. Money Market & Time Deposits

4.3 Liquidity Coverage Ratio (LCR)

The LCR measures Liquidity Risk through the relationship between Liquid Assets and Net Cash Outflows in the next 30 days, under a regulatory stress scenario.

The LCR is an indicator designed to ensure that the institution has sufficient liquidity to meet its short term obligations, under an extreme scenario using exclusively high quality liquid assets as source of funding.

The following table presents the average evolution of LCR components in 2Q17.

LCR Components <i>(Million Pesos)</i>		Bank and Sofomes	
		Unweighted amount (Average)	Weighted amount (Average)
COMPUTABLE LIQUID ASSETS			
1	Total Computable Liquid Assets	NA	81,388
CASH DISBURSEMENTS			
2	Unsecured retail financing	339,849	23,357
3	Stable financing	212,568	10,628
4	Less stable financing	127,281	12,728
5	Unsecured wholesale financing	188,997	63,653
6	Operational Deposits	122,204	26,356
7	Non-Operational Deposits	64,755	35,260
8	Unsecured debt	2,038	2,038
9	Secured wholesale financing	259,212	19,112
10	Additional Requirements:	305,358	22,288
11	Disbursements related to derivatives and other guarantee requirements	41,253	6,082
12	Disbursements related to losses from debt financing	-	-
13	Lines of credit and liquidity	264,105	16,207
14	Other contractual financing obligations	-	-
15	Other contingent financing liabilities	-	-
16	TOTAL CASH DISBURSEMENTS	NA	128,411
CASH INFLOWS			
17	Cash Inflows for secured operations	51,145	37,289
18	Cash Inflows for unsecured operations	44,870	631
19	Other Cash Inflows	1,716	1,716
20	TOTAL CASH INFLOWS	NA	39,636
		Adjusted amount	
21	TOTAL COMPUTABLE LIQUID ASSETS	NA	81,388
22	TOTAL NET CASH DISBURSEMENTS	NA	88,775
23	LIQUID COVERAGE RATIO	NA	91.48%

During 2Q17, the average LCR for the Bank and Sofomes was 91.48%, and at the end of 2Q17 the LCR was 92.64% the aforementioned levels are above the Risk Appetite and the regulatory minimum standards.

These results show that Banorte can meet all of its short-term obligations in a crisis scenario¹.

4.4 Evolution of LCR Components

The evolution of the LCR components comparing 1Q17 and 2Q17 is presented in the following table:

LCR Component (Million Pesos)	1Q17	2Q17	Var. vs. 1Q17
Liquid Assets	79,695	76,634	(3.8%)
Cash Inflows	42,281	39,965	(5.5%)
Cash Outflows	121,179	122,686	1.2%

The Liquid Assets that compute in the LCRs for the Bank and Sofomes between 1Q17 and 2Q17 are distributed as follows:

Type of Asset (Million Pesos)	1Q17	2Q17	Var. vs. 1Q17
Total	79,695	76,634	(3.8%)
Level I	71,449	68,376	(4.3%)
Level II	8,246	8,258	0.1%
Level II A	6,909	6,836	(1.1%)
Level II B	1,337	1,422	6.4%

Liquid assets declined in the quarter closing comparison in 1Q17 and 2Q17. The decrease in Level II Assets

4.5 LCR Result's Main Causes

Variations in the LCR between 1Q17 and 2Q17 are mainly due to the decrease in available liquidity accounts without operational purpose and delivered call money and, in a lesser extent, by Level 1 liquid assets.

4.6 Liquidity Risk in foreign currency

For Liquidity Risk quantification and monitoring, in the specific case of the foreign currency denominated portfolio, Banorte uses the criteria established by Banco de México for the assessment of the foreign currency Liquidity Coefficient.

The Liquidity Coefficient in foreign currencies should be interpreted as the ability of the institution to meet its liquidity mismatches with liquid assets, both in foreign currency.

¹ The Liquidity Coverage Ratio information is preliminary and is subject to Banco de Mexico's affirmation.

4.7 Exposure to Derivatives and possible Margin calls

Banorte applies the regulatory methodology to determine cash outflows for derivatives. At the end of 2Q17, estimated outflows for derivatives were as follows:

Derivatives Cash Outflows (Million Pesos)	1Q17	2Q17	Var. vs. 1Q17
Net cash outflows at market value and for potential future exposure	5,164	4,253	(17.6%)
Cash outflows for a 3 notch credit rating downgrade.	0	0	0%

The former measurement shows that potential outflows for derivatives may represent a liquidity requirement up to Ps 4.25 billion, less than 1Q17 derived from the Look Back Approach methodology implemented and published by the CNBV.

4.8 Liquidity Gaps

As part of the liquidity analysis for the Bank, 30 days liquidity gaps for the Institution's assets and liabilities (obligations) are analyzed. Results for the Bank at the end of 2Q17 are presented in the following table.

Concept (Million Pesos)	1Q17	2Q17	Var. vs. 4Q17
Cumulative 30 day Gap	(35,186)	(56,948)	61.8%
Liquid Assets	62,128	58,095	(6.5%)

Mismatch among inflows and outflows (gaps) for the next 30 days are covered with liquid assets. In addition, a more granular breakdown of the liquidity gaps is presented, remaining as follows for 2Q17:

Concept (Million pesos)	1 day	7 days	1 month	3 months	6 months	12 months
Natural Gap	(10,903)	(25,212)	(20,833)	(11,783)	(7,511)	6,802
Accumulated Gap	(10,903)	(36,116)	(56,948)	(68,731)	(76,243)	(69,441)

4.9 Stress Testing under liquidity extreme conditions

As part of its Liquidity Risk management, Banorte performs tests under extreme liquidity circumstances with internal scenarios, to assess the Bank's liquidity adequacy under adverse conditions from the environment as well as by the bank's intrinsic conditions. A total of 9 scenarios, based on 3 sources of risk (systemic, idiosyncratic and combined) with 3 levels of severity (moderate, medium and severe) are used.

4.10 Contingency Funding Plan

In order to comply with comprehensive liquidity management practices, and to ensure its operation in adverse situations in terms of Liquidity, Banorte has implemented a contingency funding plan, which incorporates elements to identify possible liquidity problems and defines alternate funding sources available to deal with contingencies.

4.11 Balancec Risk

The structural risk in the balance sheet or interest rate is managed using tools such as the sensitivity analysis to changes in domestic, foreign and real rates, obtaining the impact thereof on the net interest margin. In the sensitivity analysis, it is included assumptions on deposits according to a model of stability

As part of the rate risk mitigation actions, the Institution has policies and limits for portfolio hedging at a fixed rate. The compliance of the above is reported to the CPR on a monthly basis.

In the table below, the effect on net interest income of a movement of 100 basis points over the rates is shown, which considers available for sale, that as of 2Q17 amounted to Ps 110.75 billion and in average during 2Q17 to Ps 108.43 billion.

(Million Pesos)	1Q17	2Q17	Var. vs. 1Q17
Margin Sensitivity	755	707	(6.4%)

4.12 Subsidiaries

Balance and Liquidity Risk Management processes for the Bank and its Sofomes are centralized in GFNorte's Credit and Risk Management General Direction. To monitor Sofomes' liquidity, an analysis of the balance sheet structural behavior is conducted, as well as funding diversification. Furthermore, a liquidity gap analysis is performed. Specifically for the Brokerage House, regulatory liquidity requirements are monitored.

The following table shows the composition of the gap indicators for the Bank's subsidiaries and Sofomes at the end of 2Q17.

Liquidity Ratio (Million Pesos)	Casa de Bolsa Banorte Ixe	Arrendadora y Factor	Sólida
Cumulative 30 days Gap	1,400	(1,158)	(5,124)
Liquid assets	1,829	52	47

5. OPERATIONAL RISK

GFNorte has a formal Operational Risk department headed by the "Deputy Managing Director of Financial and Operational Risk", reporting directly to the Chief Risk Officer.

Operational Risk is defined as the potential loss due to failures or deficiencies in internal controls, errors in operation processing and storing or in data transmitting, as well as to adverse administrative and judicial rulings, fraud or theft (this definition includes Technological and Legal Risk).

The objectives of Operational Risk Management are: a) Enable and support the organization to reach its institutional objectives through prevention and management of operational risks; b) To ensure that the existing operational risks and the required controls are properly identified, assessed and in line with the risk strategy established by the organization; and c) To ensure that operational risks are properly quantified in order to adequately allocate capital per Operational Risk.

5.1 Policies, Objectives and Guidelines

As part of the Institutional regulations, there are documented policies, objectives, guidelines, methodologies and responsible areas in Operating Risk management.

The Operational Risk Management Directors maintains close communication and coordination with the Regulatory Comptrollership in order to facilitate effective Internal Control in which proper procedures and controls are established for mitigating Operating Risk among the processes, and provide monitoring through the Internal Audit Department.

The Regulatory Comptrollership, as part of the Internal Control System, carries out the following activities to mitigate risk: a) Internal control validations; b) Institutional regulations management and control; c) Monitoring of operating processes' internal control by means of control indicators reports, that are reported by the process comptrollers in the various areas; d) Money Laundering Prevention process management; e) Control and monitoring of the regulatory provisions; and f) Analysis and assessment of the operating processes and projects with the participation of the responsible Directors of each process in order to ensure adequate internal control.

5.2 Quantitative and Qualitative Measuring Tools

5.2.1 Operational Losses Database

In order to record operating loss events, the Institution owns a system that enables, the central information supplier areas, to directly record such events online, which are classified by Type of Event in accordance with the following categories:

Internal Fraud: Losses derived from a type of action intended to defraud; unlawfully assets appropriation; or sidestep regulations, laws or company policies (excluding diversity/discrimination events) in which at least one company party is involved.

External Fraud: Losses derived from a type of action intended to defraud; unlawfully assets appropriation; or sidestep the laws, caused by a third party.

Labor Relations and Safety in the Workplace: Losses caused by acts incompatible with the legislation or labor agreements regarding hygiene or safety, the payment of personal damage claims, or cases associated with diversity/discrimination.

Customers, Products & Business Practices: Losses caused by involuntary noncompliance or negligence of a professional obligation to specific customers (including fiduciary and adjustment requirements), or due to the nature or design of a product.

Natural Disasters and Other Events: Losses caused by damage or harm to material assets as a consequence of natural disasters or other events.

Incidences in the Business and Systems Failures: Losses caused by incidences in the business and systems failures.

Process Execution, Delivery and Management: Losses caused by errors in operations processing or management, as well as relations with commercial counterparties and suppliers.

This historical Database provides the statistics of the operational events in which the institution has incurred to determine their trends, frequency, impact and distribution. Moreover, the Database will enable, in the future, to own enough information to estimate capital requirements as per Advances Models.

5.2.2 Legal and Fiscal Contingencies Database

For recording and monitoring legal, administrative and tax issues that may arise from adverse ruling, an internal system called "Legal Risk Issues Monitoring System" (SMARL by its acronym in Spanish) was developed. This system enables the central data supplying areas to record such events directly and on-line, which are then classified by company, sector and legal issue, among others.

As part of GFNorte's Legal Risk Management, legal and fiscal contingencies are estimated by the attorneys that process the cases, determining its risk level based on an internal methodology. This allows to constitute necessary reserves in a determined term (according to lawsuit's term) to face such Contingencies.

5.3 Risk Management Model

GFNorte has defined objectives, which are achieved through different plans, programs and projects. Compliance with such objectives may be adversely affected due to operating risks, therefore it is imperative to provide a methodology for managing them within the organization. Consequently, Operating Risk Management is now an institutional policy defined and supported by senior management.

To perform Operating Risk Management, each of the operating risks involved in the processes must be identified in order to analyze them. In this regard, the risks identified by the Regulatory Comptrollership with the support of Process Comptrollership, are processed in order to eliminate or mitigate them (seeking to reduce their severity or frequency) and if the case, defining tolerance levels. Currently, work is being done on developing a new Institution Operating Risk Management Model and the technological tools needed to implement it.

5.4. Required Capital Calculation

In accordance with the current Capitalization for Operational Risk Regulations, the Institution has adopted the Alternative Basic Model, which is estimated and reported periodically to the authorities.

5.5. Information and Reporting

The information generated by the Database and the Management Model is processed periodically to report to the Risk Policies Committee and the Board of Directors regarding the main operating events that were detected, the trends, identified risks and their mitigating strategies. Reporting is also done regarding the status of the main Operating Risk mitigation initiatives implemented by the various areas of the organization.

5.6 Technological Risk

Technological Risk is defined as all potential losses from damage, interruption, alteration or failures derived from the use of or dependence on hardware, software, systems, applications, networks and any other information distribution channel in the rendering of banking services to the customers. This risk forms an inherent part of Operating Risk, which is why its management is handled collectively throughout the entire organization.

To address the Operating Risk associated with information integrity, and "Integrity Committee" has been created. Its objectives are to align security and information control efforts under a prevention focus, to define new strategies, policies, processes or procedures and to provide solutions to information security issues that affect or may affect the Institutional patrimony.

The functions established by the CNBV for Technology Risk Management are performed by the Institution under regulatory and Integrity Committee guidelines.

To address the Operating Risk caused by high impact external events, GFNorte has a Business Continuity Plan (BCP) and Disaster Recovery Plan (DRP) based on a same-time data replication system at an alternate computer site. All the above, covers the backup and recovery of the Institution's critical applications in the event of any relevant operating contingency.

5.7 Legal risk

Legal Risk is defined as the potential loss from failure to comply with the applicable legal and administrative provisions, the issuance of indisputable unfavorable court rulings and the application of penalties regarding the operations that the institution performs.

The Legal Risk must be measured as an inherent part of Operating Risk in order to understand and estimate its impact. Therefore, those legal issues which result in actual operating losses of the SMARL system are later recorded in the SCERO a database of operational events.

Based on the statistics of the current legal issues and real loss events, the Institution can identify specific legal or operating risks, which are analyzed in order to eliminate or mitigate them in an attempt to reduce or limit their future occurrence or impact.

6. SECURITIZATIONS EXECUTED BY GFNORTE

The main objective of the securitization operations carried out by the Group, is to transfer risks and benefits of certain financial assets to third parties.

GFNorte has accomplished the following securitizations:

- On October 11th, 2006, Fincasa Hipotecaria (Fincasa), now merged with Banorte, held the irrevocable trust for the issuance of market certificates No. 563, issuer code FCASACB, whose underlying assets are mortgages originated and transferred by Fincasa.
- On December 13th, 2006, Banorte held the irrevocable trust for the issuance of market certificates No. 583, issuer code BNORCB, whose underlying assets are mortgages originated and transferred by Banorte.

- On November 5th, 2007, Banorte held the irrevocable trust for the issuance of market certificates No. 477, issuer code BNTECB, whose underlying assets are loans originated and transferred by Banorte to federal entities, states and municipalities, as well as trusts in which any of such entities act as trustees.

In accordance with criterion C-1 *Recognition and Disposal of Financial Assets*, these assets were written off from the Institution's balance sheet as a sale, given that conditions for the risk's and benefit's transfer inherent in the ownership of the financial assets were met. The Institution is not responsible for assumed or retained risks with respect to trust assets, its sole responsibility is the fulfilment of its obligations in the trust agreement and administration contract.

The Institution is responsible that each of the assigned loans meets the eligibility criteria, at the time of their respective assignment. If the trust, the common representative, the financial guarantor, identify any non-eligible loans, they may require Banorte to replace such loan or if replacement is not possible, to make payment for the "non-replaced ineligible loan" in question. If Banorte identifies any non-eligible loan, it must notify and replace or make the corresponding payment.

Particularly in Trust 477, operations with derivatives are carried out, specifically swaps, in order to reduce exposure to exchange rate and interest rate risks. The Institution assumes the counterparty risk generated by these operations, however these operations are only carried out with institutions of recognized solvency. The Trust's policy is to only carry out derivative instrument operations for the sole purpose of coverage, never for speculation.

The Institution's Board of Directors has no pre-determined policies for the issuance of securitizations, authorization for any new issuance must be requested.

The Institution does not participate in securitizations of third party positions.

There are several risk factors for securitizations that may affect trusts. If these risks materialize, payment to market certificates' holders could be adversely affected. The main risks which these financial instruments are exposed to are credit, market, liquidity and operational risk, which have been detailed in previous sections.

To monitor the quality of Credit Risk exposure of financial instruments arising from securitized assets, the Institution estimates expected loss within one-year time horizon. Likewise, in order to monitor exposure to market risk, the value at risk is calculated with a one-day time horizon and a 99% confidence level, for these instruments.

Banco Mercantil del Norte is the settlor and trustee of trusts for the securitizations carried out. At the same time it acts as underwriter on each issue, offering bonds to investors. Additionally, the Institution also carries out the duties of administrator in each of the trusts.

On the other hand, the Institution also acts as an investor by acquiring titles of market certificates issued by the trusts set up for securitizations. By June 30, 2017 Grupo Financiero Banorte had the following position in securities and securitization amounts carried out by the same Institution:

Securitization (Million pesos)	Banorte		Insurance		Total GFNorte	
	Securities	Amount	Securities	Amount	Securities	Amount
91_BNTECB_07	50,763,776	2,047	500,000	20	51,263,776	2,067
91_BNTECB_07-2	563,059	19	-	-	563,059	19
97_BNORCB_06	4,938,137	15	500,000	1	5,438,137	16
97_BNORCB_06-2	576,011	3	-	-	576,011	3
97_FCASACB_06U	-	-	-	-	-	-

The following shows the proportion of securities held by Grupo Financiero Banorte, in relation to the total issued for each series:

Securitization (Million pesos)	Issued Securities	Banorte	Insurance	Total GFNorte	Total Clients
91_BNTECB_07	52,313,776	97.0%	1.0%	98.0%	2.0%
91_BNTECB_07-2	1,113,059	50.6%	0.0%	50.6%	49.4%
97_BNORCB_06	19,853,820	24.9%	2.5%	27.4%	72.6%
97_BNORCB_06-2	620,431	92.8%	0.0%	92.8%	7.2%
97_FCASACB_06U	1,351,386	0.0%	0.0%	0.0%	100.0%

Ratings assigned by each rating agency at the end of the quarter for each market certificate issued by the aforementioned trusts are as follows:

Securitization	Standard & Poor's		Fitch Ratings		Moody's		HR Ratings	
	Local	Global	Local	Global	Local	Global	Local	Global
91_BNTECB_07					Aa2.mx	Baa2	HR AA+	
91_BNTECB_07-2					A3.mx	Ba3	HR AA	
97_BNORCB_06	mxAAA		AAA (mex)		Aaa.mx	A3		
97_BNORCB_06-2	mxAA		AA- (mex)					
97_FCASACB_06U	mxAA		A(mex)					

As of June 30, 2017 the amounts of the underlying assets of each securitization were:

Securitization (Million pesos)	Amount		
	Performing	Past-Due	Total
91_BNTECB_07	\$2,860	\$0	\$2,860
91_BNTECB_07-2		-	
97_BNORCB_06	\$103	\$88	\$191
97_BNORCB_06-2			
97_FCASACB_06U	\$126	\$139	\$265

There are no impaired assets in trust 477.

Securitization exposure broken down by Credit Risk Weight is shown below:

Concept (Million Pesos)	Balance	Capital Requirement
Securitizations with Risk Level 1 (weighted 20%)	15	0
Securitizations with Risk Level 2 (weighted 50%)	2,066	83
Securitizations with Risk Level 3 (weighted 100%)	3	0
Securitizations with Risk Level 4 (weighted 350%)	0	0
Securitizations with Risk Level 4, 5, 6 or not rated (weighted 1250%)	0	0

*Excludes the position in Seguros Banorte

No securitization position is registered in memorandum accounts and no maintained securitization position is deducted from basic capital.

Securitizations trusts 563, 583 and 477 consider early amortization provisions. The institution has not made revolving securitizations or resecuritizations operations during the quarter.

There are no significant changes vs. figures in the prior quarter.

6.1 Applied Accounting Policies

All securitization operations carried out by the Institution were recognized as sales in accordance with criterion C-1 *Recognition and Disposal of Financial Assets*. This is because, despite retaining the contractual rights to receive cash flows from financial assets, a contractual obligation is assumed to pay such cash flows to a third party. In addition, an analysis of the transfer of these assets concluded that the entity substantially transfers all the risks and benefits inherent with ownership of the financial assets. Registration of profits from sales conforms to the provisions in paragraph 31 of criterion C-1, which states:

- Eliminate transferred financial assets at the last book value;
- Recognition for the consideration received in the operation;

- c) Recognition of profit or loss in the income statement, for the difference between the book value of eliminated financial assets, and the sum of (i) compensation received (recognized at fair value) and (ii) the effect (gain or loss) by cumulative valuation recognized in equity.

The BORHIS and GEM Trusts issued certificates in favor of the institution, as holders of rights in last place under the trust agreement. These certificates provide the right to receive a percentage of the distributions and in general to the corresponding proportions of the remnant that may be in the trust after full payment of the bonds. Valuation of the certificates is based on the method of net present value of remaining cash flows expected over the lifespan of the securitization. Remaining cash flows, depending on the type of securitization, are determined as follows:

- a) BORHIS: the sum of the cash flow to receive from the securitized loan portfolio, less the cash flow to pay off the market certificates, less the monthly administration expenses plus the income from sales of foreclosed properties, if the case.
- b) GEM: the sum of the cash flow to receive from the securitized loan portfolio, less the cash flow to pay off the stock certificates, less expenses for Administration, plus or less the change in the reserve's interests.

Remaining flows are discounted with the B1 banking curve, which takes into consideration the trust's Credit Risk. The most important assumptions in the valuation of the certificates are the following:

- a) Non-compliance rate: cash flows to be received from loan portfolios are adjusted by a determined percentage of the outstanding portfolio amount that is estimated to fall into non-compliance. That percentage is estimated using historical performance information of this portfolio. This percentage is applied to flows greater than 12 months.
- b) Prepayment rate: cash flows to be received from the loan portfolio are adjusted by a determined percentage of the outstanding portfolio amount estimated to be prepaid. That percentage is estimated using historical performance information of this portfolio.
- c) Portfolio term: is estimated using WAM (*Weighted Average Maturity*) of the securitized portfolio.
- d) Portfolio interest rate: is estimated using WAC (*Weighted Average Coupon*) of the securitized portfolio.
- e) Portfolio payment dates: loan portfolio payment dates are considered to be the same as those of the stock certificates.
- f) Reserve to be rated: the current value of the remaining flows is reduced by the amount of the reserve to be rated. This reserve corresponds to the non-compliance risk for cash flows in the first 12 months.
- g) General account: the current value of the remaining flows are added to the amount of cash or cash equivalents deposited in the general account, collection account and if the case, in the expense reserve account, in case of total payment of the stock certificates, these assets would be distributed to the certificate holders.
- h) General terms of stock certificates: estimated to be in accordance with prices published by Valmer.

Regarding the policies for recognizing obligations in balance sheet of the agreements that may require financial support from the Institution in case of asset's securitization: all amounts due under the stock certificates of the different existing securitizations, will be charged to the trust estate. If, for any reason, the liquid assets of the trust net worth are not sufficient to ensure payment of the amounts due under the stock certificates, holders will not have the right to claim payment from the Institution, the Trust, the common representative, the placement agent, the guarantor or guarantors in the case, or anyone else. The stock certificates have not been guaranteed or endorsed by any of the persons involved in the issuance thereof, therefore none of them are obligated to make payments to the certificate holders, with the exception, in the case of a trust, where payments may be charged to the trust in accordance with the trust agreement.

7. POSITION IN SHARES:

At the end of June 2017, Banco Mercantil del Norte held shares amounting to Ps 4.47 billion, with gains of Ps 269 million.

During the second quarter, accumulated profits from sales and settlements were Ps 34 million.

For the purpose of estimating Capital Ratio, only Ps 124 million were deducted for the calculation of the Core Tier 1. For negotiable securities, the capital requirement for Market Risk was Ps 23 million. For securities available for sale, the capital requirement for Market Risk was Ps 120 million and for Credit Risk Ps 200 million.

Institution	Type of Trading	Accounting Classification	Capitalization Treatment	Market Value 2Q17	Gains / Losses 2Q17	Acumm.. Profit / Loss 1Q17-2Q17
Banorte	Public	Negotiable Securities	Subject to Market Risk Requirement	646	104	(3)
Banorte	w/o Public trading	Securities Available for Sale	Subject to Market and Credit Risks Requirements	3,545	54	38
Banorte	Public	Securities Available for Sale	Subject to Market and Credit Risks Requirements	32	(28)	0
Banorte	Public	Securities Available for Sale	Subject to Core Tier 1 deduction	124	30	0
Banorte	Public	Securities Available for Sale	Subject to Credit Risk Requirement	125	109	0
Total				4,472	269	34

In June 2017, net equity instruments in Casa de Bolsa Banorte - Ixe, amounted to Ps 450 million with a positive valuation of Ps 216 million.

During the quarter, profits were recorded for Ps 0.14 million from sales and settlements.

For the purpose of estimating Capitalization Ratio, investments that are deducted from the Net Capital are not included. For securities available for sale, the capital requirement for Market risk was Ps 3 million.

Institution	Type of Trading	Accounting Classification	Capitalization Treatment	Market Value 2Q17	Gains / Losses 2Q17	Acumm. Profit / Loss 1Q17-2Q17
Casa de Bolsa Banorte-Ixe	Public	Negotiable Securities	Subject to Market Risk Requirement	450	216	0.14
Casa de Bolsa Banorte-Ixe	w/o public trading	Securities Available for Sale	Subject to Market and Credit Risks Requirements	0	0	0
Casa de Bolsa Banorte-Ixe	Public	Securities Available for Sale	Subject to Market and Credit Risks Requirements	0	0	0
Casa de Bolsa Banorte-Ixe	Public	Securities Available for Sale	Subject to Core Tier 1 deduction	0	0	0
Casa de Bolsa Banorte-Ixe	Public	Securities Available for Sale	Subject to Credit Risk Requirement	0	0	0
Total				450	216	0.14

Internal Control

The companies comprising GFNorte have an Internal Control System (SCI) structured according to the guidelines set forth by their Board of Directors, which establishes a general internal control framework, as well as the environment in which it must operate in order to provide reasonable security regarding the effective and efficient performance of operations, reliability of financial statements and compliance of regulation and legal framework.

The SCI's mission is to help running an adequate internal control in the operations and in data generating and recording. The system is made up of various elements:

- A. The Board of Directors with the support of the Advisory Board, Risk Policies Committee (CPR), Audit and Corporate Practices Committee (CAPS) and Human Resources Committee.
- B. GFNorte's CEO and the departments which support him: Risk Management Unit (RMU), Legal Department and the Comptroller, responsible for ensuring that adequate control levels, operational risks and compliance with regulation are maintained.
- C. Internal Audit, External Audit and the Commissary (The Commissary applies only to GFNorte subsidiaries) as additional support structures to check how the Internal Control System functions and provide reasonable assurance regarding the reliability of the generated data. The Internal Audit Department reports to the 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. Within these documents, the Code of Conduct stands out as it regulates the behavior that each Board member, officer or employee of the Group should maintain while performing their activities.
- F. Policy and procedure manuals that regulate documentation, recording and liquidation of operations that the Institution carries out and establish the control points that should be observed, assuring the separation of functions, clear assigning of responsibilities, safekeeping of information and prevention of unlawful acts.

During the second quarter of 2017, 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 various Corporate Governance Committees have had the required financial, economic, accounting and/or legal information for proper decision-making.
- B. 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.
- C. There has been continuous follow-up of the improvement actions regarding the observations made by the different members of the SCI.
- D. The Supervisory Authorities' requirements have been addressed and the information required by the external regulations has been submitted.
- E. 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.
- F. During the quarter and according to the work plan developed at the beginning of the year, various activities in terms of accounting internal control were carried out.
- G. 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 to the Regulation.

FINANCIAL SITUATION AND LIQUIDITY

Internal and External Liquidity Sources

The internal liquidity sources, in local and foreign currency, come from the various deposit products that the institution offers to customers.

Regarding external sources of liquidity, it has diverse mechanisms to access the debt and capital markets. The Institution obtains resources through the issuance of debt securities, loans from other institutions - including the Central Bank and international organisms -, as well as from the issuance of subordinated debt. Also considered is the liquidity that the Institution obtains through its proprietary repos' securities that qualify for such transactions. It also has the alternative of obtaining resources through the issuance of shares representing equity.

Currently, the Institution has diverse sources of liquidity. Deposits, including interest bearing and non-interest bearing demand and time deposits, are the bank's main source of liquidity. Negotiable and short term instruments, such as government securities and deposits in the Central Bank and other banks, are liquid assets that generate interest. Liquid assets also include deposits in foreign banks, which are denominated mainly in US dollars.

Detailed information related to liquidity sources is reported in different headings of the GFNorte's Balance Sheet in this report

Dividend Policy

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.

Related Parties Loans

According to Article 73 of the Law of Credit Institutions, loans granted to related parties of credit institutions cannot exceed the established limit of 35% of the basic portion of net capital.

In the case of GFNorte as of June 30 and March 31, 2017, the amount of loans granted to third parties is as follows (million pesos):

Lender	June-2017	% Basic Equity	Mar-2017	% Basic Equity
Banorte	Ps 14.35	16.4%	Ps 10.04	12.3%

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

Banorte.

As of **June 30, 2017**, total loans granted to related parties, under Article 73 of the Law of Credit Institutions, was Ps 14.35 billion (including Ps 4.80 billion in — Letters of Credit "CC", which are registered in memorandum accounts), representing 2.4% of Banorte's total loan portfolio (excluding the balance of CC). Of the total related loans balance, Ps 11.47 billion were loans granted to clients linked to members of the Board of Directors; Ps 1.77 billion were granted to clients linked to shareholders and Ps 1.12 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 June 2017 was 16.4% 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 **March 31, 2017**, total loans granted to related parties, under Article 73 of the Law of Credit Institutions, was Ps 10.04 billion (including Ps 993 million in — Letter of Credit “CC”, which are registered in memorandum accounts), representing 1.8% of Banorte's total loan portfolio (excluding the balance of CC). Of the total related loans balance, Ps 8.08 billion were loans granted to clients linked to members of the Board of Directors; Ps 987 million were granted to clients linked to shareholders and Ps 975 million 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 March 2017 was 12.3% 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.

Loan or tax liabilities

The tax credits listed below are currently in litigation:

	As of June 30, 2017
AFORE XXI BANORTE	\$2
Loan # 4429309391 Payroll Tax of the state of Coahuila	2
UNITELLER	\$5
Philippines 2007 - 2008	5
CASA DE BOLSA BANORTE IXE	\$33
Fiscal credit review - year 2007 (document 900 06 05-2010-03968)	33
IXE BANCO	\$13
Income Tax-Profit Sharing for the 2005 fiscal year – inflation adjustment	13
Million pesos	

People in Charge

The undersigned represent under oath that, within the scope of our respective functions, we have drawn up the information relative to Grupo Financiero Banorte contained in this report, which, to the best of our knowledge, reasonably reflects its situation. Furthermore, we express that we are not aware that relevant information has been omitted or falsified in this quarterly report or that it contains information that may lead to errors to investors.

Act. Jose Marcos Ramirez Miguel
Chief Executive Officer of Grupo Financiero Banorte, S.A.B. de C.V.

Eng. Rafael Arana de la Garza
Chief Operating Officer & Chief Financial Officer

C.P. Isaias Velazquez Gonzalez
Managing Director of Internal Audit

Lic. Jorge Eduardo Vega Camargo
Deputy Managing Director of Comptrollership

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

Basis for submitting and presenting Financial Statements

Grupo Financiero Banorte (GFNorte). Issues consolidated financial statements with its Subsidiaries in accordance with the General Provisions applicable to Financial Groups' Holding Companies which regulates matters that correspond, in tandem, to the National Supervisory Commissions (the Provisions) published in the Official Gazette of the Federation on January 9, 2015.

General Provisions Applicable to Financial Information of the Regulating Agencies of Financial Groups Subject to Supervision by the National Banking and Securities Commission (CNBV) published in the Official Gazette of the Federation on January 31, 2011 and modified on July, 18, 2011 and December 1, 2014. As a result of the norm NIF B10 "Inflation Effects" taking effect and according to INIF 9 "Presentation of comparable financial statements as a consequence of NIF B-10 taking effect"; which mentions that, the economic environment is considered to be non-inflationary, when the last three years' accumulated inflation is less than 26%. In this context, it is not necessary to re-express financial statements as of January 2008.

Consolidated Bank. Issues consolidated financial statements with its subsidiaries in conformity with the General Provisions for Financial Information of Credit Institutions in effect as published on December 2, 2005 and modified on March 3 and 28, September 15, December 6 and 8, 2006, January 12, March 23, April 26, November 5, 2007, March 10, August 22, September 19, October 14, December 4, 2008, April 27, May 28, June 11, August 12, October 16, November 9, 2009, December 1 and 24, 2009, January 27, February 10, April 9 and 15, May 17, June 28, July 29, August 19, September 9 and 28, October 25, November 26, December 20, 2010, January 24 and 27, March 4, April 21, July 5, August 3 and 12, September 30, October 5 and 27, December 28, 2011, June 19, July 5, October 23, November 28, December 13, 2012, January 31, April 16, May 3, June 3 and 24, July 12, October 2, December 24, 2013, January 7 and 31, March 26, May 12 and 19, July 3 and 31, September 24, October 30, December 8 and 31, 2014, January 9, February 5, April 30, May 2 and June 23, 2015, August 27, September 21, October 29, November 9 and 13, December 16 and 31, 2015, April 7 and 28, June 22, July 7 and 29, August 1 and September 19 and 28, December 27, 2016, and January 6, April 4 and 27, May 31, June 26 and July 4, 2017, respectively.

GFNorte and Banorte. The financial information contained in this document has been developed according to the regulations issued by the CNBV for the regulating agency and the financial entities that make up the Financial Group and to Norms of Financial Information (Normas de Informacion Financiera NIF), issued by the Mexican Council of Financial Information Norms, A.C. (CINF). Such regulations of CNBV and NIF differ given the specialized operations of Credit Institutions. Moreover, there is a difference in the Generally Accepted Accounting Principles of the United States (US GAAP) and the regulations and principles established by the American authorities for this kind of financial entities. In order to present the information contained herein in an international format, the classification format and the presentation of certain financial information differ from the format used for the financial information published in Mexico.

The information contained in this document is based on non-audited financial information of each of the entities to which it refers.