



Annual Report of the Audit and Corporate Practices Committee

Mexico City, March 21, 2019

To the Board of Directors of Grupo Financiero Banorte, S.A.B. de C.V.

As provided by Articles 58 of the Law to Regulate Financial Groups, 43 of the Securities Market Law and 34 of the Sole Circular Letter of External Auditors, the Audit and Corporate Practices Committee (the Committee) submits its annual report of activities for fiscal year 2018.

The contents of this report shall refer to Grupo Financiero Banorte (GFNorte) and the following relevant entities: Banco Mercantil del Norte, S.A., Casa de Bolsa Banorte, S.A. de C.V., Arrendadora y Factor Banorte, S.A. de C.V. SOFOM ER, Sólida Administradora de Portafolios, S.A. de C.V. SOFOM ER, Seguros Banorte, S.A. de C.V., Pensiones Banorte, S.A. de C.V. and Banorte Ahorro y Previsión S.A. de C.V.

I. Audit:

a) Concerning the status of the Internal Control System (SCI) and the Internal Audit of GFNorte and its relevant entities, and the deficiencies and diversions, the following elements were taken into consideration:

1. The annual reports on activities concerning Internal Control of the relevant entities prepared by their Managing Directors.
2. The reports of Internal Controllers of the relevant entities, with their opinion on the performance of the SCI.
3. The opinion of Internal Audit on the status of the SCI.
4. The reports on relevant deficiencies and observations of GFNorte and Subsidiaries, submitted by Internal Audit and monitoring of corrective measures.
5. The opinion on the financial statements of GFNorte and Subsidiaries.
6. The reports from inspection visits by the competent Authorities.
7. The opinions of Statutory Auditors of the relevant entities of GFNorte.
8. The reports of other Audit Committees on relevant events and minutes of their meetings.
9. The management reports on Internal Audit and performance of its work schedule.

Taking the foregoing elements into consideration, it is informed that the SCI of GFNorte and its relevant entities generally works in an efficient manner, and that any deficiencies or diversions found have been addressed, and others are in process of being addressed.



Concerning the operation of Internal Audit, the area has kept its independence, reasonably complied with its work schedule according to the best practices, and efficiently monitored the implementation of actions to correct the observations and areas of opportunity found.

- b) No significant breaches of the operation and accounting registration guidelines and policies of GFNorte and its relevant entities occurred, and the identified areas of opportunity were reported to the responsible parties, and measures were taken to address them, with respect to which there is a monitoring system to guarantee their appropriate implementation.
- c) Concerning the results of the assessment of independence requirements of the Firm and the Independent External Auditor, it is informed that they comply with the independence requirements necessary for the performance of their duties.

Likewise, it is considered that the contents of the opinions, communications and reports issued by the Independent External Auditor are of good quality and useful to support the Committee, and that they match those of the Management. During the fiscal year, the Independent External Auditor did not issue relevant observations to be followed.

Concerning the assessment of the performance of the Independent External Auditor, it is informed that, in the performance of its activities and in its relationship with the Management and the Committee, the quality of the firm Galaz, Yamazaki, Ruiz Urquiza, S.C. (a member of Deloitte Touche Tohmatsu) has been verified.

- d) Concerning the description of the additional or supplementary services provided by the External Auditor, their hiring was authorized during the fiscal year to review the sustainability report and some local taxes and transfer prices in intercompany operations.

Also to execute works associated with the local Program for Placement as Recurring Issuer that Banco Mercantil del Norte plans to implement and for the issuance of capitalization instruments during 2019 and 2020.

Additionally, works related to the diagnostic and advisory on the implementation of the new accounting regulations included in the Financial Accounting Standards and Accounting Criteria projects of the CNBV were carried out.

In tax matters, their hiring was authorized to identify the tax effects that the possible spinoff of Banorte USA would have pursuant to the legislation of the United States of America (USA).

In technology matters, they were hired to provide better practices in the initiatives related to the establishment of the TRIAGE Protocol and the Assessment Process of Information Services and to participate as potential supplier to make system intrusion tests. Finally, their hiring was authorized for the analysis and opinion of payment proposals of M&G Polímeros for credit managed in Recovery Banking.

With respect to the assessment of the abovementioned additional services, it is reported that they complied with the requested purposes and scope, the funds earmarked for their performance were sufficient, the participating teams had the competencies and professional experience for the development thereof, the time used for the execution thereof was as scheduled and the parties responsible for their performance kept an effective communication.

- e) The review of the financial statements of GFNorte and Subsidiaries as of December 31, 2018 and of the opinion of the Independent External Auditor was made, corroborating that they were



prepared, in all material aspects, in accordance with the applicable accounting criteria, and the approval thereof was recommended to this Board of Directors. The Committee also reviewed on a quarterly basis the interim financial statements for the fiscal year.

- f) Concerning the main amendments to the accounting policies and criteria used during the fiscal year, it is reported that amendments were made in order to comply with the changes in the applicable provisions described in Note 4 to the financial statements, "Main Accounting Policies", which contains a detailed explanation thereof and their effects.

It emphasizes that, during 2018, the Board of Directors approved changes to the assessment methodology of investment projects, and obtains from the CNBV an official communication by means of which it authorized the application of a special accounting registry, which consists in acknowledging the results of the appraisal of shares of house development companies.

- g) No relevant observations were received during the fiscal year from shareholders, directors, senior officers, employees or any third party with respect to the accounting records, internal controls or internal and external audit, or reports on irregular events. According to the best practices, there is an anonymous reporting system and the Committee monitors the appropriate treatment thereof.
- h) With respect to the monitoring of the resolutions of the Shareholders Meeting and the Board of Directors, such bodies did not request the Committee to monitor any particular resolution.
- i) During the fiscal year, supervision visits from CNBV, CNSF, CONDUSEF, IPAB, Banco de México and from BMV to the Brokerage Firm were received, pointing out that the CNBV requested some identified aspects of its review to be informed to the Board of Directors.

In December and January, answer documents about the observation they made were given to the Authorities, providing additional information on certain items for it to be addressed, in other cases, stating to the correction plan which is already being implemented and, in certain cases, informing that the corresponding analyses will be performed to begin with correction programs. The main findings were reported to the Board of Directors at the meeting held on January 24, 2019.

- j) Other relevant activities that are the responsibility of the Committee include the monitoring of the progress in the merger with Grupo Financiero Interacciones and the approval of the amendments to the Internal Audit Work Program for the second semester of 2018, which considered the new processes and companies resulting from the merger.

The Committee approved the materiality that Internal Audit must use to report its findings in the review of the financial statements of the companies of GFNorte and the proposal of policies and limits for the contracting of additional services of the External Auditor.

In connection with the issuance of the Sole Circular Letter of External Auditors, which became effective as from August 2018, the Committee held extraordinary meetings with the External Auditor, Internal Controllershship, Internal Audit and the Management for purposes of identifying its responsibilities and to register any deliverables to be received and issued to comply with this Circular Letter.

With respect to the Trustee area, the Committee monitored the results of the audit for fiscal year 2017, the phase II corresponding to the work plan of the SIFE trust system, the progress of



the legal audit of files and, finally, the review of the progress based on the observations identified by Internal Audit.

Concerning Technology (IT), the Committee monitored the fraud incident of the Interbanking Electronic Payment System (SPEI) occurred in April 2018, assessing the corresponding remediation plan, reviewed the report on Information Security (IS), which contemplated the assessment of the maturity level of GFNorte with respect to its competitors and details of the Quantum 2020 program, which purpose is to maximize the protection coverage of GFNorte's information assets.

Concerning Credit matters, the Committee verified the results of the Loan Review for fiscal year 2018 applicable to Banco Mercantil del Norte and Arrendadora y Factor Banorte, and the Internal Credit Models.

Additionally, the Committee reviewed the actions to strengthen the segregation of functions in applications and monitored the results and corrective measures of the forensic analysis of the fraud in Casa de Bolsa Banorte occurred in May 2017.

Before ending the report, we would like to recognize the careers of Manuel Aznar Nicolás and Robert Chandler Edwards, who acted as members of the Committee and directors of the Board of GFNorte, and who actively contributed to the strengthening of the Institution.

II. Corporate Practices:

- a) With respect to the observations concerning the performance of the relevant senior officers, the Office of the Secretary of the Human Resources Committee informed that no cases of senior officers acting in breach of the established policies occurred during the fiscal year.
- b) The operations with related parties were approved by the Board of Directors and, as of December 31, 2018, the credits extended through Banco Mercantil del Norte to related parties amounted to \$17,133 million, which amount is lower than the limit established by the corresponding regulations. Intercompany operations were made at market prices, which was verified by the External Auditor, who did not report any findings.

During 2018, the Committee monitored the implementation of the GFNorte's Conflict of Interest Prevention System, helped by the Internal Audit and Controllership reports.

- c) With respect to the compensation packages of the Managing Director and relevant senior officers, there is a Compensation System approved by this Board of Directors, which divides their compensations into ordinary and extraordinary, and includes rules to defer the latter depending on established risk indicators and compliance with the policies, which has been consistently applied during the fiscal year taking into consideration the review made by Internal Audit.
- d) During the fiscal year, the Board of Directors did not grant any releases to relevant directors or senior officers to take advantage of business opportunities.



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Sincerely,

Héctor Reyes Retana y Dahl

Chairman of the Audit and Corporate Practices Committee of
Grupo Financiero Banorte, S.A.B. de C.V.

