

## **GFNORTE REPORTS NET INCOME OF PS 3.63 BILLION IN 1Q14, AN INCREASE OF 16% YOY VS. 1Q13**

- In 1Q14 net income maintained its growing trend, increasing by Ps 488 million vs. 1Q13 and Ps 5.5 million vs. 4Q13.
- Core deposits increased 16% YoY, from Ps 331.16 billion in 1Q13 to Ps 385.60 billion in 1Q14.
- As at the end of 1Q14, growth in performing loans was 6%, an increase of Ps 22.96 billion totaling Ps 427.55 billion.
- As at the end of 1Q14 the Non Performing Loan (NPL) Ratio was of 3.0%, 0.9 percentage points (pp) higher vs. 1Q13, and 0.13 pp lower vs. 4Q13.
- The Group's loan loss reserve coverage was 105.8% at the end of 1Q14.
- Banorte's Capitalization Ratio was 15.2% at the end of 1Q14.
- GFNorte reached an agreement with Corporación GEO to restructure its liabilities.
- Banorte prepaid Subordinated Obligations.
- Fitch Ratings upgraded GFNorte's, Banorte's and other subsidiaries' international and national long-term ratings with Stable outlook.
- Del Sol" and "Woolworth" became part of our third party correspondents.
- In February, Operadora de Fondos Banorte Ixe received the award of Best Aggressive-Mixed Fund in Mexico 2014 by Morningstar.
- Two new appointments were announced on the GFNORTE's structure: Luis Fernando Orozco Mancera as Chief Credit Officer and Juan Jesús Viteri Álvarez as Managing Director of Internal Communication.

**México D.F., April 24, 2014.** Today, Grupo Financiero Banorte (GFNORTE) reported results at the closing of March 2014. GFNORTE registered profits of Ps 3.63 billion, 16% higher YoY vs. 1Q13 due to the operating leverage obtained from the 2% YoY growth in total income and the decrease in operating expenses which offset the increase in provisions and taxes; the YoY growth is also due to the decrease in minority interest resulting from the purchase of Generali's participation in the insurance and annuities companies, coupled with their favorable business dynamics. **Net income increased by Ps 5.5 million, + 0.2% vs. 4Q13** mainly as a result of higher non-interest income, lower operating expenses, and favorable business dynamics in the Afore, the insurance company and the credit card unit (Banorte Ixe Tarjetas), offsetting higher provisions and taxes.

Banco Mercantil del Norte (excluding its participation in Afore XXI Banorte) contributed with 58% of GFNORTE's profits, or Ps 2.11 billion, a YoY growth of 3%.

During 1Q14, **ROE was 13.3%**, a YoY decrease of (179) bp vs. 1Q13 (due to the dilution effect of the equity offering in July 2013), whereas **ROA was 1.4%**, a YoY increase of 7 bp vs. 1Q13.

- **Deposits and Net Interest Income**

**Core deposits grew 16% YoY in 1Q14**, driven mainly by efforts to promote Banorte-Ixe's deposit products, as well as the significant increase registered in client account balances since the end of 2013, mainly in Government banking. A YoY increase of 24% in Demand Deposits and 4% in Retail Time Deposits was registered, and as a result, core deposits grew by Ps 54.44 billion from \$331.16 billion in 1Q13 to **Ps 385.60 billion in 1Q14**. During the quarter, core deposits remained at the same level as in 4Q13 due to seasonal effects registered at the beginning of each year, although this effect was of lesser magnitude than in previous years.

**Net Interest Income** during the first quarter of 2014 amounted to Ps 9.53 billion, 11% higher YoY due to better loan mix, higher loan origination fees and lower funding costs, which offset the decline in net interest income of the insurance and annuities companies. Net Interest Income decreased (1%) QoQ vs. 4Q13 mainly due to seasonal

effects resulting in fewer days in the quarter, as well as to the decrease in NII for the insurance and annuities companies.

- **Loan Portfolio**

**At the close of 1Q14, Total Performing Loans had a YoY growth of 6%**, increasing by Ps 22.96 billion and amounting to Ps 427.56 billion. The Loan portfolio registered lower growth rates YoY mainly due to the economic slowdown, as well as to prepayments received from corporate clients which were not fully offset by the origination of new loans in this segment. Nonetheless, the performing loan portfolio keeps growing at a faster pace than the economy. Total Performing Loans increased 1% QoQ, as a result of growth in Government, Payroll, Mortgage and Car loan portfolios, which offset the prepayments received in the Corporate portfolio during the quarter.

**Commercial** loans totaled Ps 112.39 billion, a YoY growth of 6%, mainly on the back of increased placement of Crediactivo loans, leasing and middle market company loans; on a QoQ basis, commercial loans declined (1%) due to reduced demand as a result of seasonal effects. **Corporate** loans totaled Ps 73.24 billion, decreasing (15%) and (3%) vs. 1Q13 and 4Q13, respectively, both reductions were the result of the payment or classification to past due loans of some loans to home developers, as well as prepayments received from some clients who used the proceeds from capital market transactions to pay their liabilities. **Government** loans at the close of March 2014 were Ps 98.63 billion, representing increases of 10% YoY and 3% QoQ as a result of ongoing efforts to continue meeting the demand for loans in this segment, including some federal government entities.

**Consumer** loans, including mortgages, increased 17% YoY and 2% QoQ. **Mortgage** loans maintained their rising trend to closing with a balance of Ps 82.97 billion, 12% higher YoY and 1% above QoQ. Growth was achieved despite a very competitive environment. **Payroll** loans amounted to Ps 28.37 billion, increasing 42% YoY and 8% QoQ, as a result of growth in the number of Banorte-Ixe payroll account holders, campaigns to promote the product and cross-sell efforts with clients through various channels; in addition, in March 2014, Banorte acquired a payroll loan portfolio from another institution. **Car loans** grew 9% YoY and 1% QoQ totaling Ps 11.53 billion at the close of 1Q14, driven by promotional campaigns through various channels, cross-sell efforts to clients and alliances with car dealerships. **Credit cards** totaled Ps 20.25 billion at the close of 1Q14, representing a YoY growth of 14% and remained practically the same as in 4Q13 due to seasonal effects. YoY growth was due to portfolio management strategies, promotional campaigns of Banorte-Ixe products and greater cross-sell efforts.

The Group's **Past Due Loan Ratio was 3.0% at the close of 1Q14**, 0.9 pp above YoY vs. 1Q13 and (0.13 pp) lower QoQ vs. 4Q13. The YoY increase was due to higher Past Due Loan ratios in all segments, except payroll loans, commercial and government. Excluding past due balances of the three troubled home developers, the **NPL ratio would be 1.7%**, 40 bp lower YoY and 20 bp higher QoQ vs. 4Q13, mainly due to seasonal effects that negatively impact the collection efforts of some loans.

GFNORTE closed 1Q14 with past due loans amounting to Ps 13.15 billion, 52% higher YoY vs. 1Q13, mainly due to the increase in Corporate past due loans - especially from home developers - coupled with growth in past due loans in SMEs, Mortgage, Credit cards, Payroll and Car loans, due to the negative impact of the economic slowdown and seasonal effects. QoQ Past Due Loans declined (4%), mainly due to a decrease in the past due loans of the Corporate, Payroll, and Car loan portfolios. The Group's loan loss coverage ratio was 105.8% at the close of 1Q14, (31.7 pp) lower YoY and 1.1pp higher QoQ vs. 4Q13.

- **Efficiency**

**The Efficiency Ratio improved and was 48.5% during 1Q14**, (5.4 pp) below YoY and (4.3 pp) lower QoQ vs. 4Q13 due to the positive operating leverage obtained in the period.

- **Capitalization**

Banco Mercantil del Norte's Capitalization Ratio was 15.24% at the close of 1Q14, with a Tier 1 ratio of 13.07% and a Core Tier 1 ratio of 12.0%.

- **Other Subsidiaries**

During 1Q14, **Long Term Savings**, comprised of Afore XXI Banorte, Insurance and Annuities companies, reported Ps 815 million in earnings, 62% higher YoY vs. 1Q13 and 22% higher QoQ vs. 4Q13. YoY growth was due to better business dynamics in the insurance and annuities companies, whereas QoQ growth was attributed to the increased net income of Afore XXI Banorte and the Insurance Company. Additionally, YoY growth was also driven by reduction in minority interest resulting from the purchase of Generali's 49% participation in the Insurance and Annuities companies in October 2013.

**Banorte - Ixe Tarjetas**, subsidiary of Banco Mercantil del Norte, reported profits of Ps 376 million during 1Q14, 43% higher YoY vs. 1Q13 and 12% above QoQ vs. 4Q13. The YoY increase was mainly due to an improvement in revenues due to higher loan volumes, whereas the QoQ growth derived from higher revenues and lower operating expenses.

**The Brokerage Sector** (Casa de Bolsa Banorte Ixe and Operadora de Fondos Banorte Ixe) reported profits of Ps 203 million during 1Q14, a YoY decrease of (17%) vs. 1Q13 derived from lower net fees and trading revenues that were not offset by a higher net interest income from repo operations and a lower level of non-interest expenses. On a QoQ basis, profits increased 32% driven by higher net interest income and trading revenues, which offset a decline in net fees, higher non-interest expense and taxes.

**Sofom and Other Finance Companies**, comprised of Arrendadora y Factor Banorte, Almacenadora Banorte and Solida Administradora de Portafolios (which was spun-off from Banco Mercantil del Norte to merge into Ixe Soluciones in May 2013), recorded profits in 1Q14 of Ps 142 million.

#### Recent Events

- **GFNorte reached an agreement with Corporación GEO to restructure its liabilities.**

On March 20, 2014 GFNORTE informed that as a follow-up to past information disclosed to the investment community regarding the Group's exposure to the home developers facing financial problems, Corporación GEO announced that day that after several months of negotiations with its main creditors, it had reached a general agreement with a group of 6 banks, including GFNORTE, in order to restructure its liabilities. As a result of this agreement, GEO filed for "bankruptcy with previous restructuring" (concurso mercantil con plan de reestructura previo) in order to achieve a financial restructuring to enable the company to continue operating. As part of the agreements between GEO and its creditor banks, the funding lines available to the company may be reactivated if it complies with the terms and conditions of the restructuring agreement

In this regard, as of March 31, 2014 the Financial Group's loan exposure to the three troubled home developers (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.) amounted to Ps 6.88 billion, 21.0% lower the previous quarter mainly due to the settlement of a past due loan. The three companies represent 1.6% of our total loan portfolio compared to the 2.0% these represented in December 2013. Of these loans, Ps 5.73 billion are past due, decreasing by Ps 1.27 billion in 1Q14.

- **Prepayment of Subordinated Obligations.**

As part of the use of proceeds from the Public Offering carried out in July 2013, on April 21, Banorte settled the Preferred and Non-Convertible Subordinated Obligations for an amount of Ps 2.2 billion. These 10 year term obligations were issued on March 30, 2009, maturing on March 18, 2019, and paid TIIE + 2.00%. This prepayment will reduce Banorte's servicing cost as well as improve its equity profile, as these instruments have lost effectiveness to compute as regulatory capital, and were replaced by better quality capital.

- **Credit Ratings.**

Fitch upgraded GFNorte's, Banorte's and other subsidiaries' international and national long-term ratings with Stable outlook.

On March 21, 2014 Fitch Ratings **upgraded** GFNorte's and other subsidiaries' international and national long-term ratings, as a result of its annual review, maintaining a stable outlook.

The upgrade in GFNORTE'S ratings considered its consolidating franchise, the improved business profile after recent acquisitions and the elimination of double leverage after the public offering. As for Banco Mercantil del Norte, the upgrade was driven by the material improvement in the bank's capital structure, strengthening business, growing competitive position, adequate financial performance and revenue diversification. Ratings for GFNorte's subsidiaries Arrendadora y Factor Banorte, Almacenadora Banorte and Casa de Bolsa Banorte Ixe were improved given their core role in GFNorte's strategy and business profile.

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

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

- **“Del Sol” and “Woolworth” became part of our third party correspondents.**

After obtaining the CNBV authorization, in March “Del Sol” and “Woolworth” started to receive Banorte and Ixe credit card payments under the third party correspondent scheme. Banorte and Ixe clients and accountholders will be able to pay in real time their credit cards 365 days of the year in more than 70 stores located in 18 different states of the country.

- **Recognitions.**

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

- **Organizational Changes.**

**Luis Fernando Orozco Mancera** has been appointed Chief Credit Officer reporting directly to the CEO. He will be responsible for credit planning, evaluation, management and follow-up. Luis Fernando has a solid background in the financial sector with more than 28 years' experience. He has been working in Banorte since 2004, and was Managing Director of Asset recovery. Previously, he worked for Citibank Mexico as Executive Director of

## Press Release

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Transactional Products, Corporate Banking, and Multinational Banking, among others. In the First National Bank of Chicago he was Director of Corporate Finance. He is an Industrial Engineer by the Universidad Iberoamericana and holds an MBA from Harvard Business School.

Last February, **Juan Jesús Viteri Álvarez** was appointed as Managing Director of Internal Communication, in charge of aligning and integrating the communication efforts among the different areas in the organization. This position reports directly to the Chief Operating Officer, Rafael Arana de la Garza. Juan Viteri has vast experience in the Mexican financial sector with more than 24 years in different financial groups and more than 15 years as Director in various commercial areas of GFNorte. He holds a degree in Business Management from Universidad Tecnológica de México (UNITEC) and post-graduate studies from The Graduate School of Banking, Instituto Panamericano de Alta Dirección de Empresas (IPADE) and Kellogg School of Management.

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