

## **GFNORTE REPORTS NET INCOME OF PS 10.89 BILLION; AN INCREASE OF 28% YOY VS. 2011.**

- As of December 2012, GFNorte reported a Ps 10.89 billion profit for 2012, a 28% YoY increase vs. 2011. Profit for 4Q12 amounted to Ps 3.01 billion, increasing 8% QoQ vs. 3Q12 and 20% YoY vs. 4Q11.
- Core deposits rose by Ps 29.6 billion, from Ps 306.17 billion in 4Q11 to Ps 335.77 billion on 4Q12.
- As at the end of 4Q12, growth in performing loans was 15%, an increase of Ps 50.88 billion totaling Ps 401.43 billion. The loan portfolio registered sustained growth across all segments, for an eleventh straight quarter.
- As at the end of 4Q12 the Non Performing Loan (NPL) Ratio was 2.1%, consolidating as one of the lowest of the Mexican financial system.
- The Group's loan loss reserve coverage was 138.3% at the end of 4Q12.
- Banorte's Capitalization Ratio was 14.7% as at the close of 4Q12.
- Grupo Financiero Banorte acquires Afore Bancomer through Afore XXI Banorte.
- Banorte-Ixe was recognized as "LatinFinance Bank of the Year 2012".

**Mexico D.F. January 17, 2013.** Grupo Financiero Banorte (GFNORTE) released its operating results as at the end of December, 2012. GFNORTE reported a Ps 10.89 billion profit, a 28% YoY increase vs. 2011 on the back of a favorable performance in all the business lines and a lower growth in expenses, which resulted in a positive operating leverage, reversing 2011's negative trend, as well as the integration of Ixe and Afore XXI Banorte's results. Profit for the quarter amounted to Ps 3.01 billion, 20% higher YoY vs. 4Q11, driven by the integration of Afore XXI Banorte and a reduction in Non Interest Expense, increasing by 8% QoQ vs. 3Q12 due to positive operating leverage on the back of more interest income and service fees, as well as cost containment.

Banco Mercantil del Norte (excluding its percentage stake in Afore XXI Banorte) accounted for 69% of GFNORTE's accumulated profit, reaching Ps 7.51 billion, while Ixe Banco posted a profit of Ps 754 million for the same period. During 4Q12, Banco Mercantil del Norte contributed Ps 1.95 billion, 65% of consolidated quarterly profits, while Ixe Banco recorded a profit of Ps 257 million for the quarter.

Return on Equity (ROE) was 14.3% in 2012, 25 basis points higher YoY, while Return on Assets (ROA) was 1.3%, a 12 basis points YoY increase vs. 2011.

### • **Deposits and Net Interest Income**

Core deposits were up by 10% YoY in 4Q12, mainly driven by promotion of Banorte-Ixe's deposit products. Demand deposits rose 11% YoY and time deposits by 7%. Consequently, core deposits rose by Ps 29.60 billion, from Ps 306.17 billion in 4Q11 to Ps 335.77 billion in 4Q12. Core deposits were up by 5% QoQ vs. 3Q12 on the back of 8% growth in demand deposits and a 1% increase in time deposits.

In 2012 net interest income amounted to Ps 32.81 billion, 16% higher YoY. In 4Q12, net interest income was Ps 8.59 billion, increasing by 17% YoY vs. 4Q11 and 7% QoQ vs. 3Q12 driven by higher loan volumes, a stable cost of funding, and higher net interest income at the Insurance and Annuities companies.

- **Loan Portfolio**

Performing loans grew 15% YoY in 4Q12, an increase of Ps 50.88 billion totaling Ps 401.43 billion. For an eleventh straight quarter, the loan portfolio registered sustained growth in all segments underpinned by the bank's strategies aimed at increasing loan volumes as well as more industry-wide demand for credit. The loan portfolio grew 3% QoQ, driven by solid performance in all components, in particular from the government, mortgage, credit card and payroll loan segments.

**Commercial** loans amounted to Ps 130.93 billion, a YoY growth of 6%, derived mainly from an increase in middle market company loans, leasing and factoring as well as a 26% YoY increase in the SME loan portfolio, commercial loans were flat QoQ vs. 3Q12. **Corporate** loans totaled Ps 63.57 billion, increases of 11% YoY vs. 4Q11 and 1% QoQ vs. 3Q12, driven by stronger demand for credit in this sector. As at December 2012, **Government** loans amounted to Ps 88.29 billion, increases of 24% YoY and 7% QoQ, respectively, the latter resulting mainly from loans granted to federal government entities, and to a lesser extent to state governments.

**Consumer** loans, including mortgage loans, rose 20% YoY. **Mortgage** loans maintained their rising trend, totaling Ps 72.37 billion as at the end of the quarter, increasing by 13% YoY vs. 4Q11 and 4% QoQ, underpinning Banorte's position as one of the banks with the highest growth in mortgage loans. **Payroll** loans totaled Ps 18.18 billion, a 35% YoY and 4% QoQ increase vs. 4Q11 and 3Q12, respectively, on the back of growth in the number of Banorte-Ixe payroll clients, product marketing campaigns and a cross-selling strategy across diverse channels. **Car** loans were up 10% YoY and 1% QoQ totaling Ps 10.33 billion as at the close of 4Q12, driven by more loan placements and favorable dynamics in domestic car sales. The **Credit Card** portfolio amounted to Ps 17.52 billion as at the end of 4Q12, which as of 1Q12 includes 100% of the Ixe Tarjetas (Credit Cards) business that partly accounts for the YoY 53% increase, although it can mostly be attributed to loan portfolio management strategies, product marketing campaigns and more cross sales to clients. This also explains the 7% QoQ increase vs. 3Q12.

As at the end of 4Q12, the Group maintained good asset quality, with a Non Performing Loan Ratio of 2.1%, increasing by 0.1 percentage points YoY and 0.2 pp QoQ, one of the lowest of the Mexican financial system. GFNorte closed 4Q12 with past due loans of Ps 8.48 billion, a YoY increase of 22% and a QoQ increase of 12% owing to increases in commercial, payroll and corporate loans, due mainly to the asset impairments at Fincasa Hipotecaria and deterioration of credit exposures to some tourist developments in the northwest of the country, as well as the maturing process of new consumer loans vintages. The Group's loan loss reserve coverage stood at 138.3% as at the end of 4Q12, decreasing (4.8pp) YoY and (8.9 pp) QoQ vs. 3Q12.

- **Efficiency**

The 2012 Efficiency Ratio was 54.0%, decreasing by 176 basis points YoY vs.2011; it was 50.5% for the quarter, decreasing by 791 basis points YoY and 371 basis points QoQ vs. 4Q11 and 3Q12, respectively.

- **Capitalization**

Banco Mercantil del Norte's Capitalization Ratio closed 4Q12 at 14.7% with a Tier 1 Ratio of 11.7%. The ratio decreased by (0.2) percentage points QoQ vs. 3Q12, but increased significantly by 1.7 percentage points YoY vs. 4Q11 as a result of several capital regeneration initiatives. The 4Q12 Capitalization Ratio considers the payment made in December 2012 in order to cover 15% of Afore Bancomer's acquisition. The results at closing of 2012 place Banorte in an adequate position to adopt the new Basel III regulations as of January 2013.

- **Other Subsidiaries**

In 2012 the **Long-term Savings Sector** comprised of Insurance, Annuities and Afore XXI Banorte contributed Ps 1.05 billion to the Financial Group's profits, a YoY increase of 84%, while the 4Q12 contribution was Ps 228 million, 26% higher YoY vs. 4Q11 and (15%) below QoQ vs. 3Q12. The 2012 YoY increase was due to the merger with Afore XXI and better business dynamics at the Insurance and Annuities Companies, while the QoQ decrease vs. 3Q12 can be attributed to a decline in profits at the Afore due to lower portfolio returns and expenses related to the acquisition of Afore Bancomer; in the case of Insurance it was due to higher operating expenses and an increase in the technical reserve requirement.

The **Brokerage Sector** comprised of Casa de Bolsa Banorte Ixe and Ixe Fondos, reported a 2012 profit of Ps 681 million, growing by 63% YoY on the back of more revenues in mutual funds, wealth & private banking, investment banking and structured financing, and a 4Q12 profit of Ps 267 million, representing increases of 84% YoY vs. 4Q11 and of 92% QoQ vs. 3Q12 derived from more revenues in mutual funds, wealth & private banking and structured financing.

In 2Q12 **Banorte - Ixe Tarjetas** acquired the Credit Card portfolio previously managed by Banco Mercantil del Norte. The SOFOM reported a profit of Ps 662 million for the year and Ps 330 million for the quarter.

**Other Finance Companies** comprised of Arrendadora y Factor Banorte (Leasing and Factoring), Almacenadora Banorte (Warehousing), Ixe Automotriz and Fincasa Hipotecaria, recorded a 2012 loss amounting to (Ps 434) million owing to losses at Fincasa Hipotecaria that were not offset by a \$604 million profit at Arrendadora y Factor Banorte. The sector recorded a (Ps 729) million loss for the quarter caused by a loss at Fincasa Hipotecaria amounting to (Ps 867) million. Ixe Soluciones recorded (Ps 712) million in losses for the quarter.

### **Recent Events**

- **Grupo Financiero Banorte acquires Afore Bancomer through Afore XXI Banorte**

GFNORTE reached an agreement on November 27<sup>th</sup> with Banco Bilbao Vizcaya Argentaria, S.A. and BBVA Bancomer, S.A., Institución de Banca Múltiple, Grupo Financiero Bancomer ("Grupo BBVA") to acquire Administradora de Fondos para el Retiro Bancomer, S.A. de C.V. ("Afore Bancomer") through Afore XXI Banorte, S.A. de C.V. ("Afore XXI Banorte"), a subsidiary of Banco Mercantil del Norte, S.A. ("Banorte").

On January 9<sup>th</sup>, the acquisition of Afore Bancomer totaling US 1.73 billion was finalized, of which US 1.6 billion corresponds to the price paid by Afore XXI Banorte and US 135 million to excess capital of Afore Bancomer. The acquisition was approved by the corresponding authorities, including the Federal Commission for Retirement Savings (Comisión Nacional del Sistema de Ahorro para el Retiro – "CONSAR") which granted its approval on November 30<sup>th</sup> and the Federal Commission for Economic Competition (Comisión Federal de Competencia Económica - COFECO) which authorized the concentration on December 18<sup>th</sup>.

Banorte contributed with 50% of the price paid by Afore XXI Banorte and the Mexican Social Security Institute ("IMSS") with the remaining 50%. The amount contributed by Banorte through Afore XXI Banorte to pay Grupo BBVA was Ps. \$10.25 billion (which does not include the excess capital of Afore Bancomer), and Banorte used its available liquid resources to make this payment. GFNORTE will

implement various mechanisms in 2013 to regenerate capital in order to neutralize the short term impact of this acquisition on Banorte's Capitalization ratio.

The operations of Afore Bancomer will be integrated into Afore XXI Banorte as of January 2013, with the corporate identity and operations of Afore XXI Banorte subsisting, thus becoming the largest retirement savings manager in Mexico. As of November 2012, Afore Bancomer manages funds worth Ps. \$280.5 billion through 4.47 million accounts. When integrated to Afore XXI Banorte's operations, the managed funds will amount to Ps. \$522.2 billion and accounts will total 11.75 million (without considering the accounts with funds deposited at the central bank which are managed by Afore XXI Banorte).

The combination of the two Afores will generate important synergies for the benefit of accountholders and Afore XXI Banorte, including a lower fee on the assets managed, higher service standards, the possibility to offer better returns on workers' accounts and higher operating results for the Afore.

This acquisition, which becomes the most relevant to date in the retirement savings fund system, is another example of GFNORTE's continuous growth strategy through acquisitions, which will generate more value to shareholders, clients and will benefit all the workers integrating the retirement savings system.

- **Banco Mercantil del Norte's Credit Ratings.**

After announcing the acquisition of Afore Bancomer by Afore XXI Banorte, the rating agencies published the following ratings actions of Banco Mercantil del Norte ("Banorte"):

- ✓ **HR Ratings** placed the ratings under special review.
- ✓ **Standard and Poor's** placed the ratings in CreditWatch with negative implications.
- ✓ **Moody's** affirmed the ratings, changing the outlook to Negative from Stable.

In all the cases, their main concern is the impact that the acquisition may have on the capitalization ratios if the transaction is funded with Banorte's existing capital.

In the case of Fitch, the rating agency ratified GFNORTE's and Banorte's ratings with a Stable outlook, given the strategic benefits of this acquisition, as well as its gradual positive impact on the Group's revenue diversification and overall risk profile.

- **Banorte was recognized as "LatinFinance Bank of the Year 2012".**

The international magazine LatinFinance awarded Banorte-Ixe with the recognition of "LatinFinance Bank of the Year 2012", which is granted to the top banks in each country. The selection process considers quantitative aspects such as size, growth, financial strength, profitability, and also intangible elements such as soundness and prudence, which must be considered particularly under challenging moments.

LatinFinance emphasized that Banorte-Ixe lacks the pressure of its competitors, as it does not belong to a foreign owned entity, and has stood out in the last twelve months as a result of its growth in the credit card segment, government and SMEs financing, period in which it has increased its market share from 12% to 13% in deposits and from 13% to 14% in loans, with one of the lowest delinquency ratios in the Mexican financial system.

- **Changes in the Organizational Structure.**

As of January 2013, Héctor Avila was designated as Head of the Legal Department, which he had Co-managed since May 2011. Mr. Avila is currently Secretary of GFNORTE's Board of Directors and was previously Director of the Group's fiduciary area. He graduated from Universidad La Salle's Law School

and holds a Financial Law degree from ITAM. His previous professional experience includes being Head of Legal at Televisa's Editorial Division, Head of Fiduciary at Invex Grupo Financiero and Invex Casa de Bolsa. He has 12 years of experience in the legal and fiduciary sector in the Mexican Financial System.

Additionally, as of January 2013, David Margolín has been appointed as Head of Risk Management. David Margolín graduated from the Universidad Nacional Autónoma de México and holds a Degree in Operations Research from Cornell University in New York. He performed different functions at Banco de México from 1980 to date, being the last one as Managing Director of Strategy, Risks and Payment Systems, and formerly as Managing Director of Operations.

- **Consolidation of Grupo Financiero Banorte's Corporate Structure.**

As part of consolidating Grupo Financiero Banorte's corporate structure, the corresponding documentation was delivered to the authorities on December 17<sup>th</sup> in order to merge Fincasa Hipotecaria with Banco Mercantil del Norte. The merger benefits will be: i) additional synergies due to lower operating costs and ii) a leaner corporate structure. Moreover, during January 2013, Ixe Automotriz will merge with SOFOM Arrendadora y Factoraje, once the corresponding authorizations are granted.

— — —