



**GRUPO FINANCIERO  
BANORTE**

## **Annual Report 2014**

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

IN ACCORDANCE WITH REGULATIONS APPLICABLE TO THE FINANCIAL  
INFORMATION OF CONTROLLING COMPANIES OF FINANCIAL GROUPS  
SUBJECT TO SUPERVISION BY THE NATIONAL BANKING AND SECURITIES  
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# I. MANAGEMENT ANALYSIS AND COMMENTS

When analyzing the information contained herein is important to take the following into consideration:

- ✓ The financial information contained in this report is based on GFNORTE's Audited Financial Statements for the years ended December 31, 2014 and 2013, published by Galaz, Yamazaki, Ruiz Urquiza, S. C., a member of Deloitte Touche Tohmatsu Limited dated February 19, 2015. For the year ended December 31, 2012, financial figures are based on GFNORTE's Audited Financial Statements published by Galaz, Yamazaki, Ruiz Urquiza, S. C., a member of Deloitte Touche Tohmatsu Limited, dated February 20, 2014, and therefore include changes to accounting criteria that occurred in 2012.
- ✓ During the second quarter of 2014, GFNORTE reclassified retroactively, (in order to allow comparisons with 2013 figures), the result for "securities investment valuations" presented by the Insurance and Annuities companies in the **Trading Income line to Net Interest Income under the Interest Income line.** The above due to this concept corresponds to a recovery mainly caused by the update of the UDI's value of the position titles held to maturity denominated in UDIs for both companies. This reclassification between Trading Income and Net Interest Income amounted to Ps 1.56 billion in 2013. (See Note 4 of the Audited Financial Statements - Significant Accounting Policies – "Changes to the Consolidated P&L statement related to the accounting of the results of investments in securities valuation of the Insurance and Annuities companies"). Figures in 2012 were not modified, so these are not comparable with those of 2013.
- ✓ In January 2012, the merger between Afore Banorte and Afore XXI was completed. As a result, Banco Mercantil del Norte determined that it has no control over Afore XXI Banorte, and does not therefore consolidate it in its financial statements, and recognizes the equity participation method given its significant influence.
- ✓ The arithmetic operations were carried out in pesos and in the following tables are presented in million pesos. As a result, some totals appear to have minimal errors, which is not the case as it is just a matter of rounding off figures.

## A) OPERATING RESULTS

### SELECTED FINANCIAL INFORMATION

	2014	2013	2012
Net Income Grupo Financiero Banorte (GFNORTE) (*)	Ps 15,228	Ps 13,508	Ps 10,888
Total Assets GFNORTE (*)	Ps 1,097,982	Ps 1,006,788	Ps 916,567
Total Liabilities GFNORTE (*)	Ps 973,310	Ps 898,097	Ps 828,058
Stockholders' Equity GFNORTE (*)	Ps 124,672	Ps 108,691	Ps 88,509
Stockholders' Equity GFNORTE excluding minority interest (*)	Ps 122,922	Ps 106,657	Ps 81,881
<b>INFORMATION PER SHARE</b>			
Net income per share (pesos)	Ps 5.49	Ps 5.35	Ps 4.68
Dividend approved per share (pesos) <sup>(1)</sup>	Ps 0.9740	Ps 0.7852	Ps 0.732
Book value per share (pesos) (excluding minority interest)	Ps 44.39	Ps 38.45	Ps 35.20
Shares outstanding (millions) <sup>(2)</sup>	2,773.0	2,526.1	2,326.4
<b>PROFITABILITY RATIOS</b>			
NIM before REPOMO <sup>(3)</sup>	4.7%	4.4%	4.1%
NIM adjusted for credit risk <sup>(3)</sup>	3.5%	3.4%	3.4%
NIM adjusted w/o Insurance & Annuities <sup>(3)</sup>	4.5%	4.3%	4.2%
NIM from loan portfolio <sup>(3)</sup>	8.2%	7.8%	7.3%
Return on assets (ROA)	1.5%	1.4%	1.3%
Return on equity (ROE)	13.2%	14.2%	14.3%
<b>OPERATIONS</b>			
Efficiency ratio <sup>(4)</sup>	48.5%	52.0%	54.0%
Operating efficiency ratio <sup>(5)</sup>	2.8%	2.9%	2.9%
Liquidity ratio	133.7%	137.4%	128.4%

	2014	2013	2012
<b>ASSET QUALITY INDICATORS</b>			
Past due loan ratio	2.9%	3.1%	2.1%
PDL reserve coverage	107.0%	104.6%	138.3%
<b>CAPITALIZATION RATIO</b>			
Banco Mercantil del Norte	15.26%	15.12%	14.75%
Ixe Banco	N.A.	N.A.	15.5%
<b>INFRASTRUCTURE AND EMPLOYEES</b>			
Bank Branches <sup>(6)</sup>	1,269	1,288	1,316
ATMs (automated teller machines)	7,297	7,035	6,707
Full-time employees	27,898	27,474	26,108
Full-time employees and professional services	27,943	27,549	26,212

(\*) Million pesos.

- Dividends approved by the Shareholders' Assemblies in 2014, 2013 and 2012 were: a total dividend of Ps 0.732 per share decreed in 2012 to be paid in four installments of Ps 0.183 per share (October 2012, January, April and July 2013). Total Dividend decreed in 2013 was Ps 0.7852 per share to be paid in four installments of Ps 0.1963 per share (October 2013, January, April and July 2014) although in the Shareholders' Assembly celebrated on December 20, 2013, the advanced payments regarding the installments of January and April 2014 were authorized to be made on December 31, 2013. Total Dividend decreed in 2014 was Ps 0.9740 per share to be paid in four installments of Ps 0.2435 per share (October 2014, January, April, and July 2015).
- The 2,773.0 million shares are the accumulated weighted average in 2014; while as of closing of 4Q14 the total amount of outstanding shares totals 2,769.34 million.
- Derived from the reclassification mentioned in the Note 4 of the Audited Financial Statements, ratios in 2013 have been modified from what was published in the 2013 Annual Report (sent to the authorities in February and April 2014).
- Non Interest Expense / (Total Net Income + Non Interest Income).
- Non Interest Expense / Average Total Assets.
- Includes bank modules and excludes 1 branch in the Cayman Islands.

## MANAGEMENT AND ANALYSIS COMMENTS

In 2014 GFNORTE reported profits of Ps 15.23 billion, 13% higher than in 2013 and 40% higher than in 2012. The contribution to accumulated profits for 2014 by business sector are:

Net Income for the **Consolidated Banking Sector** (Banco Mercantil del Norte, Banorte- Ixe Tarjetas, Banorte USA, and the 50% participation in Afore XXI) rose to Ps 11.94 billion pesos in 2014, (187) million or (2%) lower vs 2013. It is important to note that Operating Income registered a 15% YoY growth, but was affected by higher tax payments due to the implementation of the new tax regulations, which resulted in a 71% YoY tax increase. Profits in this sector represent 78% of the Financial Group's profits.

Net Income for the **Long Term Savings Sector** comprised of Afore XXI Banorte, Insurance and Annuities Companies was Ps 4.44 billion, 24% higher than in 2013. According to GFNORTE's participation in this sector, accumulated profits amounted to Ps 3.22 billion which represents an annual increase of 64% and a 21% of GFNORTE's earnings. This increase was due to better dynamics in the companies that make up this sector, especially Seguros Banorte, as well as the reduction in minority interest resulting from the October 2013 purchase of Generali's 49% stake in the Insurance and Annuities companies, (if GFNORTE's stake in these companies was considered at 100%, annual growth would have been 60% for the Insurance company and 55% for the Annuities company).

The **Brokerage Sector** comprised of Casa de Bolsa Banorte Ixe and Operadora de Fondos Banorte-Ixe, reported profits during 2014 of Ps 931 million, 43% higher YoY driven by a higher NII, higher trading revenues and lower Non Interest Expenses, which offset higher tax payments. The Brokerage Sector's Net Income for 2014 represented 6% of the Financial Group's profits.

**Other Finance Companies** comprised of Arrendadora y Factor Banorte, Almacenadora Banorte, Solida Administradora de Portafolios and Ixe Servicios, recorded profits of Ps 569 million in 2014, a 45% increase vs. 2013. According to GFNORTE's participation in this sector, accumulated profits amounted to Ps 574 million, a 46% increase vs. 2013. The accumulated profit of this sector represented 4% of GFNORTE's earnings.

## Grupo Financiero Banorte

### Consolidated Income Statement of the Group

	2014	2013	2012
Interest income <sup>(1)</sup>	Ps 72,579	Ps 70,991	Ps 64,127
Premium income (Net)	18,692	18,027	16,321
Interest expense	(27,861)	(31,456)	(30,874)
Net increase in technical reserves	(9,655)	(9,686)	(8,708)
Casualty rate, Claims and other Contractual Obligations (Net)	(9,659)	(9,138)	(8,057)
<b>NET INTEREST INCOME (NII)</b>	<b>Ps 44,096</b>	<b>Ps 38,738</b>	<b>Ps 32,809</b>
Loan Loss Provisions	(11,196)	(8,942)	(6,172)
<b>NET INTEREST INCOME ADJUSTED FOR CREDIT RISK</b>	<b>Ps 32,900</b>	<b>Ps 29,796</b>	<b>Ps 26,637</b>
Fees Charged	12,820	12,006	11,539
Fees Paid	(4,267)	(3,917)	(3,480)
Trading Income <sup>(1)</sup>	4,420	3,414	4,152
Other Operating Income	3,260	3,223	2,300
<b>Non Interest Income</b>	<b>Ps 16,233</b>	<b>Ps 14,727</b>	<b>Ps 14,510</b>
Administration and promotional expenses	(29,232)	(27,818)	(25,535)
<b>OPERATING INCOME</b>	<b>Ps 19,901</b>	<b>Ps 16,704</b>	<b>Ps 15,613</b>
Minority Interest	1,220	1,130	590
<b>PRE-TAX INCOME</b>	<b>Ps 21,121</b>	<b>Ps 17,834</b>	<b>Ps 16,203</b>
Income Tax	(8,040)	(3,671)	(3,653)
Deferred Income Tax (Net)	2,372	116	(475)
<b>Taxes</b>	<b>(Ps 5,668)</b>	<b>(Ps 3,555)</b>	<b>(Ps 4,128)</b>
<b>NET INCOME BEFORE RECOGNITION OF MINORITY INTEREST</b>	<b>Ps 15,453</b>	<b>Ps 14,279</b>	<b>Ps 12,075</b>
Minority interest	(225)	(771)	(1,187)
<b>NET INCOME</b>	<b>Ps 15,228</b>	<b>Ps 13,508</b>	<b>Ps 10,888</b>

Million pesos.

(1) Interest Income and Trading Income of 2013 published in the 2013 Audited Financial Statements and Annual Report (sent to the authorities in February and April 2014) have been modified in this document due to the reclassification on the second quarter of 2014. See Note 4 of the Audited Financial Statements.

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

- Net Interest Income**

	2014	2013	2012
Interest Income	Ps 65,303	Ps 65,307	Ps 60,773
Interest Expense	27,494	31,065	30,583
Loan Origination Fees	2,238	1,564	1,118
Fees Paid	367	377	286
<b>Net Interest Income without Insurance and Annuities</b>	<b>Ps 39,680</b>	<b>Ps 35,428</b>	<b>Ps 31,022</b>
Insurance and Annuities –Interest Income <sup>(1)</sup>	5,038	4,121	2,236
Premium income (Net)	18,693	18,026	16,321
Insurance and Annuities – Interest Expenses	-	14	4
Net Increase of technical reserves	9,655	9,686	8,708
Damages, Claims and Other Obligations (Net)	9,659	9,138	8,057
<b>Net Interest Income for Insurance and Annuities</b>	<b>Ps 4,416</b>	<b>Ps 3,310</b>	<b>Ps 1,788</b>
<b>Net Interest Income GFNORTE</b>	<b>Ps 44,096</b>	<b>Ps 38,738</b>	<b>Ps 32,809</b>

	2014	2013	2012
Provisions	11,196	8,942	6,172
<b>Net Interest Income Adjusted for Credit Risk</b>	<b>Ps 32,900</b>	<b>Ps 29,796</b>	<b>Ps 26,637</b>
Average Earnings Assets	944,776	875,366	792,501
<b>NIM<sup>(1) (2)</sup></b>	<b>4.7%</b>	<b>4.4%</b>	<b>4.1%</b>
<b>NIM adjusted for Credit Risk<sup>(1) (3)</sup></b>	<b>3.5%</b>	<b>3.4%</b>	<b>3.4%</b>

Million pesos.

1. Interest Income of 2013 published in the 2013 Audited Financial Statements and Annual Report (sent to the authorities in February and April 2014) has been modified in this document due to the reclassification on the second quarter of 2014. See Note 4 of the Audited Financial Statements. Derived from the reclassification, NIM and NIM adjusted by credit risk in 2013 have been modified.
2. NIM (Net Interest Margin) = Annualized Net Interest Margin / Average Earnings Assets.
3. NIM adjusted for Credit Risk = Annualized Net Interest Margin adjusted for Credit Risk / Average Earnings Assets.

During 2014, **GFNORTE's Net Interest Income grew 14% YoY**, from Ps 38.74 to Ps 44.1 billion as a result of a combined effect of:

- a) A 13% increase in net financial revenues and loan origination fees; which increased 11% YoY, mainly because of the growth in the government, corporate and consumer portfolios.
- b) Lower funding costs due to growth in core deposits (+14%), mainly Demand Deposits (+18%), which along with other factors, reduced (11%) Interest Expenses. The latter were also reduced by a decrease of 50 bp in the market reference rate during the past 12 months, as well as the August 2013 payment of Ixe's Perpetual Subordinated Obligations issued at 9.75% in dollars, the cancellation of debt servicing of the USD Ps 800 million syndicated loan pre-paid on July 26, 2013, and the April 21, 2014 prepayment Banorte made for Preferred Non-Convertible Subordinated Obligations in the amount of Ps 2.2 billion with a rate of TIIE + 2.0%.
- c) A 43% increase in loan placement fees.
- d) A 33% increase in the Net Interest Income of the Insurance and Annuities companies.

**Net Interest Income excluding the Insurance and Annuities companies** presented an accumulated increase of 12%, from Ps 35.43 billion to Ps 39.68 billion.

**The average NIM stood at 4.7% for 2014**, 24 bp higher vs. 2013 resulted from GFNORTE's growth in productive assets in higher yielding segments (consumer portfolio excluding mortgage, represent 14.5% of the performing loans for 2014, vs. 13.6% at the end of 2013) and a higher valuation impact on the investments of the Annuities company.

During 2014, **NIM related to lending activity** was 8.2%, a YoY increase of 39 bp, while the **average NIM excluding Insurance and Annuities companies** was 4.5% for 2014, a YoY increase of 19 bp.

The **average NIM adjusted for Credit Risks was 3.5% in 2014**, an increase of 8 bp vs. 2013 driven by the growth in net interest income due to a portfolio mix with higher yielding loans, offset by higher provisions.

- **Provisions**

**In 2014 provisions charged to results totaled Ps 11.20 billion, +25% vs. 2013.** This increase resulted from higher reserve requirements in Middle Market Companies, credit exposure to home developers, SMEs, Payroll, Mortgage and Credit Card.

**Loan loss provisions represented 25% of NII in 2014,** a 2 pp YoY increase vs. 2013.

**Annualized accumulated loan loss provisions for 2014 represented 2.5% of the average loan portfolio,** a YoY increase of 0.4 pp vs. 2013.

- **Non interest income**

	2014	2013	2012
Fees for commercial and mortgage loans	Ps 9	Ps 11	Ps 33
Fund transfers	637	533	479
Account management fees	1,499	1,371	1,240
Fiduciary	362	362	384
Income from Real Estate portfolios	187	811	1,307
Electronic Banking Services	4,486	3,934	3,377
Credit Card Fees	2,792	2,361	2,030
Fees from IPAB	0	0	0
Other fees charged <sup>(1)</sup>	2,847	2,622	2,689
<b>Fees Charged on Services</b>	<b>Ps 12,820</b>	<b>Ps 12,006</b>	<b>Ps 11,539</b>
Fund transfers	45	50	43
Other Fees Paid	4,222	3,867	3,437
Expenses from Real Estate Portfolios	0	0	0
<b>Fees Paid on Services</b>	<b>Ps 4,267</b>	<b>Ps 3,917</b>	<b>Ps 3,480</b>
<b>Net Fees</b>	<b>Ps 8,553</b>	<b>Ps 8,089</b>	<b>Ps 8,059</b>
Foreign Exchange	1,085	885	1,391
Securities-Realized Gains	2,322	2,726	914
Securities-Unrealized Gains <sup>(2)</sup>	1,013	(197)	1,847
<b>Trading Income<sup>(2)</sup></b>	<b>Ps 4,420</b>	<b>Ps 3,414</b>	<b>Ps 4,152</b>
Subtotal Other Operating Income (Expense)	1,022	1,151	1,058
Other Products (Expense) net	1,578	1,387	615
Other Operating Income (Expense) derived from Insurance and Annuities	660	685	626
<b>Other Operating Income and Expenses</b>	<b>Ps 3,260</b>	<b>Ps 3,223</b>	<b>Ps 2,300</b>
<b>Non Interest Income</b>	<b>Ps 16,233</b>	<b>Ps 14,727</b>	<b>Ps 14,510</b>

Million Pesos.

1. Includes fees from letters of credit, transactions with pension funds, warehouse services, financial advisory services, and securities trading by the Brokerage House, among others.
2. Securities-Unrealized Gains line within Trading Income of 2013 published in the 2013 Audited Financial Statements and Annual Report (sent to the authorities in February and April 2014) has been modified in this document due to the reclassification on the second quarter of 2014. See Note 4 of the Audited Financial Statements.



The following table identifies the sources of Non Interest Income:

	2014	2013	2012
Services	Ps 8,365	Ps 7,278	Ps 6,752
Recovery	187	811	1,307
Trading <sup>(1)</sup>	4,420	3,414	4,152
Other Operating Income (Expense)	3,260	3,223	2,300
<b>Non Interest Income</b>	<b>Ps 16,233</b>	<b>Ps 14,727</b>	<b>Ps 14,510</b>

Million Pesos.

1. The 2013 figure includes the Ps 1.56 billion reclassification held on the second quarter of 2014. See Note 4 of the Audited Financial Statements.

**During 2014, Non Interest Income totaled Ps 16.23 billion**, a 10% YoY increase from 15% growth in Service Fees, 29% in Trading Income and 1% in Other Operating Income (Expenses), which offset the decline of (77%) in income from real estate portfolio recoveries.

- **Service Fees**

**During 2014, Service Fees totaled Ps 8.37 billion**, 15% higher as a result of better business dynamics. The YoY growth is the combined effect of:

- ii) + 14% in fees from electronic banking,
- iii) + 18% in consumer loan fees,
- iv) + 9% in other fees,
- v) + 9% in account management,
- vi) + 19% in fund transfer revenues, and
- vii) + 9% in fees paid driven by higher interbank fees and commissions paid to insurance brokers.

- **Trading**

**Trading revenues in 2014 totaled Ps 4.42 billion**, a 29% YoY growth due to valuation gains for Banorte and Casa de Bolsa Banorte Ixe, and positive results in FX transactions, which offset the results from securities and derivatives transactions of Banorte and the Annuities Company.

- **Other Operating Income (Expense)**

	2014	2013	2012
Loan Recoveries	Ps 956	Ps 1,384	Ps 1,234
Income from Foreclosed Assets	(130)	(145)	(83)
Other Operating Income	424	135	76
Other Operating Expense	(229)	(223)	(169)
<b>Subtotal Other Operating Income (Expense)</b>	<b>Ps 1,022</b>	<b>Ps 1,151</b>	<b>Ps 1,058</b>
Other Products	3,421	2,988	2,305
Other Recoveries	1,217	1,312	386
Other (Expenses)	(3,060)	(2,912)	(2,075)
<b>Other Products (Expense) Net</b>	<b>Ps 1,578</b>	<b>Ps 1,387</b>	<b>Ps 615</b>
<b>Other Operating Income (Expense) from Insurance and Annuities</b>	<b>Ps 660</b>	<b>Ps 685</b>	<b>Ps 626</b>
<b>Other Operating Income (Expense)</b>	<b>Ps 3,260</b>	<b>Ps 3,223</b>	<b>Ps 2,300</b>

Million pesos.

During 2014 Other Operating Income (Expenses) totaled Ps 3.26 billion, 1% higher YoY due to:

- A 14% increase in *Other Products*, driven by the cancellation of debtor accounts and other provisions and the increase in leasing revenues, which offset the negative valuation results of securitizations, and
- A 214% increase in *Other Operating Income* due to cancellations of excess preventive estimates constituted in prior years.

The above were offset by:

- A (33%) decrease in the combined recoveries' revenues from previously written-off portfolios and sales of foreclosed assets,
- A 5% increase in *Other Expenses* mainly due to more frauds, higher estimates for irrecoverable in certain subsidiaries and other losses, which offset lower expenses on damages,
- A (7%) decline in *Other Recoveries*, as a result of the extraordinary income generated by the recoveries achieved by the sale of an infrastructure project and another business investment, derived from old debts capitalizations in 1Q13 and 3Q13,
- A (4%) decrease in Other Income from the Insurance and Annuities companies, and
- A 2% increase in Other Operating Expenses.

- **Recoveries**

**Non Interest Income from Recoveries** (including real estate portfolio recoveries, write-offs, proprietary loan portfolio and foreclosed assets classified under "Other Operating Income (Expenses) ") **totaled Ps 2.23 billion in 2014**, a (34%) YoY decrease vs. 2013, mainly due to the extraordinary income generated by the recoveries achieved by the sale of an infrastructure project and another business investment, derived from old debts capitalizations in 1Q13 and 3Q13 respectively, in addition to the (77%) decrease in real estate portfolio recoveries that included the recognition of lower revenues related to investment projects, mainly with home developers.

- **Non Interest Expense**

	2014	2013	2012
Personnel	Ps 12,986	Ps 13,077	Ps 10,398
Professional Fees	3,000	2,767	2,907
Administrative and Promotional	5,679	4,874	4,899
Rents, Depreciation & Amortization	3,648	3,219	2,954
Taxes other than income tax expenses	1,653	1,726	1,826
Contributions to IPAB	1,887	1,831	1,610
Employee Profit Sharing (PTU)	379	324	940
<b>Non Interest Expense</b>	<b>Ps 29,232</b>	<b>Ps 27,818</b>	<b>Ps 25,535</b>

Million pesos.

**Non-Interest Expense for 2014 amounted Ps 29.23 billion, a 5% YoY increase** (in line with the annual inflation in Mexico, 4.08%) to sustain business growth and expansion of the operational infrastructure, which was partially offset by a decline in other concepts. Higher expenses came from:

- i) +Ps 805 million in Administration and Promotional Expenses (+17%). This growth was driven by the increase in various businesses -related expenses, among others, the expenses of insurance tied to consumer credit and more transactions in ATMs and POS.
- ii) +Ps 429 million in Rents, Depreciations and Amortizations (+13%),
- iii) +Ps 234 million in Professional Fees (+8%). This increase was due to higher payment for professional services, such as: audit, trust management and recovery services for the consumer portfolio.
- iv) +Ps 56 million in IPAB contributions (+3%) due to growth in liabilities subject to IPAB fees, and
- v) + Ps 55 million in Employee Profit Sharing (+ 17%).

These increases were partially offset by lower Personnel Expenses for Ps (91) million or (1%) and the decrease in Other taxes & non-deductible expenses for Ps (73) or (4%).

**The Efficiency Ratio during 2014 was 48.5%** (3.6 pp) lower YoY due to the positive operating leverage achieved in the period.

- **Performing loan portfolio**

	2014	2013	2012
Commercial	Ps 114,040	Ps 113,795	Ps 106,257
Consumer	158,139	139,715	118,401
Corporate	80,464	75,690	88,237
Government	118,963	95,637	88,294
<b>Subtotal</b>	<b>471,606</b>	<b>424,837</b>	<b>401,190</b>
Recovery Bank	162	201	243
<b>Total</b>	<b>Ps 471,768</b>	<b>Ps 425,038</b>	<b>Ps 401,433</b>
Past due loans	14,294	13,655	8,481
<b>% NPL Ratio</b>	<b>2.9%</b>	<b>3.1%</b>	<b>2.1%</b>

Million pesos.

- **Performing Consumer Loan Portfolio (without Recoveries)**

	2014	2013	2012
Mortgage	Ps 89,758	Ps 81,833	Ps 72,365
Car Loans	11,074	11,412	10,329
Credit Cards	23,209	20,323	17,524
Payroll	34,098	26,147	18,183
<b>Total performing consumer loans</b>	<b>Ps 158,139</b>	<b>Ps 139,715</b>	<b>Ps 118,401</b>

Million pesos.

- **Total Performing Loans**

**Total Performing Loans increased 11% YoY, growing by Ps 46.77 billion at end of 2014 with Ps 471.61 billion**, excluding proprietary loans managed by the Recovery Bank. The Loan portfolio has recovered a growth rate similar to levels not seen since the end of 2012 due to the gradual economic recovery and has grown above the national economy. Corporate and Business portfolios (included in the Commercial portfolio) continue to be affected by prepayments from customers (approximately Ps 19 billion in 2014), despite this, during the last quarter, they began to be offset by new loan originations in both sectors to achieve annual growth.

Portfolio growth by segments was as follows:

- **Individual Loans**

- ✓ **Consumer and Mortgage:** Increased by Ps 18.43 billion or 13% vs. 2013, **totaling Ps 158.14 billion at the close of 2014** as a result of favorable annual and quarterly dynamics in all portfolios with the exception of Car loans. Due to the strategy to increase the Consumer portfolio, mainly Payroll loans and Credit cards, Consumer loans (excluding Mortgages) have increased their proportion within the Performing Loan portfolio from 13.6% to 14.5% in the last 12 months.
- ✓ **Mortgage:** Grew by Ps 7.93 billion or 10% YoY, **posting a balance of Ps 89.76 billion**, driven by favorable dynamics in products for construction, remodeling and payment of liabilities and the mortgage program with Pemex.
- ✓ **Credit Cards:** **At the end of 2014 the portfolio totaled Ps 23.21 billion**, a 14% YoY increase of Ps 2.89 billion. The increase is due to portfolio management strategies, promotional campaigns for Banorte - Ixe products and more cross-selling to clients.

- ✓ **Payroll: At the end of 2014, the portfolio increased Ps 7.95 billion or 30% YoY totaling Ps 34.10 billion**, as a result of growth in the number of Banorte-Ixe payroll account holders, as well as campaigns to promote the product, multichannel cross-selling strategies and product adjustments to provide more flexibility to clients in order to disburse amortized balances; additionally, in March 2014, Banorte acquired a Payroll loan portfolio from another institution. Payroll loans continue to show vigorous growth with good asset quality with respect to the system's average.
- ✓ **Car Loans: The portfolio decreased by (Ps 338) million or (3%) YoY, totaling Ps 11.07 billion.** This decrease was due to fewer new loan placements given the growing competition from financial firms of car manufacturers in the last months.

- **II. Loans to Institutions**

- ✓ **Commercial: Increased by Ps 245 million or 0.2% YoY, totaling Ps 114.04 billion.** The annual growth for this portfolio was affected by prepayments, as well as by the decrease of the SME portfolio due to lower origination. **The SME portfolio balance was Ps 29.85 billion**, (Ps 3.89) billion or (11.5%) lower YoY.
- ✓ **Corporate: At the end of 2014 the balance was Ps 80.46 billion**, increasing Ps 4.77 billion or 6% YoY. The annual growth was driven by higher origination which offset prepayments received from some clients who used proceeds from capital market transactions to pay off bank liabilities.

Through its subsidiaries Banco Mercantil del Norte, Arrendadora y Factor Banorte and Solida Administradora de Portafolios, GFNORTE granted loans and participated through specialized trust operations in home development projects. Since 2013 some of the largest companies in this sector have experienced financial difficulties; three of the largest companies are undergoing a debt restructuring process and have defaulted on their payments. This situation has led to deterioration in the risk profile of these three borrowers. They are currently involved in restructuring negotiations with GFNORTE and other banks.

**As of December 31, 2014 the loan exposure was Ps 5.54 billion in Urbi Desarrollos Urbanos, S.A.B. de C.V., Corporacion Geo, S.A.B. de C.V. and Desarrolladora Homex, S.A.B. de C.V.,** 15.6% lower than the prior quarter, mainly due to the sale of a company belonging to Grupo Homex to another entity. These three companies represented 1.1% of the total loan portfolio vs. the 1.4% of September 2014. Of these loans, Ps 5.42 billion were past due, decreasing by Ps 82 million during the fourth quarter of 2014. The total portfolio has 76% coverage in guarantees, higher than the 65% reported in the previous quarter due to the sale of a company belonging to Grupo Homex whose loan was unsecured. The reserve coverage of this exposure was 57.6% in 4Q14, 16.8 pp higher vs. 3Q14. **Solida had Ps 6.11 billion** in investment projects compared to Ps 6.15 billion registered in September 2014.

- ✓ **Government: At the end of 2014 the balance was Ps 118.96 billion**, growing by Ps 23.33 billion or 24% YoY as a result of efforts to continue meeting demand for loans in this segment, including some federal government entities. The portfolio's risk profile is adequate with 28.6% of the loans granted to Federal Government entities and over 95% of loans to States and Municipalities have a fiduciary guarantee (Federal budget transfers and local revenues such as payroll tax), and less than 2% of the loans have short-term maturities.

- **Past Due Loans**

**During 2014, Past Due Loans were Ps 14.29 billion**, 5% higher vs. 2013 as a result of higher delinquencies in Commercial loans (including SMEs), Mortgages, Payroll loans, Credit Cards and Car loans, which were not offset by the significant reduction in Corporate delinquencies.

The trend in past due balances by segment during the quarter was:

<u>Million pesos</u>	<b>2014</b>	<b>Change. vs. 2013</b>
Credit Cards	1,358	79
Payroll	789	161
Car loans	223	36
Mortgage	1,274	187
Commercial	5,215	1,826
Corporate	5,435	(1,649)
Government	-	(2)
<b>Total</b>	<b>14,294</b>	<b>638</b>

**In 2014, the Past Due Loan Ratio was 2.9%**, (17 bp) lower vs. 2013 due to lower delinquencies in the Corporate, Credit card and Payroll segments.

**When excluding the home developers exposure, the PDL Ratio would be 1.8%**, 30 bp above the level registered for 2013.

Past due Loan Ratios by segment showed the following trends during the last 12 months:

	<b>2013</b>	<b>2014</b>
Credit Cards	5.9%	5.5%
Payroll	2.3%	2.3%
Car loans	1.6%	2.0%
Mortgage	1.3%	1.4%
Commercial	2.9%	4.4%
Corporate	8.6%	6.3%
Government	0.0%	0.0%
<b>Total</b>	<b>3.1%</b>	<b>2.9%</b>

- **Deposits**

	2014	2013	2012
Non Interest Bearing Demand Deposits	Ps 147,033	Ps 122,499	Ps 107,450
Interest Bearing Demand Deposits	153,249	132,798	103,968
<b>Total Demand Deposits<sup>(1)</sup></b>	<b>Ps 300,282</b>	<b>Ps 255,297</b>	<b>Ps 211,418</b>
Time Deposits – Retail	136,127	129,121	124,255
<b>Core Deposits</b>	<b>Ps 436,409</b>	<b>Ps 384,418</b>	<b>Ps 335,673</b>
Money Market <sup>(2)</sup>	62,287	59,729	90,073
<b>Total Banking Sector Deposits<sup>(3)</sup></b>	<b>Ps 498,697</b>	<b>Ps 444,148</b>	<b>Ps 425,746</b>
<b>GFNorte's Total Deposits<sup>(4)</sup></b>	<b>Ps 497,922</b>	<b>Ps 443,741</b>	<b>Ps 424,325</b>

Million pesos.

1. Includes debit cards.
2. Includes bank bonds. (Customers and Financial Intermediaries).
3. For the integration of Total Demand Deposits, see Note 9 of Banco's Mercantil del Norte Audited Financial Statements.
4. Includes eliminations between subsidiaries. The eliminations during 2012, 2013 and 2014 were (Ps 1,421) million, (Ps 407) million, and (Ps 774) million, respectively.

**At the end of 2014, GFNORTE's Total Deposits amounted to Ps 497.92 billion, a 12% YoY increase of Ps 54.18 billion** driven mainly by efforts to promote Banorte - Ixe deposit products, as well as higher account balances of some clients, mainly in Government banking, since the end of 2013.

**Total Deposits in the Banking Sector amounted to Ps 498.70 billion, representing a 12% YoY increase or Ps 54.55 billion**, which is composed of an 18% increase in Demand Deposits, 5% in Retail Time Deposits and 4% in Money Market.

## 1. Banking Sector

The Banking Sector (comprised of Banco Mercantil del Norte, Banorte- Ixe Tarjetas, Banorte USA and 50% of Afore XXI) reported net income during **2014 of Ps 11.94 billion**, declining by (Ps 187) million or (2%) vs. 2013. It is important to note that Operating Income registered a 15% YoY growth, but was affected by higher tax payments due to the implementation of the new tax regulations, which resulted in a 71% YoY tax increase. The profits of this sector represent 78% of the Financial Group's earnings.

**For 2014, ROE of this sector was 13.7%**, (267 bp) lower vs. 2013 as a result of capital accretion; and the **Accumulated ROA was 1.4%**, decreasing (15 bp) YoY.

### Consolidated Income Statement – Banking Sector

	2014	2013	2012
Interest income	Ps 58,593	Ps 57,183	Ps 53,959
Interest expense	20,003	22,498	23,778
<b>NET INTEREST INCOME (NII)</b>	<b>Ps 38,590</b>	<b>Ps 34,685</b>	<b>Ps 30,182</b>
Loan Loss Provisions	11,107	8,788	6,585
<b>NET INTEREST INCOME ADJUSTED FOR CREDIT RISK</b>	<b>Ps 27,483</b>	<b>Ps 25,897</b>	<b>Ps 23,597</b>
Fees Charged	11,723	10,565	
Fees Paid	(3,091)	(2,897)	
Trading Income	3,859	3,021	
Other Operating Income	2,478	2,624	
Non Interest Income	14,969	13,313	11,651
Administrative and Promotional Expenses	27,037	25,766	23,347
<b>OPERATING INCOME</b>	<b>Ps 15,415</b>	<b>Ps 13,444</b>	<b>Ps 11,901</b>
Minority Interest	1,241	1,439	542
<b>PRE-TAX INCOME</b>	<b>Ps 16,655</b>	<b>Ps 14,883</b>	<b>Ps 12,443</b>
Income taxes incurred	6,874	2,822	2,975
Income taxes deferred (net)	(2,154)	(61)	477
Taxes	4,720	2,761	3,452
<b>INCOME BEFORE NONCONTROLLING INTEREST</b>	<b>Ps 11,936</b>	<b>Ps 12,122</b>	<b>Ps 8,991</b>
Minority interest	0	0	34
<b>NET INCOME</b>	<b>Ps 11,936</b>	<b>Ps 12,122</b>	<b>Ps 9,025</b>

Million pesos. Does not include Afore. Its results are included in the Subsidiaries' equity using the equity participation method.



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

- **Net Interest Income**

	2014	2013	2012
Interest Income	Ps 56,356	Ps 55,619	Ps 52,847
Interest Expense	19,638	22,120	23,492
Loan Origination Fees	2,237	1,564	1,112
Fees Paid	365	377	286
<b>Net Interest Income</b>	<b>Ps 38,590</b>	<b>Ps 34,685</b>	<b>Ps 30,182</b>
Provisions	11,107	8,788	6,585
<b>Net Interest Income Adjusted for Credit Risk</b>	<b>Ps 27,483</b>	<b>Ps 25,897</b>	<b>Ps 23,597</b>
Average Productive Assets	Ps 790,173	Ps 722,830	Ps 665,877
<b>NIM<sup>(1)</sup></b>	<b>4.9%</b>	<b>4.8%</b>	<b>4.5%</b>
<b>NIM Adjusted for Credit Risk<sup>(2)</sup></b>	<b>3.5%</b>	<b>3.6%</b>	<b>3.5%</b>

Million pesos.

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

2) Annualized Net Interest Margin adjusted for Credit Risk / Average Earnings Assets.

**During 2014 Net Interest Income grew 11% YoY going from Ps 34.69 to Ps 38.59 billion**, and increased 12% YoY considering only interest income and net fees related to loan originations as a result of: (i) a 10% growth in Performing Loans (highlighted by growth in the Government, Consumer and Corporate portfolios), even with the sale of the Payroll loan portfolio to Solida in 3Q14; (ii) lower cost of funds, as a result of growth in Core Deposits, mainly Demand Deposits, producing an (11%) decrease in Interest Expenses. These latter were also reduced by the 50 bps decrease in the market reference rate in the last 12 months, as well as the payment in August 2013 of Ixe's Perpetual Subordinated dollar Obligations issued at 9.75% and the prepayment of Preferred Subordinated Obligations for Ps 2.2 billion in April 2014, carrying a rate of TIIE + 2.0% and (iii) a 43% increase in loan fees.

**The average NIM was 4.9% for 2014**, +0.1 pp. vs 2013.

**The average NIM adjusted for Credit Risks was 3.5% at the end of 2014**, (0.1 pp.) lower vs. 2013.

- **Provisions**

**During 2014 Loan Loss Provisions totaled Ps 11.11 billion**, 26% higher vs. 2013 derived from the increased provisions for Middle-Market Companies portfolios, as a result of the loan exposures to the troubled home developers, SMEs, Payroll loans, Mortgage and Credit card portfolios.

- **Non Interest Income**

The following table shows a breakdown of Non Interest Income:

	2014	2013	2012
Services	Ps 8,583	Ps 7,580	Ps 6,772
Recovery	49	88	1,307
Trading	3,859	3,021	2,414
Other Operating Income (Expense)	2,478	2,624	1,159
<b>Non interest income</b>	<b>Ps 14,969</b>	<b>Ps 13,313</b>	<b>Ps 11,651</b>

Million pesos.

**Non-Interest Income in 2014, totaled Ps 14.97 billion**, a 12% YoY increase driven by growth in Service Fees and Trading revenues, which offset declines in Other Operating Income (Expenses) and real estate portfolio recoveries.

- **Non Interest Expense**

	2014	2013	2012
Personnel	Ps 12,441	Ps 12,569	Ps 9,978
Professional Fees	2,591	2,365	2,329
Administrative and promotional expenses	4,995	4,230	4,223
Rents, depreciations and amortizations	3,391	2,992	2,733
Other Taxes and Non-deductible Expenses	1,364	1,456	1,561
Contributions to IPAB	1,887	1,831	1,610
Employee Profit Sharing (PTU)	369	323	912
<b>Non Interest Expense</b>	<b>Ps 27,037</b>	<b>Ps 25,766</b>	<b>Ps 23,347</b>

Million pesos.

**Non-Interest Expenses in 2014 totaled Ps 27.04 billion**, a 5% YoY increase driven by growth in all areas except Personnel Expenses and Other Taxes and Non-Deductible Expenses. **The Efficiency Ratio for 2014 was 50.5%**, (3.2 pp) lower YoY vs. 2013 due to the positive operating leverage achieved.

- **Performing Loan Portfolio**

	2014	2013	2012
Commercial	Ps 107,346	Ps 107,417	Ps 101,160
Consumer	154,408	139,641	118,315
Corporate	84,213	79,086	87,047
Government	117,656	93,485	86,378
<b>Subtotal</b>	<b>Ps 463,622</b>	<b>Ps 419,629</b>	<b>Ps 392,900</b>
Recovery Bank	162	201	243
<b>Total performing loans</b>	<b>Ps 463,785</b>	<b>Ps 419,830</b>	<b>Ps 393,143</b>
Past due loans	13,912	13,317	8,188
<b>% NPL Ratio</b>	<b>2.9%</b>	<b>3.1%</b>	<b>2.0%</b>

Million Pesos.

- **Performing Consumer Loan Portfolio (without recoveries)**

	2014	2013	2012
Mortgage	Ps 89,758	Ps 81,808	Ps 72,340
Car Loans	11,068	11,408	10,325
Credit Cards	23,209	20,323	17,524
Payroll	30,373	26,102	18,126
<b>Consumer loans</b>	<b>Ps 154,408</b>	<b>Ps 139,641</b>	<b>Ps 118,315</b>

Million pesos.

Performing Loans increased 10% annually, growing from Ps 419,629 billion to Ps 463,622 billion, excluding the proprietary loans managed by the Asset Recovery department. The Loan portfolio has recovered its pace of growth reaching levels not seen since the end of 2012 due to the gradual economic recovery, maintaining a higher growth rate than GDP. Corporate and middle market company portfolios (included in the commercial portfolio) continued to receive prepayments from customers, which were offset by new loan placements in both segments during the last quarter, achieving annual growth.

The Banking Sector's Past Due Loans for 2014 grew 4%YoY, the NPL Ratio **was 2.9%** (includes INB past due loans), (0.2 pp) lower YoY due to lower PDL Ratios in the Corporate, Credit card and Payroll segments.

- **Deposits**

	<b>2014</b>	<b>2013</b>	<b>2012</b>
Non interesting-bearing demand deposits	Ps 147,033	Ps 122,499	Ps 107,450
Interest-bearing demand deposits	153,249	132,798	103,968
<b>Total Demand Deposits<sup>(1)</sup></b>	<b>Ps 300,282</b>	<b>Ps 255,297</b>	<b>Ps 211,418</b>
Time Deposits – Retail	136,127	129,121	124,255
<b>Core deposits</b>	<b>Ps 436,409</b>	<b>Ps 384,418</b>	<b>Ps 335,673</b>
Money Market <sup>(2)</sup>	62,287	59,729	90,073
<b>Total banking sector deposits<sup>(3)</sup></b>	<b>Ps 498,697</b>	<b>Ps 444,148</b>	<b>Ps 425,746</b>

Million pesos.

1. Includes debit cards.
2. Includes bank bonds. (Customers and Financial Intermediaries).
3. For the integration of Total Demand Deposits, see Note 9 of Banco's Mercantil del Norte Audited Financial Statements.

At the close of 2014, **Total Deposits amounted to Ps 498.70 billion, representing a 12% YoY increase or Ps 54.55 billion**, driven mainly by the efforts to promote Banorte-Ixe's deposit products.

In 2014, **Core Deposits grew 14% YoY**, from Ps 384.42 billion to **Ps 436.41 billion**, composed of an 18% increase in Demand Deposits, 5% in Retail Time Deposits and 4% in Money Market.

## 2. Brokerage

	2014	2013	2012
Net Income	Ps 931	Ps 649	Ps 681
Stockholders' Equity	2,799	2,569	2,785
Total Assets	102,373	116,576	103,344
Assets Under Management	732,713	647,996	667,873

Million pesos.

The Brokerage Sector (Casa de Bolsa Banorte Ixe y Operadora de Fondos Banorte-Ixe) reported profits of Ps 931 million in 2014, 43% higher YoY. Growth was driven by a higher NII, higher trading revenues and lower Non Interest Expenses, which offset higher tax payments. The Brokerage Sector's Net Income for 2014 represented 6% of the Financial Group's profits.

## 3. Long-Term Savings

	2014	2013	2012
<b>Afore XXI Banorte</b>			
Net Income	Ps 2,408	Ps 2,301	Ps 1,149
Stockholders' Equity	23,982	24,374	6,216
Total Assets	25,282	25,402	6,889
AUM <sup>(1)</sup>	605,816	541,544	247,183
<b>Insurance</b>			
Net Income	Ps 1,759	Ps 1,097	Ps 924
Stockholders' Equity	5,094	3,854	3,252
Total Assets	24,153	18,470	16,803
<b>Annuities</b>			
Net Income	Ps 276	Ps 178	Ps 96
Stockholders' Equity	1,375	1,250	1,173
Total Assets	61,729	52,524	42,998

Million pesos.

1. Source: CONSAR

- **Afore XXI Banorte**

**Afore XXI Banorte posted net profits of Ps 2.41 billion for 2014**, 5% higher vs. the same period of last year due to higher revenues and valuation gains in its investment portfolios, which offset higher Operating Expenses and taxes. **ROE for Afore XXI Banorte** at the end of 2014 **was 10%**, (1.5 pp) lower vs. the same period of the previous year; when excluding goodwill, **ROE would be 32.7%**. Afore XXI Banorte contributed 8% of the Financial Group's profits for 2014.

Assets under management as of December 2014 totaled Ps 605.8 billion, an increase of 12% vs. December 2013.

According to CONSAR, to December 2014, Afore XXI Banorte had a 25.4% share in managed funds, ranking 1st in the market, with 11.35 million accounts (this number does not include 6.2 million accounts managed by

Afore XXI with resources deposited in Banco de Mexico), which represent a 24.4% share of the total number of accounts in the system, making it the market leader.

- **Seguros Banorte**

On October 4th, 2013, the acquisition of Assicurazioni Generali S.p.A.'s 49% minority stake in Seguros Banorte Generali and Pensiones Banorte Generali was completed, and so as of this date GFNorte owns 100% of these companies' equity.

**In 2014, Seguros Banorte reported profits of Ps 1.76 billion**, 60% higher YoY due to a significant growth in NII, which offset higher Non-Interest Expenses and taxes. Seguros Banorte's net income represented 12% of the Financial Group's profits for 2014.

**ROE for the insurance company was 39.2% at the end of 2014**, 6.7 pp higher YoY.

Regarding the disclosure requested by the General Provisions applicable to Financial Groups' controlling 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 the fourth quarter of 2014 that involved any technical risk.

ii. Transfer of risks through reinsurance and bonding contracts

- In the P&C book two important government contracts and one in the tourism sector were ceded to reinsurers, by which 100% of the risk was transferred to prominent foreign reinsurance companies.

iii. Contingencies arising from non-fulfillment by reinsurers and bonding companies.

- There were no relevant events in the fourth quarter of 2014.

- **Pensiones Banorte**

**During 2014, Pensiones Banorte reported profits of Ps 276 million**, increasing by Ps 98 million or 55% vs. 2013 due to growth in NII, which offset lower trading revenues and higher operating expenses and taxes. Net income for Pensiones Banorte for 2014 represented 2% of the Financial Group's profits.

**ROE was 20.4% at the end of 2014**, 6.0 pp higher vs. 2013.

#### 4. Other Finance Companies

	2014	2013	2012
<b>Leasing and Factoring <sup>(1)</sup></b>			
Net Income	Ps 700	Ps 599	Ps 604
Stockholders' Equity	3,735	3,209	2,983
Total Portfolio	21,237	19,732	19,607
Past Due Loans	181	210	154
Loan Loss Provisions	(309)	(312)	(271)
Total Assets	21,623	20,173	20,058
<b>Warehousing</b>			
Net Income	Ps 45	Ps 43	Ps 43
Stockholders' Equity	218	271	265
Inventories	922	477	351
Total Assets	1,127	711	578
<b>Ixe Automotriz <sup>(1)</sup></b>			
Net Income	Ps -	Ps 15	Ps 33
Stockholders' Equity	-	326	311
Total Portfolio	-	70	703
Past Due Loans	-	18	20
Loan Loss Provisions	-	(6)	(5)
Total Assets	-	704	863
<b>Solida Administradora de Portafolio <sup>(2)</sup></b>			
Net Income	Ps (178)	(Ps 266)	(Ps 425)
Stockholders' Equity	3,946	2,310	(2,124)
Total Portfolio	3,926	494	288
Past Due Loans	213	196	205
Loan Loss Provisions	(260)	(213)	(234)
Total Assets	16,843	14,010	9,699

Million pesos.

- Ixe Automotriz was merged into Arrendadora y Factor Banorte, becoming effective since May 7, 2013. The results presented correspond to previous periods.
- On April 26, 2013, it was approved that Banco Mercantil del Norte divested its interest in Solida, through a spin-off, and subsequently absorbed by Ixe Soluciones, in order to consolidate the recovery banking operations. The merger and spin-off were effective on May 24, 2013. For comparative effects the amounts reported in 2013 and 2012 include Solida and Ixe Soluciones.

- **Leasing and Factoring**

**In 2014 Arrendadora y Factor Banorte reported profits amounting to Ps 700 million**, increasing 17% YoY mainly due to the increase in Net Interest Income driven by the growth in the portfolio, lower funding costs, provisions and Operating Expenses. The Leasing and Factoring Company contributed 4.6% of the Financial Group's profits in 2014.

**ROE for the Leasing and Factoring company was 20.0% at the end of December 2014**, (0.3 pp) lower YoY.

At the end of 2014, **the Past Due Loan Ratio was 0.9%**, (0.3 pp) lower vs. 2013; the **Coverage ratio was 170.5%**, 22 pp higher vs. 2013. **The Capitalization ratio estimated as of December was 15.95%** considering total risk-weighted assets of Ps 23.34 billion.

Arrendadora y Factor Banorte continue to be the market leader in terms of portfolio size and assets among the 47 companies in this sector, according to the Asociacion Mexicana de Sociedades Financieras de Arrendamiento, Credito y Factoraje, A.C. - AMSOFAC.

- **Warehouse**

**Warehouse posted profits of Ps 45 million in 2014**, Ps 2 million more than last year mainly due to growth in Other Operating Income, which offset the decline in the Net Interest Income. Almacenadora Banorte contributed 0.3% of the Financial Group's profits in 2014.

**ROE for 2014 was 16.6%**, 0.7 pp higher YoY. **In 2014 the Capitalization Ratio was 19.7%**, considering total certificates at risk in circulation for Ps 3.35 billion. Almacenadora Banorte ranks third among the 18 warehouses of this sector in terms of generated profits.

- **Solida Administradora de Portafolios**

**During 2014, Solida Administradora de Portafolios reported a loss of (Ps 178) million**, an annual variation of Ps 88 million.

**The Past Due Loan Ratio was 5.4% at the end of 2014. The Coverage ratio was 123%**, comparing favorably to the 109% of 2013. **The estimated Capitalization ratio at the end of 2014 was 16.2%**, 4.4 pp higher vs. 2013 (due to the increase in equity in the third quarter of 2014).

## 5. Other Companies

	2014	2013	2012
<b>Ixe Servicios</b>			
Net Income	Ps 2	Ps 1	Ps 1
Stockholders' Equity	Ps 145	24	22
Total Assets	Ps 147	32	37

Million Pesos

- **Ixe Servicios**

During 2014, Ixe Servicios Net Income was Ps 2 million pesos. ROE was 3.2% at the close of 2014. The accumulated profit during the year of Ixe Servicios represents 0.01% of GFNorte's profits.



## B) FINANCIAL SITUATION, LIQUIDITY AND CAPITAL RESOURCES

### NET INCOME AND PROFITABILITY INDEXES

#### GFNORTE Equity

	2014	2013	2012
Paid-in Capital	14,632	14,652	13,072
Premium of Subscribed & Issued Shares	36,201	35,219	18,320
<b>Subscribed Capital</b>	<b>Ps 50,833</b>	<b>Ps 49,871</b>	<b>Ps 31,392</b>
Capital Reserves	6,657	5,811	3,399
Retained Earnings	50,407	39,303	37,644
Surplus (Deficit) from Valuation of Securities Available for Sale	634	667	1,598
Results from Valuation of Hedging Instruments	(762)	(1,420)	(2,493)
Results from Conversions of Foreign Operations	(75)	(1,083)	(547)
Net Income	15,228	13,508	10,888
<b>Earned Capital</b>	<b>Ps 72,089</b>	<b>Ps 56,786</b>	<b>Ps 50,489</b>
Minority Interest	1,750	2,034	6,628
<b>Total Shareholders' Equity</b>	<b>Ps 124,672</b>	<b>Ps 108,691</b>	<b>Ps 88,509</b>

Million pesos.

#### Banking Sector Equity (\*)

	2014	2013	2012
Stockholder's Equity	20,074	15,577	15,572
Disclosed reserves	-	1,950	-
Premium of Subscribed & Issued Shares	11,099	10,389	3,294
<b>Subscribed Capital</b>	<b>Ps 31,173</b>	<b>Ps 27,916</b>	<b>Ps 18,867</b>
Capital Reserves	8,968	7,761	6,747
Retained Earnings	43,201	32,284	32,664
Surplus (Deficit) from Valuation of Securities Available for Sale	510	517	1,774
Results from Valuation of Hedging Instruments	(869)	(1,541)	(2,626)
Results from Conversions of Foreign Operations	(138)	(1,143)	(582)
Net Income	11,936	12,122	9,025
<b>Earned Capital</b>	<b>Ps 63,608</b>	<b>Ps 50,000</b>	<b>Ps 47,002</b>
Minority Interest	10	10	10
<b>Total Shareholders' Equity</b>	<b>Ps 94,791</b>	<b>Ps 77,926</b>	<b>Ps 65,879</b>

Million pesos.

(\*) Does not include the Afore.

**Banco Mercantil del Norte's Capitalization Ratio [See Note 30 to the 2014 Audited Financial Statements]**

	Dic-14	Dic-13	Dic-12
Tier 1 Capital	69,995	58,585	46,696
Tier 2 Capital	8,001	11,034	11,496
<b>Net Capital</b>	<b>Ps 77,996</b>	<b>Ps 69,619</b>	<b>Ps 58,192</b>
Credit Risk Assets	359,318	338,045	297,007
Market & Operational Risk Assets	151,739	122,283	97,522
<b>Total Risk Assets <sup>(1)</sup></b>	<b>Ps 511,057</b>	<b>Ps 460,328</b>	<b>Ps 394,529</b>
<b>Net Capital / Credit Risk Assets</b>	<b>21.7%</b>	<b>20.6%</b>	<b>19.6%</b>
<b>Capitalization Ratio</b>			
Tier 1	13.7%	12.7%	11.8%
Tier 2	1.6%	2.4%	2.9%
<b>Total Capitalization Ratio</b>	<b>15.3%</b>	<b>15.1%</b>	<b>14.7%</b>

Million pesos.

(1) Excluding intercompany eliminations.

At the end of 4Q14 **Banorte's estimated Capitalization Ratio (CR) was 15.26%** considering credit, market and operational risk and 21.71% if only credit risks are considered. The Core Tier 1 ratio was 12.70%, Total Tier 1 ratio was 13.70% and Tier 2 was 1.56%.

The Capitalization Ratio Increased 0.14 pp vs 2013, showing the following dynamics:

1)	Growth of profits during 4Q14	+2.58 pp
2)	Capitalization in March 2014	+0.55 pp
3)	Valuation of Financial Instruments, Securitizations and Equity Accounts	+0.20 pp
4)	Reserves considered as Tier 2 <sup>1)</sup>	-0.08 pp
5)	Prepayment and effectiveness decrease of Subordinate Debt	-0.71 pp
6)	Effects of Investment in Subsidiaries and Intangibles	-0.72 pp
7)	Growth in risk assets	-1.68 pp

**Ixe Banco's Capitalization Ratio [See Note 30 to the 2012 Audited Financial Statements. In 2014 and 2013 the Capitalization Ratio is not reported due to the merger of Ixe Banco with Banco Mercantil del Norte on May 2013]**

	Dec-12
Tier 1 Capital	5,686
Tier 2 Capital	2,483
<b>Net Capital</b>	<b>Ps 8,169</b>
Credit Risk Assets	33,246
Market & Operational Risk Assets	19,378
<b>Total Risk Assets <sup>(1)</sup></b>	<b>Ps 52,624</b>
<b>Net Capital / Credit Risk Assets</b>	<b>24.6%</b>
Tier 1	10.8%
Tier 2	4.7%
<b>Total Capitalization Ratio</b>	<b>15.5%</b>

At close of December 2012, Ixe Banco's Capitalization Ratio was 15.5% taking into consideration market, credit and operational risks, and 24.6% considering only credit risks. The Tier 1 ratio was 10.8% while Tier 2 was 4.7%. On an annual basis, the Capitalization Ratio was 0.2 pp higher in December 2012 as a result of:

1) Impact of the increase in Stockholders' Equity	+ 0.96pp
2) Impact of permanent investments in shares during the period	+ 0.89pp
3) Growth in risk assets during the period	- 0.92pp
4) FX impact on Subordinated Notes	- 0.47pp
5) Securitizations that impact net capital	-0.14pp
6) Impact of intangibles and assets that are deferred for over a year	- 0.07pp
7) Decrease in overall reserves	- 0.06pp

## CASH FLOW STATEMENT

The cash flow statement reveals cash available to the institution at a certain point in time in order to meet its obligations with creditors. The structure of the cash flow statement provides details of the cash generated by the operation, and uses of resources for net financing and the investment program. As of December 2014, available cash amounted to Ps 73.84 billion, 19% higher than the Ps 61.98 billion registered in December 2013.

## GFNorte Cash Flow Statement

	2013	2012
<b>Net income</b>	<b>Ps 15,228</b>	<b>Ps 13,508</b>
Items not requiring (generating) resources:		
Depreciation and amortization	1,262	1,216
Technical reserves	9,655	9,686
Provisions	6,005	(757)
Current and deferred income tax	5,668	3,555
Equity in earnings of unconsolidated subsidiaries and associated companies	(995)	(359)
	<b>36,823</b>	<b>26,849</b>
<b>OPERATING ACTIVITIES:</b>		
Changes in margin accounts	13	437
Changes in investments in securities	(15,802)	(69,906)
Changes in debtor balances under repurchase and resale agreements	(669)	5,492
Changes in asset position of derivatives	(1,696)	3,456
Change in loan portfolio	(44,888)	(26,132)
Changes in acquired collection rights	537	(412)
Changes in accounts receivable from insurance and annuities, net	(653)	(396)
Changes in debtor premiums, net	(1,455)	90
Changes in reinsurance (net) (asset)	(2,404)	(847)
Changes in receivables generated by securitizations	151	144
Change in foreclosed assets	61	156
Change in other operating assets	(5,881)	(4,526)
Change in deposits	51,799	19,295
Change in interbank and other loans	10	(5,829)
Change in creditor balances under repurchase and sale agreements	2,580	59,991
Collateral sold or pledged	145	(29)
Change in liability position of derivative financial instruments	2,444	(2,950)
Change in technical reserves (net)	1,831	799
Changes in reinsurance (net) (liability)	860	(46)
Change in subordinated debentures	(1,567)	(1,457)
Change in other operating liabilities	(5,291)	(6,046)
Change in hedging instruments related to operations	488	(989)
Income tax	(3,584)	(5,324)
<b>Net cash generated or used from operations</b>	<b>13,852</b>	<b>(8,180)</b>
<b>INVESTING ACTIVITIES:</b>		
Proceeds on disposal of property, furniture and equipment	2,002	2,681
Payments for acquisition of property, furniture and equipment	(4,006)	(3,939)
Charges on acquisitions of Subsidiaries and associated companies	409	1,037
Payment on acquisitions of Subsidiaries and associated companies	-	(27,345)
Charges of other permanent investments	-	(1)
Charges for cash Dividends	1,134	505
<b>Net cash flows from investment activity</b>	<b>(461)</b>	<b>(27,062)</b>
<b>FINANCING ACTIVITIES:</b>		
Charges of shares issuance	-	31,200
Dividends paid	(1,218)	(2,911)
Repurchase of shares	(549)	437
<b>Net financing activity cash flows</b>	<b>(1,767)</b>	<b>28,726</b>
Net (decrease) increase in cash and cash equivalents	11,624	(6,516)
Effects from changes in the value of cash and cash equivalents	236	14
Cash and cash equivalents at the beginning of the year	61,978	68,480
<b>Cash and cash equivalents at the end of the year</b>	<b>Ps 73,838</b>	<b>Ps 61,978</b>

Million pesos.

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## **DIVIDENDS**

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On October 17, 2011, the Ordinary General Shareholders' Meeting approved changes to the dividend policy, and as a result dividend payments will be as follows:

1. 16% of recurring net income in the event that profit growth is between 0% and 10% during the year.
2. 18% of recurring net income in the event that profit growth is between 11% and 20% during the year.
3. 20% of recurring net income in the event that profit growth is greater than 21%.

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## **POLICIES GOVERNING TREASURY ACTIVITIES OF THE BANK (MAIN SUBSIDIARY OF THE FINANCIAL GROUP)**

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### **Regulatory Framework**

1. All operations carried out by the Treasury will be executed in strict accordance with regulations established by Banking Institution regulatory authorities, such as the Central Bank (BANXICO), the National Banking and Securities Commission (CNBV), the Ministry of Finance and Public Credit (SHCP), as well as those set forth in the Law of Credit Institutions.
2. The Treasury is subject to the policies regarding thresholds and management of liquidity risks established by the Risk Policy Committee in the Risk Administration manual.

### **Treasury Management**

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

1. Diversification of funding sources, by accessing several national and international markets.
2. Structure liabilities in such a way as to avoid the accumulation of maturities that significantly influence the administration and control of the Treasury's resources.
3. Ensure liquidity in adverse times by tapping long-term liabilities.
4. Liquid Assets. Maintain a balanced liquid assets-total assets ratio.
5. Additional Liquidity. Maintain a highly liquid inventory of assets to ensure the immediate availability of resources.
6. Transfer Prices. The Treasury will have exclusive power to determine and propose the transfer costs of assets and liabilities to the Risk Policy Committee.

## Sources of Financing/International Treasury

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

1. Public:
    - Checking accounts (via the network of branches and corporations).
  2. Market:
    - Commercial paper.
    - Cross Currency Swaps
    - Syndicated Loans.
    - Securitizations
    - Deposit Certificate.
  3. National Banks and Development Funds:
    - National Banks.
    - Funds.
  4. Correspondent Banks:
    - Foreign Banks
  5. Available credit lines: (not available)
    - Commercial paper.
    - Correspondent banks.
- a. Through diverse Long Term Financing Programs, proposals will be studied, analyzed and implemented, in order to consolidate an adequate debt profile
  - b. The results of the liquidity coefficients tests will be sent to the authorities and the Head of Risk Control simultaneously for monitoring.
  - c. The International Treasury, in coordination with the Head of Risk Control, will monitor the results of its daily calculations of liquidity coefficients.

## PAID AND DEFERRED TAX

Concept	As of December 31, 2014
Income Tax (ISR)	8,040
Profit Sharing (PTU)	369
Updated caused taxes	0
Deferred ISR & PTU	(2,280)
Updated deferred taxes	0
<b>Total</b>	<b>Ps 6,129</b>

Million pesos.

Temporary Asset Differences	ISR	PTU	Net
Tax loss carry forwards	1,794	0	1,794
Allowance for loan losses	1,156	0	1,156
Accounting provisions	831	0	831
Excess of tax over book value of foreclosed and fixed assets	861	0	861
PTU	112	0	112
Surplus preventive allowances for credit risks over the net tax limit	2,341	0	2,341
Fees collected in advance	844	0	844
Other items	435	0	435
<b>Total Assets</b>	<b>Ps 8,374</b>	<b>Ps 0</b>	<b>Ps 8,374</b>

Temporary Liability Differences	ISR	PTU	Net
Capitalizable projects' expenses	(1,435)	0	(1,435)
Contribution to pension fund	(1,092)	0	(1,092)
Portfolios acquired	(429)	0	(429)
Intangible Assets	(493)	0	(493)
Exceso del valor fiscal sobre el contable del bienes adjudicados y activo fijo	(2)	0	(2)
Provisions	(119)	0	(119)
Deferred from the IXE purchase method	(304)	0	(304)
Other liabilities	(2,189)	0	(2,189)
<b>Total liabilities</b>	<b>(Ps 6,063)</b>	<b>Ps 0</b>	<b>(Ps 6,063)</b>
<b>Assets (Liabilities) Accumulated Net</b>	<b>Ps 2,311</b>	<b>Ps 0</b>	<b>Ps 2,311</b>

Million pesos.

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

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

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

The deferred taxes for each subsidiary as of December 31, 2014 are as follows:

<b>Deferred Taxes</b>	<b>As of December 31, 2014</b>
Banco Mercantil del Norte S.A.	2,569
Grupo Financiero Banorte S.A.B. de C.V.	(172)
Arrendadora y Factor Banorte S.A. de C.V.	24
Seguros Banorte S.A. de C.V.	100
Pensiones Banorte S.A. de C.V.	(353)
Casa de Bolsa Banorte Ixe, S. A. de C. V.	25
Almacenadora Banorte S.A. de C.V.	1
IXE Servicios S.A. de C.V.	1
Solida Administradora de Portafolios S.A. de C.V.	116
<b>Total</b>	<b>Ps 2,311</b>

Million pesos.

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## TAX CREDITS OR DEBTS

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The tax credits listed below are currently in litigation:

	<b>Al 31 de diciembre de 2014</b>
<b>BANORTE</b>	<b>Ps 32</b>
IMSS fees, various occupations	6
INFONAVIT fees, various occupations	26
<b>CASA DE BOLSA BANORTE IXE</b>	<b>Ps 35</b>
Fiscal year 2007 (document 900 06 05-2010-03968)	35
<b>SEGUROS BANORTE, S.A. DE C.V.</b>	<b>Ps 15</b>
Fiscal year 2003 (document 900-06-01-2009-9518)	15
<b>AFORE BANORTE</b>	<b>Ps 2</b>
Loan # 4429309391 Payroll Tax of the state of Coahuila	2
<b>IXE BANCO</b>	<b>\$13</b>
Income Tax-Profit Sharing for the 2005 fiscal year – inflation adjustment	13

Million pesos



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## C) INTERNAL CONTROL

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At Grupo Financiero Banorte, S.A.B. de C.V. (GFNORTE), we recognize that internal control is the responsibility of each member of the Institution, and is therefore implicit in daily performance which facilitates its permanent spread and promotion at all levels of the Institution.

The Internal Control System (ICS) of GFNORTE has been structured in accordance with guidelines set by its Board of Directors and establishes the general internal control framework for the companies that comprise GFNorte, as well as how the internal workings should be operated, in order to provide reasonable security with regard to effectiveness and efficiency of operations, the dependability of financial information and the fulfillment of regulations and the legal framework.

The ICS's mission is to support the operation of appropriate internal controls in transactions, and the generation and recording of information. It is comprised of several elements:

- A. The Board of Directors with the support of: the Advisory Board, Management Committee, Risk Policies Committee (CPR), Audit and Corporate Practices Committee (CAPS), and the Human Resources Committee.
- B. The CEO and the departments which support him: Unit Risk Management (UAIR), Legal Department and the Comptroller, responsible for ensuring that adequate control levels, operational risks and compliance with regulation are maintained.
- C. Internal Audit, External Audit and the Commissary (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. The Code of Conduct that regulates the behavior that each Board member, officer or employee of the Group should assume while performing their activities stress out.
- F. Policy and procedure manuals that regulate documentation, recording and liquidation of operations that the 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 fourth quarter of 2014, activities related to strengthening control, risk evaluation and management, establishment and monitoring of controls, and assurance of quality information continued to be developed; highlighting the following:

- A. The Board of Directors analyzed and, at the request of CAPS, ratified its authorization of the basic SCI documents: Code of Conduct, Objectives and Limitations of Internal Control and General Policies for Human Resources and Materials, in accordance with external regulation specifications.
- B. The various Corporate Governance Committees have had the required financial, economic, accounting and/or legal information for proper decision-making.
- C. The manual of policies and procedures has been updated as per the changes in external regulations, new products, and changes in the Institution's processes or the improvements to internal controls. Additionally, there has been a 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. Monitoring of the various business and support processes that make up the operation in GFNorte through Process Controllers and Management, to report periodically on compliance and identifying opportunity areas for a timely remediation.
- F. Requests regarding internal control subjects from diverse internal departments were handled, to the development of new institutional projects, as well as those derived from the Financial Reform.

## II. TRANSACTIONS AND BALANCES WITH NON-CONSOLIDATED SUBSIDIARIES AND ASSOCIATED COMPANIES

### OPERATIONS WITH RELATED PARTIES AND CONFLICTS OF INTEREST

At Banco Mercantil del Norte, GFNorte's main subsidiary, loans to related individuals and companies do not exceed the 35% limit of tier 1 capital for December 2014, and 50% limit of tier 1 capital for December 2013 and 2012.

	Banorte		
	Dec-14	Dec-13	Dec-12
Portfolio Art. 73	Ps 3,688	Ps 6,778	Ps 11,536
Portfolio Art. 73 / 35% of Tier 1 Capital	15.5%	24.1%	50.3%

\*For Dec-13 and Dec-12, the limit established by the regulation was 50% of tier 1 capital.

As of **December 31, 2014**, the total loans granted to related parties, under Article 73 of the Law of Credit Institutions, was Ps 3.69 billion (including Ps 450 million in — Credit Letters “CC”, which are registered in memorandum accounts), representing 0.8% of Banorte's total loan portfolio (excluding the balance of CC and Support to Federal Government Housing Debtors). Of the total related loans, Ps 2.39 billion were loans granted to clients linked to members of the Board of Directors; Ps 924 million were granted to clients linked to shareholders and Ps 370 million were linked to companies related to GFNorte.

In accordance with Article 73 of the Law of Credit Institutions, the balance of GFNorte's loan portfolio for individuals and corporations at closing of December 2014 was 15.5% of the limit set by Banco de Mexico which is equivalent to 35% of the basic part of net capital.

Related parties loans have been granted with 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 and the internal methodology authorized by CNBV, to rate borrowers in the commercial loan portfolio. 99% of the related party loans are rated in Category "A", and the majority of these loans were classified as commercial loans.

As of **December 31, 2013**, the total portfolio of performing loans under Article 73 of the Law on Credit Institutions, was Ps 6.78 billion (including Ps 399 million in letters of credit –LC– registered in memorandum accounts), representing 1.6% of the total loan portfolio (excluding LC and Debtor Support Program balances). Of the total related loans, Ps 5.01 billion were loans granted to clients linked to members of the Board of Directors, Ps 937 million were to clients linked to shareholders, and Ps 831 million were linked to companies related to GFNorte.

In accordance with Article 73 of the Law on Credit Institutions, the balance of GFNorte's related loan portfolio for individuals and corporations at the close of December 2013 was 24.1% of the limit set by Banco de Mexico (Central bank) of 50% of tier 1 net capital.

Related parties loans have been granted with 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 and the internal methodology authorized by CNBV, to rate borrowers in the commercial loan portfolio. 99% of the related party loans are rated in Category "A", and the majority of these loans were classified as commercial loans.

### III. BOARD OF DIRECTORS

The Board of Directors of Grupo Financiero Banorte, S. A. B. de C. V. is made up of 13 Proprietary Members, and when appropriate their respective Alternates, of which 10 are independent. Alternate Members can only replace their respective proprietary members in the event of a temporary vacancy, with the understanding that Alternates of Independent Board Members have the same capacity.

**Frequency of sessions:** The Board meets every quarter and under extraordinary circumstances at the request of the Board's Chairman, 25% of Proprietary Members, or the Chairman of the Audit and Corporate Practices Committee.

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

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

The Board of Directors for the fiscal year 2014 was appointed and approved during the Annual General Shareholders' Meeting held on April 25, 2014 and modified on the Ordinary General Shareholders' Meeting held on October 22, 2014 and the Board of Directors' session on November 20, 2014, is comprised by the following members

NAME	POSITION	WITH THE COMPANY SINCE	PROFESSIONAL BACKGROUND
Carlos Hank Gonzalez	Designated Chairman of the Board of Directors Proprietary Member	October 2014	<ul style="list-style-type: none"> <li>• He was CEO of Grupo Financiero Interacciones and Grupo Hermes.</li> <li>• He was Deputy CEO of Casa de Bolsa Interacciones.</li> <li>• He was coordinator of the Strategic Plan in the Promotional department at Casa de Bolsa Interacciones.</li> <li>• He holds a Bachelor's degree in Business Management from Universidad Iberoamericana</li> </ul>
David Villareal Montemayor	Proprietary Member	October 1993	<ul style="list-style-type: none"> <li>• CEO and major shareholder of Artefactos Laminados, S. A. de C.V.</li> <li>• He is part of the Board of Inmobiliaria Montevi, S.A. de C.V. and Inmobiliaria Monyor S.A. de C.V.</li> <li>• He is a regional Advisor of Banco Nacional de Mexico, S.A. (Banamex) and Financial Advisor and Business Developer for SISMEX, Sistemas Mexicanos S.A. de C.V.</li> </ul>
Everardo Elizondo Almaguer	Proprietary Independent Member	April 2010	<ul style="list-style-type: none"> <li>• Founder and Director of the Graduate School of the Faculty of Economics, University of Nuevo Leon. He is Professor at the Instituto Tecnológico y de Estudios Superiores de Monterrey (ITESM) in the Faculty of Economics</li> </ul>

NAME	POSITION	WITH THE COMPANY SINCE	PROFESSIONAL BACKGROUND
			<p>and Public Administration.</p> <ul style="list-style-type: none"> <li>• He was Director of Economic Studies of Grupo Industrial Alfa (Alfa Group).</li> <li>• He founded the Consulting Agency Index, Economia Aplicada S.A.</li> <li>• He was Deputy Governor of the Bank of Mexico.</li> </ul>
Alfredo Elias Ayub	Proprietary Independent Member	April 2012	<ul style="list-style-type: none"> <li>• He was CEO of the Comision Federal de Electricidad (Mexican Federal Electricity Commission, CFE), of Aeropuertos y Servicios Auxiliares (Airports and Auxiliary Services, ASA) and held several positions in the Secretaria de Energia.</li> <li>• He was a member of the Alumni Council of the School of Business at Harvard University, Chairman of the Development Board at the Anahuac University and of the Mexico Foundation in Harvard.</li> </ul>
Herminio Blanco Mendoza	Proprietary Independent Member	April 2005	<ul style="list-style-type: none"> <li>• Chairman and CEO of Soluciones Estrategicas.</li> <li>• Member of the Board of Directors of Banco Latinoamericano de Exportaciones, Bladex.</li> <li>• Member of the Board of Cydsa, S. A.</li> <li>• He was Mr. Lakshimi Mittal's advisor (Chairman and CEO of Mittal Steel), Secretary of Commerce and Industrial Development and Chief Negotiator of the North American Free Trade Agreement (NAFTA).</li> </ul>
Adrian Sada Cueva	Proprietary Independent Member	April 2013	<ul style="list-style-type: none"> <li>• CEO of Vitro since March 2013. He also was Managing Director of Containers in the same Group.</li> </ul>
Patricia Armendariz Guerra	Proprietary Independent Member	April 2009	<ul style="list-style-type: none"> <li>• CEO of Credipyme, S.A. de C.V.</li> <li>• Chairman of Valores Financieros, S.A. (International Financial Consultancy).</li> </ul>
Armando Garza Sada	Proprietary Independent Member	July 2011	<ul style="list-style-type: none"> <li>• Chairman of the Board of Directors of Grupo Alfa, S.A.B. de C.V.</li> <li>• Member of the Board of: Banco de Mexico (Regional Board), Deutsche Bank (Latin-American Advisory Board), Femsa, Frisa, Liverpool, Proeza, Advisory Board of Stanford University's Business School, and member of the Board of Stanford University.</li> <li>• He was CEO of Desarrollo de Alfa, S.A.B. de C.V.</li> <li>• He was CEO of Selther, Polioles, Sigma and Versax, among others.</li> </ul>
Hector Reyes-Retana y Dahl	Proprietary Independent Member	July 2011	<ul style="list-style-type: none"> <li>• Independent Advisor to Banco del Ahorro Nacional y Servicios Financieros, S.N.C.</li> <li>• Founder of the state organism "ProMexico, Inversion y Comercio".</li> <li>• He was the CEO of Banco Nacional de Comercio Exterior, S.N.C (Bancomext) and</li> </ul>

NAME	POSITION	WITH THE COMPANY SINCE	PROFESSIONAL BACKGROUND
			<p>Director of International Operations of Banco de Mexico (Banxico).</p> <ul style="list-style-type: none"> <li>In the private sector, he was CEO of Grupo Financiero Mifel and Banca Mifel, and was Vicechairman of the Mexican Banking Association (ABM)</li> <li>Independent Advisor to Consupago, S.A. de C.V.</li> </ul>
Juan Carlos Braniff Hierro	Proprietary Independent Member	July 2011	<ul style="list-style-type: none"> <li>Chairman of the Board and CEO of Capital I, Fondos de Inversion Inmobiliaria.</li> <li>At Grupo Financiero BBVA Bancomer, he was Vicechairman of the Board of Directors, Chairman of the Board of Insurance, Annuities and Afore Bancomer and Member of the Credit, Risk and Audit Committees. He has also been Member of the Board of Directors and member of committees in: Femsa, Aeromexico, Maizoro, Hoteles Presidente Intercontinental, and former Member of the Compensation Committee of Ixe Grupo Financiero, among others.</li> </ul>
Miguel Aleman Magnani	Proprietary Independent Member	April 2013	<ul style="list-style-type: none"> <li>Executive Chairman of Interjet, Chairman of Grupo Aleman, Honorary Member of Grupo Casa SABA and Vice-Chairman of the Board of Directors of Grupo Televisa, S.A.</li> </ul>
Alejandro Burillo Azcarraga	Proprietary Independent Member	April 2013	<ul style="list-style-type: none"> <li>Chairman of the Board of Directors of Grupo Pegaso, strategic partner in Laredo National Bank, Telefonica Movistar, Atlante Football Club, among others. He has also been independent member of the Board of Directors of Grupo Financiero BBVA Bancomer and BBVA Bancomer Servicios, S.A.</li> </ul>
Juan Antonio Gonzalez Moreno	Proprietary Member	April 2004	<ul style="list-style-type: none"> <li>Chairman of the Board and CEO of Gruma. He has been Managing Director of Gruma Asia and Oceania, Senior Vice-Chairman of Special Projects of Gruma Corporation, Chairman of the Board and CEO of CarAmigo, Vice-Chairman of Central and East Regions of MissionFoods, Chairman and Vice-Chairman of sales of Azteca Milling and Managing Director of GIMSA.</li> </ul>
Graciela Gonzalez Moreno	Alternate Member	April 2013	<ul style="list-style-type: none"> <li>She is accountant, graduated from the Universidad Labastida in Monterrey, N.L. Since September 1988 until 2010, she participated as founding partner and member of the Board of Directors of Asociacion Gilberto, A.C., being Vice-Chairman of it from 2007 to 2010. She is daughter of Roberto Gonzalez Barrera, sister of Bertha Gonzalez Moreno, Juan Gonzalez Moreno and Roberto Gonzalez Moreno.</li> </ul>
Jose Maria Garza Treviño	Alternate Independent Member	April 2014	<ul style="list-style-type: none"> <li>Chairman of Grupo Garza Ponce.</li> <li>He was member of the Board of Directors in Grupo Financiero BITAL, Finanzas Monterrey,</li> </ul>

NAME	POSITION	WITH THE COMPANY SINCE	PROFESSIONAL BACKGROUND
			<p>Banca Afirme and Banca Confia- Abaco Grupo Financiero.</p> <ul style="list-style-type: none"> <li>• He served as Vice-chairman of the Mexican Camera of the Construction Industry and of the Mexican Association of Industrial Parks (A.M.P.I. P), as an adviser in COPARMEX and in the Owners of Real Estate Camera, and as Chairman of Civil Engineers Ex a Tec.</li> <li>• Participated on the Advisory Boards of HSBC Northeast, BBVA Northeast and NAFINSA.</li> </ul>
Alberto Halabe Hamui	Alternate Independent Member	April 2014	<ul style="list-style-type: none"> <li>• Deputy Managing Director of Inmobiliaria IHM S.A. de C.V. since 2007, of Comercializadora de Viviendas Albatros S.A. de C.V. and Nueva Imagen Construcciones S.A. de C.V.</li> <li>• Member of the Management and Operations Committees of St. Regis Mexico and Banorte's Metropolitan Regional Board, furthermore, he was Member of the Board of Directors in Microfinanciera Finsol.</li> </ul>
Isaac Becker Kabacnik	Alternate Independent Member	April 2002	<ul style="list-style-type: none"> <li>• Chairman of Becker e Hijos, S.A. de C.V. and of Bechtel, S.A. de C.V.</li> </ul>
Manuel Aznar Nicolín	Alternate Independent Member	March 2007	<ul style="list-style-type: none"> <li>• Partner at the offices of Kuri Breña, Sanchez Ugarte y Aznar, S.C.</li> </ul>
Eduardo Livas Cantu	Alternate Independent Member	April 1999	<ul style="list-style-type: none"> <li>• He is an Independent Financial Adviser, Member of the Board of Directors of Gruma and Gimsa.</li> <li>• He was a member of the Board of the Executive Committee of Gruma and Chief Corporate Officer of Gimsa and Gruma.</li> </ul>
Roberto Kelleher Vales	Alternate Independent Member	April 2014	<ul style="list-style-type: none"> <li>• Currently, he is Shareholder, Vice-chairman and CEO of Inmobilia Desarrollos.</li> <li>• Adviser of the Volkswagen National Dealers Association.</li> <li>• He was Chairman of the Volkswagen National Dealers Association, and was Adviser of the Mexican Association of Car Dealers.</li> </ul>
Ramon A. Leal Chapa	Alternate Independent Member	July 2011	<ul style="list-style-type: none"> <li>• CFO of Alfa Corporativo.</li> <li>• Planning Director of Vitro.</li> </ul>
Guillermo Mascareñas Milmo	Alternate Independent Member	July 2011	<ul style="list-style-type: none"> <li>• Associate Director of Alpha Patrimonial, S.A. de C.V.</li> </ul>
Lorenzo Lazo Margain	Alternate Independent Member	April 2013	<ul style="list-style-type: none"> <li>• CEO of Aleman Velasco y Asociados S.C. and member of the Consultive Board of "Mexico Cumbre de Negocios". Chairman of the Board of L.L. &amp; M.M. Consultores S.C.</li> </ul>
Alejandro Orvañanos Alatorre	Alternate Independent Member	April 2013	<ul style="list-style-type: none"> <li>• CEO of Grupo Pegaso. He was CEO of Caribevisión Television Network, Director of Operations of Grupo Pegaso and Deputy CEO of Movistar.</li> </ul>

NAME	POSITION	WITH THE COMPANY SINCE	PROFESSIONAL BACKGROUND
Juan Antonio Gonzalez Marcos	Alternate Member	April 2014	<ul style="list-style-type: none"> <li>• Chairman of Maranello Magnate, LLC.</li> <li>• He was Marketing Project Manager at Mission Foods.</li> <li>• He holds a Bachelor degree in Audio Production from SAE Institute of Melbourne.</li> <li>• He holds a Bachelor degree in Fine Arts; Marketing from University of North Texas.</li> </ul>
Jose Marcos Ramirez Miguel	Alternate Member	July 2011	<ul style="list-style-type: none"> <li>• CEO of Grupo Financiero Banorte, Banco Mercantil del Norte and Casa de Bolsa Banorte Ixe.</li> <li>• He was Managing Director Wholesale Banking of Banco Mercantil del Norte, S.A.</li> <li>• He was Managing Director Wholesale Banking of Grupo Financiero Santander.</li> </ul>
Jesus O. Garza Martinez	Alternate Member	April 2012	<ul style="list-style-type: none"> <li>• He was Managing Director of Retail Banking in Banco Mercantil del Norte, S.A.</li> </ul>



## IV. REMUNERATION AND BENEFITS

The total amount of compensations and benefits paid to GFNorte's main officers in 2014 was approximately Ps 346.2 million.

Compensations and Benefits are as follows:

- **Fixed Compensation:** Salary.
- **Annual Bonus Plan for 2014:**

The Bonus Plan for each business area evaluates estimated profit for that particular business, as well as an evaluation of individual performance, which takes into account the achievement of each participant's goals and objectives. The bonus for certain departments is also adjusted based on operational risk evaluations carried out by the Control Department. Likewise, eligibility to receive the deferred variable compensation for a group of managers is determined by a risk and compliance mechanics' review.

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

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

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

Stock Options:

The long term scheme for incentives consists in assign to designated Officers by the Compensation Committee, a stock options package through a trust with a vesting period up to 4 years having right in 100%. Participants will be entitled to exercise a percentage of the package each year; receiving shares in its capital account.

- **Vacations:** From 10 to 30 working days depending on the number of years of service.
- **Legally Mandated Christmas Bonus:** Equivalent to 42 days of salary.
- **Savings Fund:** The Corporation matches the amount of the employee's contribution up to a maximum of 13% of their monthly salary in accordance with the legal limits established in the Income Tax Law.
- **Medical Service: Traditional Scheme:** Banorte provides medical services through recognized medical institutions, obtaining efficiency in cost and service. **Full Medical Insurance Scheme:** Major medical expenses insurance policy.
- **Life Insurance:** In the event of death or total incapacity, a life insurance policy provides a sum of up to 36 months' salary. In the event of accidental death, the compensation is double, prior verification by the insurance company.

- **Pension and Retirement:** The institution has two types of plans: one with defined benefits (Traditional and Special), and a second with a defined contribution (Ensure Your Future).

**Ensure Your Future:** was established on January 1, 2001. This is a defined contribution plan, whereby a percentage of individual contributions by the employee and GFNorte are deposited in a fund for withdrawal by that employee upon termination of their labor relationship. This plan has an "initial individual contribution" (only for employees hired prior to January 1, 2001) that are pension benefits for past services accumulated to date. The maximum monthly contribution is 10% of the gross nominal wage (5% employee and 5% company). The total amount accumulated by GFNORTE in pension, retirement or similar plans for the company's main officers amounts to Ps 80.8 billion.

## V. RESPONSIBLE OFFICERS

The undersigned hereby declare that within the scope of our respective functions, we have truthfully prepared the information contained in this annual report related to Grupo Financiero Banorte, which to the best of our knowledge and understanding reasonably reflects the situation.

Act. Jose Marcos Ramirez Miguel  
Chief Executive Officer of Grupo Financiero Banorte

Ing. Rafael Arana de la Garza  
Chief Operating 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

## **VI. INDEPENDT AUDITORS' AND CONSOLIDATED FINANCIAL STATEMENTS**

The Audited Financial Statements are available online ([www.banorte.com](http://www.banorte.com)) in Investor Relations/ Financial Information/ Annual Reports/ Financial Statement 2014.

This report is available in this same link, in the "Annual Reports" section under the title: "CNBV 2014 Annual Report".