



**GRUPO FINANCIERO  
BANORTE**

## **Annual Report 2013**

**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 COMMISSION (CNBV), PUBLISHED IN THE MEXICAN OFFICIAL GAZETTE OF THE FEDERATION (DIARIO OFICIAL DE LA FEDERACION) ON JANUARY 31<sup>ST</sup>, 2011, AND MODIFIED THROUGH THE RESOLUTION PUBLISHED IN THE OFFICIAL GAZETTE ON JULY 18<sup>TH</sup>, 2011.

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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 Consolidated Financial Statements for the years ended December 31st, 2013 and 2012, published by Galaz, Yamazaki, Ruiz Urquiza, S. C., a member of Deloitte Touche Tohmatsu Limited dated February 20th, 2014. For the year ended December 31st, 2011, financial figures are based on GFNORTE's Audited Consolidated Financial Statements published by Galaz, Yamazaki, Ruiz Urquiza, S. C., a member of Deloitte Touche Tohmatsu Limited, dated February 27th, 2013, and therefore include changes to accounting criteria that occurred in 2011.
- ✓ 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. Financial statements as of December 31st, 2011, reflect the effects of the deconsolidation of Afore XXI Banorte, **in order to make them comparable with the 2012 financial statements**. Consequently, some figures in GFNORTE's 2011 Income Statement and Balance Sheet differ in this report to those in the Report that was sent to the authorities in February, 2012.
- ✓ Changes to Accounting Criteria. In January 2011, the CNBV issued a series of regulations to modify the accounting criteria of controlling companies of financial groups and financial institutions. The main changes are: **a) For Controlling Companies**. Criteria A-2 "Application of particular norms". The facility of not consolidating permanent investments in Insurance or Bonding companies in which the company is controlling has been eliminated with this criterion. As of February 1st, such institutions must be consolidated with the financial statements of the controlling companies. As a consequence, the consolidation of "Seguros y Pensiones Banorte" (the Insurance and Annuities companies) has initiated. **b) For Credit Institutions**. Criteria D-2 "Income Statement". The way the Income Statement is presented was modified, mainly eliminating the items of "Non Operating Income (Expenses), net" and the accounts that were previously registered there will now be registered under "Other Operating Income (Expenses)" in the Operating Income heading. For more information about the changes to accounting criteria, refer to the corresponding section in the notes of the Audited Financial Statements (Note 4 - Significant Accounting Policies).
- ✓ In April 2011, the merger with IXE GF became effective, thereby, the year of 2011 includes 9 months of integrated results. Following that 2010 figures are not entirely comparable.
- ✓ 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.

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## A) OPERATING RESULTS

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### SELECTED FINANCIAL INFORMATION

	2013	2012	2011
Net Income Grupo Financiero Banorte (GFNORTE) (*)	\$13,508	\$10,888	\$8,517
Total Assets GFNORTE (*)	\$1,006,788	\$916,567	\$825,147
Total Liabilities GFNORTE (*)	\$898,097	\$828,058	\$748,713
Stockholders' Equity GFNORTE (*)	\$108,691	\$88,509	\$76,434
Stockholders' Equity GFNORTE excluding minority interest (*)	\$106,657	\$81,881	\$70,849

### INFORMATION PER SHARE

Net income per share (pesos)	\$5.35	\$4.68	\$3.79
Dividend approved per share (pesos) <sup>(1)</sup>	\$0.7852	\$0.732	\$0.52
Book value per share (pesos) (excluding minority interest)	\$38.45	\$35.20	\$30.45
Shares outstanding (millions) <sup>(2)</sup>	2,526.1	2,326.4	2,312.8

### INFRASTRUCTURE AND EMPLOYEES

Bank Branches <sup>(3)</sup>	1,288	1,316	1,285
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	2013	2012	2011
ATMs (automated teller machines)	7,035	6,707	6,367
Full-time employees	27,474	26,108	24,100
Full-time employees and professional services	27,549	26,212	24,134
<b>PROFITABILITY RATIOS</b>			
NIM before REPOMO	4.2%	4.1%	4.1%
NIM adjusted for credit risk	3.2%	3.4%	3.3%
Return on assets (ROA)	1.4%	1.3%	1.1%
Return on equity (ROE)	14.2%	14.3%	14.1%
<b>OPERATIONS</b>			
Efficiency ratio <sup>(4)</sup>	52.0%	54.0%	55.6%
Operating efficiency ratio <sup>(5)</sup>	2.9%	2.9%	3.2%
Liquidity ratio	137.4%	128.4%	101.8%
<b>ASSET QUALITY INDICATORS</b>			
Past due loan ratio	3.1%	2.1%	1.9%
PDL reserve coverage	104.6%	138.3%	143.1%
<b>CAPITALIZATION RATIO</b>			
<b>Banco Mercantil del Norte</b>	<b>15.12%</b>	<b>14.75%</b>	<b>12.9%</b>
<b>Ixe Banco</b>	<b>-</b>	<b>15.5%</b>	<b>15.3%</b>

(\*) Million pesos.

- Dividends approved by the Shareholders' Assemblies in 2013, 2012 and 2011 were: a total dividend of Ps.0.52 per share in 2011, to be paid in three installments (Ps 0.17 in October 2011, Ps 0.17 in February 2012 and Ps 0.18 in May 2012). The 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, July 2014) although in the Shareholders' Assemblies celebrated on December 20<sup>th</sup> 2013 it was authorized to make the payments regarding the installment of January and April 2014 in advance on the 31<sup>st</sup> December 2013.
- The 2,526.14 million shares are the accumulated weighted average in 2013; while as of closing of 4Q13 the total amount of outstanding shares totals 2,773.73 million shares resulting from the increase in GFNorte's equity following the Public Offering carried out in July 2013.
- Includes bank modules and excludes agencies abroad.
- Non Interest Expense / (Total Net Income + Loan Loss Provisions). Due to the reclassification of the item "Non Operating Income (Expense), net" under Non Interest Income applied in January 2011, the Ratio published in the 2010 Annual Report (sent to the authorities in February and June 2011) has been modified in this document.
- Non Interest Expense / Average Total Assets.

## MANAGEMENT AND ANALYSIS COMMENTS

In 2013 GFNorte reported profits of Ps 13.51 billion, 24% higher than in 2012 and 59% higher than in 2011. The contribution to accumulated profits for 2013 by business sector is:

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 12.12 billion pesos in 2012, 34% higher than in 2012 as a result of the integration of Ixe Tarjetas and Afore XXI Banorte, as well as a reduction in minority interest due to the payment made to IFC at the end of the year. Profits in this sector represent 90% 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 3.58 billion, 65% higher than in 2012, contributing with Ps 1.96 billion to the Group's profits according to the participation in this sector, which represents an annual increase of 86% and a 15% of GFNorte's Profits. This increase was due to the incorporation of Afore Bancomer's results, an improvement in business dynamics in the Insurance and Annuities companies and to a lesser extent, to the decrease in minority interest as a result of acquiring Generali's 49% participation in the Insurance and Annuities companies in October.

The **Brokerage Sector** comprised of Casa de Bolsa Banorte Ixe and Operadora de Fondos Banorte-Ixe, reported profits during 2013 of Ps 649 million, (5%) below YoY as a result of a decrease in operating income, and an increase in operating expenses and income tax. The accumulated profits of this sector represented 5% of GFNorte's profits.

Other **Finance Companies** comprised of Arrendadora y Factor Banorte, Almacenadora Banorte and Solida Administradora de Portfolios (which was spun-off from Banco Mercantil del Norte to later merge with Ixe Soluciones in May 2013), recorded profits of Ps 391 million in 2013, a 53% increase vs. 2012. The accumulated profit of this sector represented 3% of GFNorte's Profits.

## Grupo Financiero Banorte

### Consolidated Income Statement of the Group <sup>(1)</sup>

	2013	2012	2011
Interest income	\$69,434	\$64,127	\$52,930
Premium revenue (Net)	18,027	16,321	15,275
Interest expense	(31,456)	(30,874)	(24,628)
Net increase in technical reserves	(9,686)	(8,708)	(9,316)
Casualty rate, Claims and other Contractual Obligations (Net)	(9,138)	(8,057)	(6,092)
<b>NET INTEREST INCOME (NII)</b>	<b>37,181</b>	<b>32,809</b>	<b>28,169</b>
Preventive Provisions for Loan Loss	(8,942)	(6,172)	(5,438)
<b>NET INTEREST INCOME ADJUSTED FOR CREDIT RISK</b>	<b>28,239</b>	<b>26,637</b>	<b>22,731</b>
Fees Charged	12,006	11,539	9,733
Fees Paid	(3,917)	(3,480)	(2,856)
Trading Income	4,971	4,152	2,778
Other Operating Income	3,223	2,300	2,814
Non Interest Income (2) (3)	16,283	14,511	12,469
Administration and promotional expenses (4)	(27,818)	(25,535)	(22,588)
<b>OPERATING INCOME</b>	<b>16,704</b>	<b>15,613</b>	<b>12,612</b>
Equity in Earnings of unconsolidated Subsidiaries and Associated Companies	1,130	590	157
<b>PRE-TAX INCOME</b>	<b>17,834</b>	<b>16,203</b>	<b>12,769</b>
Income Tax	(3,671)	(3,653)	(2,446)
Deferred Income Tax (net)	116	(475)	(953)
<b>Taxes (4)</b>	<b>(3,555)</b>	<b>(4,128)</b>	<b>(3,399)</b>
<b>NET INCOME FROM CONTINUOUS OPERATIONS</b>	<b>14,279</b>	<b>12,075</b>	<b>9,370</b>
Minority interest	(771)	(1,187)	(853)
<b>NET INCOME</b>	<b>\$13,508</b>	<b>\$10,888</b>	<b>\$8,517</b>

Million pesos.

(1) *Financial statements as of December 31st, 2011 reflect the effects of the deconsolidation of Afore XXI Banorte, in order to make them comparable with 2012 financial statements.*

(2) As a result of new accounting criteria which came into effect in April 2009, recoveries of previously written-off loans are registered as non interest income in "Other Operating Income".

(3) In January 2011, accounting criteria D-2 came into effect requiring items that were previously registered under "Other Income and Expenses, net" after Net Operating Results, to be registered under Non Interest Income; as well as the inclusion of "Other Operating Income (Expense) from Insurance and Annuities".

(4) As a result of applying new accounting criteria in April 2009, employee profit sharing is registered as a non interest expense.

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

### Net Interest Income

	2013	2012	2011
Interest Income	65,307	60,773	50,182
Interest Expense	31,065	30,583	24,409
Loan Origination Fees	1,564	1,118	922
Fees Paid	377	286	219
<b>Net Interest Income without Insurance and Annuities</b>	<b>\$35,428</b>	<b>\$31,022</b>	<b>\$26,477</b>
Insurance and Annuities –Interest Income	2,564	2,236	1,825
Issued Premiums (Net)	18,026	16,321	15,275
Insurance and Annuities – Interest Expenses	14	4	0
Net Increase of technical reserves	9,686	8,708	9,316
Damages, Claims and Other Obligations (net)	9,138	8,057	6,092
<b>Net Interest Income for Insurance and Annuities (1)</b>	<b>\$1,752</b>	<b>\$1,788</b>	<b>\$1,692</b>
<b>Net Interest Income GFNORTE</b>	<b>\$37,181</b>	<b>\$32,810</b>	<b>\$28,169</b>
Provisions	8,942	6,172	5,438
<b>Net Interest Margin adjusted by Loan Loss Provisions</b>	<b>\$28,239</b>	<b>\$26,637</b>	<b>\$22,731</b>
Average Earnings Assets	875,366	792,501	689,523
<b>NIM (2)</b>	<b>4.2%</b>	<b>4.1%</b>	<b>4.1%</b>
<b>NIM adjusted by Loan Loss Provisions (3)</b>	<b>3.2%</b>	<b>3.4%</b>	<b>3.3%</b>

Million pesos.

1. As of January 2011, the new Accounting Criteria A-2 was implemented for the consolidation of the Insurance and Annuities' companies.
2. NIM (Net Interest Margin)= Annualized Net Interest Margin / Average Earnings Assets.
3. Annualized Net Interest Margin adjusted by Loan Loss Provisions / Average Earnings Assets.

During 2013, **GFNORTE's Net Interest Income increased 13% YoY**, from Ps 32.81 to Ps 37.18 billion as a result of a combined effect of:

- a) A 16% increase in net financial revenues and loan origination fees derived from 6% growth in the loan portfolio, mainly in higher yielding products such as Payroll loans, Credit cards, SMEs and Mortgages
- b) A (2%) decrease in the NII of the Insurance and Annuities Companies due to an increase in technical reserves stemming from growth in premium sales.
- c) Cancellation of the debt servicing cost of GFNorte's US 800 million dollar syndicated loan disbursed in February and paid on July 26th.
- d) A 100 basis point decrease in the benchmark rate during the year (50 basis points in March, 25 basis points in September and 25 basis points in October).

**Net Interest Income excluding the Insurance and Annuities companies presented an accumulated increase of 14%.**

**The average NIM for 2013 was 4.2%**, a YoY increase of 11 basis points resulted from growth in higher yielding segments (Consumer portfolio represented 14% of the total portfolio at the end of 2013 vs. 11% at the end of 2012).

During 2013, **NIM related to lending activity** increased YoY by 44 basis points to 7.8%, while the average **NIM excluding the Insurance and Annuities companies** was 4.3% during 2013, 17 basis points more vs. the previous year.

## Provisions

**Provisions charged to results for 2013 totaled Ps 8.94 billion, a 45% YoY increase vs. 2012.** This increase is mainly due to provisions created to cover exposures to home developers: URBI, GEO and HOMEX; in addition, the increase is explained by growth in Consumer portfolios which require higher initial provisions under the recently implemented methodology of expected losses, as well as growth in past due loans for the Consumer and SME portfolios as a result of the negative impact of slower economic growth.

The **average NIM adjusted for Credit Risks was 3.2% in 2013**, a decrease of 14 basis points vs. 2012 due to the increase in provisions registered during the first half of 2013 resulting from the deterioration in the exposures to home developers and in the loan portfolio as a consequence of the negative impact from weaker economic activity.

**Loan loss provisions represented 24% of Net Interest Income during 2013**, a YoY increase of 5 pp vs. 2012.

**Annualized loan loss provisions during 2013 accounted for 2.2% of the average loan portfolio**, a YoY increase of 0.53 pp vs. 2012 mainly on the back of higher provisions related to exposures in home development, and to a lesser extent in the Consumer portfolio.



**Non interest income**

	2013	2012	2011
Fees for commercial and mortgage loans	11	33	50
Fund transfers	533	479	421
Account management fees	1,371	1,240	1,160
Fiduciary	362	384	353
Income from Real Estate portfolios	811	1,307	1,117
Electronic Banking Services (1)	3,934	3,377	2,444
Credit Card Fees (1)	2,361	2,030	1,418
Fees from IPAB (2)	-	-	-
Fees charged by the Afore (3)	0	0	0
Other fees charged (4)	2,622	2,689	2,770
<b>Fees Charged on Services</b>	<b>12,006</b>	<b>11,539</b>	<b>9,733</b>
Fund transfers	50	43	37
Other Fees Paid	3,867	3,437	2,818
Expenses from Real Estate Portfolios	0	0	0
<b>Fees Paid on Services</b>	<b>3,917</b>	<b>3,480</b>	<b>2,856</b>
<b>Net Fees</b>	<b>8,089</b>	<b>8,059</b>	<b>6,877</b>
Foreign Exchange	885	1,391	1,182
Securities-Realized Gains	2,726	914	1,349
Securities-Unrealized Gains	1,360	1,847	247
<b>Trading Income</b>	<b>4,971</b>	<b>4,152</b>	<b>2,778</b>
Subtotal Other Operating Income (Expense) (5)	1,151	1,058	1,501
Other Products (Expense) net (6)	1,387	615	819
Other Operating Income (Expense) derived from Insurance and Annuities (7)	685	626	494
<b>Other Operating Income and Expenses</b>	<b>3,223</b>	<b>2,300</b>	<b>2,814</b>
<b>Non Interest Income</b>	<b>\$16,284</b>	<b>\$14,510</b>	<b>\$12,469</b>

Million Pesos.

1. During 2012, Electronic Banking Services and Credit Card Fees headings corresponding to 2012 and 2011 were reclassified to reflect the merger of Banorte Ixe Tarjetas, SA de CV, SOFOM; as there is no reclassification for 2010, the same figures as the ones reported that year are used in this report.
2. Includes Fees received by the Recovery Bank and the Bank.
3. In 2012 the deconsolidation of Afore XXI Banorte's figures since 2011 was recognized.
4. Includes fees from letters of credit, transactions with pension funds, warehouse services, financial advisory services, and securities trading by the Brokerage House, among others.
5. As of April 2009, the CNBV issued changes to the main accounting criteria, which require this item to be recorded under Non Interest Income. The majority of these revenues correspond to recoveries of previously charged-off loans.
6. In January 2011, the CNBV issued changes to accounting criteria in which items previously registered under "Other Income and Expenses, net" after Net Operating Results, are now registered under Non Interest Income as of January 1st. (Criteria D-2).
7. In January 2011, the CNBV issued changes to accounting criteria for consolidating Insurance and the Annuities companies (Criteria A-2).

The following table identifies the sources of Non Interest Income:

	2013	2012	2011
Services	\$7,278	\$6,752	\$5,760
Recovery	811	1,307	1,117
Trading	4,971	4,152	2,778
Other Operating Income (Expense)	3,223	2,300	2,814
<b>Non Interest Income</b>	<b>\$16,284</b>	<b>\$14,510</b>	<b>\$12,469</b>

Million Pesos.

In addition to the previously mentioned A-2 accounting criteria, starting in 1Q11, Insurance and Annuities companies use the D-2 Accounting Criteria to report Other Operating Income (Expense) in the Income Statement. As a result, as of that quarter, “Other Operating Income (Expense) net”, which was previously reported after Operating Income, is now reported as “Non Interest Income”, and “Other Operating Income (Expense) from Insurance and Annuities”, which was previously consolidated using the equity participation method is now included in the results of the Financial Group. Both items are registered under “Other Operating Income (Expenses)”.

**In 2013, Non Interest Income amounted to Ps 16.28 billion**, 12% higher YoY due to an increase in almost all headings, except real estate portfolio recoveries, as a result of better business dynamics

- **Service Fees**

As a result of the merger of Afore Banorte with Afore XXI in January 2012, the results of Afore XXI Banorte are reported in the results of Banco Mercantil del Norte (which has a 50% stake in the Afore) using the equity participation method. Given the change in the way the Afore’s results are reported, as of that quarter, income from fees charged by this company is no longer reported in the Services heading. Furthermore, and in accordance with Note 2 - “Relevant Events. Subparagraph c)” of the Audited Financial Statements, it was determined that for comparative purposes with previous years, figures as of December 31st, 2011 were modified to reflect the effects of the deconsolidation of Afore XXI Banorte.

**During 2013, Service Fees totaled Ps 7.28 million**, an increase of 8% YoY due to better business dynamics in the following items:

- i) +16% in electronic banking fees due to more business transactions and payroll services,
- ii) +16% in consumer loan fees and credit card fees due to the more client transactions and more cardholders,
- iii) +11% in Account Management Fees due to more accounts and adjustments in membership fees, and
- iv) +11% in fund transfer revenues due to higher volumes.

On the back of the same business dynamics, **Fees Paid increased 13%** driven by higher fees paid on loans, fund transfers, interbank fees, commissions paid to insurance brokers and foreign payment orders.

- **Trading**

**Trading revenues during 2013 totaled Ps 4.97 billion**, a YoY growth of 20% due to favorable results from securities and derivatives trading by Banorte and the Annuities company, which offset the decline in valuation gains of Banorte, and the less favorable result of foreign exchange transactions.

- **Other Operating Income (Expense)**

	2013	2012	2011
Loan recoveries	1,384	1,234	1,207
Income from foreclosed assets	(145)	(83)	99
Other operating income	135	76	296
Other operating expense	(223)	(169)	(101)
<b>Subtotal other Operating Income (Expense)</b>	<b>\$1,151</b>	<b>\$1,058</b>	<b>\$1,501</b>
Other Products	2,988	2,305	1,625
Other Recoveries	1,312	386	451
Other (Expenses)	(2,912)	(2,075)	(1,258)
<b>Other Products (Expense) Net</b>	<b>\$1,387</b>	<b>\$615</b>	<b>\$819</b>
<b>Other Operating Income (Expense) from Insurance and Annuities</b>	<b>\$685</b>	<b>\$626</b>	<b>\$494</b>
<b>Other Operating Income (Expense)</b>	<b>\$3,223</b>	<b>\$2,300</b>	<b>\$2,814</b>

Million pesos.

As a result of applying A-2 and D-2 Accounting Criteria, information pertaining to Insurance and Annuities Operations is reported under Other Operating Income (Expense) as well as information previously grouped under Other Products and Expenses, Net.

**During 2013, Other Operating Income (Expenses) totaled Ps 3.22 billion, a 40% YoY increase due to:**

- i) Higher portfolio recoveries, mainly from an infrastructure project and a business investment that occurred during the first quarter 2013 and the third quarter 2013.
- ii) An increase in *Other Products* resulting from the cancellation of other debtor accounts, higher interests from loans to employees and leasing revenues.
- iii) An increase in combined revenues from previously written-off portfolios and the sale of foreclosed assets.
- iv) A 77% increase in *Other Operating Income* on the back of greater cancellations of excess preventive estimates.
- v) A 9% increase in income from the Insurance and Annuities companies.

These effects offset the 40% increase in *Other Expenses* generated by more damages, losses and frauds, as well as a higher estimate for irrecoverable losses.

- **Recoveries**

**Non Interest Income from Recoveries (including previously written-off proprietary loan portfolio and foreclosed assets classified under "Other Operating Income (Expenses)" amounted to Ps 3.36 billion in 2013, an increase of 18% YoY vs. 2012 mainly due to recoveries linked to an infrastructure project and a business investment during the first quarter 2013 and the third quarter 2013, which offset the (38%) decrease in real estate portfolio recoveries that include the recognition of income related to investment projects, mainly with home developers currently facing solvency and liquidity problems.**

## Non Interest Expense

	2013	2012	2011
Personnel	\$13,077	\$10,398	\$9,446
Professional Fees	2,767	2,907	2,172
Administrative and Promotional	4,874	4,899	4,657
Rents, Depreciation & Amortization	3,219	2,954	2,805
Taxes other than income tax expenses	1,726	1,826	1,296
Contributions to IPAB	1,831	1,610	1,341
Employee Profit Sharing (PTU) (1)	324	940	871
<b>Non Interest Expense</b>	<b>\$27,819</b>	<b>\$25,535</b>	<b>\$22,588</b>

Million pesos.

(1) As a result of applying new accounting criteria as of April 2009 employee profit sharing is registered as a Non Interest Expense.

**Non Interest Expenses in 2013 amounted to Ps 27.82 billion**, a 9% YoY increase vs. 2012 derived mainly from the strengthening of business areas, the expansion of operating infrastructure and the payment of bonuses and incentives with a higher profit base, which was partially offset by declines in other headings. The increase in expenses occurred in the following items:

- i) Ps 2.68 billion in Personnel Expenses (+26%) due to the strengthening of sales forces and the payment of bonuses and incentives with a higher profit base,
- ii) Ps 265 million in rents, depreciations and amortizations (+9%) due to the amortization of intangible assets arising from the acquisition of IXE Tarjetas and Afore XXI, the acquisition of new equipment, depreciation of installation charges for the closing of projects and penalty charges for the early termination of leases for branches (both due to the merger of Ixe branches with Banorte branches), the beginning of amortization of related projects capitalized in the Banorte-Ixe merger, leasing agreements related with the IBM contract, the increase in office rents due to inflationary effects, as well as growth in the commercial network, and
- iii) Ps 221 million in IPAB contributions (+14%) driven by the YoY growth in liabilities subject to the IPAB fee, mainly deposits.

These increases were partially offset by reductions, among other concepts, in Professional Fees (-5%) due to a reduction in advisory services, adjustments to outsourced personnel payments and benefits, as well as less administrative and promotional expenses in headings such as advertising, various services such as file custody and lower operating expenses of the credit card portfolio.

**The Efficiency Ratio during 2013 was 52.0%** showing a decrease of (1.9 pp) vs. 2012 due to the positive operating leverage obtained in the period.

## Performing loan portfolio

	2013	2012	2011
Commercial <sup>(1)</sup>	\$113,795	\$106,257	\$101,467
Consumer	139,715	118,401	98,521
Corporate <sup>(1)</sup>	75,690	88,237	79,112
Government	95,637	88,294	71,165
<b>Subtotal</b>	<b>424,837</b>	<b>401,190</b>	<b>350,265</b>
Recovery Bank	201	243	292
<b>Total</b>	<b>\$425,038</b>	<b>\$401,433</b>	<b>\$350,557</b>
Past due loans	13,655	8,481	6,949
<b>% NPL Ratio</b>	<b>3.1%</b>	<b>2.1%</b>	<b>1.9%</b>

Million pesos.

1. In this Annual Report, some figures corresponding to 2012 and 2011 in the commercial and corporate loan portfolios differ from those presented in the 2012 Annual Report due to certain reclassifications during the second quarter 2013 in the Commercial Portfolios of Ixe Banco, Arrendadora y Factor Banorte and Fincasa Hipotecaria to be considered as Corporate portfolios according to Banco Mercantil del Norte's classification criteria for the two loan portfolios; reclassification was made retroactively.

## Performing Consumer Loan Portfolio

	2013	2012	2011
Mortgage	\$81,833	\$72,365	\$64,275
Car Loans	11,412	10,329	9,353
Credit Cards	20,323	17,524	11,465
Payroll	26,147	18,183	13,428
<b>Total performing consumer loans</b>	<b>\$139,715</b>	<b>\$118,401</b>	<b>\$98,521</b>

Million pesos.

- **Total Performing Loans**

**Total Performing Loans increased 6% YoY, growing by Ps 23.65 billion to Ps 424.84 billion at the close of 2013**, excluding the proprietary loans managed by the Recovery Bank. The Loan portfolio registered lower growth rates YoY mainly due to the economic slowdown registered in the year and the prepayments made by corporate clients, which were not offset by the origination of new loans in this segment during 2013. In spite of this, the loan portfolio grew at a faster pace than the economy.

Portfolio growth by segments was as follows:

- **Individual Loans**

- ✓ **Consumer and Mortgage:** increased by Ps 21.31 billion or 18% YoY vs. 2012 **totaling Ps 139.72 billion at the close of 2013** as a result of favorable dynamics in all segments.
- ✓ **Mortgage:** grew by Ps 9.47 billion or 13% YoY **reaching a balance of Ps 81.83 billion**, driven by growth in placement of middle-income mortgage loans, the mortgage program with PEMEX, as well as the reactivation of programs for home improvements, construction, remodeling and payment of liabilities.
- ✓ **Credit Cards:** During 2012 Banco Mercantil del Norte acquired 50% of JP Morgan Chase's equity interest in the SOFOM Ixe Tarjetas, and the other 50% of the company owned by Ixe Banco, and its name was subsequently changed to Banorte-Ixe Tarjetas, S.A. de C.V. SOFOM, integrating the business into a single platform. **At the close of 2013 the credit card portfolio amounted to Ps**

**20.32 billion**, an increase of Ps 2.80 billion or 16% YoY. The increase is due to portfolio management strategies, marketing campaigns for Banorte-Ixe products and more cross-selling to clients.

- ✓ **Payroll:** At the close of 2013, the portfolio registered YoY growth of Ps 7.96 billion or 44% **totaling Ps 26.15 billion**, as a result of growth in the number of Banorte-Ixe payroll account holders, which totaled 4.45 billion, up by 14% YoY, as well as campaigns to promote the product and strategies to cross-sell to clients through various channels.
- ✓ **Cars:** Car loans grew by Ps 1.08 billion pesos, or 10% YoY amounting Ps 11.41 billion on the back of more new loans driven by promotional campaigns through various channels, cross-selling to clients and alliances with car dealerships.

- **II. Loans to Institutions**

- ✓ **Commercial:** Commercial loans grew by Ps 7.54 billion, or 7% YoY **reaching Ps 113.80 billion**. The growth is on the back of increased placement of business loans, leasing and the reactivation of the Crediactivo product for corporations. **The SME portfolio totaled Ps 33.74 billion**, representing a growth of Ps 4.04 billion or 14% YoY.
- ✓ **Corporate:** **At the close of 2013, corporate loans totaled Ps 75.69 billion**, decreasing by (Ps 12.55) billion or (14%) YoY. These reductions can be attributed to the payment or classification to past due of some loans related to home developers, as well as prepayments received from some clients that used the proceeds from capital markets' transactions to settle their liabilities.

Through the subsidiaries Banco Mercantil del Norte, Arrendadora y Factor Banorte and Sólida Administradora de Portafolios, GFNORTE has extended loans and participated, through specialized trust operations, in housing development projects. Some of the largest companies in this sector have experienced financial difficulties and 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. We are currently involved in restructuring negotiations with these companies along with other banks. **As of December 31<sup>st</sup>, 2013, we had a loan exposure of Ps 8.71 billion to Urbi Desarrollos Urbanos, S.A.B. de C.V., Corporación Geo, S.A.B. de C.V. and Desarrolladora Homex, S.A.B. de C.V.**, 1.1% below the previous quarter. These three companies currently represent 2.0% of our total loan portfolio compared to 2.1% in September 2013. **Ps 7.00 billion are past due**, growing by Ps 1.02 billion in the fourth quarter of 2013. 73% of the loan portfolio is guaranteed, decreasing vs. 80% of the previous quarter. **Sólida has Ps 9.18 billion in land and proprietary investments and Ps 553 million in collection rights**, compared to Ps 8.91 billion and Ps 561 million in the third quarter of 2013.

- ✓ **Government:** **At the end of 2013, government loans totaled Ps 95.64 billion**, representing an increase of Ps 7.34 billion or 8% as a result of ongoing efforts to continue meeting demand for loans in this segment, especially from the Federal Government. Also, the loan portfolio's risk is adequate, as more than 95% of the total portfolio has a fiduciary guarantee (federal budget transfers and local revenues such as payroll tax), and less than 2% of the loans in the portfolio have short-term maturities.

- **Past Due Loans**

**At the close of 2013, past due loans amounted to Ps 13.66 billion**, 61% higher YoY vs. 2012, mainly due to an increase of past due loans in the corporate portfolio - especially from home developers -, SMEs, credit card, mortgage and payroll loans, derived from the negative impact of the economic slowdown.

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

<u>Million pesos</u>	<b>2013</b>	<b>Change. Vs. 2012</b>
Credit Cards	1,278	347
Payroll	628	228
Car loans	187	52
Mortgage	1,087	274
Commercial	3,389	(1,330)
Corporate	7,084	5,661
Government	2	(58)
<b>Total</b>	<b>13,655</b>	<b>5,174</b>

**At the end of 2013**, the Past Due Loan Ratio (“PDL”) was 3.1%, 1.0 pp above the 2012 level mainly due to the increase in past due loans in all segments except Commercial and Government.

**Excluding the past due loans for the three troubled home developers**, the NPL ratio would be 1.5%, 60 basis points below the level registered last year.

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

	<b>2012</b>	<b>2013</b>
Credit Cards	5.0%	5.9%
Payroll	2.2%	2.3%
Car loans	1.3%	1.6%
Mortgage	1.1%	1.3%
Commercial	4.3%	2.9%
Corporate	1.6%	8.6%
Government	0.1%	0.0%
<b>Total</b>	<b>2.1%</b>	<b>3.1%</b>

## Deposits

	2013	2012	2011
Non Interest Bearing Demand Deposits	\$123,056	\$104,612	\$91,860
Interest Bearing Demand Deposits (1)	132,241	106,842	98,085
<b>Total Demand Deposits (2)</b>	<b>255,297</b>	<b>211,454</b>	<b>189,944</b>
Time Deposits – Retail	129,121	124,255	116,223
<b>Core Deposits</b>	<b>384,419</b>	<b>335,709</b>	<b>306,168</b>
Money Market (3)	59,729	89,860	63,127
<b>Total Banking Sector Deposits</b>	<b>\$444,147</b>	<b>\$425,569</b>	<b>\$369,295</b>
<b>GFNorte's Total Deposits (4)</b>	<b>\$443,740</b>	<b>\$424,325</b>	<b>\$370,290</b>
Third party deposits	150,636	111,042	123,918
<b>Total assets under management</b>	<b>\$594,783</b>	<b>\$536,611</b>	<b>\$493,213</b>

Million pesos.

- (1) As of 2004, IPAB checking accounts for the deposit of cash collections related to the managed portfolios of Banpaís and Bancen are excluded retroactively for comparison purposes. The balances of these accounts for 2011, 2012 and 2013 were \$0 million pesos in all cases.
- (2) Includes debit cards.
- (3) Includes bank bonds. (Customers and Financial Intermediaries).
- (4) Includes eliminations between subsidiaries. The eliminations during 2011, 2012 and 2013 were Ps 995 million, (\$1,244) million and (\$407) million, respectively.

**At the close of 2013, GFNorte's Total Deposits amounted to Ps 443.74 billion**, an increase of Ps 19.42 billion or a 5% YoY increase vs. 2012, driven mainly by the efforts to promote Banorte-Ixe's deposit products.

In the **Banking Sector**, Total Deposits amounted to Ps 444.15 billion, an increase of 4% or Ps 18.58 billion higher YoY , which is comprised of a 21% increase in Demand Deposits, a 4% increase in Retail Time Deposits and a (34%) decrease in Money Market Deposits.



## 1. Banking Sector

For comparability effects of the financial statements from 2013 and 2012, some retroactive changes have been made to the Corporate Structure of Banco Mercantil del Norte, since Fincasa Hipotecaria- merged in May 2013 and spin-off from Solida Administradora de Portafolios- May 2013- in the Financial Statements from 2012 of this sector. The financial statements as of December 31<sup>st</sup> 2011 have not been modified, so these are not comparable with those of 2013 and 2012. Due to this, the amounts and indicators of 2012 presented in the Banking Sector differ from the ones presented to the authority on February 2013.

The Banking Sector (comprised of Banco Mercantil del Norte, Banorte- Ixe Tarjetas, Banorte USA and 50% of Afore XXI) reported net income during 2013 of Ps **12.12 billion, 34% higher** versus 2012 as a result of the integration of Ixe Tarjetas and Afore XXI Banorte profits, as well as a reduction in minority interest due to the payment made to IFC during 4Q13 year. The profits of this sector represent 90% of the Financial Group.

**Accumulated ROE during 2013 of this sector was 16.4%, 149 basis points higher vs. 2012 while ROA for the banking sector was 1.6%, up 31 basis points YoY.**

### Consolidated Income Statement – Banking Sector

	2013	2012	2011
<b>NET INTEREST INCOME (NII)</b>	<b>\$34,685</b>	<b>\$30,182</b>	<b>\$25,105</b>
Preventive Provisions for Loan Losses	8,788	6,585	5,311
<b>NET INTEREST INCOME ADJUSTED FOR CREDIT RISK</b>	<b>25,897</b>	<b>23,597</b>	<b>19,794</b>
Non Interest Income (1) (2)	13,313	11,651	10,843
Administrative and Promotional Expenses (3)	25,766	23,347	20,694
<b>OPERATING INCOME</b>	<b>13,444</b>	<b>11,901</b>	<b>9,943</b>
Equity in Earnings of unconsolidated Subsidiaries and Associated Companies	1,439	542	158
<b>PRE-TAX INCOME</b>	<b>14,883</b>	<b>12,443</b>	<b>10,101</b>
Income taxes incurred	2,822	2,975	1,902
Income taxes deferred (Net)	-61	477	938
Taxes (3)	2,761	3,452	2,841
<b>INCOME BEFORE NONCONTROLLING INTEREST</b>	<b>12,122</b>	<b>8,991</b>	<b>7,260</b>
Minority interest	0	34	0
<b>NET INCOME</b>	<b>\$12,122</b>	<b>\$9,025</b>	<b>\$7,260</b>

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

- (1) As a result of new accounting criteria which came into effect in April 2009, recoveries of previously written-off loans are registered as non interest income in "Other Operating Income".
- (2) Since January 2011, accounting criteria D-2 came into effect requiring items that were previously registered under "Other Income and Expenses, net" after Net Operating Results.
- (3) As a result of applying new accounting criteria in April 2009, employee profit sharing is registered as a non interest expense.

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

## Net Interest Income

	2013	2012	2011
Interest Income	\$55,619	\$52,847	\$46,703
Interest Expense	22,120	23,492	22,271
Loan Origination Fees	1,564	1,112	886
Fees Paid	377	286	213
<b>Net Interest Income</b>	<b>\$34,685</b>	<b>\$30,182</b>	<b>\$25,105</b>
Provisions	8,788	6,585	5,311
<b>Net Interest Income Adjusted for Credit Risk</b>	<b>\$25,897</b>	<b>\$23,597</b>	<b>\$19,794</b>
Average Productive Assets	\$722,830	\$665,877	\$613,405
<b>NIM (1)</b>	<b>4.8%</b>	<b>4.5%</b>	<b>4.1%</b>
<b>NIM adjusted by Loan Loss Provisions (2)</b>	<b>3.6%</b>	<b>3.5%</b>	<b>3.2%</b>

Million pesos.

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

2) Annualized Net Interest Margin adjusted by Loan Loss Provisions / Average Earnings Assets.

During 2013, Net Interest Income grew 15% YoY from Ps 30.18 to Ps 34.69 billion and 18% YoY considering only financial revenues and net fees related to loan origination as a result of an 7% growth in performing loans with a better mix, especially in products accretive to Net Interest Income such as payroll, credit card, SMEs and mortgage loans. The average NIM was 4.8% in 2013, 28 basis points higher. than 2012, explained by greater growth in Net Interest Income vs. Average Interest Earning Assets due to a better loan and funding mix.

## Loan Loss Provisions

In 2013 Loan Loss Provisions charged to results totaled Ps 8.79 an increase of 33% vs. 2012 mainly due to provisions created to cover exposures in housing development companies URBI, GEO and HOMEX, as well as growth in consumer portfolios that require higher initial provisions derived from the new methodology of expected losses recently adopted, and a growth in past due loans in the consumer and SME segments as a result of the negative impact of the economic slowdown. The average NIM adjusted for Credit Risks was 3.6% in 2013, 5 basis points higher vs. 2012.

## Non Interest Income

The following table shows a breakdown of Non Interest Income:

	2013	2012	2011
Services	\$7,580	\$6,772	\$5,597
Recovery	88	1,307	1,117
Trading	3,021	2,414	1,564
Other Operating Income (Expense)	2,624	1,159	2,565
<b>Non interest income</b>	<b>\$13,313</b>	<b>\$11,651</b>	<b>\$10,843</b>

Million pesos.

During 2013 Non Interest Income totaled Ps 13.31 billion in 2013, an increase of 14% YoY due to higher Services fees, Trading revenues and Other Income.

## Non Interest Expense

	2013	2012	2011
Personnel	\$12,569	\$9,978	\$8,803

Professional Fees	2,365	2,329	1,693
Administrative and promotional expenses	4,230	4,223	4,184
Rents, depreciations and amortizations	2,992	2,733	2,803
Other Taxes and Non-deductible Expenses	1,456	1,561	1,008
Contributions to IPAB	1,831	1,610	1,341
Employee Profit Sharing (PTU) <sup>(1)</sup>	323	912	861
<b>Non Interest Expense</b>	<b>\$25,766</b>	<b>\$23,347</b>	<b>\$20,694</b>

Million pesos.

(1) As a result of the application of new accounting criteria as of April 2009, employee profit sharing is registered as a Non Interest Expense.

Non Interest Expense during 2013 amounted to Ps 25.77 billion, 10% higher YoY, mainly due to growth and strengthening of business areas, the expansion of operating infrastructure and the payment of bonuses and incentives with a higher profit base, which was partially offset by decreases in other headings.

The accumulated 2013 Efficiency Ratio was 53.7%, (2.1 pp) below 2012, due to positive operating leverage.

### Performing Loan Portfolio

	2013	2012	2011
Commercial <sup>(1)</sup>	\$107,417	\$101,160	\$93,537
Consumer	139,641	118,315	97,890
Corporate <sup>(1)</sup>	79,086	84,795	75,266
Government	93,485	86,378	68,328
<b>Subtotal</b>	<b>419,629</b>	<b>390,648</b>	<b>335,022</b>
Recovery Bank	201	243	292
<b>Total performing loans <sup>(2)</sup></b>	<b>\$419,830</b>	<b>\$390,890</b>	<b>\$335,314</b>
Past due loans	13,317	8,188	6,583
<b>% NPL Ratio</b>	<b>3.1%</b>	<b>2.1%</b>	<b>1.9%</b>

Million Pesos.

(1) For 2013 and 2012 exercises a reclassification of the Commercial Portfolio of Ixe Banco, Arrendadora y Factor Banorte y Fincasa Hipotecaria was made to be considered as Corporate Portfolio according to the classification criteria of Banco Mercantil del Norte for both Credit Portfolios.

(2) Balances not considering GFNORTE Eliminations.

### Performing Consumer Loan Portfolio

	2013	2012	2011
Mortgage	\$81,808	\$72,340	\$63,849
Car Loans	11,408	10,325	9,204
Credit Cards	20,323	17,524	11,465
Payroll	26,102	18,126	13,372
<b>Consumer loans</b>	<b>\$139,641</b>	<b>\$118,315</b>	<b>\$97,890</b>

Million pesos.

Performing Loans increased 7% annually, growing by Ps 390.65 billion to Ps 419.63 billion, excluding the proprietary loans managed by the Recovery Bank. The Loan portfolio registered lower growth rates YoY mainly due to the economic slowdown registered in the year and the prepayments made by corporate clients, which were not offset by the origination of new loans in this segment during 2013. In spite of this, the loan portfolio grew at a faster pace than the economy.

At the close of 2013, past due loans in the Banking Sector registered an annually growth of 63% while the Banking Sector's Past Due Loan Ratio was 3.1% for 4Q13 (includes INB past due loans), 1.2 pp higher YoY mainly due to home developers' past due loans; and (0.1 pp) lower vs. 3Q13.

## Deposits

	2013	2012	2011
Non interesting-bearing demand deposits	\$123,056	\$104,612	\$91,860
Interest-bearing demand deposits <sup>(1)</sup>	132,241	106,842	98,085
<b>Total demand deposits <sup>(2)</sup></b>	<b>255,297</b>	<b>211,454</b>	<b>189,944</b>
Time deposits – retail	129,121	124,255	116,223
<b>Core deposits</b>	<b>384,419</b>	<b>335,709</b>	<b>306,168</b>
Money Market <sup>(3)</sup>	59,729	89,860	63,127
<b>Total banking sector deposits</b>	<b>\$444,147</b>	<b>\$425,569</b>	<b>\$369,295</b>
Third party deposits	150,636	111,042	123,918
<b>Total assets under management</b>	<b>\$594,783</b>	<b>\$536,611</b>	<b>\$493,213</b>

Million pesos.

(1) As of 2004, IPAB checking accounts for the deposit of cash collections related to the managed portfolios of Banpaís and Bancen are excluded, retroactively for comparison purposes. The balances of these accounts to 2011, 2012 and 2013 were \$0 million pesos in all cases.

(2) Includes debit cards.

(3) Includes bank bonds. (Customers and Financial Intermediaries).

At the close of 2013, **Total Deposits** amounted to Ps 444.15 billion, an increase of Ps 18.58 billion or a 4% YoY increase vs. 2012 driven mainly by the efforts to promote Banorte-Ixe's deposit products.

On the other hand **Core Deposits** rose from Ps 335.71 billion in 2012 to Ps 384.42 billion in 2013. A 15% annual increase, driven mainly by an increase in Demand deposits of 21% and in Retail time Deposits of 4%.

**The balance of Money Market Deposits at the close of 2013** decreased (34%) annually.

## 2. Brokerage

	2013	2012	2011
Net Income	\$649	\$681	\$418
Stockholders' Equity	2,569	2,785	2,591
Total Assets	116,576	103,344	23,528
Assets Under Management	647,996	667,873	578,762

Million pesos.

The Brokerage Sector (Casa de Bolsa Banorte Ixe and Operadora de Fondos Banorte-Ixe) reported Net Income of Ps 649 million during 2013, a (5%) decrease vs 2012 mainly due to an decrease in the Operation Income, and an increase in Operational Expenses and Income Taxes.

## 3. Long-Term Savings

	2013	2012	2011
<b>Afore XXI Banorte</b>			
Net Income	\$2,301	\$1,149	\$443
Stockholders' Equity	24,374	6,216	1,297
Total Assets	25,402	6,889	1,614
AUM	541,545	244,956	203,216
<b>Insurance</b>			
Net Income	\$1,097	\$924	\$665
Stockholders' Equity	3,854	3,252	2,701
Total Assets	18,470	16,803	15,921
<b>Annuities</b>			
Net Income	\$178	\$96	\$49
Stockholders' Equity	1,250	1,173	1,142
Total Assets	52,524	42,998	34,279

Million pesos.

- **Afore XXI Banorte**

At the end of 2011, the merger of Afore XXI and Afore Banorte took place, in which Banco Mercantil del Norte has a 50% participation. Banco Mercantil del Norte previously had a 51% participation in Afore Banorte Generali and results were consolidated in Banco Mercantil del Norte using the straight line method; however, as it is no longer a majority owner of Afore XXI Banorte, results are now consolidated in the bank using the equity participation method. On January 9th, 2013, Afore XXI Banorte completed the acquisition of Afore Bancomer, and so its operations were included as of that date, making it the largest retirement fund management company in Mexico.

During 2013, Afore XXI posted a net profit of Ps 2.30 billion, 100% higher YoY as a result of growth in revenues due to more assets under management arising from the acquisition of Afore Bancomer. ROE for Afore XXI Banorte at the close of 2013 was 11.5% and 39.7% excluding goodwill. During 2013, Afore XXI Banorte contributed with 8.2% of the Financial Group's profits.

As of December 2013, assets under management of Afore XXI Banorte amounted to Ps 542 billion, a 121% YoY increase vs. 2012. The YoY variation is explained by the acquisition of Afore Bancomer.

As of December 2013, Afore XXI Banorte had a 26.6% share of managed funds, ranking as the leader in the market; with 11.60 million managed accounts (this figure does not include 6.33 million accounts managed by Afore XXI with resources deposited in Banco de Mexico), representing 26.0% of the system's total number of accounts, ranking as the leader in the market.

- **Insurance**

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

During 2013, the Insurance company reported profits totaling Ps 1.10 billion (prior to October 4th, 2013, 51% corresponded to GFNorte, after this date 100% of the results correspond to GFNorte), 19% above YoY driven by growth in premiums and financial revenues, as well as a decrease in non interest expenses and the elimination of the 49% minority stake held by Generali, offsetting an increase in damages and claims. Net income represented 5.4% of the Financial Group's profits for 2013.

ROE for the Insurance company was 32.5% at the end of 2013, 0.4 basic point higher vs. 2012.

- **Annuities**

During 2013, Pensiones Banorte reported profits totaling Ps 178 million (prior to October 4th, 2013, 51% corresponded to GFNorte, after this date 100% of the results correspond to GFNorte), increasing by Ps 82 million or 86% YoY vs. 2012, due to an increase in interest income derived from growth in loan placements and in trading revenues, and the elimination of the 49% minority stake held by Generali, offsetting an increase in operating expenses. Accumulated Net income represented 0.9% of the Financial Group's profits in 2013.

ROE in 2013 for the Annuities company was 14.4%, 6.3 pp higher YoY.

#### 4. Other Finance Companies

	2013	2012	2011
<b>Leasing and Factoring <sup>(1)</sup></b>			
Net Income	\$599	\$604	\$616
Stockholders' Equity	3,209	2,983	2,446
Total Portfolio	19,732	19,607	16,882
Past Due Loans	210	154	79
Loan Loss Provisions	(312)	(271)	(268)
Total Assets	20,173	20,058	16,814
<b>Warehousing</b>			
Net Income	\$43	\$43	\$40
Stockholders' Equity	271	265	246
Inventories	477	351	43
Total Assets	711	578	277
<b>Ixe Automotriz <sup>(1)</sup></b>			
Net Income	\$15	\$33	\$30
Stockholders' Equity	326	311	337
Total Portfolio	70	703	1,318
Past Due Loans	18	20	66
Loan Loss Provisions	(6)	(5)	(52)
Total Assets	704	863	1,390
<b>Sólida Administradora de Portafolio <sup>(2)</sup></b>			
Net Income	(\$266)	(\$425)	(\$64)
Stockholders' Equity	2,310	(2,124)	346
Total Portfolio	494	288	286
Past Due Loans	196	205	174
Loan Loss Provisions	(213)	(234)	62
Total Assets	14,010	9,699	1,397

Million pesos.

- (1) Ixe Automotriz was merged into Arrendadora y Factor Banorte, becoming effective since May 7th 2013. The results presented correspond to previous periods.
- (2) On April 26, 2013, it was approved that Banco Mercantil del Norte divested its interest in Sólida, 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 2012 include Sólida and Ixe while the amounts for 2011 only include Ixe.

- **Leasing and Factoring**

During 2013 Arrendadora y Factor Banorte reported profits of Ps 599 million, a (1%) YoY decrease vs. 2012, derived from the implementation of the new loan portfolio rating methodology, higher loan loss provisions generated mainly by exposures to home developers and the increase in income taxes. ROE of the Leasing and Factoring company was 20.3% at the close of 2013, and its net income represented 4.4% of the Financial Group's profits.

At the close of 2013, the Past Due Loan ratio was 1.2% and presented a Coverage ratio of 148%; while the Capitalization ratio closed at 14.9% considering total risk weighted assets of Ps 21.56 billion.

Arrendadora y Factor Banorte continues ranking first in terms of portfolio size and assets among the 45 companies in this sector, according to the Mexican Association of Leasing Companies, Credit and Financing (Asociación Mexicana de Sociedades Financieras de Arrendamiento, Credito y Factorage, A.C. (AMSOFAC)).

- **Warehouse**

During 2013, Almacenadora posted a net income of Ps 43 million, showing an annual decline of (2%) as a result of provisions created due to missing inventory. Almacenadora Banorte's net income represents 0.3% of the Financial Group's profits.

At the close of 2013, the Capitalization Ratio was 7.7% considering total certificates at risk in circulation of Ps 2.82 billion. Almacenadora Banorte ranks 3<sup>rd</sup> among the 18 warehouses of this sector in terms of generated profits.

- **Ixe Automotriz**

Ixe Automotriz was merged into Arrendadora y Factor Banorte, becoming effective since May 7th 2013. During 2013 Ixe Automotriz Net Income was Ps. 15 million pesos showing an annual decrease of (53%). Ixe Automotriz accumulated net income represents 0.1% of the Financial Group's profits.

- **Sólida Administradora de Portafolios**

On April 26<sup>th</sup>, 2013 it was approved that Banco Mercantil del Norte divested its interest in Sólida through a spin-off, and subsequently absorbed by Ixe Soluciones in order to consolidate the recovery banking operations. Afterwards, Ixe Soluciones changed its corporate identity to Sólida Administradora de Portafolios. The merger and spin-off became effective on May 24th, 2013.

During 2013, Sólida Administradora de Portafolios posted a loss of (Ps 266) million, a (37%) YoY decline as a result of the losses registered in 2012.

The Past Due Loan ratio was 39.7% at the close of 2013, lower than the 71.0% in 2012. The Coverage ratio was 109%, decreasing vs. the 115% in 2012. The Capitalization ratio at the close of 2013 was 12.4%.



## 5. Other Companies

	2013	2012	2011
<b>Ixe Servicios</b>			
Net Income	\$1	\$1	\$2
Stockholders' Equity	24	22	22
Total Assets	32	37	31

- **Ixe Servicios**

During 2013, Ixe Servicios Net Income was Ps 1 million pesos. ROE was 5.9% at the close of 2013. 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

	2013	2012	2011
Paid-in Capital	14,652	13,072	13,050
Premium of Subscribed & Issued Shares	35,219	18,320	18,006
<b>Subscribed Capital</b>	<b>\$49,871</b>	<b>\$31,392</b>	<b>\$31,056</b>
Capital Reserves	5,811	3,399	3,224
Retained Earnings	39,303	37,644	30,573
Surplus (Deficit) from Valuation of Securities Available for Sale	667	1,598	188
Results from Valuation of Hedging Instruments	(1,420)	(2,493)	(2,537)
Results from Conversions of Foreign Operations	(1,083)	(547)	(172)
Net Income	13,508	10,888	8,517
<b>Earned Capital</b>	<b>\$56,786</b>	<b>\$50,489</b>	<b>\$39,793</b>
Minority Interest	2,034	6,628	5,585
<b>Total Shareholders' Equity</b>	<b>\$108,691</b>	<b>\$88,509</b>	<b>\$76,434</b>

Million pesos.

#### Banking Sector Equity (\*)

	2013	2012	2011
Stockholder's Equity	15,577	15,572	14,727
Disclosed reserves	1,950	-	-
Premium of Subscribed & Issued Shares	10,389	3,294	3,294
<b>Subscribed Capital</b>	<b>\$27,916</b>	<b>\$18,867</b>	<b>\$18,021</b>
Capital Reserves	7,761	6,747	5,990
Retained Earnings	32,284	32,664	26,437
Surplus (Deficit) from Valuation of Securities Available for Sale	517	1,774	58
Results from Valuation of Hedging Instruments	(1,541)	(2,626)	(2,675)
Results from Conversions of Foreign Operations	(1,143)	(582)	(192)
Net Income	12,122	9,025	7,260
<b>Earned Capital</b>	<b>\$50,000</b>	<b>\$47,002</b>	<b>\$36,878</b>
Minority Interest	10	10	10
<b>Total Shareholders' Equity</b>	<b>\$77,926</b>	<b>\$ 65,879</b>	<b>\$54,909</b>

Million pesos.

(\*) Does not include the Afore.

**Banco Mercantil del Norte's Capitalization Ratio [See Note 30 to the 2013 Audited Financial Statements]**

	Dic-13	Dic-12	Dic-11
Tier 1 Capital	58,585	46,696	42,003
Tier 2 Capital	11,034	11,496	8,367
<b>Net Capital</b>	<b>\$69,619</b>	<b>\$58,192</b>	<b>\$50,370</b>
Credit Risk Assets	338,045	297,007	270,972
Market & Operational Risk Assets	122,283	97,522	119,340
<b>Total Risk Assets <sup>(1)</sup></b>	<b>\$460,328</b>	<b>\$394,529</b>	<b>\$390,312</b>
<b>Net Capital / Credit Risk Assets</b>	<b>20.6%</b>	<b>19.6%</b>	<b>18.6%</b>
<b>Capitalization Ratio</b>			
Tier 1	12.7%	11.8%	10.8%
Tier 2	2.4%	2.9%	2.1%
<b>Total Capitalization Ratio</b>	<b>15.1%</b>	<b>14.7%</b>	<b>12.9%</b>

Million pesos.

(1) Excluding intercompany eliminations.

At end of 2013, Banorte's Capitalization Ratio (CR) was 15.1% taking into consideration credit, market and operational risks, and 20.6% considering only credit risks. The Tier 1 Capital ratio was 11.5%, while Tier 1 was 12.7% and Tier 2 was 2.4%. On an annual basis, the 2013 Capitalization Ratio is 0.4 pp above 2012's as a result of:

1) Capitalization Initiatives Executed in 2013	+3.54 pp
2) Profits Generated during the last 12 months:	+3.06 pp
3) Net effect of Applying Basel III:	+0.93 pp
4) Investment in Subsidiaries and Intangibles:	+0.34 pp
5) Crecimiento de Activos en Riesgo:	-2.52 pp
6) Investment in Afore Bancomer:	-2.30 pp
7) Dividends paid in 2013:	-1.29 pp
8) Change of Reserves' Methodology:	-0.88 pp
9) Valuation of Securities Available for Sale and Derivatives:	-0.26 pp
10) Reserves considered as Tier 21):	-0.25 pp

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

	Dec-12	Dec-11
Tier 1 Capital	5,686	4,711
Tier 2 Capital	2,483	2,907
<b>Net Capital</b>	<b>\$8,169</b>	<b>\$7,618</b>
Credit Risk Assets	33,246	35,219
Market & Operational Risk Assets	19,378	14,465
<b>Total Risk Assets <sup>(1)</sup></b>	<b>\$52,624</b>	<b>\$49,684</b>
<b>Net Capital / Credit Risk Assets</b>	<b>24.6%</b>	<b>21.6%</b>
Tier 1	10.8%	9.5%
Tier 2	4.7%	5.9%
<b>Total Capitalization Ratio</b>	<b>15.5%</b>	<b>15.3%</b>

At close of December 2012, the 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 2013, available cash amounted to Ps 61.98 billion, (9%) below the Ps 68.48 billion registered in December 2012.

## GFNorte Cash Flow Statement

	2013	2012
<b>Net income</b>	<b>\$13,508</b>	<b>\$10,888</b>
Items not requiring (generating) resources:		
Depreciation and amortization	1,216	1,148
Technical reserves	9,686	8,708
Provisions	(757)	2,265
Current and deferred income tax	3,555	4,128
Equity in earnings of unconsolidated subsidiaries and associated companies	(359)	597
	<b>26,849</b>	<b>27,734</b>
<b>OPERATING ACTIVITIES:</b>		
Changes in margin accounts	437	(244)
Changes in investments in securities	(69,906)	(15,296)
Changes in debtor balances under repurchase and resale agreements	5,492	(1,865)
Changes in asset position of derivatives	3,456	(2,437)
Change in loan portfolio	(26,132)	(51,380)
Changes in acquired collection rights	(412)	450
Changes in accounts receivable from insurance and annuities, net	(396)	69
Changes in debtor premiums, net	90	305
Changes in reinsurance (net) (asset)	(847)	(122)
Changes in receivables generated by securitizations	144	(26)
Change in foreclosed assets	156	(692)
Change in other operating assets	(4,526)	(837)
Change in deposits	19,295	55,653
Change in interbank and other loans	(5,829)	474
Change in creditor balances under repurchase and sale agreements	59,991	271
Collateral sold or pledged	(29)	6
Change in liability position of derivative financial instruments	(2,950)	1,861
Change in technical reserves (net)	799	608
Changes in reinsurance (net) (liability)	(46)	(441)
Change in subordinated debentures	(1,457)	2,933
Change in other operating liabilities	(6,046)	4,103
Change in hedging instruments related to operations	(989)	(248)
Income tax	(5,324)	(1,821)
<b>Net cash generated or used from operations</b>	<b>(8,180)</b>	<b>19,058</b>
<b>INVESTING ACTIVITIES:</b>		
Proceeds on disposal of property, furniture and equipment	2,681	1,335
Payments for acquisition of property, furniture and equipment	(3,939)	(2,798)
Charges on acquisitions of Subsidiaries and associated companies	1,037	-
Payment on acquisitions of Subsidiaries and associated companies	(27,345)	(1,727)
Charges of other permanent investments	(1)	-
Charges for cash Dividends	505	251
<b>Net cash flows from investment activity</b>	<b>(27,062)</b>	<b>(2,939)</b>
<b>FINANCING ACTIVITIES:</b>		
Charges of shares issuance	31,200	-
Dividends paid	(2,911)	(1,240)
Repurchase of shares	437	33
<b>Net financing activity cash flows</b>	<b>28,726</b>	<b>(1,207)</b>
Net (decrease) increase in cash and cash equivalents	(6,516)	14,912
Effects from changes in the value of cash and cash equivalents	14	(85)
Cash and cash equivalents at the beginning of the year	68,480	53,653
<b>Cash and cash equivalents at the end of the year</b>	<b>\$61,978</b>	<b>\$68,480</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 31st, 2013
Income Tax (ISR)	3,671
Profit Sharing (PTU)	323
IMPAC	0
Updated caused taxes	0
Deferred ISR & PTU	(115)
Updated deferred taxes	0
<b>Total</b>	<b>\$3,879</b>

Million pesos.

Temporary Asset Differences	ISR	PTU	Net
Tax loss carry forwards	1,119	0	1,119
Allowance for loan losses	1,075	0	1,075
Accounting provisions	500	0	500
Excess of tax over book value of foreclosed and fixed assets	594	0	594
PTU	96	0	96
Surplus preventive allowances for credit risks over the net tax limit	66	0	66
Fees collected in advance	834	0	834
Other items	573	0	573
<b>Total Assets</b>	<b>\$4,856</b>	<b>\$0</b>	<b>\$4,856</b>

Temporary Liability Differences	ISR	PTU	Net
Capitalizable projects' expenses	(596)	0	(596)
Contribution to pension fund	(1,123)	0	(1,123)
Portfolios acquired	(718)	0	(718)
Intangible Assets	(499)	0	(499)
Exceso del valor fiscal sobre el contable del bienes adjudicados y activo fijo	(3)	0	(3)
Provisions	(130)	0	(130)
Deferred from the IXE purchase method	(395)	0	(395)
Other liabilities	(1,593)	0	(1,593)
<b>Total liabilities</b>	<b>(\$5,056)</b>	<b>\$0</b>	<b>(\$5,056)</b>
<b>Assets (Liabilities) Accumulated Net</b>	<b>(\$200)</b>	<b>\$0</b>	<b>(\$200)</b>

Million pesos.

GFNORTE recognizes the effect of deferred taxes determined under the assets and liabilities method, in accordance with NIF D-4 "Accounting Approaches for Income Tax, Taxes on Assets and Employee Profit Sharing", and the INIF-8 "Effects of Corporate Tax at a Basic Rate (IETU)", 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 calculated taking into consideration temporary differences that arise during the year to which the corresponding fiscal rate is applied, creating a liability or benefit in the future; likewise, projections were made to calculate IETU and compare it with ISR, and it was determined that Banorte and its subsidiaries will continue paying Income Tax (ISR), so no adjustments were made to the calculation of deferred taxes.

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 31st, 2013 are as follows:

<b>Deferred Taxes</b>	<b>As of December 31st, 2013</b>
Banco Mercantil del Norte S.A.	274
Grupo Financiero Banorte S.A.B. de C.V.	(391)
Arrendadora y Factor Banorte S.A. de C.V.	24
Seguros Banorte Generali S.A. de C.V.	88
Pensiones Banorte Generali S.A. de C.V.	(225)
Casa de Bolsa Banorte Ixe, S. A. de C. V.	(11)
Operadora de Fondos Banorte IXE S.A. de C.V.	1
IXE Servicios S.A. de C.V.	2
Sólida Administradora de Portafolios S.A. de C.V.	38
<b>Total</b>	<b>(\$200)</b>

Million pesos.

## **TAX CREDITS OR DEBTS**

The tax credits listed below are currently in litigation:

	<b>As of December 31st, 2013</b>
<b>BANORTE</b>	<b>\$29</b>
<i>IMSS Fees, various items</i>	6
<i>INFONAVIT fees, various ítems</i>	23
<b>CASA DE BOLSA</b>	<b>\$35</b>
<i>Fiscal year 2007 (document 900 06 05-2010-03968)</i>	35
<b>INSURANCE (SEGUROS BANORTE GENERALI, S. A. DE C. V.)</b>	<b>\$15</b>
<i>Fiscal year 2003 (document 900-06-01-2009-9518)</i>	15
<b>IXE BANCO S.A.</b>	<b>\$13</b>
<i>ISR-PTU 2005 Adjusted for inflation</i>	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, the Committee of Risk Policies (CPR), the Committee of Audit and Corporate Practices (CAPS), the Human Resources' Committee and the Designation Committee.
- B. Management and support areas which are: the Unit Risk Management (UAIR), Legal and Comptroller, which are responsible for ensuring that adequate levels are maintained and risk control in the Group's operations and comply with the regulation.
- C. Internal Audit, External Audit and 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 complete independence from the administrative areas.
- D. The Executive Group, mainly those mainly responsible 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 CEO of GFNorte.
- 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 due compliance with the external and internal regulations. Code of Conduct that regulates the behavior that each advisor, officer or employee of the Group should assume while performing their activities.
- F. Policy and procedure manuals that regulate documentation, recording and liquidation operations that the Institution carries out and establish the control points that should be observed, assuring the separation of functions, clear assignment of responsibilities, safekeeping of information and prevention of unlawful acts.

During the fourth quarter of 2013, activities related to strengthening control, risk evaluation and administration, establishment and monitoring of controls, and assurance of quality information continued developing; including 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 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.

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

### OPERATIONS WITH RELATED PARTIES AND CONFLICTS OF INTEREST

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

	Banorte		
	Dec-13	Dec-12	Dec-11
Portfolio Art. 73	\$6,778	\$11,536	\$12,732
Portfolio Art. 73 / 50% of Tier 1 Capital	24.1%	50.3%	59.8%

On **December 31st, 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 9.37 billion were to clients linked to shareholders, and Ps 8.31 billion were linked to companies related to GFNorte.

The related loans were granted and rated in accordance with the same policies, procedures and rating systems that apply to the rest of GFNorte's loan portfolio, based on the general provisions applicable to credit institutions with regard to the rating of loan portfolios issued by the CNBV and the internal methodology authorized by the CNBV for rating the commercial loan portfolio. 99% of related loans are rated as Category "A" and a large majority of these loans are classified as commercial loans.

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

On **December 31, 2012**, the total portfolio of performing loans under Article 73 of the Law on Credit Institutions, was Ps 11.54 billion (including Ps 485 million in letters of credit –LC–, which are registered in memorandum accounts), representing 3.2% of the total loan portfolio (excluding LC and Debtor Support Program balances). Of the total related loans, Ps 4.59 billion were loans granted to clients linked to members of the Board of Directors, Ps 1.17 billion were for clients linked to shareholders, and Ps 5.77 billion were linked to companies related to GFNorte.

The related loans were granted and rated in accordance with the same policies, procedures and rating systems that apply to the rest of GFNorte's loan portfolio, based on the general provisions applicable to credit institutions with regard to rating of loan portfolios issued by the CNBV and the internal methodology authorized by CNBV for rating the commercial loan portfolio. 100% of related loans were rated as Category "A" and the majority of these loans were classified as commercial loans.

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 end of December 2012 was 50.3% of the limit set by Banco de Mexico (Central bank) of 50% of tier 1 net capital.

### III. BOARD OF DIRECTORS

The Board of Directors of Grupo Financiero Banorte, S. A. B. de C. V (GFNorte) is made up of 14 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 Presidents of the Audit and Corporate Practices Committees.

**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 appointed for the 2013 fiscal year by the Annual General Ordinary Shareholders' Meeting April 26th, 2013, comprises the following members:

NAME	POSITION	WITH THE COMPANY SINCE	PROFESSIONAL BACKGROUND
Don Guillermo Ortiz Martínez	Chairman of the Board of Directors Propietario Related	February 2011	<ul style="list-style-type: none"> <li>• Chairman of the Board of Directors of Banco Mercantil del Norte, S. A.</li> <li>• Chairman of the Board of Directors of the International Monetary Fund's (IMF) External Review Panel to Assess the Fund's Risk Management Framework.</li> <li>• Founder of the Guillermo Ortiz y Asociados, S. C. advisory form.</li> <li>• He was Governor of the Bank of Mexico, Mexico's Minister of Finance and Public Credit (SHCP), Minister of Communications and Transportation and Chairman of the Board of Directors of the Bank for International Settlements (BIS).</li> </ul>
Doña Graciela González Moreno	Proprietary Patrimonial	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 Asociación Gilberto, A.C. Board of Directors, being Vice-president 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>

NAME	POSITION	WITH THE COMPANY SINCE	PROFESSIONAL BACKGROUND
Don Manuel Saba Ades	Proprietary Independent	July 2011	<ul style="list-style-type: none"> <li>• Chairman of the Board of Directors of Grupo Casa Saba, S.A.B. de C.V.</li> <li>• He is member of the Board of Grupo Xtra Textil S.A. de C.V.</li> <li>• He was member of the Board of Directors of: Casa de Bolsa Finamex, Estudios Mexicanos Telemundo, Banco Serfin, Banca Promex and Valores Finamex, as well as the Chairman of the Executive Committee of Grupo Kosa (Celanese), and former member of the Board of Ixe Grupo Financiero, S.A.B. de C.V.</li> </ul>
Don Alfredo Elías Ayub	Proprietary Independent	April 2012	<ul style="list-style-type: none"> <li>• CEO of the Comision Federal de Electricidad (Mexican Federal Electricity Commission, CFE)</li> <li>• CEO of Aeropuertos y Servicios Auxiliares (Airports and Auxiliary Services , ASA).</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>
Don Herminio Blanco Mendoza	Proprietary Independent	April 2005	<ul style="list-style-type: none"> <li>• Chairman and CEO of Soluciones Estratégicas.</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>
Don Eduardo Livas Cantú	Proprietary Independent	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. He was a member of the Board of the Executive Committee of Gruma. He was Chief Corporate Officer of Gimsa and Gruma.</li> </ul>
Doña Patricia Armendáriz Guerra	Proprietary Independent	April 2009	<ul style="list-style-type: none"> <li>• She is Chief Executive Officer of Credipyme, S.A. de C.V.</li> <li>• President of Valores Financieros, S.A. (International Financial Consultancy).</li> </ul>
Don Armando Garza Sada	Proprietary Independent	July 2011	<ul style="list-style-type: none"> <li>• He is Chairman of the Board of Directors of Grupo Alfa, S.A.B. de C.V.</li> <li>• He is member of the Board of: Banco de Mexico (Regional Board), Deutsche Bank (Latin-American Advisory Board), Femsa, Frisa, Liverpool, Proeza, member of the 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>

NAME	POSITION	WITH THE COMPANY SINCE	PROFESSIONAL BACKGROUND
Don Héctor Reyes Retana	Proprietary Independent	July 2011	<ul style="list-style-type: none"> <li>• Independent Advisor to Banco del Ahorro Nacional y Servicios Financieros, S.N.C.</li> <li>• He founded the state organism “ProMexico, Inversion y Comercio”; also.</li> <li>• He was the CEO of Banco Nacional de Comercio Exterior, S.N.C (Bancomext) and Director of International Operations of Banco de Mexico (Banxico).</li> <li>• In the private sector, he was CEO of Grupo Financiero Mifel and Banca Mifel, and was Vicepresident of the Mexican Banking Association (ABM), among others.</li> <li>• Independent Advisor to Consupago, S.A. de C.V.</li> </ul>
Don Juan Carlos Braniff Hierro	Proprietary Independent	July 2011	<ul style="list-style-type: none"> <li>• He is Chairman of the Board and CEO of Capital I, Fondos de Inversion Inmobiliaria.</li> <li>• He was Vicepresident of the Board of Directors of Grupo Financiero BBVA Bancomer, and Chairman of the Insurance, Annuities, Afore, Bancomer, also was Member of the Credit, Risk and Audit Committee. Also, was member of the Board of Directors of Femsa, Aeromexico, Maizoro, Hoteles Presidente Intercontinental, and former Member of the Compensation Committee of Ixe Grupo Financiero, among others.</li> </ul>
Don Miguel Alemán Magnani	Proprietary Independent	April 2013	<ul style="list-style-type: none"> <li>• He is Executive Chairman of Interjet, Chairman of Grupo Aleman, Honorary Chairman of Grupo Casa SABA, Chairman of the Metropolitan Board of Grupo Financiero Banorte and was Vice-Chairman of the Board of Directors of Grupo Televisa, S.A.</li> </ul>
Don Alejandro Burillo Azcárraga	Proprietary Independent	April 2013	<ul style="list-style-type: none"> <li>• He is Chairman of the Board of Directors of Grupo Pegaso, strategic partner in Ixe Banco, 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, S.A., BBVA Bancomer, S.A. and BBVA Bancomer Servicios, S.A.</li> </ul>
Don Juan Antonio González Moreno	Proprietary Patrimonial	April 2004	<ul style="list-style-type: none"> <li>• He is Chairman of the Board and CEO of Gruma. He has been Managing Director of Gruma Asia and Oceania, Senior Vice-president of Special Projects of Gruma Corporation, Chairman of the Board and CEO of CarAmigo, Vice-president of central and East Regions of MissionFoods, President and Vice-president of sales of Azteca Milling and Managing Director of GIMSA.</li> </ul>
Don Alejandro Valenzuela del Río	Proprietary Related	October 2007	<ul style="list-style-type: none"> <li>• He is Chief Executive Officer of Grupo Financiero Banorte S.A.B. de C.V. since April 2008; in the same Group he has held the</li> </ul>

NAME	POSITION	WITH THE COMPANY SINCE	PROFESSIONAL BACKGROUND
			<p>positions of Managing Director of Institutional Relations, Managing Director of Treasury and Investor Relations.</p> <ul style="list-style-type: none"> <li>• He was Managing Director of the European Aeronautic Defense and Space Company (EADS).</li> <li>• Member of the Board of Directors of The Laredo National Bank.</li> <li>• Director of International Relations and Foreign Affairs of Banco de Mexico, Chief of Staff to the Minister and Spokesman of the Ministry of Finance and Public Credit and Managing Director of International Financial Affairs at the same Ministry.</li> </ul>
Don Jesús O. Garza Martínez	Related Alternate	April 2012	<ul style="list-style-type: none"> <li>• Managing Director of Retail Banking of Banco Mercantil del Norte, S.A.</li> </ul>
Don Alejandro Hank González	Patrimonial Alternate	April 2013	<ul style="list-style-type: none"> <li>• Undergraduate in Business Administration by Universidad Iberoamericana de la Ciudad de México, D.F.</li> </ul>
Don David Villareal Montemayor	Patrimonial Alternate	October 1993	<ul style="list-style-type: none"> <li>• He Is Chief Executive Officer 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 a Financial Advisor and Business Developer for SISMEX, Sistemas Mexicanos S.A. de C.V.</li> </ul>
Don Alberto Saba Ades	Independent Alternate	July 2011	<ul style="list-style-type: none"> <li>• Vice-president of the Board of Directors of Grupo Saba, S.A.B. de C.V.</li> <li>• CEO of Grupo Xtra, S.A. de C.V.</li> </ul>
Don Isaac Becker Kabacnik	Independent Alternate	April 2002	<ul style="list-style-type: none"> <li>• Chairman of Becker e Hijos, S.A. de C.V. and of Becketel, S.A. de C.V.</li> </ul>
Don Manuel Aznar Nicolin	Independent Alternate	March 2007	<ul style="list-style-type: none"> <li>• Partner at the offices of Kuri Breña, Sánchez Ugarte y Aznar, S.C.</li> </ul>
Don Adrián Sada Cueva	Independent Alternate	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>
Don Everardo Elizondo Almaguer	Independent Alternate	April 2010	<ul style="list-style-type: none"> <li>• He founded and is 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 and Public Administration. He was Director of Economic Studies of Grupo Industrial Alfa (Alfa Group).</li> </ul>



NAME	POSITION	WITH THE COMPANY SINCE	PROFESSIONAL BACKGROUND
			<ul style="list-style-type: none"> <li>• He founded the Consulting Agency Index, Economía Aplicada S.A.</li> <li>• He was Deputy Governor of the Bank of Mexico.</li> </ul>
Don Ramón A. Leal Chapa	Independent Alternate	July 2011	<ul style="list-style-type: none"> <li>• CFO of Alfa Corporativo</li> <li>• Planning Director of Vitro.</li> </ul>
Don July César Méndez Rubio	Independent Alternate	July 2011	<ul style="list-style-type: none"> <li>• CEO of Soluciones Especializadas Confianza, S.A. DE C.V., Sofom E.N.R.</li> <li>• Deputy Managing Director of Loans of Banco Nacional de Comercio Exterior.</li> </ul>
Don Guillermo Mascareñas Milmo	Independent Alternate	July 2011	<ul style="list-style-type: none"> <li>• Associate Director of Alpha Patrimonial, S.A. de C.V.</li> </ul>
Don Lorenzo Lazo Margain	Independent Alternate	April 2013	<ul style="list-style-type: none"> <li>• CEO of Alemán Velasco y Asociados S.C. and member of the Consultive Board of "México Cumbre de Negocios". Chairman of the Board of L.L. &amp; M.M. Consultores S.C.</li> </ul>
Don Alejandro Orvañanos Alatorre	Independent Alternate	April 2013	<ul style="list-style-type: none"> <li>• CEO of Grupo Pegaso. He was CEO of Caribevision Television Network, Director of Operations of Grupo Pegaso and Deputy CEO of Movistar.</li> </ul>
Don Enrique Castillo Sánchez Mejorada	Related Alternate	July 2011	<ul style="list-style-type: none"> <li>• He is member of the Board of Directors of Grupo Industrial Herdez and Grupo Embotelladoras Unidas (Geupec).</li> <li>• Chairman of Capital Investments of GFNorte.</li> <li>• He was President of Consejo de Administración de Ixe Grupo Financiero and General Manager of Banca Mayorista de Ixe Grupo Financiero, S.A.B. de C.V.</li> <li>• He was Director of Banco Nacional de Mexico, Casa de Bolsa Banamex, S.A. and Nacional Financiera. Also, he worked in Inverlat Casa de Bolsa, S.A, was CEO of Seguros América, S.A. and Director of Grupo Financiero Invermexico, S.A. de C. V. as well as Director of Credit Suisse First Boston.</li> </ul>
Don José Marcos Ramírez Miguel	Related Alternate	July 2011	<ul style="list-style-type: none"> <li>• Managing Director Wholesale Bank and Casa de Bolsa Banorte Ixe</li> <li>• Managing Director Wholesale Bank Grupo Financiero</li> </ul>

\*Last October 9th 2013, it was informed to the CNBV that Don José Guadalupe Garza Montemayor left the board, who till that date was assigned as Proprietary Patrimonial Member of Grupo Financiero Banorte y Banco Mercantil del Norte.

## IV. REMUNERATION AND BENEFITS

The total amount of compensations and benefits paid to GFNorte's main officers in 2013 was approximately Ps 352.8 million.

Compensations and Benefits are as follows:

- **Fixed Compensation:** Salary.

- **Annual Bonus Plan for 2013:**

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 is also adjusted based on operational risk evaluations carried out by the Internal Audit Department.

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.

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

Stock Options:

The long term scheme for incentives consists of assigning to Directors designated by the Compensation Committee, a stock options package through a trust with a vesting period of 3 years having right in 100%. Participants will be entitled to exercise one third of the package each year; purchasing the shares at the price with which they were originally acquired by the trust and their right to acquire those shares expires after 6 years.

The gains for the executive will be the difference between the strike price, the price originally determined by the trust, and the share's exercise price at the time they exercise their rights.

- **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 with 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.

- **Food Vouchers:** Non-executive employees are given food vouchers equivalent to 10% of their monthly salary; the amount is subject to a legal limit of one month's minimum wage according to the Economic Area in question.
- **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 1st, 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 1st, 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 59.0 million.

## 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.

Dr. Alejandro Valenzuela del Río  
Chief Executive Officer of Grupo Financiero Banorte

Lic. David Ricardo Suárez Cortazar  
Chief Financial Officer

Lic. Martha Elena Navarrete Villarreal  
Managing Director of Internal Audit

Lic. Jorge Eduardo Vega Camargo  
Deputy Managing Director of Comptrollership

C.P.C. Mayra Nelly López López  
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/ 2013 Audited Information.

This report is available in this same link, in the "Annual Reports" section under the title: "CNBV 2013 Annual Report".