

## GFNorte reports first semester Net Income of Ps 9.09 billion, up 15% from same period last year

(BMV: GFNORTEO; OTCQX: GBOOY; Latibex: XNOR)

- Strong sequential growth in all group's subsidiaries earnings, reaching a **Net Income of Ps 4.63 billion**, growing +4% during the quarter.
- Key ratios recorded a substantial improvement in the quarter: **Efficiency Ratio to 44.1%**, from 47.1%; **ROE at 13.4%**, from 13.1%; **Earnings Per Share were up +16% to Ps 1.67**, compared to 1.44 in the same period a year ago.
- The first half shows sound earnings growth from subsidiaries: Banorte Bank +12%, Broker Dealer +24%, Insurance +23%, Annuities +69% and Leasing and Factoring +15%.
- Key financial ratios improved substantially in the first half. **NIM to 4.8%**, from 4.4%, **Efficiency Ratio to 45.6%**, from 49.7%, **ROA to 1.50%**, from 1.36%, and **ROE to 13.2%**, from 12.5%.
- Net Interest Income totaled Ps 26.24 billion in 1H16, growing +13% versus the same period last year.
- Loan loss provisions increased +26% against the previous year as a result of new loan origination. Moreover, **the reserves coverage ratio strengthened to 120.1% in 2Q16**, from 105.3% in 2Q15.
- **Revenues from core banking fees** increased +14% YoY on higher transaction volume.
- **Trading Income totaled Ps 1.22 billion in the first half of the year, (31%) lower** YoY due to the strong volatility in global financial markets.
- Non-Interest Expenses grew only +2% yearly, as a tangible result of **strict expense management and efficiency efforts**.
- The **annual growth in the loan book was +11%**, highlighting the +12% increase in performing loans; while, non-performing loans declined (10%) yearly. Corporate Loans grew +17% and consumer +13%.
- **Asset Quality continues to evolve positively**, as the NPL ratio further declined to 2.27%, from 2.80% in 2Q15 with stronger reserves coverage ratio.
- Demand and time **deposits from clients** increased +13% YoY.
- Capital ratios remain solid, at 14.85% on equity growth of +9% and healthy growth in risk assets.

**Mexico City, July 21<sup>st</sup>, 2016.** Grupo Financiero Banorte (GFNorte) reported Net Income of Ps 4.63 billion in 2Q16, +16% vs. the same period a year ago.

These profits reflect good performance in key business, as well as efficiency efforts and profitability growth.

Moreover, EPS grew from Ps 1.44 in 2Q15 to Ps 1.67 in 2Q16.

GFNorte's profitability ratios improved substantially in the quarter. In 2Q16 ROE stood at 13.4%, from 12.6% in 2Q15 and ROA at 1.5% from 1.3% in the same period of time.

Efficiency Ratio improved to 44.1% in 2Q16, from 49.2% in the second quarter of 2015.

Core deposits increased 13% YoY from Ps 459.71 billion to Ps 519.26 billion in 2Q16. Demand deposits reached a balance of Ps 353.62 billion from Ps 312.88 billion; whereas, time deposits totaled Ps 165.64 billion from Ps 146.83 billion, both on a yearly basis.

During the second quarter of 2016 performing loans increased +12% YoY for an ending balance of Ps 544.01 billion from Ps 485.87 billion in 2Q15. Outstanding growth rate in corporate and consumer loans was presented.

Corporate portfolio posted an important increase of +17% YoY, reaching a balance of Ps 78.84 billion in 2Q15 from Ps 91.86 billion a year ago.

Moreover the Consumer book, up +13% YoY, increased from Ps 164.83 billion to Ps 186.98 billion in 2Q16.

Within this segment, ending balances were: Car with Ps 13.50 billion, up +18% YoY; Payroll with Ps 42.01 billion, +15% above vs. 2Q15 and Mortgage with Ps 106.19 billion, +13% YoY.

Good asset quality maintained in 2Q16. NPL ratio declined to 2.27%, from 2.80% in 2Q15.

Contribution per subsidiary to GFNorte's Net Income was: Banking Sector 71.0%, Seguros Banorte 11.8%, Afore XXI Banorte 6.6% and Casa de Bolsa Banorte Ixe 3.5%.

## Recent Events

### 1. CORPORATE RESTRUCTURING: CREATION OF BANORTE AHORRO Y PREVISIÓN

During 2016 GFNorte has launched a series of efforts to consolidate as a leading institution in Mexico. One of these initiatives is related to improve the Group's and its subsidiaries' corporate structure, aiming to:

- provide greater flexibility to foster the Group's growth;
- align business units and subsidiaries to GFNorte's diversification strategy;
- improve the capital allocation of the entities comprising it.

As per approval of the Board of Directors of the company, at the end of 2015 GFNorte requested authorization to the Ministry of Finance (SHCP) for:

- 1) creating the Sub-holding Banorte Ahorro y Previsión, S.A. de C.V. (Banorte Ahorro y Previsión or BAP);
- 2) GFNorte's investing 99.9% of the equity at the newly created Sub-holding — Banorte Ahorro y Previsión;
- 3) GFNorte's transmitting its holding of representative shares of Pensiones Banorte, S.A de C.V., Grupo Financiero Banorte (Pensiones Banorte) and Seguros Banorte, S.A. de C.V., Grupo Financiero Banorte (Seguros Banorte) equity towards BAP, through contribution in kind, given the capital increase to be carried out at BAP.

It is informed that on March 16<sup>th</sup>, the SHCP – considering the opinion of Banco de México, the National Banking and Securities Commission (CNBV) and the National Insurance and Bonding Commission (CNSF) – authorized items 1 and 2, through the communication No. UBVA/DGABV/213/2016.

As a result, on March 30<sup>th</sup>, the Sub-holding company was formally constituted by Bylaws 187,394, registered at *Registro Público de la Propiedad y Comercio* on April 29<sup>th</sup>. Furthermore, on April 20<sup>th</sup> the SHCP approved Banorte Ahorro y Previsión's Bylaws, through the communication No. UBVA/DGABV/330/2016.

Regarding item 3 –transmission of Pensiones Banorte and Seguros Banorte shares towards BAP -, it is subject to the corresponding authorizations of the CNBV, CNSF and the National Commission of the Retirement Saving Funds System (CONSAR).

Banorte Ahorro y Previsión will be subject to the inspection and surveillance of the CNBV, in accordance with Article 94 of the Law Regulating Financial Groups (LRAF) and 37 of the General Rules for Financial Groups.

## 2. SHAREHOLDERS' ASSEMBLY

GFNorte's Annual General Shareholders' Meeting was held on April 22<sup>nd</sup>, with a 76.97% representation of the total subscribed, paid and voting shares of the Company's capital. The resolutions adopted by the Assembly were:

1. Approval of the reports referred in section IV, Article 28 of the Securities Market Law, corresponding to the year ending December 31<sup>st</sup>, 2015.
2. Distribution of the 2015 net income amounting to Ps 17.09 billion, applied into the account "Retained Earnings from prior Years", as it was not necessary to allocate resources into the account "Legal Reserve" since it is fully constituted.
3. Approval of the Board of Directors' composition of 15 Proprietary Members, and if the case, of their respective Alternate Members, appointing the following people and their duties for the year 2016, qualifying the corresponding members' independence as long as they do not fall within the restrictions outlined in the Securities Market Law and the Law Regulating Financial Groups.

Proprietary Members		Alternate Members	
Carlos Hank González	Chairman	Graciela González Moreno	
Juan Antonio González Moreno		Juan Antonio González Marcos	
David Juan Villarreal Montemayor		Carlos de la Isla Corry	
José Marcos Ramírez Miguel		Juan Carlos Braniff Hierro	
Everardo Elizondo Almaguer	Independent	Alberto Halabe Hamui	Independent
Carmen Patricia Armendáriz Guerra	Independent	Roberto Kelleher Vales	Independent
Héctor Federico Reyes-Retana y Dahl	Independent	Manuel Aznar Nicolás	Independent
Eduardo Livas Cantú	Independent	Robert William Chandler Edwards	Independent
Alfredo Elías Ayub	Independent	Isaac Becker Kabacnik	Independent
Adrián Sada Cueva	Independent	José María Garza Treviño	Independent
Alejandro Burillo Azcárraga	Independent	Javier Braun Burillo	Independent
José Antonio Chedraui Eguía	Independent	Rafael Contreras Grosskelwing	Independent
Alfonso de Angoitia Noriega	Independent	Guadalupe Phillips Margain	Independent
Olga María del Carmen Sánchez Cordero Dávila	Independent	Eduardo Alejandro Francisco García Villegas	Independent
Thomas Stanley Heather Rodríguez	Independent	Ricardo Maldonado Yáñez	Independent

4. Héctor Ávila Flores was designated as Secretary of the Board of Directors; but, he is not a board member.
5. Designation of Héctor Reyes-Retana y Dahl as Chairman of the Audit and Corporate Practices Committee.
6. Approval to allocate the amount of Ps. 3.95 billion, equivalent to 1.5% of the Financial Groups' market capitalization value as of December 2015, charged against equity, to purchase Company's shares during 2016, and will consider those transactions to be carried out in 2016 and until April 2017, subject to the Treasury's Policy for Transactions with Shares.

## 3. CREDIT RATINGS

### Moody's review Banorte's ratings

On June 29<sup>th</sup>, Moody's revised different ratings for Banco Mercantil del Norte, S.A., Institución de Banca Múltiple ("Banorte") and Arrendadora y Factor Banorte, S.A. de C.V. ("Arrendadora y Factor Banorte").

The rating action was due to the confirmation of some ratings and the change in others (detailed list below) as a result of the decreased of the BCA, reflecting the change in the Mexican macroeconomic environment and similarly affecting other banks' ratings.

- Confirmed ratings for Banorte:

International

- Long term local currency deposits rating of **A3; negative outlook**
- Long-term foreign currency deposits rating of **A3; negative outlook**
- Long-term counterparty risk assessment of **A2 (cr)**
- Short-term counterparty risk assessment of **Prime-1 (cr)**

Domestic

- National Scale - Long term deposits rating of **Aaa.mx**

- Confirmed ratings for Banorte Cayman:

- Long-term counterparty risk assessment of **A2 (cr)**
- Short-term counterparty risk assessment of **Prime-1 (cr)**
- Negative outlook.

The tables below show modified ratings:

<b>Banco Mercantil del Norte</b>			
		<b>Former</b>	<b>Current</b>
International	Outlook	Under Review	Negative
	Baseline Credit Assessment	baa1	baa2
	Long term local currency subordinated debt	Baa2	Baa3
	Long term local currency junior subordinated debt	Baa3 (hyb)	Ba1 (hyb)
	Long term foreign currency junior subordinated debt	Baa3	Ba1
	Adjusted baseline credit assesment	baa1	baa2
Domestic	Subordinated debt - Long term	Aa2.mx	Aa3.mx
	Junior Subordinated debt - Long term	Aa3.mx (hyb)	A1.mx

<b>Arrendadora y Factor Banorte</b>			
		<b>Former</b>	<b>Current</b>
International	Long term local currency issuer	Baa1	Baa2
	Long term local currency senior debt	(P)Baa1	(P)Baa2
Domestic	National Scale - Long term issuer	Aa1.mx	Aa2.mx
	National Scale - Long term senior debt	Aa1.mx	Aa2.mx

Standard & Poor's upgraded Banorte's long-term global scale rating to "BBB+"

On May 12<sup>th</sup> Standard & Poor's ("S&P") upgraded Banorte's long-term global scale rating to "BBB+" from "BBB" and affirmed its short-term global scale and long & short-term national scale ratings. Moreover, S&P also ratified ratings for Casa de Bolsa Banorte Ixe, S.A. de C.V. ("Casa de Bolsa Banorte Ixe"), both institutions maintaining stable outlook.

The aforementioned rise derived mainly from three elements, i) Banorte's designation as Level II - Domestic Systemically Important Financial Institution by the National Banking and Securities Commission ("CNBV"), ii) the bank's position as the third largest bank in the country in terms of total deposits and iii) the strong presence in the retail segment, which is expected to continue growing in the future.

S&P recognizes Banorte's importance in the Mexican financial system and its impact towards adverse situations. Likewise, it considers portfolio's growth, diversifications and mix, as well as its stable market share.

The following rating for Banorte was modified:

- Counterparty Credit – Long-term from “BBB” to “**BBB+**”

Below is the list of confirmed ratings:

**Banorte:**

- Counterparty Credit – Short-term “**A-2**”
- National Scale Counterparty Credit - Short-term “**mxA-1+**”
- National Scale Counterparty Credit – Long-term “**mxAAA**”

**Casa de Bolsa Banorte Ixe:**

- National Scale Counterparty Credit – Short-term “**mxA-1+**”
- National Scale Counterparty Credit – Long-term “**mxAAA**”

#### 4. BANORTE IXE TARJETAS MERGES WITH BANCO MERCANTIL DEL NORTE

On May 2<sup>nd</sup> took place the legal merger (the “Merger”) between Banorte-Ixe Tarjetas, S.A. de C.V., SOFOM, E.R. (“Banorte-Ixe Tarjetas”) and Banorte, the latter as the merging entity.

This event took place following receipt of authorization by the Ministry of Finance and Public Credit number No. UBVA/023/2016 dated April 15<sup>th</sup>, 2016.

As part of the process, in GFNorte’s Extraordinary General Shareholders’ Meeting held on November 19<sup>th</sup>, 2015, the following amendments were approved: i) to the second article of the Corporate bylaws, aiming to exclude Banorte-Ixe Tarjetas as an entity that comprises the Financial Group; and ii) to the Agreement of Shared Responsibilities according to the Law Regulating Financial Groups, in order to remove Banorte-Ixe Tarjetas from it and have Banorte as successor of that company.

The Merger’s agreements, along with their corresponding authorizations, were properly subscribed in the Public Registry of Commerce of Mexico City and Monterrey, N.L., thus, as of this date all the legal effects are ongoing.

***It’s noteworthy that the Merger will not affect Banorte’s consolidated financial statements, since Banorte-Ixe Tarjetas, as its subsidiary, already consolidated its financial information in it.***

#### 5. BANORTE IS A LEVEL II - DOMESTIC SYSTEMICALLY IMPORTANT FINANCIAL INSTITUTION

On May 2<sup>nd</sup> Banorte was designated as a Level II - Domestic Systemically Important Financial Institution by the CNBV, which highlights Banorte’s importance in the Mexican Financial System. The aforementioned derives from an evaluation carried out by the CNBV’s Board with Credit Institutions’ information as of December 2015 and implies that Banorte must maintain a capital buffer of 0.90 pp, to be constituted progressively in up to four years, additional to the regulatory Capitalization Ratio (“CR”) of 10.5%, this means that Banorte’s minimum CR will amount to 11.4% at the end of 2019.

Date	CR	Tier 1	Core Tier 1
Current	<b>10.50%</b>	8.50%	7.00%
Dec 31, 2016	<b>10.73%</b>	8.73%	7.23%
Dec 31, 2017	<b>10.95%</b>	8.95%	7.45%
Dec 31, 2018	<b>11.18%</b>	9.18%	7.68%
Dec 31, 2019	<b>11.40%</b>	9.40%	7.90%

It’s noteworthy that even though the CNBV will allow a progressive fulfillment, Banorte’s CR was 14.85% as of June 30<sup>th</sup>, so Banorte complies with the new requirement.

#### **6. GFNORTE WAS INCLUDED IN THE EURONEXT - VIGEO EM 70 INDEX**

On July 12<sup>th</sup>, GFNORTE informed it was included in the Euronext - Vigeo EM 70 Index, which recognizes the top 70 companies in emerging markets with the best sustainability practices.

Euronext - Vigeo EM 70 Index is a benchmark for responsible investors, who make decisions not only based on financial fundamentals, but also on sustainability criteria. Being included in this kind of indices provides stocks with visibility and liquidity; it is worth mentioning that GFNORTE is the only Mexican financial group and one out of three in Latin America included in the list.

Carlos Hank, Chairman of the Financial Group's Board recognized: "The fact that GFNORTE was included in this index proves our investors our long-term vision. We are a responsible and transparent company committed to Mexico's development."

Out of 800 assessed companies, only those outperforming in 330 social, environmental and corporate governance metrics were included.

Marcos Ramírez, GFNORTE's CEO mentioned "We are proud to be one of the four Mexican companies included in this index. This recognition is the result of daily efforts to include sustainability to the business DNA. Today, more than ever, global investors recognize our sustainability practices. Environmental, social and corporate governance best practices are an indicator of companies with a solid management committed to long-term value generation."