

## **GFNORTE REPORTS NET INCOME OF PS 7.37 BILLION IN 1H14, AN INCREASE OF 16% YOY VS. 1H13.**

- In 2Q14 GFNorte registered profits amounting to Ps 3.74 billion, 16% higher vs. 2Q13 and 3% higher vs. 1Q14.
- During 2Q14 core deposits increased 16% YoY or Ps 54.51 billion.
- As at the end of 2Q14, growth in performing loans was 6%, an increase of Ps 22.96 billion, totaling Ps 434.74 billion.
- As at the end of 2Q14 the Non-Performing Loan (NPL) Ratio was 3.1%.
- The Group's loan loss reserve coverage was 104.5% at the end of 2Q14.
- Banorte's Capitalization Ratio was 14.95% at the end of 2Q14.
- The Efficiency Ratio improved and stood at 47.8% in 1H14; during 2Q14 this ratio was 47.1%.
- Grupo Financiero Banorte is one, of only two Mexican companies, integrating the "OTCQX ADR 30 Index", launched by BNY Mellon and OTC Markets Group Inc. in April.
- Standard and Poor's affirmed ratings on Banorte and Casa de Bolsa Banorte Ixe, both with stable outlook.
- HR ratified long and short term Banorte's ratings and "BANORTE 12" subordinated debt.
- Moody's upgraded various ratings for Banorte with stable outlook and affirmed ratings on Arrendadora y Factor Banorte.
- Carlos Eduardo Martínez González has been appointed Managing Director of Channels and Segments at Grupo Financiero Banorte.

**Mexico D.F. July 24, 2014.** Today, Grupo Financiero Banorte (GFNORTE) reported results ending June 2014. GFNORTE registered **six-month profits of Ps 7.37 billion**, 16% higher vs. 1H13 due to positive operating leverage driven by annual growth of 6% in total income and a (3%) decrease in operating expenses, as well as stable cost of risk over the same period in the prior year; results that are offset by higher tax payments; in addition to the decrease in minority interest resulting from the purchase of IFC's participation in Banorte and Generali's stake in the Insurance and Annuities companies, which together with Afore XXI Banorte and the Credit Card SOFOM, presented favorable business dynamics. **Net income was Ps 3.74 billion for 2Q14, 16% higher vs. 2Q13 and 3% higher vs. 1Q14.** Growth was the result of positive operating leverage, lower loan loss provisions and a decrease in minority interest as a result of purchasing Generali's participation in the Insurance and Annuities companies, subsidiaries that, along with Afore XXI Banorte, increased profitability due to favorable business dynamics, offsetting the higher tax payments. Growth with respect to 1Q14 resulted from similar reasons, having achieved a positive operating leverage (total revenues grew 4%, while operating expenses only grew by 1%) and more profits of Afore XXI Banorte, effects that were offset by the quarterly increase in loan loss provisions.

**The Banking Sector's (Banco Mercantil del Norte, Banorte- Ixe Tarjetas and Banorte USA) profits for 1H14 totaled Ps 5.17 billion**, contributing with 70% of GFNorte's profits. In 2Q14 the Banking Sector contributed 72% of GFNorte's quarterly earnings adding Ps 2.68 billion, representing a (4%) YoY decrease and an 8% increase vs. 1Q14.

**ROE (Return on Equity) for 1H14 was 13.2%**, a decrease of (201) bp with respect to the same period of the previous year, due to dilution effect of the equity offer in July 2013, and **ROA (Return on Assets) was 1.4%**, 8 bp higher vs. 1H13.

- **Deposits**

**In 2Q14 Core Deposits posted a balance of Ps 399.48 billion by growing 16% YoY** or Ps 54.51 billion, driven mainly by efforts to promote Banorte-Ixe deposit products, as well as the significant increase registered in account balances of some clients, mainly in Government banking since the end of 2013. An annual increase of 22% in

Demand deposits and 5% in Retail Time deposits was achieved. During the quarter, core deposits increased by 4% or Ps 13.88 billion vs. 1Q14 due to the 4% growth in demand deposits while retail time deposits increased 2%.

- **Net Interest Income**

**Net Interest Income for 1H14 amounted to Ps 20.78 billion**, 12% higher vs. 1H13 due to a better loan mix resulting from growth in the Consumer portfolio; lower cost of funding due to: i) growth in core deposits, ii) a 100 bp decline in the reference rate, and iii) payment of two subordinated obligations (August 2013 and April 2014) and the syndicated loan (July 2013); as well as an increase in net interest income of the Insurance and Annuities companies. On a yearly basis Net Interest Income amounted to \$10.43 billion pesos, increasing 11% YoY, mainly because of the reasons already mentioned. On a quarterly basis, net interest income increased 1% due to a better loan mix; lower cost of funding resulting from growth in deposits and the prepayment of preferential subordinated obligations in April 2014; effects offset by the decrease in net interest income of Insurance and Annuities companies.

- **Loans**

At the end of 2Q14, **Performing Loans grew 6% annually**, increasing Ps 22.96 billion with an ending balance of Ps 434.74 billion. The loan portfolio shows slower growth rates compared to the previous year mainly due to the economic weakness recorded in 2013 and in the first months of 2014, as well as to prepayments received by corporate clients. However, the Performing Loan portfolio still grew faster than the economy. In the quarter, this portfolio increased 2%, as a result of growth in housing, payroll, government, corporate and credit card portfolios.

**The Financial Group's Past Due Loan Ratio was 3.1% at 2Q14**, 97 bp higher than that of 2Q13 and 14 bp higher than in 1Q14. The annual increase is explained by higher PDL ratios in all segments, except Government loans; while the quarterly growth results from higher past due balances in all portfolios except in Mortgage, Corporate and Government. Excluding the exposure to the housing developers with financial problems, **the PDL ratio was 1.8%**, 20 bp above the level of a year ago and 10 bp higher than the PDL ratio in 1Q14.

GFNorte ended 2Q14 with past due loans amounting Ps 14 billion, 54% higher vs. 2Q13, mainly due to higher corporate delinquencies - mainly the housing developers' exposure - coupled with growth in past due loans of SMEs, Payroll, Mortgages, Credit Cards, and Car loans related to the economic slowdown. The quarterly growth of 7% is mainly due to an increase in past due loans for SMEs, Payroll, Corporate, Credit cards, Mortgages and Car loans. **The Group's loan loss coverage ratio was 104.5%** at the end of 2Q14, decreasing (53.3 pp) YoY and (1.3 pp) QoQ.

- **Efficiency**

**The Efficiency Ratio improved and stood at 47.8% in 1H14**, (4.4 pp) below the previous year. **In 2Q14, the Efficiency ratio was 47.1%**, decreasing (3.3 pp) YoY and (1.4 pp) QoQ, due to lower Operating Expenses as a result of tighter expense management, coupled with the increase in Total Income.

- **Capitalization**

Banco Mercantil del Norte's Capitalization Ratio was 14.95% at the end of 2Q14, with a Tier 1 ratio of 13.35% and a Core Tier 1 ratio of 12.31%.

- **Other Subsidiaries**

In 1H14, **Long Term Savings**, comprised of Afore XXI Banorte and the Insurance and Annuities companies, **contributed Ps 1.6 billion** to the Financial Group's earnings, 87% higher vs. 1H13; while the quarterly contribution to earnings was Ps 782 million, 123% higher vs. 2Q13 and (4%) lower vs. 1Q14. Both annual and quarterly growth rates derived from greater dynamics in all businesses, while the quarterly declined vs. 1Q14 was due to the decrease in profits of the Insurance Company. In addition, annual growth came from the reduction in minority interest from the purchase of Generali's 49% stake in the Insurance and Annuities companies. If GFNorte's stake in these entities was considered at 100% for both periods, annual growth would have been 53% for the Insurance and 63% for the Annuities companies.

**Banorte - Ixe Tarjetas**, a subsidiary of Banco Mercantil del Norte, reported profits of Ps 888 million for 1H14, 50% higher than that reported in 1H13. Quarterly profits were Ps 512 million, 56% higher YoY and 36% QoQ. Annual growth comes from increased revenues from higher volumes and fees; while quarterly growth came from higher interest income and lower provisions and operating expenses.

**The Brokerage Sector** (Casa de Bolsa Banorte Ixe and Operadora de Fondos Banorte Ixe) accumulated profits in 1H14 of Ps 459 million, an increase of 19% vs. 1H13 driven by better net interest income and lower non-interest expenses, offsetting the decrease in non-interest income (trading revenues) and higher tax payments; while the quarterly contribution to earnings was Ps 256 million, increasing by 83% YoY and 26% QoQ. Annual growth came from similar dynamics as those already mentioned. The performance vs. 1Q14 is explained by the significant increase in trading revenues and the reduction in non-interest expenses.

**Sofom and Other Finance Companies** comprised of Arrendadora y Factor Banorte, Almacenadora Banorte and Solida Administradora de Portafolios, recorded profits in 1H14 of Ps 201 million. Quarterly profits were Ps 58 million.

### Recent Events

- **Shareholders' Assembly.**

#### Annual:

On April 25 GFNorte's Annual General Shareholders' Meeting was held, with a 91.08% representation of the total subscribed and paid 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 ended December 31, 2013.
2. Distribution of the net income for 2013 amounting to Ps 13.75 billion, of which Ps 313.16 million were applied into the Legal Reserve and Ps 13.44 billion into the Retained Earnings from prior Years.
3. Approval of the Board of Directors' composition of 15 Regular Members, and, if necessary, their respective Alternate Members, by appointing the following persons for the 2014 business year and evaluating the independence of the members mentioned below since they do not fall within the restrictions stated in the Securities Market Law, as well as the capacity of the Independent and related proprietary board members, pursuant to the Best Corporate Practices Code.

PROPRIETARY MEMBERS			ALTERNATE MEMBERS	
Guillermo Ortiz Martínez	Chairman	Related	Jesús O. Garza Martínez	Related
Graciela González Moreno		Patrimonial	Alejandro Hank González	Patrimonial
David Villarreal Montemayor		Patrimonial	José María Garza Treviño	Independent
Everardo Elizondo Almaguer		Independent	Alberto Halabe Hamui	Independent
Alfredo Elías Ayub		Independent	Isaac Becker Kabaonik	Independent
Hermínio Blanco Mendoza		Independent	Manuel Aznar Nicolín	Independent
Adrián Sada Cueva		Independent	Eduardo Livas Cantú	Independent
Patricia Armendáriz Guerra		Independent	Roberto Kelleher Vales	Independent
Armando Garza Sada		Independent	Ramón A. Leal Chapa	Independent
Héctor Reyes Retana y Dahl		Independent	Julio César Méndez Rubio*	Independent
Juan Carlos Braniff Hierro		Independent	Guillermo Mascareñas Milmo	Independent
Miguel Alemán Magnani		Independent	Lorenzo Lazo Margain	Independent
Alejandro Burillo Azcárraga		Independent	Alejandro Orvañanos Alatorre	Independent
Juan Antonio González Moreno		Patrimonial	Juan Antonio González Marcos	Patrimonial
Alejandro Valenzuela del Río		Related	José Marcos Ramírez Miguel	Related

\*Last June 10, 2014, it was informed to the CNBV that Julio César Méndez Rubio resigned to the board, who until that date was Alternate Independent Member of the boards of Grupo Financiero Banorte, S.A.B. de C.V. and Banco Mercantil del Norte, S.A.

## Press Release

Hector Ávila Flores was designated as Secretary of the Board of Directors; but, he is not a board member.

4. Members of the Committee that will have the functions of the Audit and Corporate Practices, including its Chairman, were designated.
5. Members of the Risk Policies Committee, including its Chairman, were designated.
6. Approval to allocate the amount of Ps. 3.80 billion, equivalent to 1.5% of the Financial Groups' market capitalization value as of December 2013, charged against equity, to purchase Company's shares during 2014, subject to the Treasury's Policy for Transactions with Shares.

### Extraordinary:

On July 4, GFNorte's Extraordinary General Shareholders' Meeting was held, with a 93.13% representation of the total subscribed and paid shares of the Company's capital, some of the resolutions adopted by the Assembly were:

1. Modify Article Second of GFNorte's By-laws, in order to modify the legal denomination of Seguros Banorte Generali and Pensiones Banorte Generali to Seguros Banorte and Pensiones Banorte respectively, and as a result, subscribe a new Agreement of Shared Responsibilities. The aforementioned, derived from the acquisition of the remaining 49% of the equity representative common shares of the Insurance and Annuities companies previously held by Assicurazioni Generali S.p.A.
  2. Reform GFNorte's By-laws in order to adapt them to the new Law Regulating Financial Groups, and as a result, subscribe a new Agreement of Shared Responsibilities; furthermore, carry out the total exchange of shares representing GFNorte's equity, so these comply with the requirements set forth in Article Eleventh of the By-laws.
- **Changes to the Consolidated P&L statement related to the accounting of the results of investments in securities valuation of the Insurance and Annuities companies.**

During 2Q14, **GFNorte** reclassified the result for "valuations" of investments in securities held by the Insurance and Annuities companies **from the Trading Income line to the Net Interest Income line** in the consolidated P&L statement. These companies' investments, classified as held to maturity and denominated in UDIs, change in value by reflecting the variation in the value of the UDI (inflation indexed unit of account) for the period.

Previously, **GFNorte** presented this "securities investment valuations" result in the Trading Income line – under "Fair Valuation of Securities", following the methodology used by Insurance and Annuities companies to present this information in their financial statements. However, given its origin; and, with the intention to standardize the grouping criteria of all operations of the Financial Group's subsidiaries; and, with approval of the External Auditor, this valuation result will now be reported as part of Net Interest Income under the Interest Income line in GFNorte's consolidated P&L Statement. This reclassification was carried out retroactively in order to allow comparisons of prior quarters. For further information, refer to the Net Interest Income section.

- **Inclusion of GFNorte in the OTCQX30 Index.**

On April 9 BNY Mellon and OTC Markets Group Inc. launched the OTCQX ADR 30 Index ("OTCQX30"), composed by the 30 most relevant ADRs in the market, in terms of market capitalization, volume and liquidity. Some of the companies included are: AXA, Adidas, Roche, among others. Grupo Financiero Banorte is one, of only two Mexican companies, included in this index. The inclusion of our Level 1 ADR in this index will provide more visibility and liquidity to our program.

- **Credit Ratings.**

Standard and Poor's affirmed ratings on Banorte and Casa de Bolsa Banorte Ixe, both with stable outlook.

On April 30, 2014, Standard & Poor's affirmed Banorte's 'BBB' long-term and 'A-2' short-term global scale and 'mxAAA/mxA-1+' long- and short-term national scale ratings. The rationale was: greater franchise value, lower concentration in government loans, increase to 95% of federal guarantees in government loans, adequate risk position and adequate risk-adjusted capitalization.

Furthermore, affirmed Casa de Bolsa Banorte Ixe's long and short-term national ratings 'mxAAA' and 'mxA-1+', respectively. The outlook is stable.

Additionally, the 'BBB' issue-level rating on Banorte's US \$500 million senior unsecured notes due 2015, and 'BB+' issue-level ratings on the US \$120 million junior subordinated notes due 2020 were affirmed.

HR ratified long and short term Banorte's ratings and "BANORTE 12" subordinated debt

On May 29, HR Ratings ratified Banco Mercantil del Norte's, S.A. ("Banorte") HR AAA and HR+1 Long and Short term ratings, respectively, as well as BANORTE 12 Subordinated Debt with HR AA+. The outlook is stable.

The main factors considered were: the solid financial position reflected in adequate levels of solvency, profitability, liquidity position, improvement in efficiency ratios and an adequate revenue generation from the loan portfolio, which was considered well distributed in terms of geographic location and customers.

Moody's upgraded various ratings for Banorte with stable outlook and affirmed ratings on Arrendadora y Factor Banorte

In May, Moody's upgraded Banorte's long and short-term global local currency deposits ratings, as well as the Standalone Baseline Credit Assessment (BCA). Additionally, Moody's upgraded the global and national scale ratings of the subordinated and junior subordinated debt. The outlook is stable.

In raising Banorte's ratings, Moody's considered: a stronger franchise value, earnings diversification, expansion, as well as significant improvements in capitalization and corporate governance. Furthermore, the stable outlook reflects Banorte's opportunities for organic growth and potential improvements in profitability to achieve higher efficiency.

The following ratings were upgraded:

Entity	Scale	Concept	From:	To:
Banorte	Global	Standalone baseline credit assesment	baa2	baa1
		Long-term local currency deposits	A3	A2
		Short-term local currency deposits	Prime-2	Prime-1
		Long-term local currency subordinated debt	Baa3	Baa2
		Long-term local currency subordinated debt program	P(Baa3)	P(Baa2)
		Long-term local currency junior subordinated debt	Ba1 (hyb)	Baa3 (hyb)
		Long-term local currency junior subordinated debt program	(P)Ba1	(P)Baa3
	National	Long-term subordinated debt	Aa2.mx	Aa1.mx
		Long-term subordinated debt program	Aa2.mx	Aa1.mx
		Long-term junior subordinated debt	Aa3.mx (hyb)	Aa2.mx (hyb)
		Long-term junior subordinated debt program	Aa3.mx	Aa2.mx

On May 26 Arrendadora y Factor Banorte's global (A3/P-2) and national (Aaa.mx/MX-1) scale ratings were affirmed.

- Organizational Changes**

Carlos Eduardo Martinez Gonzalez has been appointed Managing Director of Channels and Segments, reporting directly to the Group's CEO. This responsibility includes managing the retail network. Carlos has ample experience in the financial sector. He has worked at GFNorte for over 14 years; previous to this appointment, he was Managing Director of Government Banking. Prior to joining Banorte, he held various responsibilities at Grupo Financiero Serfin. He is a Certified Public Accountant from Instituto Tecnológico y de Estudios Superiores de Monterrey, with postgraduate degrees in finance from Institute Serfin, in upper management from IPADE and in banking from Louisiana State University.

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