

## GFNorte reports Net Income of Ps 19.31 billion in 2016, up +13% from same period last year

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

Grupo Financiero Banorte, S.A.B. de C.V. reported results for the period ended December 31<sup>st</sup>, 2016. The main highlights include:

- **Fourth-quarter** Net Income of Ps 5.24 billion, presenting outstanding **sequential growth of 5%**, driven by an adequate strategy, sound fundamentals, margin expansion and a healthy business diversification. Main increases in the quarter were **Bank +11%**, **Arrendadora y Factor +17%** and **Pensions Fund +11%**.
- Quarterly key ratios posted a substantial improvement: **NIM at 5.0%\***, **non-performing loans ratio** improved to **1.8%**, from 2.2%, **reserves coverage ratio to 139%**, from 124%, **ROE at 14.9%**, from 14.1% and **ROA at 1.7%**, up +7bp.
- Net Interest Income (**NII**) grew **+4%\*** in the quarter; loan loss provisions practically flat; fees were up **+11%\***. During the quarter, **we had a record net operating income** of Ps 7.02\* billion.
- **Accumulated figures in 2016** show **sound earnings growth from subsidiaries**: Banorte Bank +14%, Insurance +19%, Leasing and Factoring +22% and Annuities +39%.
- Annual key financial ratios improved substantially. **NIM to 4.9%\***, from 4.5%, **NPL Ratio at 1.7%\***, from 2.2%, **reserves coverage ratio to 142%\*** from 116%, **Efficiency Ratio to 45 %**, from 48%, **ROA to 1.58%**, from 1.47%, and **ROE to 13.9%**, from 13.3%.
- **NII** up **+14%\*** vs. 2015. Moreover, loan loss provisions grew **+25%\*** yearly, on new loan origination.
- **Revenues from core banking fees** increased **+16%\*** annually on higher transaction volume. **Trading Income** decreased (**20%**) YoY due to the strong volatility in global financial markets.
- Despite inflationary pressures, **Non-Interest Expenses** grew only **+5.8%\*** yearly, once again as a tangible result of **strict expense management**. **Net operating income** grew annually **+14%\***.
- Strong annual growth in the **Consumer, Corporate and Commercial books +17%\*** YoY each segment. **Performing loans** increased **+14%\*** YoY. Non-performing loans posted an annual decline of (**13%\***).
- **Deposits from clients** increased **+14%\*** YoY, demand **+15%\*** and time **+12%\***.
- **Capital ratios remain solid**, at 15.28% and equity grew **+4%\***. Moreover, the increase in the capital ratio was supported by the issuance of the subordinated notes in October 2016.
- The leverage ratio as of 2016 remained solid at 7.77%.

*\*Official results and consolidated financial results of INB and Banco Mercantil del Norte, as reported until 3Q16, are provided for comparison purposes.*

**Mexico City, January 26<sup>th</sup>, 2017.** Grupo Financiero Banorte (GFNorte) reported **Net Income of Ps 19.31 billion during 2016, +13%** higher YoY as result of its long-term strategy, client-centric model and profitability.

“We wrapped up the first year of our Vision 20/20 plan achieving objectives. We are stepping towards to become the best financial group for investors, clients and colleagues”, highlighted Marcos Ramírez, CEO of GFNorte.

Profitability ratios improved YoY: **ROE at 13.9%**, from 13.3% in 2015 and **ROA at 1.58%** from 1.47% during the same period.

**Revenues from core banking fees** increased **+14%** annually amounting to **Ps 9.19 billion** in 2016, derived from higher transaction volume such as account management, fund transfers, and electronic banking services.

As of 2016, driven by its diversification strategy, **Performing Loans increased +14% vs. 2015** for an ending balance of **Ps 588.46 billion** from Ps 518.06 billion.

The **Corporate book** grew **+17%** YoY, totaling **Ps 103.49 billion** as of 2016. Moreover **Commercial loans** rose **+17%** vs. 2015 amounting to **Ps 145.29 billion** and the **Consumer portfolio** reached **Ps 204.88 billion, +17%** up YoY.

Within the latter segment, outstanding YoY growth was presented in **Car loans** totaling **Ps 15.05 billion** in 4Q16, **+21%** higher, while **Payroll portfolio** reached a balance of **Ps 45.0 billion, +17%** higher vs. 4Q15. Furthermore, **Mortgage loans** rose **+17%** amounting **Ps 116.39 billion** and **Credit Card book** increased **+14%**, totaling **Ps 28.45 billion** in 4Q16.

**NPL Ratio** decreased YoY to **2.2%** in 4Q16 from 1.7%, while **Coverage Ratio** stood at **142%** in 4Q16 from 116% a year ago.

**Core deposits grew +14% vs. 2015**, to **Ps 578.04 billion** in 4Q16, from Ps 508.76 billion a year ago. Demand deposits rose **+15%** and Time deposits increased **+12%**.

**Capital ratios** remained solid, at **15.28%** driven by an adequate equity management and the issuance of the subordinated notes in October 2016.

## Recent Events

### 1. CREDIT RATINGS

#### Fitch affirms ratings and revises outlook for GFNorte and Banorte

On December 15 Fitch Ratings (“Fitch”) announced revisions to the outlook of several Mexican financial institutions, among them, GFNorte (“GFNorte”) and Banco Mercantil del Norte’s, S.A., Institución de Banca Múltiple, Grupo Financiero Banorte (“Banorte”) as a result of the outlook revision of Mexico’s sovereign rating to Negative from Stable.

The rating action affected Mexican financial institutions that may be impacted by a sovereign downgrade or any deterioration of the operating environment in the foreseeable future; the change in outlook only affected international-scale ratings. In GFNorte’s and Banorte’s case, ratings were confirmed, and the outlook was revised to Negative from Stable.

#### Moody’s converts-withdraws ratings for Arrendadora y Factor Banorte

On November 9, Moody’s de México (“Moody’s”) withdrew the long-term provisional ratings assigned to the debt programs of Arrendadora y Factor Banorte, S.A. de C.V. (“AyF Banorte”). Likewise, Moody’s converted to definitive the short-term provisional ratings assigned to debt programs of AyF Banorte.

The rating action –which also affected provisional ratings of other national issuers- derived from the withdrawal of some ratings and the conversion of others (shown below) on business – driven reasons as “provisional” ratings are nonexistent in México.

Below is the detailed list of modified ratings:

Arrendadora y Factor Banorte, S.A. de C.V.

- Long-term local currency senior debt (P) Baa2, withdrawn.
- National Scale – long-term senior debt Aa2.mx, withdrawn.
- Short-term local currency senior debt converted to Prime-2 from (P) Prime-2

## **2. PREPAYMENT OF SUBORDINATED OBLIGATIONS Q BANORTE 08-2 AND Q BANORTE 08**

In December Banorte prepaid Subordinated Preferred & Non-Convertible Obligations Q Banorte 08-2 amounting to Ps 2.75 billion, issued on June 27, 2008 and due on June 15, 2018.

Moreover, on January 3, 2017, Banorte prepaid Subordinated Non-Preferred and Non-Convertible Obligations Q Banorte 08 amounting to Ps 3 billion, issued on March 11, 2008 and due on February 27, 2018.

## **3. THE BANKER AWARDS BANORTE BANK OF THE YEAR**

In December, the prestigious British magazine The Banker awarded Banorte "Bank of the Year 2016" in Mexico, in recognition of its solid performance and successful implementation of a long-term strategy.

After assessing over a thousand applications at global scale, judges selected Banorte as the best bank in the country based on its consolidated business model and prudent risk approach, which is reflected in its asset quality.

"This award is a new pride for our Group, and recognition to the work we have been doing with our strategic plan: Vision 20/20," said Marcos Ramírez Miguel, GFNorte's CEO.

The magazine highlighted the importance of this strategy, which aims to turn GFNorte into the best financial group in the country for clients, investors and collaborators, as well as to double its profits in 2020, based on a cross-selling strategy.

The Banker also highlighted the implementation of the new multichannel architecture, which allows customers to access customized products through different platforms, and the growth of mobile and internet banking.

## **4. ALAS20 RECOGNIZES GFNORTE FOR ITS LEADERSHIP IN CORPORATE GOVERNANCE AND SUSTAINABILITY PRACTICES**

In November, GFNorte was recognized by Alas20, an initiative of GovernArt (Latin American think tank and consulting firm based in Chile) that promotes and recognizes outstanding companies, investors and professionals that actively contribute to sustainable development towards 2020.

GFNorte ranked first in the category of Leading Company in Corporate Governance and second as Leading Company in Sustainability; furthermore, Carlos Hank González -Chairman of the Board of Directors- was recognized as Leading Chairman of Companies Investing Responsibly. It is worth mentioning that is market participants themselves -financial analysts, CEOs, portfolio managers and investors- who select winners.

These awards granted for the first time to Mexican companies, are supported by CESPEDES (Mexican chapter of the Business Council for Sustainable Development), BNAmericas and VigeoEiris (global provider of environmental, social and corporate governance research and other services for investors, private entities, public and non-profitable organizations).