

## **GFNorte reports Net Income of Ps 6.52 billion during 2Q20, 29% lower than 1Q20 due to higher anticipated provisions to face COVID-19 pandemic.**

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

The most relevant results for the period ended on June 30<sup>th</sup>, 2020 were:

- This quarter was fully immersed in COVID-19 pandemic. In Mexico, the lockdown started on the first day of the quarter, with a sharp contraction of economic activity and a rapid increase in unemployment levels.
- **Net income** for the **second quarter** of 2020 was **Ps 6.52 billion, down (29%) sequentially**, and (25%) below the same period in 2019. However, this reflects a one-time negative impact of Ps 4.9 billion, which consists of Ps 3.0 billion in reserves to cover the estimated impact of COVID-19 for the whole 2020 and a relevant portion for 2021, and Ps 1.9 billion in write-offs, **proactively anticipating the loan portfolio deterioration** once the support programs for consumer and SMEs portfolios and individualized support programs for the commercial portfolio, come to an end. Thus, **provisions were 95% higher** than the previous quarter, and consequently **cost of risk** totaled **4.2%** from 2.2% in 1Q20.
- The overall operating performance of the business was quite positive. Provisions, excluding the one-time increase, would have been **(17%) lower** sequentially, and **net income would have reached Ps 9.87 billion** in the quarter, **up 8%** against 1Q20.
- **Net interest income rose 6%** against the same period in 2019, although it shows the expected sequential decline due to the high seasonality of the insurance business during the first quarter of the year. **NIM** reached 5.3% (18bps) below 2Q19 due to a **10% increase in productive assets**.
- **Non-interest income rose 13% annually and 19% sequentially**, positively offsetting a decline in fees from lower economic activity with a relevant increase in trading income due to high volatility in the markets. **Non-interest expenses were down (2%)** sequentially, with a net (13bps) improvement in **efficiency ratio to 38.8%**.
- **Net income** for the **first half** of the year totaled **Ps 15.6 billion, (11%) below** recurring figures in 1H19, and (16%) vs. the reported result. These results were **mainly driven by the anticipated provisions** mentioned above, which totaled Ps 12.8 billion for the semester, 71% higher than a year ago. Excluding this effect, provisions would have been 6% higher.
- **Net interest income** for the semester rose 6% annually, and **NIM grew 2bps reaching 5.6%**, which was a positive result considering that during this period the central bank's reference rate went from 8.25% to 5.0%. **Total income** was up 3% and **non-interest expense** increased 6% producing an **efficiency ratio** of 38.8% for the semester.
- **ROE** and **ROA** for the period were clearly affected by the additional provisions, totaling 15.8% and 1.8% respectively. **Excluding additional provisions, ROE would have totaled 19.6% for the quarter, and 19.2% for the first half of the year.**
- Non-banking **subsidiaries** contributed positively to the group's performance. During 1H20, net profit of Casa de Bolsa grew 64%, Operadora de fondos 9%, Insurance 8%, Annuities 43%, Pensions 13%, and Arrendadora y Factor 3%.
- **Consumer loans** were up **1%** during the quarter driven by **2% growth in mortgages**, offsetting declines in **auto loans (2%)**, **credit cards (3%)**, and **flat payroll loans**, as they were all impacted by the weak economic activity during the lockdown. Additionally, performing loan portfolios have not been affected thanks to the timely implementation of **relief programs** announced by Banorte. During the 4-month relief programs, enrolled clients are not required to pay interest and principal on their loans. Compared to 1H19, **consumer grew 5%**, **mortgages 9%**, **auto loans 5%**, **credit cards (1%)** and **payroll (2%)**.
- **Commercial and corporate** loans increased sequentially, **2% and 3% respectively**, and **government loans 1%**. Overall, **total loan portfolio** grew **2% quarterly, and 3% annually**; excluding government loans, the **loan portfolio increased 8% annually**.
- Asset quality remained stable thanks to the support programs implemented for individuals, SMEs and businesses; however, the **NPL ratio** fell sharply **from 1.7% to 1.2%** due to Ps 4.6 billion in write-offs to the past due loan portfolio, which caused **coverage ratio** to rise to **200.5%** from 140.1%.
- **Core Deposits increased 4%** during the quarter: **demand deposits grew 6%**, and **time deposits declined (1%)**. Compared to 2Q19, demand deposits were up 22%, and time deposits were down (5%), totaling 12% growth in Core Deposits.

- **Capital preservation, as well as capital growth and good liquidity management** have been top priorities for the Financial Group during this challenging period. This can be witnessed by the **bank's capital ratio** which reached **19.68%**; with **Core Equity Tier 1 (CET1)** at **13.19%**, **Liquidity Coverage Ratio** at **150.8%**, and **Leverage Ratio** ended the quarter at **11.05%**.

**Mexico City, July 23<sup>rd</sup>, 2020.**— Amidst the challenging environment brought by the COVID-19 pandemic, during the second quarter of 2020, Grupo Financiero Banorte (GFNorte) kept solid fundamentals and remained close to Mexicans, supporting more than **600,000 families** with its deferred payment program, and accelerating its digital transformation, thus enabling customers to transact safely from home.

### Strong capital levels

As a result of its strategy to preserve capital and liquidity, GFNorte ended the second quarter with **19.68% Capital Adequacy Ratio**, up from 18.95% in the previous quarter. **Core Equity Tier 1 (CET1)** capital totaled **13.19%** and **Leverage Ratio** reached **11.05%**.

Banorte's capital ratios are well above regulatory requirements set forth by both, Mexican authorities and Basel III international standards, thus positioning itself as one of the strongest capitalized banks in the country.

### Main financial performance metrics

During 2Q20, GFNorte's **Net Income** totaled **Ps 6.5 billion**, (25%) down vs. the previous quarter. This decline was driven by a one-time **Ps 4.9 billion** impact, consisting of **Ps 1.9 billion in anticipated write-offs**, and **Ps 3.0 billion additional loan loss provisions**, which cover the estimated requirements for all 2020 and a relevant portion of 2021, related to the expected asset deterioration caused by COVID-19.

During the quarter, **Loan Loss Provisions** reached **Ps 8.5 billion, up 95% vs. the previous quarter**.

Excluding the effect of anticipated **loan loss provisions**, **Net Income** would have totaled **Ps 9.9 billion**, up 8% vs. 1Q20, and 13% higher than 2Q19.

**Net income for the first half of the year** totaled **Ps 15.6 billion**, down (16%) vs. a year ago. Excluding the effect of anticipated loan loss provisions, **Net income for 1H20** would have reached **Ps 18.9 billion**, up 9% vs. recurring results in 1H19.

**EPS** for the Group totaled **Ps 2.26** during the quarter; **ROE** reached **13%** and **ROA** at **1.49%**. Excluding the effect of additional provisions, these metrics would have reached **19.6%** and **2.25%**, respectively. **Efficiency ratio** ended the quarter at **38.8%**.

### Loan portfolio

At the end of 2Q20, **performing loan portfolio** for the group totaled **Ps 792 billion, up 3%** vs. 2Q19.

**Consumer loans** totaled **Ps 293 billion, up 5%** vs. a year ago. **Mortgages** had a **9% increase**, totaling **Ps 177.3 billion**, and **auto loans grew 5%**, reaching **Ps 26.7 billion**.

**Credit cards** ended the quarter at **Ps 37.4 billion**, and **payroll loans** at **Ps 51.5 billion**.

Consumer Loan Portfolio*	2Q19	2Q20	Change
<b>Mortgages</b>	162,619	177,282	9%
<b>Auto Loans</b>	25,478	26,667	5%
<b>Credit Card</b>	37,733	37,443	(1%)
<b>Payroll</b>	52,366	51,491	(2%)
<b>Total</b>	278,195	292,883	5%

\*Million pesos

The **commercial** book totaled **Ps 186.1 billion**, up **9%** vs. 2Q19, while the **corporate** book stood at **Ps 150.0 billion**,

**up 14% YoY. up.** The **government** portfolio had an ending balance of **Ps 162.7 billion**, down (13%) vs. the previous year.

Asset quality at Banorte remained under control, with **NPL ratio** down to **1.2%**, driven by Ps 4.6 billion in total write-offs to the Past Due Loan portfolio.

### **Deposits**

**Core Deposits** had a **12%** increase vs. 2Q19. **Demand deposits rose 22%**, and **time deposits were down (5%)**. On a quarterly basis, core deposits were up **4%** compared to 1Q20 balances.

### **Banorte remains close to Mexicans during the pandemic**

Throughout the COVID-19 crisis, Banorte implemented several **support programs** to support Mexicans. The reach of these programs was:

#### **4-month payment deferral program**

- **More than 610,000** credit card, mortgage, auto loans, payroll and personal loan customers were benefited from the program.

#### **Support program for SMEs**

- **More than 29,000** small businesses and merchants were benefited from **fee reimbursements** and POS terminal **rent waivers**, **free mobile POS terminals** and working capital **loans**.

#### **New product launch: Enlace Digital**

- **77,500** new accounts with **no opening fee**, no minimum balance requirements, and without having to leave their home.

#### **Rooms for Responders Program**

- Partnership with Marriott International and Mastercard to offer **free hotel stays** to **healthcare professionals** who lead the fight against COVID-19.

Cultural changes brought by the pandemic also **thrust GFNorte's digital transformation**: during 2Q20, digital transactions from customers **rose 54%** vs. the same period in 2019, growing from 145.2 million in 2Q19, to more than 223.9 million in 2Q20.

Moreover, **Net Promoter Score (NPS)** which measures customer satisfaction, showed **more than 50-point increases** in all customer touchpoint channels in GFNorte, with a relevant 9-point increase in the branch network.

**Carlos Hank González**, Chairman of the Board of Grupo Financiero Banorte, said: "As we face one of the toughest challenges for our country, we start off a second quarter with strength and supporting our customers. Today, the Strong Bank of Mexico remains solid and prepared to face the challenges ahead, hand in hand with Mexicans".

**Recent Events****1. BANORTE ISSUED PERPETUAL, NON-PREFERRED, NON-CUMULATIVE CAPITAL NOTES (Tier 1)**

On July 14<sup>th</sup>, 2020, Banorte issued Perpetual, Non-preferred, Non-cumulative (Tier 1) Capital Notes in the international markets for a global amount of US\$ 500 million dollars. The issuance of Capital Notes (Tier 1) was carried out in one series, NC10 Notes PERP for \$ 500 million, prepayable on the tenth year, and with an 8.375% coupon rate. The ratings assigned to the series by Moody's and S&P rating agencies were Ba2 and BB-, respectively.

**2. GRUPO FINANCIERO BANORTE SIGNED A STRATEGIC ALLIANCE WITH RAPPI**

On June 22<sup>nd</sup>, 2020, Grupo Financiero Banorte signed a strategic alliance with Rappi through which both companies, subject to obtaining the applicable regulatory authorizations from the financial and economic competition authorities, will have a (50% - 50%) share ownership and equal share of seats in the board of directors. This will produce a newly created company that will initially offer digital financial services, mainly aimed at Rappi's customers. Through this agreement, GFNorte promised to distribute up to \$ 4.0 billion pesos to the new company within a period of 18 months, provided that the last \$ 3.0 billion pesos are subject to the achievement of certain performance metrics within the established deadlines.

**3. BANORTE, THE BEST BANK IN MEXICO: LAFFERTY GROUP**

On July 1<sup>st</sup>, 2020, Banorte was rated the best bank in Mexico within the ranking "Lafferty 1000 global banking database", published by the international company specialized in banking intelligence, Lafferty Group, and was positioned among the 20 best banks in this listing. The ranking evaluates the performance of 1000 banks, based throughout 100 different countries of the world, through 21 metrics, including financial performance, work in financial inclusion, environmental responsibility and the relationship with its stakeholders. Lafferty Group highlighted Banorte's strength on one key metric: customer focus and gave it 4 out of 5 stars of the rating.

In the evaluation, the annual report of each bank was analyzed, considering it as the main mean for communication and accountability of banking institutions directed to stakeholders such as collaborators, clients, regulators and shareholders.

**4. GFNORTE WAS RECOGNIZED BY INSTITUTIONAL INVESTOR MAGAZINE**

On May 27<sup>th</sup>, 2020, Grupo Financiero Banorte (GFNorte) was ranked as the best Mexican financial institution and ranked among the top 3 in all of Latin America in the ranking series "Executive Team of Latin America 2020", from the prestigious international publication Institutional Investor, in the banking / finance sector. To prepare the rankings, Institutional Investor carried out a perception study on companies that demonstrated excellence in investor relations performance, according to 364 portfolio managers and buy side analysts, and by 240 sell side analysts. The evaluation considered factors such as consistency, authority and credibility, business and market knowledge, calls with investors and responsiveness, among a total of 351 nominated companies in the Latin American region.

For the tenth consecutive year, the GFNorte Executive Team remained in the top positions among Latin American banks and Mexican companies, highlighting:

1. Best CEO - Second Place (Sell-side)
2. Best CFO - Second place
3. Best IRO - Second Place
4. Best RI team - Second place.

**5. PENSIONES BANORTE SIGNED AN AGREEMENT WITH PENSIONES SURA TO ACQUIRE ITS ANNUITY BUSINESS PORTFOLIO**

On May 6<sup>th</sup>, 2020, Grupo Financiero Banorte obtained authorizations from the CNBV, as well as from the Federal Commission on Economic Competition for Pensiones Banorte S.A. de C.V., Grupo Financiero Banorte, to acquire the entire annuity portfolio of Pensiones SURA S.A. de C.V. The operation includes the acquisition

of more than 15 thousand policies for an approximate value of Ps 14.0 billion. With this, Pensiones Banorte is consolidated as the largest annuity company with more than 110,000 clients and one of the largest in the Mexican insurance industry with nearly Ps 150.0 billion in managed reserves.

#### **6. MERGER OF SOLIDA ADMINISTRADORA DE PORTAFOLIOS AND ARRENDADORA Y FACTOR BANORTE**

On July 1<sup>st</sup>, 2020, the merger of Sólida (acquiring company) and Arrendadora (acquired and extinguished) took effect. As a result of the foregoing, Sólida changed its name to remain as Arrendadora y Factor Banorte, S.A. de C.V., SOFOM, E.R., Grupo Financiero Banorte. The Financial Group equity share on the acquiring company is 99,9058%.

#### **7. SHAREHOLDERS MEETING**

On April 24<sup>th</sup>, the Annual Ordinary General Meeting of GFNorte Shareholders was held, with a representation of 69.69% of the shares subscribed and paid with voting rights of the Capital Stock, in which, among others:

**I.** With the prior opinion of the Board of Directors, the Annual Report of the Chief Executive Officer prepared pursuant to the provisions of section XI of article 44 of the Securities Market Act and section X of article 59 of the Law is approved for Regulate Financial Groups, which contains, among other points: (i) the balance sheet; (ii) the income statement; (iii) the statement of changes in stockholders' equity; and (iv) the statement of cash flows of the company as of December 31, 2019.

**II.** The Annual Report of the Board of Directors is approved, in which the main accounting and information policies and criteria are declared and explained, followed in the preparation of the financial information as of December 31, 2019, in accordance with the provisions of the subsection b) Article 172 of the General Law of Mercantile Companies.

**III.** The Annual Report of the Board of Directors on the operations and activities in which it intervened was approved.

**IV.** The Annual Report on the Activities of the Audit and Corporate Practices Committee is approved.

**V.** All the operations carried out by the Company during the year ended December 31, 2019 is approved and the acts carried out by the Board of Directors, the Chief Executive Officer and the Audit and Corporate Practices Committee are ratified during the same period.

**VI.** From the financial statements of Grupo Financiero Banorte, S.A.B. de CV, it appears that the company obtained profits in the fiscal year of 2019 in the amount of \$ 36,527'973,356.61 (thirty-six thousand five hundred twenty-seven million nine hundred seventy-three thousand three hundred and fifty-six pesos 61/100 national currency), which will be distributed as follows:

**a)** The amount of \$ 5'671,366.40 (five million six hundred seventy-one thousand three hundred sixty-six pesos 40/100 national currency), will be applied to the "Legal Reserve".

**b)** The amount of \$ 36,522'301,990.21 (thirty-six thousand five hundred twenty-two million three hundred one thousand nine hundred and ninety pesos 21/100 national currency), will be applied to the "Result of Previous Years" account.

Regarding the third point of the Agenda, no resolution is taken in this regard, it is only stated that, in compliance with the provisions of section XIX of article 76 of the Income Tax Law, it was distributed among those attending the Shareholders' Meeting and the External Auditor's Report on the Company's fiscal situation as of December 31, 2018, was read, adding a copy of it to the record of the minutes.

**VII.** It is approved that for the financial year 2020, that the Board of Directors of the Company be made up of 14 Proprietary members and their respective Alternates, qualifying the independence of the directors who have said character, since they are not within the restrictions indicated in the Securities Market Law and the Law to Regulate Financial Groups.

Grupo Financiero Banorte			
PROPIETARY		SUBSTITUTES	
Carlos Hank González	Chairman	Graciela González Moreno	
Juan Antonio González Moreno		Juan Antonio González Marcos	
David Juan Villareal Montemayor		Alberto Halabe Hamui	Independent
José Marcos Ramírez Miguel		Gerardo Salazar Viezca	
Carlos de la Isla Corry		Alberto Pérez Jacome Friscione	
Everardo Elizondo Almaguer	Independent	Diego Martínez Rueda-Chapital	Independent
Carmen Patricia Armendáriz Guerra	Independent	Roberto Khelleher Vales	Independent
Héctor Federico Reyes-Retana y Dahl	Independent	Clemente Ismael Reyes Retana Valdés	Independent
Alfredo Elías Ayub	Independent	Isaac Becker Kabacnik	Independent
Adrián Sada Cueva	Independent	José María Garza Treviño	Independent
David Peñaloza Alanís	Independent	Carlos Césarman Koltieniuk	Independent
José Antonio Chedreai Eguía	Independent	Huberto Tafolla Nuñez	Independent
Alfonso de Angoitia Noriega	Independent	Guadalupe Phillips Margain	Independent
Thomas Stanley Heather Rodríguez	Independent	Ricardo Maldonado Yáñez	Independent

**VIII.** Lic. Héctor Ávila Flores is appointed as Secretary of the Board of Directors, who will not form part of the Board of Directors.

**IX.** Based on Article Forty-Ninth of the Company's bylaws, the Directors of the Company are exempt from the obligation to guarantee the performance of their duties.

**X.** They are determined as emoluments to be paid to the Proprietary and Alternate Directors, as the case may be, for each session they attend, a net amount of taxes equivalent to two coins of fifty gold pesos, commonly called "centenarians", at the listing price of the date of each session.

**XI.** Don Héctor Federico Reyes Retana y Dahl is appointed as Chairman of the Audit and Corporate Practices Committee.

**XII.** The Report of the Board of Directors on the operations of purchase and sale of own shares during the 2019 fiscal year is approved.

**XIII.** It is approved to allocate the amount of up to \$ 7,500'000,000.00 (seven thousand five hundred million pesos 00/100 national currency), equivalent to 2.5% of the capitalization value of the Financial Group at the end of 2019, charged to Stockholders' Equity, for the purchase of own shares of the Company, during the fiscal year of 2020 and will include those operations that are carried out during the year 2020 and until the month of April of the year 2021, subject to the Policy for the Acquisition and Placement of Own Shares.

**XIV.** The Certification of the Bylaws of Grupo Financiero Banorte, S.A.B. is approved. de C.V., in the terms of the document that is added to the file of this act.

**XV.** Delegates are appointed to carry out all the acts that may be necessary to comply with and formalize the resolutions made in the Assembly.