

Standard & Poor's Upgrades Banorte to Investment Grade

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Mexico City, D. F., March 24, 2006.- Today, Standard & Poor's Rating Services (S&P) granted Banco Mercantil del Norte, S.A., the banking subsidiary of Grupo Financiero Banorte, the Investment Grade with a stable outlook. The rating agency raised its foreign and local currency counterparty credit and CD ratings to "BBB-/A-3" from "BB+/B".

For S&P, the upgrade reflects consistent improvements in Banorte's business and financial profile including a better asset mix, the maintenance of good asset quality indicators despite important loan growth.

The ratings consider the ongoing challenges Banorte faces, such as leveraging its branch network through cross selling, continuing with adequate underwriting policies and coping with important competition.

Banorte has improved its asset mix with higher-margin loans. Retail loans including credit cards, personal loans, and mortgages have increased their participation in Banorte's loan portfolio and are progressively replacing IPAB (Instituto para la Protección del Ahorro Bancario) notes securitized in 2004.

S&P pointed out that Banorte has increased its loan portfolio in real terms also, without breaching conservative loans underwriting and maintaining good asset quality figures.

Banorte achieved significant improvements in efficiency, net interest margin, and profitability in 2005. The efficiency program announced at the end of 2004 has already borne fruit. The bank's efficiency ratio during 2005 dropped to 58% from a high of 72% the prior year. Banorte expects to maintain efficiency levels around 55%-60%, helped by additional savings, and, more important, higher revenues.

S&P believes this goal is achievable and should maintain the bank's efficiency at similar levels reported by its Mexican peers. Net interest margin has increased as a result of growth in higher-margin loans and better funding mix.

Banorte's efforts to reduce funding cost have also translated into a better funding profile with increases in demand deposits while reducing money market funding. This movement toward increasing less costly funding while reducing volatility has lead to a reduction in funding costs as compared to the market rate.

Excluding non-recurrent items, Banorte's adjusted return on assets (ROA) increased to 2% as of December 2005, from less than 1% in the previous years. Banorte's current profitability is similar to that of other major Mexican banks and is expected to continue at similar levels.

S&P expects Banorte to maintain adequate underwriting policies and not to allow strong loan growth to deteriorate asset quality. However, strong competition and the continuation of solid loan growth could be a problem if economic conditions deteriorate.

The rating firm explains that its stable perspective regarding Banorte is based on its expectations that the institution maintain its current financial profile, including efficiency, profitability, and good asset quality while increasing its loan portfolio.