Grupo Financiero Banorte

BANORTE IXE

Annual Report 2011

Audited Financial Statements

Index

Mexico, D. F., March 28th, 2012
To the Board of Directors of Grupo Financiero Banorte, S. A. B. de C. V.:

In accordance with Article 43 of the Stock Market Law (LMV), the Audit and Corporate Practices' Committee presents its annual report of activities carried out during the 2011 fiscal year.

The contents of this document refer to Grupo Financiero Banorte (GFNorte) and, in some sections, to its relevant entities; companies designated by this Board of Directors based on the relevant criteria that these have in the financial, administrative and legal situation of GFNorte.

These entities are: Banco Mercantil del Norte, S. A.; Ixe Banco, S. A.; Casa de Bolsa Banorte, S. A. de C. V.; Ixe Casa de Bolsa, S. A. de C. V.; Arrendadora y Factor Banorte, S. A. de C. V. SOFOM ER; Banorte-Ixe Tarjetas, S. A. de C. V. SOFOM ER; Ixe Automotriz, S. A. de C. V. SOFOM ER; Fincasa Hipotecaria, S. A. de C. V. SOFOM ER; Ixe Soluciones, S. A. de C. V. SOFOM ER; Seguros Banorte Generali, S. A. de C. V.; Pensiones Banorte Generali, S. A. de C. V.; Banorte Generali Afore, S. A. de C. V.; Sólida Administradora de Portafolios, S. A. de C. V. and Inter National Bank.

In January 2012 Ixe Casa de Bolsa merged with Casa de Bolsa Banorte and Banorte Generali Afore merged with the Afore XXI, S. A. de C. V. Afore.

I. With regard to audit:

a) With regard to the status of the Internal Control System (SCI) of GFNorte and its relevant entities; and the description of its deficiencies and deviations, this Committee took into consideration the following elements:

   1. Revision of annual reports on activities regarding Internal Control of the aforementioned relevant entities, are prepared by their respective CEOs.
   2. The reports of GFNorte's Internal Comptroller and its relevant entities as well as the Internal Comptrollers of Seguros Banorte Generali, Pensiones Banorte Generali and Banorte Generali Afore.
   3. Opinions about the state of the Internal Control System of the relevant entities, issued by the Internal Audit, the CEO and Comptrollers.
   4. Observations on control deficiencies or deviations of GFNorte and its subsidiaries, presented on a regular basis by Internal Audit during this Committee's sessions, covering all relevant entities and a follow-up on the corrective measures undertaken.
   5. External Auditors' reports of observations about the state of Internal Control, and follow-up of the corrective measures taken with respect to the areas of opportunity identified in such reports; as well as the audited the financial statements of GFNorte and its subsidiaries.
   6. Reports on inspection visits by the corresponding regulator and follow-up on the implementation of the pertinent corrective measures.
   7. Internal Audit's management reports on the execution and fulfillment of the work program approved by this Committee and reports of the results of its program for quality assurance and improvement.
   8. The Commissioner's reports of the relevant entities corresponding to the 2011 fiscal year.

Taking the previous elements into consideration, and as a result of the surveillance work carried out by this Committee in sessions held throughout the year with the participation of those responsible for surveillance delegated by the SCI, such as the CEO, External Audit, Internal Audit, Comptroller and Commissaries of relevant entities, we are able to state that the SCI of GFNorte, its subsidiaries and the Internal Audit function, work appropriately and provide a reasonable degree of assurance regarding the achievement of objectives related to the effectiveness and efficiency of operations, dependability of financial information released, execution of applicable norms, and that no deficiencies or deviations were detected that could significantly affect them.

We can report that Internal Audit has maintained independence in its operations with a mandate that defines its authority and responsibilities, complied reasonably with its approved work program, applying adequate standards of quality, supervising the efficient implementation of actions to correct identified areas of opportunity in support of this Committee and also has a program for quality assurance and improvement.

b) It can be reported that no significant possible non-fulfillment of operational guidelines and policies and accounting registries were detected for GFNorte and its relevant entities, and that identified areas of opportunity have been reported to the responsible persons/entities who have taken corrective measures, which have been incorporated into a follow-up system to ensure their implementation. The homologation of policies and practices of GFNorte and Ixe continue in order to achieve a convergence of their business models.

c) Regarding the evaluation of the company's performance provided by external audit services, it can be reported that the firm of Galaz, Yamazaki, Ruiz Urquiza, S. C. (member of Deloitte Touche Tohmatsu), as well as the designated Auditor, have provided the highest caliber of service in the execution of their duties and in the relationship with management and the Committee, applying criteria and work methodologies in accordance with the best international practices, adequately complying with the applicable regulations.

It is also our consideration that their conclusions and reports are valuable and useful in supporting the activities of this Committee, and that it should be noted that their results and opinions do not present discrepancies with management.

d) With respect to the description and valorization of additional or complementary services to the audit of financial statements performed by the External Auditor, we can inform that during the fiscal year the necessary services were hired for Banco Mercantil del Norte's debt issuance abroad under Rule 144A of the Securities' Act; the review of the transfer price of Royal & Sun Alliance shares purchased by Seguros Banorte Generali and Pensiones Banorte Generali, and consultancy services whose objective was to harmonize remuneration packages and personnel benefits of relevant entities.

The Board of Directors approved this Committee's proposal to hire these services, after verifying that no conflict of interest existed; and which were developed throughout 2011.

The services of other independent experts were hired to conduct loan deterioration tests for Banorte USA and its subsidiaries, evaluate the quality of important clients in the loan portfolio of some relevant entities and review technical aspects of integral risk management.

e) A revision of the financial statements of GFNorte and its subsidiaries for the fiscal year ending December 31st, 2011 was carried out; as well as the External Auditor's final report before its release which did not present any exceptions; with the participation of management, the External Auditor, the Comptrollership and Internal Audit, having found that they were prepared in accordance with regulations and the applicable accounting practices. Therefore, we recommend that the Board of Directors approve these financial statements. Additionally, this Committee conducts a periodic revision of quarterly financial statements.

f) Main changes to policies and accounting criteria adopted by GFNorte and its subsidiaries during the 2011 fiscal year were diverse modifications that resulted as a consequence of changes in the applicable regulations, as well as accounting policies for the capitalization of expenses and write-offs for delinquent credit cards, all of which is detailed in Note 4 "Main Accounting Policies" of GFNorte's financial statements, which contain a detailed explanation of the afore-mentioned modifications and their effects.

g) There were no relevant observations for the fiscal year from shareholders, members of the Board of Directors, managers, employees or any third parties, regarding accounting, internal controls or topics related with either the internal or external audits, or from accusations of irregularities. In accordance with the best international practices, one of the institutional channels of communication is a system of anonymous accusations. Reports received through this channel are directed to members of this Committee and diverse managers of the organization, for their information and attention. This Committee follows up on the resolution of such accusations.

h) Regarding the resolutions of Shareholders' Meetings or Board of Directors, there were no requests to these committees to follow-up on the agreements adopted by these corporate organs.

i) Other relevant activities carried out by this Committee include reviewing aspects of the merger and integration with Ixe Grupo Financiero such as the alignment of SCI policies, structural changes in the organization, the integration of Internal Control and Internal Audit functions, homologation of the release process for financial information and the registration of the goodwill and identification of areas of opportunity to ensure attention to them. Improvements to loan processes were analyzed to improve efficiency, paying special attention to loan processes for state and municipal governments, evaluating results of reviews of loans to main clients in some relevant entities and norms were approved for these types of reviews. The areas of Internal Audit and Information technology were evaluated with the support of independent experts and the updating of some of the methodologies was approved, taking as a reference the best practices in that area.

Regarding Inter National Bank (INB), we report that the ongoing monitoring of compliance with the commitments made in the Formal Agreement with the Office of the Comptroller of the Currency (OCC), the agency that regulates and supervises INB; the commitments assumed focused on strengthening the processes of loan portfolio administration, handling of critical assets and adequacy of reserves, and revision of loans, as well as the formulation of a strategic plan. During 2011 the OCC conducted its annual review, which found compliance with the commitments made and decided to keep the Formal Agreement pending a follow up on the results obtained by reviewing the actions that require more time to mature.

II. With regard to Corporate Practices:

a) With respect to observations regarding the performance of relevant officers of GFNorte and its subsidiaries, management has defined those relevant officers that by specific regulation applicable to them require that the respective authority must be informed of their recruitment. We can report that for the 2011 fiscal year, there were no cases in which officers acted outside of established policies.

b) For operations with related parties, this Committee verified that these transactions were approved by the Board of Directors in accordance with the applicable regulations, and verified that as of December 31st, 2011, the amount of loans granted to related individuals through Banco Mercantil del Norte was Ps. 12.732 billion, less than the limit of net capital for these types of loans established by the corresponding regulation. Inter-company operations were carried out at market prices, which were verified by the External Auditor who reported no relevant transactions to the date of this report.

We can report that during the 2011 fiscal year, there were no unusual or recurring operations that required the approval from the Board of Directors. Because of their relevance, the association with the IMSS and the merger of Afore Banorte Generali with the Afore XXI were approved by this Board of Directors.

c) With regard to compensation packages of relevant Officers; we can report that management has defined the policies for the Remuneration System in accordance with the applicable dispositions, dividing remuneration into ordinary (i) and extraordinary (ii), the latter subject to a deferment plan linked to the risk indicators established for each position's profile, and a medium term incentive plan (iii) through an option to purchase shares for some Directors in accordance with programs approved by the Human Resources Committee.

d) Finally, we can report that during the 2011 fiscal year, the Board of Directors did not grant preferential treatment to members of the Board or relevant directors or managers to take advantage of business opportunities.

Sincerely,

Francisco J. Alcalá de León
President of the Audit and Corporate Practices' Committee
of Grupo Financiero Banorte

Deloitte.

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24 de febrero de 2012

We have audited the accompanying consolidated balance sheets of Grupo Financiero Banorte, S. A. B. de C. V. and Subsidiaries (the Financial Group) as of December 31, 2011 and 2010, and the related consolidated income statements, changes in stockholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Financial Group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Mexico, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and that they are prepared in conformity with the accounting practices prescribed by the Mexican National Banking and Securities Commission (the Commission). An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting practices used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Note 1 to the consolidated financial statements describes the Financial Group's operations and the regulating conditions that affect them. Note 4 describes the accounting criteria established by the Commission in the accounting provisions it issues, which the Financial Group adheres to for the preparation of its financial information. Note 5 describes the main differences between the accounting practices prescribed by the Commission and Mexican Financial Reporting Standards commonly applied in the preparation of financial statements for other types of unregulated entities. As explained in Note 4, during the year ended December 31, 2011, the Financial Group modified the valuation method for its investments in subsidiary insurance and annuities' companies, which up through December 31, 2010 were reported using the equity method and as of 2011 they are consolidated with the Financial Group. Pursuant to the Commission's accounting criteria, the Financial Group's Management did not apply this change retrospectively in the 2010 consolidated financial statements because it was deemed impractical. Therefore the 2011 and 2010 consolidated financial statements are not comparable regarding this accounting change. Furthermore, as explained in Note 12, during 2011 and 2010, the Commission issued modifications to the accounting criteria and to the methodologies for rating state and municipal loans, non-revolving consumer loans as well as mortgage loans. The Commission´s criteria stipulates that the effect of the change in the methodology for commercial, non-revolving consumer and mortgage loans was recorded under "Earnings from previous years" in stockholders' equity in the amount of Ps. 350 million, net of deferred taxes, and the change in the methodology for rating state and municipal government loans by Ps. 87 million was recorded in the consolidated income statement.

Note 2b to the consolidated financial statements indicates that the Extraordinary Stockholders' Meeting held on March 30, 2011 approved the merger of Ixe Grupo Financiero, S. A. B. de C. V. and Grupo Financiero Banorte, S. A. B. de C. V. The merger became effective on April 15, 2011 when the relevant authorization and agreements were registered in the Public Registry of Commerce of Monterrey, Nuevo León. The Financial Group subsisted as the merging entity. Prior to this merger, the Financial Group increased the variable portion of its capital stock by Ps. 1,078 million by issuing 308,010,234 ordinary, nominal Series "O" shares, which were exchanged for the shares of Ixe Grupo Financiero, S. A. B. de C. V., which ceased to exist as a legal entity after the merger.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Grupo Financiero Banorte, S. A. B. de C. V. and Subsidiaries as of December 31, 2011 and 2010, and the results of their operations and changes in their stockholders' equity and their cash flows for the years then ended, in conformity with the accounting practices prescribed by the Commission.

Galaz, Yamazaki, Ruiz Urquiza, S.C.
Member of Deloitte Touche Tohmatsu Limited

CPC Fernando Nogueda Conde
Recorded in the General Administration
of Federal Tax Audit Number 13204

GRUPO FINANCIERO BANORTE, S.A.B. DE C.V. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2011 AND 2010
(In millions of Mexican pesos)

ASSETS	2011	2010
CASH AND CASH EQUIVALENTS	**Ps. 53,968**	**Ps. 59,338**
MARGIN SECURITIES	**252**	**177**
INVESTMENTS IN SECURITIES		
Trading securities	115,026	66,181
Securities available for sale	53,666	12,288
Securities held to maturity	162,148	139,913
	330,840	**218,382**
DEBTOR BALANCES UNDER REPURCHASE AND RESALE AGREEMENTS	**3,830**	**583**
DERIVATIVES FINANCIAL INSTRUMENTS		
For trading purposes	15,854	7,463
For hedging purposes	623	596
	16,477	**8,059**
VALUATION ADJUSTMENTS FOR ASSET HEDGING	**123**	**-**
PERFORMING LOAN PORTFOLIO		
Commercial loans		
Business loans	169,023	126,483
Financial institutions' loans	11,560	5,521
Government loans	71,162	47,550
Consumer loans	34,246	27,828
Mortgage loans	64,567	56,168
TOTAL PERFORMING LOAN PORTFOLIO	**350,558**	**263,550**
PAST-DUE LOAN PORTFOLIO		
Commercial loans		
Business loans	4,684	4,417
Financial institutions' loans	1	-
Government loans	11	-
Consumer loans	1,286	1,276
Mortgage loans	967	971
TOTAL PAST-DUE LOAN PORTFOLIO	**6,949**	**6,664**
LOAN PORTFOLIO	**357,507**	**270,214**
(Minus) Allowance for loan losses	(9,944)	(8,245)
LOAN PORTFOLIO, net	**347,563**	**261,969**
ACQUIRED COLLECTION RIGHTS	**3,559**	**2,025**
TOTAL LOAN PORTFOLIO, net	**351,122**	**263,994**
ACCOUNTS RECEIVABLE FROM INSURANCE AND ANNUITIES, net	**953**	**-**
PREMIUM RECEIVABLES, net	**3,442**	**-**
ACCOUNTS RECEIVABLE FROM REINSURANCE, net	**2,594**	**-**
RECEIVABLES GENERATED BY SECURITIZATIONS	**856**	**950**
OTHER ACCOUNTS RECEIVABLE, net	**20,524**	**14,023**
MERCHANDISE INVENTORY	**43**	**49**
FORECLOSED ASSETS, net	**2,284**	**809**
PROPERTY, FURNITURE AND EQUIPMENT, net	**11,785**	**9,316**
PERMANENT STOCK INVESTMENTS	**2,280**	**3,130**
DEFERRED TAXES, net	**-**	**1,340**
OTHER ASSETS, net		
Other assets, deferred charges and intangible assets	**27,904**	**10,080**
TOTAL ASSETS	**Ps. 829,277**	**Ps. 590,230**

MEMORANDUM ACCOUNTS (Note 37)
These balance sheets, consolidated with those of the financial entities and other companies that form part of the Financial Group and are susceptible to consolidation, were prepared according to accounting principles applicable to Financial Service Holding Companies issued by the Mexican National Banking and Securities Commission according to article 30 of the Law of Financial Institutions. Such principles are consistently applied in the consolidated financial statements, which are presented according to sound practices and applicable legal and administrative provisions and reflect all the operations conducted by the Financial Group, its financial service subsidiaries and the other companies that form part of the Financial Group and are consolidated as of the consolidated balance sheet dates above. The stockholders' equity amounts to Ps. 8,095 (nominal value).
The accompanying consolidated balance sheets have been approved by the Board of Directors in accordance with the responsibility assigned to them. The attached Notes are an integral part of these consolidated balance sheets.

Balance Sheets

LIABILITIES	2011	2010
DEPOSITS		
Demand deposits	Ps. 189,613	Ps. 149,817
Time deposits		
General public	162,635	132,673
Money market	11,089	6,347
Senior debt issued	6,953	3,778
	370,290	**292,615**
INTERBANK AND OTHER LOANS		
Demand loans	3,968	4,837
Short-term loans	25,150	13,114
Long-term loans	6,330	8,496
	35,448	**26,447**
TECHNICAL RESERVES	**42,406**	**-**
NON-ASSIGNED SECURITIES PENDING SETTLEMENT	**4**	**-**
CREDITOR BALANCES UNDER REPURCHASE AND RESALE TRANSACTIONS	**243,756**	**178,747**
COLLATERAL SOLD OR PLEDGED		
Repurchase or resale agreements (creditor balance)	**31**	**11**
DERIVATIVES FINANCIAL INSTRUMENTS		
For trading purposes	16,009	7,238
For hedging purposes	5,305	3,499
	21,314	**10,737**
VALUATION ADJUSTMENT FOR HEDGING OF FINANCIAL LIABILITIES	**(91)**	**-**
ACCOUNTS PAYABLE TO REINSURANCE, net	**1,246**	**-**
OTHER ACCOUNTS PAYABLES		
Income tax	710	711
Employee profit sharing	481	797
Creditors from settlements of transactions	2,705	867
Sundry creditors and other payables	15,446	9,871
	19,342	**12,246**
SUBORDINATED DEBENTURES	**16,543**	**17,803**
DEFERRED TAXES, net	**39**	**-**
DEFERRED CREDITS AND ADVANCED COLLECTIONS	**1,867**	**1,397**
TOTAL LIABILITIES	**752,195**	**540,003**
STOCKHOLDERS' EQUITY		
PAID-IN CAPITAL		
Common stock	13,050	11,971
Additional paid-in capital	18,006	1,673
	31,056	**13,644**
OTHER CAPITAL		
Capital reserves	3,224	3,181
Retained earnings from prior years	30,573	25,492
Result from valuation of securities available for sale	188	309
Result from valuation of instruments for cash flow hedging	(2,537)	(2,214)
Cumulative foreign currency translation adjustment	(172)	(1,000)
Net income	8,517	6,705
	39,793	**32,473**
MINORITY INTEREST	**6,233**	**4,110**
TOTAL STOCKHOLDERS' EQUITY	**77,082**	**50,227**
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**Ps. 829,277**	**Ps. 590,230**

Dr. Alejandro Valenzuela del Río
Chief Executive Officer

Ing. Rafael Arana de la Garza
Managing Director - CFO

Lic. Benjamín Vidargas Rojas
Managing Director – Audit

Lic. Jorge Eduardo Vega Camargo
Deputy Managing
Director - Controller

C.P.C. Nora Elia Cantú Suárez
Deputy Managing
Director – Accounting and Taxes

GRUPO FINANCIERO BANORTE, S.A.B. DE C.V. AND SUBSIDIARIES
CONSOLIDATED INCOME STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010
(In millions of Mexican pesos)

	2011	2010
Interest income	Ps. 53,003	Ps. 43,845
Premiums revenue, net	15,275	-
Interest expense	(24,628)	(21,113)
Increase in technical reserves	(9,316)	-
Casualty rate, claims and other contractual obligations, net	(6,092)	-
NET INTEREST INCOME	**28,242**	**22,732**
Provisions for loan losses	(5,438)	(6,889)
NET INTEREST INCOME AFTER ALLOWANCE FOR LOAN LOSSES	**22,804**	**15,843**
Commission and fee income	11,054	9,234
Commission and fee expense	(2,879)	(1,548)
Brokerage revenues	2,778	1,689
Other operating income (expenses)	2,814	2,320
Non interest expense	(23,409)	(17,691)
	(9,642)	**(5,996)**
OPERATING INCOME	**13,162**	**9,847**
Equity in earnings of unconsolidated subsidiaries and associated companies	(41)	320
INCOME BEFORE INCOME TAX	**13,121**	**10,167**
Current income tax	(2,619)	(2,735)
Deferred income taxes, net	(933)	(70)
	(3,552)	**(2,805)**
INCOME BEFORE NONCONTROLLING INTEREST	**9,569**	**7,362**
Minority Interest	(1,052)	(657)
NET INCOME	**Ps. 8,517**	**Ps. 6,705**

These income statements, consolidated with those of the financial entities and other companies that form part of the Financial Group and are susceptible to consolidation, were prepared according to accounting principles applicable to Financial Service Holding Companies issued by the Mexican National Banking and Securities Commission according to article 30 of the Law of Financial Institutions. Such principles are consistently applied in the consolidated financial statements, which are presented according to sound practices and applicable legal and administrative provisions and reflect all the operations conducted by the Financial Group, its financial service subsidiaries and the other companies that form part of the Financial Group and are consolidated as of the consolidated income statements dates above.

The accompanying consolidated income statements have been approved by the Board of Directors in accordance with the responsibility assigned to them.

The attached Notes are an integral part of these consolidated income statements.

Dr. Alejandro Valenzuela del Río Chief Executive Officer	Ing. Rafael Arana de la Garza Managing Director - CFO	Lic. Benjamín Vidargas Rojas Managing Director - Audit	Lic. Jorge Eduardo Vega Camargo Deputy Managing Director - Controller	C.P.C. Nora Elia Cantú Suárez Deputy Managing Director – Accounting and Taxes

GRUPO FINANCIERO BANORTE, S.A.B. DE C.V. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010
(In millions of Mexican pesos)

	PAID-IN CAPITAL		OTHER CAPITAL			
	Common stock	Additional paid-in capital	Capital reserves	Retained earnings from prior years	Result from valuation of securities available for sale	Result from valuation of cash flow hedging instruments
Balances, January 1, 2010	**Ps. 11,956**	**Ps. 1,525**	**Ps. 3,154**	**Ps. 20,681**	**Ps. 206**	**(Ps. 1,369)**
TRANSACTIONS APPROVED BY STOCKHOLDERS:						
Issuance (repurchase) of shares	15	146	27	(17)	(102)	-
Transfer of prior year's result	-	-	-	5,854	-	-
Dividend declared at the General Stockholders' meeting on						
February 15, 2010	-	-	-	(343)	-	-
April 23, 2010	-	-	-	(343)	-	-
October 4, 2010	-	-	-	(343)	-	-
Total transactions approved by stockholders	**15**	**146**	**27**	**4,808**	**(102)**	**-**
COMPREHENSIVE INCOME:						
Net income	-	-	-	-	-	-
Result from valuation of securities available for sale	-	-	-	-	205	-
Effect of subsidiaries, affiliates and mutual funds	-	2	-	3	-	-
Result from valuation of cash flow hedging instruments	-	-	-	-	-	(845)
Total comprehensive income	**-**	**2**	**-**	**3**	**205**	**(845)**
Minority Interest	-	-	-	-	-	-
Balances, December 31, 2010	**11,971**	**1,673**	**3,181**	**25,492**	**309**	**(2,214)**
TRANSACTIONS APPROVED BY STOCKHOLDERS:						
Issuance (repurchase) of shares	1	171	43	(87)	333	-
Transfer of prior year's result	-	-	-	6,705	-	-
Dividend declared at the General Stockholders' meeting on						
February 18, 2011	-	-	-	(343)	-	-
April 29, 2011	-	-	-	(419)	-	-
October 17, 2011	-	-	-	(395)	-	-
Merger effect of Ixe Grupo Financiero, S.A.B. de C.V. (Stock issuance)	1,078	16,161	-	-	-	-
Total transactions approved by stockholders	**1,079**	**16,332**	**43**	**5,461**	**333**	**-**
COMPREHENSIVE INCOME:						
Net income	-	-	-	-	-	-
Result from valuation of securities available for sale	-	-	-	-	(454)	-
Effect of subsidiaries, affiliates and mutual funds	-	1	-	(30)	-	-
Result from valuation of cash flow hedging instruments	-	-	-	-	-	(323)
Effect of modification to consumer loans rating rules (net of defered tax)	**-**	**-**	**-**	**(350)**	**-**	**-**
Total comprehensive income	**-**	**1**	**-**	**(380)**	**(454)**	**(323)**
Minority Interest	-	-	-	-	-	-
Balances, December 31, 2011	**Ps. 13,050**	**Ps. 18,006**	**Ps. 3,224**	**Ps. 30,573**	**Ps. 188**	**(Ps. 2,537)**

These statements of changes in stockholder's equity, consolidated with those of the financial entities and other companies that form part of the Financial Group and are susceptible to consolidation, were prepared according to accounting principles applicable to Financial Service Holding Companies issued by the Mexican National Banking and Securities Commission according to article 30 of the Law of Financial Institutions. Such principles are consistently applied in the consolidated financial statements, which are presented according to sound practices and applicable legal and administrative provisions and reflect all the operations conducted by the Financial Group, its financial service subsidiaries and the other companies that form part of the Financial Group and are consolidated as of the dates above.

These consolidated statements of changes in stockholder's equity were approved by the Board of Directors in accordance with the responsibility assigned to them.

The attached Notes are an integral part of these consolidated statements of changes in stockholders' equity.

Statements of Changes
in Stockholders' Equity

	OTHER CAPITAL				
	Cumulative foreign currency translation adjustment	Net Income	Total majority interest	Minority Interest	Total stockholders' equity
Balances, January 1, 2010	**(Ps. 641)**	**Ps. 5,854**	**Ps. 41,366**	**Ps. 3,608**	**Ps. 44,974**
TRANSACTIONS APPROVED BY STOCKHOLDERS:					
Issuance (repurchase) of shares	-	-	69	-	69
Transfer of prior year's result	-	(5,854)	-	-	-
Dividend declared at the General Stockholders' meeting on					
February 15, 2010	-	-	(343)	-	(343)
April 23, 2010	-	-	(343)	-	(343)
October 4, 2010	-	-	(343)	-	(343)
Total transactions approved by stockholders	**-**	**(5,854)**	**(960)**	**-**	**(960)**
COMPREHENSIVE INCOME:					
Net income	-	6,705	6,705	-	6,705
Result from valuation of securities available for sale	-	-	205	-	205
Effect of subsidiaries, affiliates and mutual funds	(359)	-	(354)	-	(354)
Result from valuation of cash flow hedging instruments	-	-	(845)	-	(845)
Total comprehensive income	**(359)**	**6,705**	**5,711**	**-**	**5,711**
Minority Interest	-	-	-	502	502
Balances, December 31, 2010	**(1,000)**	**6,705**	**46,117**	**4,110**	**50,227**
TRANSACTIONS APPROVED BY STOCKHOLDERS:					
Issuance (repurchase) of shares	-	-	461	-	461
Transfer of prior year's result	-	(6,705)	-	-	-
Dividend declared at the General Stockholders' meeting on					
February 18, 2011	-	-	(343)	-	(343)
April 29, 2011	-	-	(419)	-	(419)
October 17, 2011	-	-	(395)	-	(395)
Merger effect of Ixe Grupo Financiero, S.A.B. de C.V. (Stock issuance)	-	-	17,239	-	17,239
Total transactions approved by stockholders	**-**	**(6,705)**	**16,543**	**-**	**16,543**
COMPREHENSIVE INCOME:					
Net income	-	8,517	8,517	-	8,517
Result from valuation of securities available for sale	-	-	(454)	-	(454)
Effect of subsidiaries, affiliates and mutual funds	828	-	799	-	799
Result from valuation of cash flow hedging instruments	-	-	(323)	-	(323)
Effect of modification to consumer loans rating rules (net of defered tax)	-	-	(350)	-	(350)
Total comprehensive income	**828**	**8,517**	**8,189**	**-**	**8,189**
Minority Interest	-	-	-	2,123	2,123
Balances, December 31, 2011	**(Ps. 172)**	**Ps. 8,517**	**Ps. 70,849**	**Ps. 6,233**	**Ps. 77,082**

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Chief Executive Officer

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Managing Director - CFO

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Managing Director - Audit

Lic. Jorge Eduardo Vega Camargo
Deputy Managing
Director - Controller

C.P.C. Nora Elia Cantú Suárez
Deputy Managing
Director – Accounting and Taxes

GRUPO FINANCIERO BANORTE, S.A.B. DE C.V. AND SUBSIDIARIES
CONSOLIDATED CASH FLOW STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010
(In millions of Mexican pesos)

	2011	2010
Net income	**Ps. 8,517**	**Ps. 6,705**
Items not requiring (generating) resources:		
Technical reserves	9,316	-
Depreciation and amortization	1,596	1,181
Other provisions	(250)	430
Current and deferred income tax	3,552	2,805
Equity in earnings of unconsolidated subsidiaries and associated companies	1,093	337
	23,824	**11,458**
OPERATING ACTIVITIES:		
Changes in margin accounts	(75)	(159)
Changes in investments in securities	(111,755)	7,626
Changes in debtor balances under repurchase and resale agreements	(3,247)	(579)
Changes in asset position of derivatives	(8,741)	(2,639)
Change in loan portfolio	(83,992)	(25,173)
Changes in acquired collection rights	(1,767)	523
Changes in accounts receivable from insurance and annuities, net	(953)	-
Changes in debtor premiums, net	(3,442)	-
Changes in reinsurance (net) (asset)	(2,594)	-
Changes in receivables generated by securitizations	94	(518)
Change in foreclosed assets	(1,413)	94
Change in other operating assets	(4,584)	(2,243)
Change in deposits	75,035	18,975
Change in interbank and other loans	9,001	5,483
Change in creditor balances under repurchase and sale agreements	65,008	(6,892)
Collateral sold or pledged	20	9
Change in liability position of derivative financial instruments	10,577	2,684
Change in technical reserves (net)	33,090	-
Changes in reinsurance (net) (liability)	1,246	-
Change in subordinated debentures	(1,293)	(350)
Change in other operating liabilities	7,753	(645)
Change in hedging instruments related to operations	(214)	136
Income tax	(2,556)	(2,592)
Net cash (used in) provided operating activities	**(978)**	**5,198**
INVESTMENT ACTIVITIES:		
Proceeds on disposal of property, furniture and equipment	253	304
Payments for acquisition of property, furniture and equipment	(3,318)	(2,215)
Subsidiaries and associated companies acquisitions charges	-	69
Subsidiaries and associated companies acquisitions payment	(3,004)	(171)
Sale of other permanent investments	131	1
Charges for cash Dividends	20	227
Net cash used in investing activities	**(5,918)**	**(1,785)**
FINANCING ACTIVITIES:		
Dividends paid	(1,157)	(1,029)
Repurchase of shares	461	69
Net cash used in financing activities	**(696)**	**(960)**
Change in permanent stock investments for the beginning of consolidation	**2,060**	**-**
Net (decrease) increase in cash and cash equivalents	(5,532)	2,453
Effects from changes in the value of cash and cash equivalents	162	(133)
Cash and cash equivalents at the beginning of the year	59,338	57,018
Cash and cash equivalents at the end of the year	**Ps. 53,968**	**Ps. 59,338**

These cash flow statements, consolidated with those of the financial entities and other companies that form part of the Financial Group and are susceptible to consolidation, were prepared according to accounting principles applicable to Financial Service Holding Companies issued by the Mexican National Banking and Securities Commission according to article 30 of the Law of Financial Institutions. Such principles are consistently applied in the consolidated financial statements, which are presented according to sound practices and applicable legal and administrative provisions and reflect cash income and outlays derived from the operations conducted by the Financial Group, its financial service subsidiaries and the other companies that form part of the Financial Group and are consolidated as of the dates above. The accompanying consolidated cash flow statements have been approved by the Board of Directors in accordance with the responsibility assigned to them. The attached Notes are an integral part of these consolidated cash flow statements.

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GRUPO FINANCIERO BANORTE, S.A.B. DE C.V. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010
(In millions of Mexican pesos, except exchange rates and Note 33)

1 – ACTIVITY AND REGULATORY ENVIRONMENT

Grupo Financiero Banorte, S.A.B. de C.V. and subsidiaries (the Financial Group) are authorized by Mexico's Ministry of Finance and Public Credit (SHCP) to operate as a holding company under the form and terms established by the Laws Regulating Financial Groups, subject to the supervision and monitoring of the Mexican National Banking and Securities Commission (the Commission). Its main activities consist of acquiring and managing entities engaged in the financial services industry and supervising their activities, as defined in the above-mentioned law. The Financial Group is regulated, depending on its activities, by the Commission, the Mexican National Insurance and Bonding Commission, the Mexican National Retirement Savings Systems Commission (the Commissions), the Mexican Central Bank (Banco de México) and other applicable laws and regulations.

The main activity of the Financial Group's subsidiaries is to carry out financial transactions that include the rendering of full-banking services, brokerage activities, management of retirement funds, leasing, factoring, rendering of general warehousing services, annuities (pensions) and providing life insurance & casualty insurance.

By legal requirements, the Financial Group has unlimited liability for the obligations assumed, and losses incurred, by each of its subsidiaries.

The powers of the Commission in its capacity as regulator of the Financial Group include reviewing the financial information and requesting modifications to such information.

The Financial Group performs its activities throughout Mexico and the United States of America.

The Financial Group's consolidated financial statements have been approved by the Board of Directors at its January 23, 2012 meeting in accordance with the responsibilities assigned to this organ.

2 – SIGNIFICANT EVENTS DURING THE YEAR

a. Sale of Gruma S.A.B. de C.V. (GRUMA)'s equity stake

On February 10, 2011, the Financial Group announced the sale of 161,405,905 shares, excluding the over-allotment option, at a price of Ps. 52.00 per common share through and international offering and public offering in Mexico by the selling shareholder GRUMA. Additionally, the Mexican and International underwriters decided to exercise the over-allotment option fully on February 11, 2011; therefore all the shares included in the Global offering were settled on February 15, 2011. Consequently, the total proceeds from the Offering of 177,546,496 shares were deliverd to GRUMA.

As a result of the offering and the exercise of the over- allotment option by the initial purchasers and the underwriters, GRUMA no longer owns any of the Financial Group's share capital. The offering in Mexico was carried out through the Mexican Stock Exchange, Bolsa Mexicana de Valores, S.A.B. de C.V. (BMV), while the international offering was carried out in the U.S. under Rule 144A of the Securities Act of 1933 and, in other countries, in accordance to Regulation S of the same law and the applicable legislations in the relevant international jurisdictions. The common shares offered in the international offering were not registered under the Securities Act of 1933, and were not offered or sold in the U.S. without registration or an applicable exemption to the registration requirements.

b. Merger with Ixe Grupo Financiero, S.A.B. de C.V. (IXE)

On April 15, 2011 the merger became effective when the authorization and the merger agreements with Ixe were registered in the Public Registry of Commerce in Monterrey, Nuevo León. In order to carry out the capital stock increase and share exchange, that same day the Financial Group:

i. Increased the variable portion of its the capital stock by Ps. 1,078 by issuing 308,010,234 ordinary, nominal Series "O" common shares, with a nominal value of Ps. 3.50 per share, at the agreed exchange ratio of 0.3889943074.

ii. Replaced, through S.D. Indeval, Institución para el Depósito de Valores S.A. de C.V. (Indeval), all of its outstanding shares in circulation with new securities representing the total shares issued by the Financial Group that were in circulation with new stock certificates that represent all the shares issued by the Financial Group, including those issued as a result of the capital stock increase resulting from the merger.

iii. Carried out the exchange of IXE's shares for the Financial Group's shares, according to the conditions approved by the Shareholders' Assemblies, which established that once the merger came into effect, IXE shareholders would receive through S.D. Indeval, Institución para el Depósito de Valores, S.A. de C.V., 300,420,101 shares to be distributed in proportion to shareholdings of each IXE shareholder, and the Financial Group would deliver the remaining 7,590,133 shares to an irrevocable Trust to be held between the Financial Group, acting as Trustor and as Primary Trustee and The Bank of New York Mellon,S.A. Institución de Banca Múltiple, as Fiduciary; and all of IXE's shareholders would be appointed as Secondary Trustees, as established in the Trust. The shares will be deposited in the Trust for a period of 12 months as of April 15, 2011, and could be used to cover certain contingencies that could arise during the merger process. At the end of this term, the remaining shares held in trust would be delivered to each IXE shareholder proportionally to their shareholdings in Ixe Grupo Financiero at the time of the share exchange.

iv. Requested the cancellation of securities issued by IXE as a result of the merger.

The purchase was recorded as per Bulletin B-7 "Business Acquisitions", generating goodwill of Ps. 9,856.

The results of applying the purchase method are described below:

Goodwill		Fair value
Swapped shares	(300,420,101 x 55.97)	Ps. 16,814
Shares in the trust	(7,590,133 x 55.97)	425
Consideration value		17,239
Merged assets		112,777
Merged liabilities		105,394
Merged net fixed assets		7,383
Goodwill generated by the merger		**Ps. 9,856**

Identified intangible assets	Fair value
Clients' Deposits	Ps. 1,075
Relationship with clients of Ixe Casa de Bolsa	228
Ixe trademark	100
	Ps. 1,403

The acquisition of IXE contributed Ps. 420 to the Financial Group's net income for the period between April 1 and December 31, 2011. Had the acquisition been made as of January 1, 2011, the contribution to the Financial Group's net income would have been Ps. 102.

The main line items of IXE's income statement over the different periods are listed below:

	Balances, March 1, 2011	Results for the period from April 1 to December 31, 2011	Result for the year ended on December 31, 2011
Income statement			
Net Interest Income after allowance for loan losses	Ps. 488	Ps. 1,476	Ps. 1,964
Operating income	(Ps. 285)	Ps. 254	(Ps. 31)
Net Income	(Ps. 318)	Ps. 420	Ps. 102

The cash flow statement analysis must consider the cash flow generated by the acquired businesses. The acquired net assets totaled Ps. 6,861 and were recorded in "Change in other operating assets" in the cash flow statement.

At the acquisition date, the net acquired assets were made up of Ps. 4,368 in Cash and Cash Equivalents, and Ps. 2,493 in other net assets, which are detailed below:

Concept	Amount
Investments in securities	Ps. 59,886
Debtor balances under repurchase and resale agreements	4,437
Derivatives financial instruments	3,738
Loan portfolio, net	32,806
Other assets	6,715
Acquired assets	**107,582**
Deposits	32,572
Interbank and other loans	9,892
Creditor repurchase agreement	50,458
Derivatives financial instruments	4,090
Subordinated debentures	3,096
Other	4,981
Acquired liabilities	**105,089**
Net acquired assets	**Ps. 2,493**

c. Acquisition of Royal and Sun Alliance Pensions (Mexico)

On August 31, 2011, the Financial Group acquired 100% of the shares of Royal and Sun Alliance Pensiones (Mexico), whose line of business focuses on the employee retirement benefits sector (annuities). The Financial Group paid a total of Ps. 136, registering Ps. 4 in goodwill.

d. Strategic merger with Afore XXI, S.A. de C.V. (Afore XXI)

The Financial Group and the Instituto Mexicano del Seguro Social (IMSS) signed an agreement to merge their respective pension funds (Afores), effective as of January 16, 2012. In order to carry out the merger, on October 20, 2011 the Financial Group signed a contract to purchase the shares that Prudential International Investments Corporation and DMO Mexico, S. de R.L. de C.V. (Prudential and DMO) owned in Afore XXI, S.A. de C.V. (Afore XXI). The purchase was finalized on December 2, 2011 and on that same date, the Financial Group acquired 48.81% of Afore XXI's shares owned by Prudential and 1.19% of those owned by DMO, thereby acquiring 50% of Afore XXI's shares.

Furthermore, as part of this strategic merger, on December 23, 2011 the Financial Group sold 1% of its stake in Afore Banorte to the IMSS and the remaining 49% stake in Afore Banorte owned by Assicurazioni Generali. At the end of the transaction, the Financial Group and the IMSS each owned 50% of the Afore Banorte and Afore XXI shares, respectively.

As a result, the Financial Group paid Ps. 2,871, generating goodwill of Ps. 2,504. The Financial Group's management is currently conducting a study of the purchase price, which, pursuant to NIF B-7 "Business acquisitions", must be done in one year. Afore XXI Banorte S.A. de C.V. was created on January 16, 2012.

e. Prepayment of subordinated debentures

In October 2011, Banorte exercised its prepayment option on the non-convertible subordinated debentures issued in 2006, maturing in 2016, for a total of 400 million USD.

f. Change in the loan rating methodology

As stated in Note 12, on October 25, 2010 the Commission issued a resolution to the General Provisions for Banking Institutions modifying the applicable rating for non-revolving consumer and mortgage loans so that the allowance for loan losses will be calculated on the basis of expected rather than incurred loss. On October 5, 2011, the Commission published a resolution that modified the provisions regarding the rating methodology for loan portfolios granted to state and municipal governments. The resolution modifies the current model of reserves based on public ratings in order to establish a methodology through which the portfolio in question is rated and hedged based on the expected losses for the next 12 months, considering the probability of non-compliance, severity of the loss and exposure to non-compliance by each client.

3 – BASIS OF PRESENTATION

Monetary unit of the financial statements

The consolidated financial statements and notes as of December 31, 2011 and 2010 and for the years then ended include balances and transactions in Mexican pesos of purchasing power of such dates.

Consolidation of financial statements

The accompanying consolidated financial statements include those of Grupo Financiero Banorte, S.A.B. de C.V. and its subsidiaries mentioned below. All significant intercompany balances and transactions have been eliminated in consolidation.

As of December 31, 2011 and 2010, Grupo Financiero Banorte, S.A.B. de C.V.'s consolidated subsidiaries and its equity ownership is as follows:

	2011	2010
Banco Mercantil del Norte, S.A. and subsidiaries	92.72%	92.72%
Casa de Bolsa Banorte, S. A. de C. V. and subsidiaries	99.99%	99.99%
Arrendadora y Factor Banorte, S. A. de C. V. SOFOM, ER	99.99%	99.99%
Almacenadora Banorte, S. A. de C. V.	99.99%	99.99%
Seguros Banorte Generali, S. A. de C. V.	51.00%	51.00%
Pensiones Banorte Generali, S. A. de C. V.	51.00%	51.00%
Ixe Banco, S. A.*	99.99%	-
Ixe Casa de Bolsa, S. A. de C. V.*	99.99%	-
Ixe Fondos, S. A. de C. V.*	99.99%	-
Ixe Servicios, S. A. de C. V.*	99.99%	-
Ixe Automotriz, S. A. de C. V. SOFOM, ER and subsidiary*	99.99%	-
Ixe Soluciones, S. A. de C. V. SOFOM, ER*	99.99%	-
Fincasa Hipotecaria, S. A. de C. V. SOFOM, ER and subsidiary*	99.99%	-

* Subsidiary consolidated as of April 2011.

As described in Note 4, as of 2011, the Financial Group consolidates in its consolidated financial statements those of Seguros Banorte and Pensiones Banorte (Insurance and Annuities' Companies, respectively).

Conversion of Financial Statements of Banorte USA, Corporation and Subsidiaries (indirect foreign subsidiary)

In order to consolidate the financial statements of Banorte USA, they are first adjusted to the recording and functional currency (U.S. dollar) to conform to the accounting criteria established by the Commission. The financial statements are then converted to the reporting currency (Mexican pesos) according to the following methodology:

Foreign operations whose recording and functional currency are one and the same, convert their financial statements using the following exchange rates: a) year-end rate for assets and liabilities, b) historical for stockholders' equity, and c) weighted average of the period for income, costs and expenses. The conversion effects are presented in Banorte's stockholders' equity.

Comprehensive Income

This is the change in stockholders' equity during the year, for items other than distributions and activity in contributed common stock, and is comprised of the net income of the year, plus other comprehensive income (loss) items of the same period, which are presented directly in stockholders' equity without affecting the consolidated income statements, in accordance with the accounting practices established by the Commission. In 2011 and 2010, comprehensive income includes the net income of the year, the result from valuation of securities available for sale; the effect of subsidiaries, affiliates and mutual funds; the result from valuation of cash flow hedging instruments; the application of the cumulative result of non-monetary asset holdings, and the change in credit card loan rating methodology.

4 – SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies of the Financial Group are in conformity with practices prescribed by the Commission through issued accounting standards and other applicable laws, which require Management to make certain estimates and use certain assumptions to determine the valuation of certain items included in the consolidated financial statements and make the required disclosures therein. Even though they may differ in their final effect, management considers the estimates and assumptions to have been adequate under the current circumstances.

Pursuant to accounting Circular A-1, "Basic Framework of the Accounting Criteria Applicable to Banking Institutions", prescribed by the Commission, the Financial Group's accounting will adhere to Mexican Financial Reporting Standards (NIF), defined by the Mexican Board of Financial Reporting Standards (previously Mexican Board for Research and Development of Financial Reporting Standards) (CINIF), except when the Commission deems it necessary to apply a specific accounting standard or Circular, considering the fact that financial institutions perform specialized operations.

Changes in accounting policies

a. On January 31, 2011, the Commission issued a resolution that modifies the "General Provisions Applicable to Financial Group Holding Companies" (the Provisions). As of the effective date of this resolution, permanent investments in insurance and annuities institutions should be consolidated by the Holding. Therefore, as of February 2011, the Financial Group's consolidated financial statements include Seguros Banorte Generali and Pensiones Banorte Generali. Nevertheless the Financial Group's consolidated financial statements include the results for the entire year.

   On June 13, 2011, the Commission issued document No. 320-1/408072011, which confirms that for comparison purposes in the preparation of the quarterly and annual consolidated statements for the business year ended on December 31, 2011, it is impractical to consolidate the insurance and annuities' companies by the Holding, therefore such holding companies may refrain from making the comparative adjustments for the years prior to 2011 as well as consolidating the financial statements for such years.

   The Financial Group deemed it impractical to determine the amounts for the years prior to 2011, as the accounting bases used back then are not comparable to the accounting criteria issued by the Commission. Consequently, the 2010 consolidated financial statements submitted are not comparable to those of 2011 with regard to this accounting change.

b. On January 27, 2011, the Commission issued a resolution that modifies the "General Provisions Applicable to Banking Institutions" thereby updating all the accounting criteria. These provisions went into effect on April 28, 2011.

   The main changes to this resolution are described below:

   - Criteria B-2 "Investments in securities" adds rules for restating the securities held to maturity or the trading securities to securities available for sale, which can be done in extraordinary circumstances (lack of market liquidity, absence of an active market for such securities, among other). The Commission will evaluate such circumstances and, if it determines they are valid, it will issue its express authorization for their reclassification.

   - Criteria B-5 "Derivatives and hedging transactions" establishes that the implicit derivatives denominated in a stable and liquid currency used in local transactions or in foreign trade for purchasing or selling products and services, should no longer be valued.

     For cases in which the implicit derivatives have to be recognized and valued, it's no longer necessary to present them in the consolidated balance sheet along with the host contract. Instead they should be recognized pursuant to the guidelines set forth in the relevant accounting criteria.

     This Criteria specifies how margin securities should be used in performing transactions with derivatives in recognized markets or stock exchanges.

     The collateral in over the counter (OTC) transactions with derivatives financial instruments is booked outside margin securities and instead is recorded in an account receivable and payable, respectively.

   - Criteria B-6 "Loan portfolio" the fees charged for loan restructurings are deferred, amortizing them in the P&L as an interest income during the loan's new term.

     Fees and costs for granting loans and annuities should be presented in their net form.

   - Criteria D-2 "Income Statements" eliminates the "Non operating income (expenses)" line items, and the items accounted for therein will be recorded in "Other operating income (expenses)".

   - On October 5, 2011, the Commission published a resolution that modifies the "General Provisions for Banking Institutions", changing the rating methodology for loan portfolios granted to state and municipal governments. The resolution modifies the current model of reserves based on public ratings, establishing a methodology to rate this portfolio based on the expected losses for the next 12 months considering the probability of non-compliance, severity of the loss and exposure to non-compliance to each client. The resolution went into effect on October 6, 2011 and its application is optional in the third or fourth quarter of 2011.

Based on the application of the cited loan rating methodologies, the Financial Group released reserves of Ps. 87 before taxes as a result of recording a surplus in the reserves using the prior methodology. The net effect credited to earnings was Ps. 55 after Income Tax (ISR) and Employee Profit Sharing (PTU).

- On October 25, 2010 the Commission issued a resolution to the "General Provisions for Banking Institutions" modifying the applicable non-revolving consumer and mortgage loan rating.

  Consequently the Financial Group recorded a charge against stockholders' equity of Ps. 350, net of deferred taxes.

Recognition of the inflation effects in the financial information

Inflation recognition is done pursuant to NIF B-10 "Inflation Effects" which considers two types of economic environments: a) inflationary, when the accumulated inflation of the three previous years is 26% or over, in which case the inflation effects must be acknowledged; b) non-inflationary, when in the same period inflation is less than 26%; in this case the effects of inflation should not be recorded in the financial statements.

The cumulative Mexican inflation over the three years prior to 2011 and 2010 was 15.09% and 14.55%, respectively. Therefore, the Mexican economy is considered as non-inflationary according to the NIF B-10 definition. However, assets, liabilities and stockholders' equity as of December 31, 2011 and 2010 include the restatement effects recorded up through December 31, 2007.

The Mexican inflation rates for the years ended December 31, 2011 and 2010 were 3.65% and 4.29%, respectively.

Cash and cash equivalents

Cash and cash equivalents are stated at nominal value, except for precious metal coins, which are stated at fair value at the end of the period. Funds available in foreign currency are valued at the FIX exchange rate published by yearend by Banco de México at the consolidated balance sheets.

Trading securities

Trading securities are securities owned by the Financial Group, acquired with the intention of selling them for a profit derived from the price differences in short-term purchase and sale operations made by the Financial Group as a market participant.

At the time of the acquisition they are initially recorded at fair value, which may include either a discount or premium.

These securities (including both capital and accrued interest) are stated at fair value, which is determined by the price vendor contracted by the Financial Group.

The trading securities valuation result is recorded in the results of the period.

Securities available for sale

Securities available for sale are debt or equity securities that are neither classified as trading nor held to maturity, therefore they represent a residual category, which means that, they are purchased with an intention different from trading or holding them to maturity.

They are valued in the same way as trading securities, but with unrealized gains and losses recognized in other comprehensive income within stockholders' equity.

In an inflationary situation, the result of monetary position corresponding to the valuation result of securities available for sale is recorded in other comprehensive income in stockholders' equity.

Securities held to maturity

Securities held to maturity consist of debt instruments whose payments are fixed or can be determined with a set maturity, which are acquired with the intent and capability of holding them to maturity.

They are initially recorded at fair value and valued at amortized cost, which means that the amortization of the premium or discount (included in the fair value at which they were initially recorded), is part of the earned interest.

General valuation standards

Upon the sale of trading securities, the valuation result previously recorded in the year's results is reclassified as part of the gain or loss on the sale. Similarly, upon the sale of securities available for sale, the cumulative valuation result recorded in other comprehensive income in stockholders' equity is reclassified as part of the gain or loss on the sale.

Accrued interest on debt instruments is determined using the effective interest method and is recorded in the corresponding category of investments in securities and in the year's results.

Dividends on equity instruments are recorded in the corresponding category of investments in securities and in the year's results when the right to receive such dividends is established.

The foreign exchange gain or loss on investments in securities denominated in foreign currency is recorded in the year's results.

Reclassification of securities held to maturity to available for sale is allowed, provided there is no intention or ability of holding them to maturity. In the case of reclassifications to securities held to maturity or from trading securities to securities available for sale, which can be done in extraordinary circumstances (lack of market liquidity, absence of an active market for such securities, among other), the Commission will evaluate such circumstances and, if it determines they are valid, it will issue its express authorization for their reclassification.

If securities held to maturity are reclassified as available for sale, the corresponding valuation result on the reclassification date is recorded in other comprehensive income within stockholders' equity.

In the case of debt instruments that have been authorized for reclassification from securities available for sale to securities held to maturity, the valuation result on the transfer date continues to be reported in stockholders' equity, and it is amortized based on such instrument's remaining life.

Regarding authorized reclassifications from trading securities to any other category, the valuation result on the reclassification date is already acknowledged in the year's results.

An impairment loss on a security is recorded against the year's results if there is objective evidence of such impairment as a result of one or more events, occurring after the initial recording of the security, that have had an impact on the estimated future cash flows that can be reliably determined. The effect of recording the impairment of securities is shown in Note 7.

A previously recorded impairment loss is reversed against the year's results if, in a later period, the amount of the loss decreases and such decrease is objectively associated with an event occurring after the impairment was recorded.

The Financial Group periodically verifies whether its securities available for sale and those held to maturity show any impairment loss, by means of an evaluation on the quarterly consolidated balance sheet date or whenever there are indications of an impairment loss.

Securities are deemed as impaired and therefore incurring an impairment loss if and only if there is objective evidence of the impairment loss as a result of a set of events that occurred after their initial value was recorded. Such events should have had an impact on the estimated future cash flows, which can be determined in a reliable manner.

These events may include: issuer facing significant financial difficulties; likelihood of the issuer's filing for bankruptcy or financial reorganization; noncompliance with contractual clauses such as failure to pay interest or the principal; loss of an active market for the securities due to financial difficulties; lower credit rating and sustained decline in the issuance price, in combination with additional information.

In addition to the aforementioned events, objective evidence of impairment loss for a net asset instrument includes information about significant changes with adverse effects that occurred in the technological, market, economic or legal situation in which the issuer operates, and which indicates a possible loss of the cost of investing in the net asset instrument.

The events considered by the model are divided into:

a. Information that the Financial Group has about the securities (breach of contract covenants, financial, economic or legal problems).
b. Information that the Financial Group has about the issuer (issuer's probability of bankruptcy, financial reorganization and financial difficulties).
c. Information that the market has about the securities (rating assigned by Commission-approved agencies).
d. Information that the market has about the issuer (rating assigned by Commission-approved agencies).

The evaluation model that the Financial Group uses to determine impairment loss incorporates the aforementioned events according to their importance and rates them as per a severity average used to estimate the return on investment. Similarly, it incorporates the existence of guarantees, which contributes to lower impairment losses.

The investments on which impairment losses have been recognized are analyzed on a quarterly basis to identify the possible recovery of their value and, if applicable, reverse the recorded loss in the consolidated income statements for the year such recovery is achieved.

Customer repurchase agreements (repos)

This is a transaction through which the purchaser acquires ownership of credit securities for a sum of money and is obliged to transfer the property of another amount of securities of the same kind to the seller of the securities within the agreed term and in exchange for the same price plus a premium. The purchaser keeps the premium unless agreed otherwise.

Repurchase transactions are recorded according to their economic substance, which is financing with collateral, through which the Financial Group, acting as the purchaser, provides cash as financing in exchange for financial assets as guarantee in case of non-compliance.

On the repurchase agreement transaction contract date, the Financial Group, acting as the seller, records the cash inflow, or else a settlement debtor account as well as a payable account at its fair value, initially at the agreed price, which represents the obligation to reimburse the cash to the purchaser. The account payable is subsequently valued over the term of the repurchase agreement at amortized cost by recognizing the interest from the repurchase agreement in the year's results using the effective interest method.

As to the collateral granted, the Financial Group reclassifies the financial asset in the consolidated balance sheets as restricted and values it according to the criteria mentioned earlier in this note until the maturity of the repurchase agreement.

The Financial Group, acting as the purchaser, on the repurchase transaction contract date records cash and cash equivalents or a creditor settlement account, with an account receivable at its fair value, initially at the agreed price, which represents the right to recover the cash that was delivered. The receivable is subsequently valued over the life of the repurchase agreement at amortized cost by recognizing the repurchase agreement interest in the year's results using the effective interest method.

As to the collateral received, the Financial Group records it in off balance sheet memorandum accounts until the repurchase agreement's maturity, following the guidelines of Circular B-9, "Asset Custody and Management", issued by the Commission.

Derivatives financial instruments

The Financial Group is authorized to perform two types of transactions involving derivatives financial instruments:

Transactions to hedge the Financial Group's open risk position: Such transactions involve purchasing or selling derivatives financial instruments to mitigate the risk resulting from one or a group of given transactions.

Transactions for trading purposes: The Financial Group enters into such transactions as a market participant for reasons other than to hedge its exposed position.

Transactions with derivative financial instruments are presented in assets or liabilities, as applicable, under the heading "Derivatives financial instruments", separating derivatives for trading purposes from those for hedging purposes.

When entering into transactions involving derivatives financial instruments, the Financial Group's internal policies and norms require an assessment and if necessary determination of different risk exposures for each counterparty in the financial system that have been authorized by the Banco de México to enter into these types of transactions. Regarding corporate customers, a preauthorized credit line by the National Credit Committee must be granted or liquid guarantees must be given through a securitized collateral contract before entering into these types of transactions. Medium and small sized companies and individuals must provide liquid guarantees established in securitized collateral contracts with this type of transactions.

The recognition or cancellation of assets and/or liabilities resulting from transactions involving derivatives financial instruments occurs when these transactions are entered into, regardless of the respective settlement or delivery date of the goods.

Forward and futures contracts

Forward and futures contracts with trading purposes establish an obligation to buy or sell a financial asset or an underlying at a future date in the quantity, quality and prices pre-established in the contract. Futures contracts are recorded initially by the Financial Group in the consolidated balance sheets as an asset and a liability at fair value, which represents the price agreed in the contract in order to acknowledge the right and obligation of receiving and/or delivering the underlying, as well as the right and obligation of receiving and/or delivering the cash equivalent to the underlying, object of the contract.

The derivatives are presented in a specific item of the assets or liabilities depending on whether their fair value (as a consequence of the rights and/or obligations it establishes) corresponds to the debtor balance or creditor balance. Such debtor or creditor balances in the consolidated balance sheets are offset when the Financial Group has the contractual right to offset the stated amount, the intention of liquidating the net amount or to realize the asset and cancel the liability simultaneously.

In the case of transactions for trading purposes, the balance represents the difference between the fair value of the contract and the established "forward" price.

Option contracts

Through paying a premium, options contracts grant the right but not the obligation to buy or sell a financial asset or underlying instrument at a given price within an established term.

Options are divided into: options to buy (calls) and options to sell (puts). Both can be used as trading or hedging instruments.

Options can be executed on a specific date or within a certain period of time. The price is agreed in the option and may be exercised at the discretion of the buyer. The instrument to which said price is established is the reference or underlying value.

The premium is the price the holder pays the issuer for the option rights.

The holder of a call option has the right, but not the obligation, to purchase from the issuer a certain financial asset or underlying instrument at a fixed price (transaction price) within a certain term.

The holder of a put option has the right, but not the obligation, to sell a certain financial asset or underlying instrument at a fixed price (transaction price) within a certain term.

The Financial Group records the option premium as an asset or liability at the transaction date. The fluctuations resulting from market valuation of the option's premium are recorded by affecting the consolidated statement of income in the account "Trading results" and the corresponding consolidated balance sheet account.

Swaps

These are two-party contracts through which a bilateral obligation is established to exchange a series of cash flows for a certain period of time on pre-set dates at a nominal or reference value.

They are recorded at fair value which corresponds to the net amount between the asset and liability portion for the rights and obligations agreed upon; they are subsequently valued at fair value using the present value of the future flows to receive or grant according to the projections for future implicit applicable rates, discounting the market rate on the valuation date with yield curves given by the price provider. The result of such valuation is recorded in the year's results.

Management's policy regarding hedging contracts is to protect the Financial Group's consolidated balance sheets and to anticipate interest and exchange rate fluctuations, thereby protecting the Shareholders' Equity.

For hedging derivatives, the Financial Group applies the fair value and cash flow hedging methods and the accumulated compensation method to measure effectiveness. Such methods are approved by current accounting standards. In case ineffective hedges are detected, they are recorded in the year's results.

The Financial Group documents hedging transactions from the moment the derivatives instruments are designated as hedging transactions. A file for each transaction is created in order to have documented proof as per Circular B-5 paragraph 72, which establishes conditions for the use of hedging accounting.

Accordingly, the Financial Group documents its hedging transactions based on the following guidelines:

- A cash flow hedging transaction is recorded as follows:

  a. The effective portion of the hedging instrument's gain or loss is recorded as a component of other comprehensive income in stockholders' equity using as an asset or liability account called "derivatives financial instruments" with an offsetting account in the liquid assets or liabilities. The portion determined as ineffective is measured through retrospective testing, and when it results in over-hedging, it is immediately recognized in current earnings.

  b. The effective hedging component stated in the stockholders' equity associated with the hedged item is adjusted to equal the lower (in absolute terms) of:
     i. The accumulated gain or loss of the hedging instrument from its inception.
     ii. The accumulated change in the fair value (present value) of the hedged item's expected future cash flows from the beginning of the transaction.

- A fair value hedging transaction is recorded as follows:

  a. The valuating of the hedging instrument at its fair value is stated immediately in the results of the period in which it occurred.

  b. The result of the valuation of the primary position attributable to the hedged risk should adjust the book value of said position and be stated immediately in the results of the period in which it occurs.

Valuation method

Since the derivatives used by the Financial Group are considered as conventional ("plain vanilla"), the standard valuation models, contained in the derivatives transaction systems and the Financial Group's risk management, are used.

All of the valuation methods that the Financial Group uses result in the fair value of the transactions and are periodically adjusted. Furthermore, they are audited by internal and external auditors, as well as by the financial authorities.

Valuation of the positions is done on a daily basis and a price provider generates the input used by the transaction and risk management systems. The price provider generates these valuations based on daily market conditions.

The valuation methods are based on the market's accepted and commonly used principles. At present, derivatives are valued by the cash flow present value method, except in the case of options. This method consists of estimating future flows of these derivatives, using the difference between the derivative's fixed level and the forward market curves on the valuation date, and then discounting such flows and updating them to the present value. Options are valuated under the Black and Scholes method, which in addition to the present value calculation, involves the volatility and probability of occurrence for calculating the premium. Once the option's market value is obtained, it is compared to the original premium accrued on the valuation date.

Operation strategies

Trading

The Financial Group participates in the derivatives market with trading purposes and the risk exposures generated are computed within its overall VaR limit.

The trading strategy is submitted on a weekly basis to the Financial Group's Treasury Committee, which analyzes the current risks and then takes any necessary decisions.

The trading strategy is carried out according to market levels and expectations, maximizing the circumstances to obtain a benefit by trading, margin and volatility. Each trading strategy is submitted to the Treasury Committee on a weekly basis for its consideration. The Committee analyzes the risks and then decides accordingly.

Hedging

The hedging strategy is determined annually and when market conditions require it. Hedging strategies are submitted to the Risk Policies' Committee.

Hedging transactions comply with the applicable norm set forth in Circular B-5 of the CNBV. This implies, among other things, that the hedge's effectiveness must be evaluated both prior to its arrangement (prospective) and thereafter (retrospective). These tests are performed on a monthly basis.

The hedging strategy is determined annually and each time the market conditions require. Hedges are used to reduce foreign exchange risks, through exchange rate forwards and currency swaps, as well as interest rates by means of interest rate swaps. This is done with the purpose of locking the rates paid on the debt issued by the Financial Group, thereby ensuring the debt servicing, as well as to make investments that generate greater value for the customers. The main strategy is to ensure that the Financial Group's future income and expenses are covered, maximizing its profitability.

Hedging derivatives can be restated whole or partially due to hedging inefficiencies, maturity or sale of primary position.

Contingencies

To enter the derivatives market, the Financial Group is bound by an agreement to deliver its financial information in a timely manner and to abide by the applicable laws, regulations and provisions, as well as to provide written notice to the affected parties in case that an event arises that could be considered as early termination, which could lead to a credit contingency. These include the following: bankruptcy filing, payment suspension, restructuring, intervention, liquidation, dissolution or other similar judicial or extra-judicial proceedings that affect the Financial Group; if the statements stipulated in the contract are incorrect; the Financial Group's failure to fulfill its obligations and/or payments; breach of contract; the Financial Group's consolidates or merges with another entity thereby transferring a substantial portion of its assets; failure to provide the guarantees that were agreed in the event of noncompliance with obligations or if such guarantees expire or diminish in value; the Financial Group falls into insolvency, lower credit quality or illegality due to changes in the tax or legal legislation; the existence of a ruling, proceeding or embargo against the Financial Group that could substantially affect its ability to fulfill its obligations in a timely manner; or general noncompliance with obligations. Each ground for early termination is subject to the counter-party's consideration in order to determine its importance and significance regarding the Financial Group's ability to comply.

At present, no such contingency situations have arisen.

Embedded derivatives

Embedded derivatives are those contract components that do not intend to explicitly originate a derivative financial instrument, but rather that the implicit risks generated or hedged by those components differ in their economic and risk features from those of the contract, and therefore display behavior and features similar to those of a common derivative.

Identified embedded derivatives are separated from the host contract for valuation purposes and are treated as a derivative when they meet the features outlined in Circular B-5 paragraph 22, unless the implicit derivative is denominated in a currency commonly used for the purchase and sale of non-financial items in the economic environment where the transaction takes place. The main embedded derivatives recognized by the Financial Group prior to January 2011 are from service and leasing contracts established in US dollars.

Loan portfolio

The loan portfolio represents the balance of the amounts effectively granted to borrowers plus uncollected accrued interest minus interest collected in advance. The allowance for loan losses from credit risks is presented as a reduction of the loan portfolio.

The unpaid loan balance is classified in the past-due portfolio as follows:

- Loans with bullet payment of principal and interest at maturity: 30 calendar days after being overdue.
- Loans involving a single principal payment at maturity, but with periodic interest payments, total principal and interest payments 30 and 90 calendar days after being overdue, respectively.
- Loans for which the payment of principal and interest is agreed based on partial periodic payments, 90 calendar days after the first payment is due.
- In the case of revolving loans, whenever payment is outstanding for two billing periods or when they are 60 or more days overdue.
- Overdrawn customer checking accounts are considered as part of the past-due portfolio when such situations arise.

Interest is recognized and accrued as income when earned. The accrual of interest income is suspended when loans are transferred to the past-due portfolio.

The fees charged for the initial granting, restructuring and renewal of loans will be recorded as a deffered credit, which will be amortized as interest income, using the straight line method over the loan's contractual term, except those originating from revolving loans, which are amortized over a 12-month period.

Annual credit card fees, whether the first annual charge or a renewal, are recorded as a deferred credit and amortized over a 12-month period against the year's results in the fee income line item.

The costs and expenses associated with the initial granting, restructuring and renewal of a loan are stated as a deferred charge which is amortized against the year's earnings as interest expense for the duration of the loan, except those originating from revolving loans and credit cards as they are amortized over a 12-month period.

Restructured past-due loans are not considered in the performing portfolio until evidence of sustained payment is obtained; this occurs when credit institutions receive three timely consecutive payments, or a payment is received for periods exceeding 60 days.

Renewed loans in which the borrower has not paid on time or when the accrued interest balance equals at least 25% of the original loan amount are considered past-due until evidence of sustained payment is obtained.

Accrued interest during the period in which the loan was included in the past-due portfolio is recognized as income when collected.

The recognition of interest income is renewed when the portfolio is no longer considered past-due, which occurs when the outstanding balances, including the principal, interest and any other item, are paid in full.

Restructured loans are those whose terms have been modified due to the borrowers' financial difficulties, and it was decided to grant them a concession. Such modifications may include: reductions in the interest rate, debt forgiveness or term extensions.

The Financial Group regularly evaluates whether a past-due loan should remain on the consolidated balance sheets or be written off. Such write-offs are done by canceling the outstanding loan balance against the allowance for loan losses. The Financial Group may opt to eliminate from its assets those past-due loans that are 100% provisioned according to the following parameters:

Commercial loans.- Must be classified in past-due loans, with an E risk rating, 100% reserved, unsecured by any fund.

Consumer loans.- 180 days or more overdue.

Mortgage loans.- 270 days or more overdue.

Allowance for loan losses

Application of new portfolio rating criteria

The loan portfolio is classified according to the rules issued by the Ministry of Finance and Public Credit (SHCP) and the methodology established by the Commission. Internal methodology authorized by such Commission may also be used.

In the case of consumer and mortgage loans, the Financial Group applies the general dispositions applicable to credit institutions in rating the loan portfolio as issued by the Commission on October 5, 2011. The Financial Group uses the internal methodology authorized by the Commission for rating commercial loans and the rules issued by the Commission for commercial loan in the event of absence of the other methodology.

Such dispositions also establish general methodologies for rating and calculating the allowance for each type of loan, while also allowing credit institutions to classify and calculate allowances based on internal methodologies, when previously approved by the Commission.

Since June 2001, the Financial Group has the Commission's approval to apply its own methodology, called Internal Risk Classification (CIR Banorte) to the commercial loans of Banco Mercantil del Norte, S.A. and Arrendadora y Factor Banorte, S.A. de C.V. SOFOM ER. CIR Banorte applies to commercial loans with outstanding balances equal to or greater than 4 million UDIS or its equivalent in Mexican pesos. Loan classification and reserve allowance are determined based on the rules set by the Commission. This methodology is explained below.

The commercial loan portfolio rating procedure requires that credit institutions apply the established methodology (general or internal) based on quarterly information for the periods ending in March, June, September and December of each year, while also recording the allowances determined at the close of each month in their financial statements. Furthermore, during the months following each quarterly close, financial institutions must apply the respective rating to any loan used at the close of the immediately preceding quarter, based on the outstanding balance in effect on the last day of the aforementioned months. The allowances for loan risks that have exceeded the amount required to rate the loan will be cancelled against the period's results on the date of the following quarterly rating. Additionally, recoveries on previously written-off loan portfolios are recorded in the period's results.

As a result of acquiring INB Financial Corp. (INB) in 2006, the Financial Group applied the loan rating methodologies established by the Commission to INB's loans, homologating the risk degrees and adjusting the allowance for loan losses derived from applying such methodologies.

On November 30, 2010, the Commission issued Document 121-4/5486/2010, which renewed for a two-year period, effective December 1, 2010, the authorization for such internal loan rating methodology.

Commercial loans equal to or greater than 4 million UDIS or its equivalent in Mexican pesos are rated based on the following criteria:

- Debtor's credit quality.
- The loans, in relation to the value of the guarantees or the value of the assets in trusts or in "structured" programs, as applicable.

The commercial loan segment includes loans granted to business groups and corporations, state and municipal governments and their decentralized agencies, as well as financing to companies of the financial services sector.

The Financial Group applied the internal risk classification methodology, CIR Banorte, authorized by the Commission, to the authorized affiliates, and the Commission's rules to the remaining affiliates in order to rate debtors, except in loans granted to state and municipal governments and their decentralized agencies, loans intended for investment projects with their own source of payment and financing granted to trustees that act under trusts and "structured" loan programs in which the affected assets allow for an individual risk evaluation associated with the type of loan; in such cases, the Financial Group applied the procedure established by the Commission.

When evaluating a debtor's credit quality with the CIR Banorte method, the following risks and payment experiences are classified specifically and independently:

Risk criteria	Risk factors
1. Financial risk	1. Financial structure and payment capacity
	2. Financing sources
	3. Management and decision-making
	4. Quality and timeliness of financial information
2. Industry risk	5. Positioning and market in which debtor participates
	- Target markets
	- Risk acceptance criteria
3. Borrower's experience	6. Borrower's experience
4. Country risk	7. Country risk

Each of the risk factors is analyzed using descriptive evaluation tables, the result of which indicates the borrower's rating. This, in turn, is standardized with the risk degrees established by the Commission.

CIR Banorte	Risk level description	Commission classification equivalent
1	Substantially risk free	A1
2	Below minimal risk	A2
3	Minimum risk	A2
4	Low risk	B1
5	Moderate risk	B2
6	Average risk	B3
7	Risk requiring management attention	C1
8	Potential partial loss	C2
9	High loss percentage	D
10	Total loss	E

For commercial loans under 4 million UDIS or its equivalent in Mexican pesos, loans under 900 thousand UDIS to state and municipal governments and their decentralized agencies, mortgage loans and consumer loans, the Financial Group applied the general provisions applicable to credit institutions for rating the loan portfolio as issued by the Commission.

General description of rules established by the Commission

The rules established by the Commission to rate commercial loans equal to or greater than 4 million UDIS or its equivalent in Mexican pesos, indicate that the following factors should be analyzed in the order listed and in a specific and independent manner:

- Country risk
- Financial risk
- Industry risk
- Payment experience

The rules for rating the consumer, mortgage and commercial loans granted to the state and municipal governments indicate that their allowance for loan losses should be determined based on the estimated expected loss of the loans over the next twelve month period.

The methodologies stipulate that in order to estimate such losses, it is necessary to evaluate the probability of default, the severity of the loss and the exposure to non-compliance. The result of multiplying these three factors is the estimated expected loss, which is the same amount of reserves that must be created in order to face the loan risk.

Depending on the type of loan, the probability of default, severity of the loss and exposure to non-compliance are determined by considering the following:

Probability of default

- Non-revolving consumer loan – takes into account the current arrears, payments made on the most recent balances due, how many times the original value is paid, type of loan and the remaining terms, among other things.

- Revolving consumer loan – considers the current situation and historical behavior regarding the number of outstanding payments, the life of the accounts, payments made with respect to the balance, as well as the used percentage of the authorized credit line.

- Mortgage loan – considers the current arrears, maximum number of arrears over the previous four periods, willingness to pay and the value of the property with respect to the loan balance.

- Government loans – considers payment experience, rating agencies' evaluation, financial risk, social-economical risk and financial soundness.

Severity of the loss

- Non-revolving consumer loan – depends on the number of missed payments.

- Revolving consumer loan – depends on the number of missed payments.

- Mortgage loan – considers the amount of the housing sub-account in Infonavit, unemployment insurance and the state where the loan was granted.

- State and municipal government loans – consider actual financial and non-financial guarantees, as well as personal guarantees.

Exposure to non-compliance

- Non-revolving consumer loan – loan balance on the rating date.

- Revolving consumer loan – considers the current use of the credit line to estimate how much its use would increase in the event of non-compliance.

- Mortgage loans – loan balance on the rating date.

- State and municipal government loans – for revocable loans, the loan balance at the rating date is considered. For irrevocable loans, the current use of the credit line to estimate how much its use would increase in the event of non-compliance is considered.

The Commission's rules for rating commercial loans under 4 million UDIS or the equivalent in Mexican pesos and for loans to decentralized government agencies of state and municipal governments under 900 thousand UDIS or the equivalent in Mexican pesos, indicate that the rating should be based on the number of months that have elapsed as of the first default and, if applicable, the actual and personal guarantees received.

The Commission's rules for rating the decentralized state and municipal government agencies with responsibilities of at least 900 thousand UDIS or the equivalent in Mexican pesos state that the rating should be based on the ratings issued by agencies authorized by the Commission.

Acquired loan portfolios

This balance is represented by the acquisition cost of the various loan asset packages acquired by the Financial Group, which is subsequently valued by applying one of the three following methods:

Cost Recovery Method.- Payments received are applied against the acquisition cost of the loan portfolio until the balance equals zero. Recoveries in excess of the acquisition cost are recognized in current earnings.

Interest method.- The result of multiplying the acquired portfolio's outstanding balance by the estimated yield is recorded in current earnings. Differences between the Financial Group's collection estimates and actual collections are reflected prospectively in the estimated yield.

Cash Basis Method.- The amount resulting from multiplying the estimated yield times the amount actually collected is recorded in the consolidated income statements provided it is not greater than the amount obtained by the interest method. The difference between the recorded amount and the amount collected reduces the outstanding portfolio balance, once the entire initial investment has been amortized. Any subsequent recovery will be recorded in the consolidated income statements.

For the portfolios valued using the interest method, the Financial Group evaluates them twice a year to verify if the cash flow estimate of its collection rights is consistent with actual recoveries and therefore considered to be effective. The Financial Group uses the cost recovery method on those collection rights in which the expected cash flow estimate is not highly effective. The expected cash flow estimate is considered as "highly effective" if the result of dividing the sum of the flows collected by the sum of the expected cash flows is between 0.8 and 1.25 when such effectiveness is evaluated.

Premium receivables, net

This balance represents premiums pending collection on the balance date. Pursuant to the provisions of the General Law of Institutions and Mutual Insurance Companies (the Law) and the Mexican National Insurance Commission (CNSF), premiums over 45 days old should be cancelled against the year's earnings including, if applicable, the technical reserves, acquisition cost and relative reinsurance granted, and should not be considered in the coverage of technical reserves.

On December 31, 2011, based on the internal policy approved by the CEO, the administration authorized excluding the cancellation process for certain policies with a premium over 45 days old, which have not been collected totally or partially. These accounts are indeed collectible and negotiations with the insured are currently underway. On December 31, 2011, the premiums over 45 days old that have not been cancelled amounted to Ps. 374. The non-accrued net premium, fees and reinsurance should be subtracted from such amount to determine its net effect on earnings. This amount did not compute for the coverage of technical reserves.

Reinsurance

According to the rules of the CNSF, a portion of the insurance contracted by the Financial Group is ceded in reinsurance to other insurance or reinsurance companies; therefore they are part of both the premiums and the casualty rate cost.

Securitizations involving transfer of ownership

Through securitization transactions involving the transfer of ownership in mortgage and government loans, the Financial Group transfers those financial assets to a trust so that it publicly issues securities through an intermediary. The securities represent the right to the yield on the securitized portfolio and, as compensation; the Financial Group receives cash and a record, which grants it the right over the trust's residual cash flows after settling the certificates to their holders. This record is registered at its fair value under "Receivables generated by securitizations".

The Financial Group provides administration services for the transferred financial assets and records the revenue thereof in the period's earnings when accrued. Those revenues are recorded under "Other operating income (expenses)".

The valuation of the benefits to be received from securitizations is recorded in the consolidated income statements under "Other operating income (expenses)", as applicable.

Other accounts receivable and payable

The Financial Group performs a study to quantify the different future events that could affect the amount in accounts receivable over 90 days and thus determine their percentage of non-recoverability to calculate its allowance for doubtful accounts. The remaining balance of accounts receivable is reserved at 90 calendar days from the initial recognition.

The balances of asset and liability settlement accounts represent transactions involving the sale and purchase of currency and securities, which are recorded when entered into and settled within 48 hours.

Merchandise inventory

This is comprised mainly of finished goods and prior to 2008 was restated to the lower of replacement cost or market. Cost of sales, included in "Other operating income (expenses)" in the consolidated income statements is restated using the replacement cost at the time of the sale.

Impairment of the value of long-lived assets and their disposal

The Financial Group has established guidelines to identify and, if applicable, record losses derived from the impairment or decrease in value of long-lived tangible or intangible assets, including goodwill.

Foreclosed assets, net

Foreclosed property or property received as payments in kind are recorded at the lower of their cost or fair value minus the strictly necessary costs and expenses disbursed in the foreclosure. Cost is determined as the forced-sale value established by the judge upon foreclosure or, in the case of payments in kind, the price agreed between the parties involved.

When the value of the asset or the accrued or past due amortizations leading to the foreclosure, net of estimates, is higher than the foreclosed property, the difference is recorded in the period's results under "Other operating income (expenses)".

When the value of the asset or the accrued or past due amortizations leading to the foreclosure, net of estimates, is lower than the foreclosed property, its value is adjusted to the asset's net value.

The carrying value is only modified when there is evidence that the fair value is lower than the recorded carrying value. Reductions in the carrying value of the loan are recorded in the current earnings as they occur.

The provisions applicable to the new valuation methodology for the allowance for loan losses mentioned above define the valuation methodology for reserves related to either foreclosed property or those assets received as payment in kind, establishing that additional quarterly provisions must be created to recognize the potential decrease in value over time of property awarded under legal proceedings, out-of-court or received as payment in kind and the investments in securities received as foreclosed goods or payment in kind, based on the following guidelines:

I. In the case of collection rights and movable property, the provisions referenced in the preceding paragraph must be treated as follows:

Movable property reserves

Time elapsed as of award date or receipt as payment in kind (months)	Reserve percentage
Up to 6	0%
More than 6 and up to 12	10%
More than 12 and up to 18	20%
More than 18 and up to 24	45%
More than 24 and up to 30	60%
More than 30	100%

The amount of the reserves to be created will be the result of applying the reserve percentage determined under the preceding table to the value of collection rights or foreclosed property, received as payment in kind or awarded in a court proceeding.

II. Investments in securities must be valued in accordance with the provisions of the Commission's accounting Circular B-2, using annual audited financial statements and monthly financial information of the issuer.

Following the valuation of foreclosed assets or those received as payment in kind, the reserves resulting from applying the percentages established in the table of Section I above to the estimated value, must be created.

III. In the case of real estate property, provisions must be created as follows:

Real estate property reserves

Time elapsed as of award date or receipt as payment in kind (months)	Reserve percentage
Up to 12	0%
More than 12 and up to 24	10%
More than 24 and up to 30	15%
More than 30 and up to 36	25%
More than 36 and up to 42	30%
More than 42 and up to 48	35%
More than 48 and up to 54	40%
More than 54 and up to 60	50%
More than 60	100%

The amount of the reserves to be created will be the result of applying the reserve percentage determined under the preceding table to the awarded value of the property based on the accounting criteria. Furthermore, when problems are identified regarding the realization of the value of the foreclosed property, the Financial Group records additional reserves based on management's best estimates. On December 31, 2011, there are no reserves in addition to those created by the percentage applied based on the accounting criteria that could indicate realization problems with the values of the foreclosed properties.

If appraisals subsequent to the foreclosure or payment in kind result in the recording of a decrease in the value of the collection rights, securities, movable or real estate property, the reserve percentages contained in the preceding table can be applied to the adjusted value.

Property, furniture and equipmnet

Se registran al costo de adquisición. Los saldos que provienen de adquisiciones realizadas hasta el 31 de diciembre de 2007 se actualizaron utilizando factores derivados del valor de la UDI hasta esa fecha.

La depreciación se calcula utilizando el método de línea recta con base en las vidas útiles de los activos determinadas por valuadores independientes.

Permanent stock investments

The Financial Group recognizes its investments in associated companies where it has significant influence but not control, using the equity method based on the book values shown in the most recent financial statements of such entities.

Income Taxes (ISR), Business Flat Tax (IETU) and Employee Statutory Profit-Sharing (PTU)

The provisions for ISR, IETU and PTU are recorded in the results of the year in which they are incurred. Deferred taxes are recognized if, based on financial projections, the Financial Group expects to incur ISR or IETU, and records the deferred tax it will pay. The Financial Group will record deferred ISR or IETU, corresponding to the tax it will pay. Deferred taxes are calculated by applying the corresponding tax rate to the applicable temporary differences resulting from comparing the accounting and tax bases of assets and liabilities and including, if any, future benefits from tax loss carryforwards and certain tax credits. The deferred tax assets are recorded only when there is a high probability of recovery.

The net effect of the aforementioned items is presented in the consolidated balance sheets under the "Deferred taxes, net" line.

Intangible assets

Intangible assets are recognized in the consolidated balance sheets provided they are identifiable and generate future economic benefits that are controlled by the Financial Group. The amortizable amount of the intangible asset is assigned on a systematic basis during its estimated useful life. Intangible assets with indefinite lives are not amortized and their value is subject to annual impairment tests.

Goodwill

The Financial Group records goodwill when the total fair value of the acquisition cost and the Minority Interest is greater than the fair value of the net assets of the acquired business, pursuant to NIF B-7 "Business acquisitions." As goodwill is considered an intangible asset with an indefinite life, it is subject to impairment tests at least annually according to NIF C-15 "Impairment in the value of long-lasting assets and their disposal." No indicators of impairment of goodwill have been identified as of December 31, 2011 and 2010.

Deposits

Liabilities derived from deposits, including promissory notes settled at maturity, are recorded at their funding or placement cost plus accrued interest, determined according to the number of days elapsed at each monthly close, which are charged against results when accrued as an interest expense.

Interbank and other loans

These loans are recorded based on the contractual value, recognizing the interest in the year's earnings as accrued. The Financial Group records in this item the direct loans obtained from domestic and foreign banks, loans obtained through bids with Banco de Mexico and development funds' financing. Furthermore, this includes discounted loan portfolios from funds provided by banks specializing in financing economic, productive or development activities.

Technical Reserves

The CNSF stipulates that all technical reserves shall be certified on an annual basis by independent actuaries who confirm that the amount of the reserves recorded by the Financial Group on December 31, 2011 are reasonably acceptable based on their obligations, within the parameters established by the actuary, and abiding by the relevant criteria established by the competent authorities.

Technical reserves are constituted pursuant to the General Law of Institutions and Mutual Insurance Companies, as well as to the provisions issued by the CNSF. To valuate the technical reserves, the Financial Group used the valuation methods found in the provisions set forth in Circular S-10.1.2, S-10.1.7, S-10.1.7.1 and S-10.6.6 issued by the CNSF on September 11, 2003 and published in the DOF on September 30, 2003; S-10.6.3 issued by the CNSF on July 11, 2007 and published in the DOF on August 13, 2007; S-10.6.4 issued by the CNSF on March 31, 2004, and S-10.1.8 issued on May 13, 2004, published in the DOF on April 27, 2004 and June 1, 2004, respectively.

1. Current risk reserve:

The determination of reserves for life insurance transactions is done according to actuarial formulas considering the characteristics of the policies in effect, which were reviewed and approved by the CNSF.

To value this technical reserve, the following demographic suppositions were used:

- For individual life insurance - Mexican experience study 91-98 CNSF 2000-1.
- For group life insurance - Mexican experience study 91-98 CNSF 2000-G.

The current risk reserve is valued as per the following:

I. Life insurance policy in effect for one year or less:

The value of future obligations for the payment of claims and benefits derived from the policies in effect is determined using the valuation method registered at the CNSF and, if applicable, the value of expected future revenues from net premiums is subtracted. This value is compared with the non-accrued risk premium of the policies in effect in order to obtain the sufficiency factor that will be applied to calculate the current risk reserve in each type of insurance policy operated by the Financial Group.

This reserve is obtained by multiplying the non-accrued risk premium of the policies in effect by the corresponding sufficiency factor. Under no circumstances can the sufficiency factor be less than one. Additionally, the current risk reserve is added to the non-accrued portion of administrative expenses.

The allowance for administrative expenses is calculated as the non-accrued part that corresponds to the portion of the annual premium of the policies in effect at the time of the valuation. The administrative expenses percentages established in the technical notes of each plan are used, both in the case of individual life insurance and for each policy in effect.

II. Life insurance policies in effect for over one year:

The current risk reserve is valued according to the actuarial method to determine the minimum reserve amount, only if this method renders an amount greater than the sufficiency method recorded in the technical note authorized by the CNSF.

For insurance policies over one year old, and in the specific case in which the premium payment period is less than the number of years the policy will be in effect, the amount of the balanced administration expense expected to be incurred each year that the policies are in effect is determined by subtracting the current administrative expense value from the expected premiums. The provision is determined by accruing administrative expense amounts that were deducted from the premiums, reduced from administration expenses.

The current risk reserves of the policies in effect for accident, health and damage insurance are determined as follows:

Such reserves are recorded and valued by applying the actuarial methods based on the generally accepted standards that the Financial Group had already registered before the CNSF pursuant to the latter's general provisions issued for such purposes.

This reserve represents the amount of the non-accrued premium minus the relative acquisition costs, and will serve to fulfill any possible obligations the Financial Group might face given the stand-alone risk of the policies in effect, considering the sufficiency factor and the administrative expenses.

To determine the sufficiency factor, a comparison will be made between the expected value of future claims and benefits payments, according to the valuation method registered before the CNSF, and the non-accrued risk premium of the policies in effect.

The Financial Group has recorded before the CNSF, in a technical note that specifies the actuarial methods which will constitute and value the current risk reserve on a monthly basis for damage, accident and health policies.

For earthquake and/or volcanic eruption risk coverage, the current risk reserve is calculated with 100% of the withheld risk premium in effect.

2. Contractual obligations:

a. Claims and expirations – Claims for life, accidents, health and damage are recorded as soon as they are reported. Life insurance claims are based on the insured sums. Accident, illness and damage claims are adjusted based on the estimate of the amount of the obligations, and, at the same time, the pay back is recorded in the ceded reinsurance. Expirations are payments for expired endowments set forth in the insurance contract.

b. Unreported claims – This reserve is intended for recognizing the amount of actual claims not yet reported to the Financial Group. The estimate is based on prior years' casualty rate, adjusting the actuarial calculations on a quarterly basis, pursuant to the methodology approved by the CNSF.

c. Dividends on policies – This reserve is determined based on actuarial studies, considering the casualty rate. The dividends are established in the insurance contract.

d. Insurance funds under management - These are the dividends on policies earned by the insured and withheld by the Financial Group to manage, as established in the insurance contract.

e. Security premiums – They are the amounts of segmented collections on the policies.

f. Reserve for claims pending valuation – This reserve corresponds to the expected value of future payments of damage, accident, and health claims that were reported during the year in question or prior years that may be paid in the future. The exact amount of such claims is unknown because there is either no valuation on them or the possibility of future additional payments derived from a previously valuated claim.

3. Catastrophic reserve:

The reserve for catastrophic risks is intended to cover the Financial Group's obligations assumed under insurance policies for earthquakes or other catastrophic risks. This reserve is increased as per the bases and percentages established by the CNSF. CNSF authorization is required to release this reserve.

Provisions

Provisions are recognized when the Financial Group has a current obligation that results from a past event and are likely to result in the use of economic resources and can be reasonably estimated.

Employee retirement obligations

According to Mexican Federal Labor Law, the Financial Group has obligations derived from severance payments and seniority premiums payable to employees that cease to render their services under certain circumstances.

Defined benefits plan

The Financial Group records a liability for seniority premiums, pensions and post-retirement medical services as incurred based on calculations by independent actuaries using the projected unit credit method, using nominal interest rates. Accordingly, this recognizes the liability whose present value will cover the obligation from benefits projected to the estimated retirement date of the Financial Group's overall employees, as well as the obligation related to retired personnel.

The balance at the beginning of each period of actuarial gains and losses derived from pension plans exceeding 10% of the greater amount between the defined benefits obligation and plan assets are amortized in future periods against current results, in the case of pension plan, medical service and seniority premiums to retirement.

In the case of seniority premiums related to termination and remuneration at the end of the employment relation, earnings or losses are recognized immediately in the period that are generated, as specified by the NIF D-3 "Employee benefits".

The Financial Group applies the provision of NIF D-3 related to the recognition of the liability for severance payments for reasons other than restructuring, which is recorded using the projected unit credit method based on calculations by independent actuaries.

Defined contribution plan

As of January 2001, the Financial Group provided a defined contribution pension plan. The participating employees are those hired as of this date as well as those hired prior to such date that enrolled voluntarily. Moreover, this pension plan is invested in a fund, which is included within the "Other assets" line item.

The employees who were hired prior to January 1, 2001 and who decided to enroll voluntarily in the defined contribution pension plan received a contribution from the Financial Group for prior services equivalent to the actuarial benefit accrued in their previous defined benefit plan that was cancelled. The initial contribution was made from the plan assets that had been established for the original defined benefit plan and participants were immediately assigned 50% of such amount with the remaining 50% to be assigned over 10 years.

The initial payment to the defined contribution plan for past services was financed with funds established originally for the defined benefit plan as a result of the early termination of its obligations and recognized in accordance with the requirements of NIF D-3.

The labor obligations derived from the defined contribution pension plan do not require an actuarial valuation as established in NIF D-3, because the cost of this plan is equivalent to the Financial Group's contributions made to the plan's participants.

Foreign currency conversion

Foreign currency transactions are recorded at the applicable exchange rate in effect at the transaction date. Monetary assets and liabilities denominated in foreign currency are translated into Mexican pesos at the applicable exchange rate at the close of each period. The exchange rate used to establish Mexican peso equivalence is the FIX exchange rate published by Banco de México. Foreign exchange fluctuations are recorded in the results of operations.

Interest from outstanding subordinated debentures

Accrued interest from outstanding subordinated debentures is recognized as it is accrued and translated according to the exchange rate in effect at each monthly close.

Transfer of financial assets

The Financial Group can act as the assignor o assignee, as applicable, in this type of transactions. Moreover the Financial Group evaluates whether or not to retain the risks and benefits associated with the asset property to determine whether or not there was a transfer of property in a transaction. In transactions involving the transfer of ownership in financial assets, the assignor yields control and substantially transfers all the risks and benefits over such assets. Therefore, the assignor derecognizes such assets and records the transfer consideration received from the transaction. Conversely, the assignee recognizes such financial assets and the transfer consideration in its accounting records.

Share-based payments

The Financial Group grants stock options to key officers through different payment schemes based on stocks. The Financial Group has established trusts to manage the plans and contributes the necessary funds so that shares can be purchased directly from the market at the initiation of each plan.

The Financial Group records its stock option plans according to the guidelines of NIF D-8, "Share-based payments." The compensation expense is recorded at fair value as of the date the stock options are granted. The NIF D-8 guidelines stipulate that the fair value determined at the beginning is not revalued at a later date.

The fair value of each share is estimated as of the date granted using the Black-Scholes option pricing model or the forwards valuation model, depending on the plans' features.

Memorandum accounts

Memorandum accounts are used to record assets or commitments that are not part of the Financial Group's general consolidated balance sheets, as no rights are acquired on the assets and such commitments are not acknowledged as liabilities until they materialize, respectively. The accumulated amounts in the memorandum accounts have only been subject to audit tests when their information is derived from an accounting record. The memorandum accounts not audited are indicated in each case:

Contingent assets and liabilities (unaudited):

It records the amount of economic penalties imposed by the administrative or judicial authorities until such payments are made, as a motion for revocation has been filed. It also records the risk exposure for participatiing in the Expanded Use Electronic Payments System.

Loan commitments:

The balance represents the amount of the letters of credit granted by the Financial Group that are considered as irrevocable commercial loans not disposed by the borrowers. It includes the lines of credit granted to the client, unavailable.

Assets in trust or mandate (unaudited):

For the assets in trust, the value of the goods is recorded and any information related to their individual administration is recorded independently. For the assets under mandate, the declared value of the assets subject to the mandates executed by the Financial Group, is recorded.

Assets in custody or under management (unaudited):

This account records the movement of other assets and securities that are received in custody or are to be managed by the Financial Group.

Collateral received:

The balance represents all the collateral received in securities repurchase agreement operations when the Financial Group is the buyer.

Collateral received and sold or given as a pledge:

The balance represents all the collateral received in securities repurchase agreements when the Financial Group is acting as the buyer and which in turn are sold by the Financial Group acting as the seller.

Main subsidiaries' income recognition

Casa de Bolsa Banorte, S.A. de C.V. and Ixe Casa de Bolsa, S.A. de C.V.

Permanent stock investments – are originally recorded at their acquisition cost and are valued through the equity method, based on the latest available financial statements.

Recognition of income from services, financial advisory and securities purchase-sales – the fees and commissions generated by customer securities' operations are recorded as they are performed.

Income from financial advisory is recorded when accrued as per the contract.

Securities purchase-sales results are recorded when performed.

Income and expenses are recorded as generated or accrued as per the relative contracts.

Share dividends are recorded at zero value in investments, therefore they only affect the results when the shares are sold.

Arrendadora y Factor Banorte, S.A. de C.V. and Ixe Automotriz, S.A. de C.V. SOFOM, ER

Credit from finance leasing operations, net – finance leasing operations are recorded as direct financing, wherein the account receivable is the total amount of the settled rents, and potential profit is the difference between such amount and the cost of the leased properties. Net financed capital is recorded on the general balance sheet, deducting the total of rents from the potential profit.

Loans from operating leasing operations – represent company assets given to a third party for the latter's temporary use and enjoyment for a given term equal to or over six months. The operating leasing contract rents are recorded as revenues when accrued.

Loans from factoring operations, net – funded or non-funded factoring is recorded as follows:

- Ceded portfolio – the amount is recorded within loan portfolios, minus the difference between loans and the financed amount.
- Profit from acquired documents (interest) - calculated in advance, per month completed and upon maturity, recorded in factoring, and both are applied to results when accrued.

Recognition of income – interest from leasing and financial factoring is recognized as income when accrued; however the accumulation of interest is suspended whenever the uncollected interest and/or total loan is transferred to past-due loans. Accrued, normal and past-due interest during the period the loan is considered past-due is recognized as income when collected.

Profits to be realized from financial leasing is recognized as income when accrued. The final value of the good in financial leasing is recognized as income when purchased.

The fees for credit opening in leasing and factoring operations are recognized as income when accrued.

Banorte Generali, S. A. de C. V., AFORE (Subsidiary of Banco Mercantil del Norte, S.A.)

Recognition of income - the administration fees are recognized as income when accrued.

The Pension Fund can only collect fees from workers charged to their individual accounts and the contributions received. Such fee is determined by the balance of received contributions. It may be a percentage of such concepts, a fixed fee or a combination of both, and can only be made when the worker's contributions are effectively invested in the Siefores that the Pension Fund manages and the necessary daily provisions have been recorded in the Siefores accounting.

The profit or loss generated from selling investments in Siefores shares is recorded in the income statements as realized.

Seguros Banorte Generali, S.A. de C.V.

Income form premiums – Recognized as follows:

a. The income for group and collective life insurance premiums is recorded in income as the partial payment receipt is issued, deducting the premiums ceded in reinsurance.

b. Income from premiums for accidents, health and damage is recorded in terms of the policies contracted in the year even if their term is for over one year, deducting the premiums ceded in reinsurance.

c. Income from rights and surcharges on policies with segmented payments is recorded in income as collected and the uncollected portion is recorded in deferred loans.

5 - MAIN DIFFERENCES WITH MEXICAN FINANCIAL REPORTING STANDARDS (MFRS)

The consolidated financial statements have been prepared in conformity with the accounting practices prescribed by the Commission, which, in the following instances, differ from MFRS commonly applied in the preparation of financial statements for other types of unregulated entities:

- The Commission establishes methodologies to determine the allowance for loan losses based on the expected loss. MFRS require that an estimate be created for the doubtful collection accounts based on a study of their recoverability, without establishing a specific methodology.

- Sundry debtors not collected within the contract term, under 60 days in the case of unidentified debtors, and 90 calendar days in the case of identified debtors, other than collection rights, items associated with the loan portfolio and loans to employees are fully reserved with the effects recognized in current earnings, regardless of whether the Financial Group may recover them as established by MFRS.

- The accounts for contributions or managed margin (delivered and received) related with financial derivatives listed in liquid markets (stock exchanges) or traded over the counter are presented under the heading of "Margin Accounts" instead of presenting them under the heading of "Derivative financial instruments", as established by MFRS.

- When loans are classified as past-due, accrued interest is not recorded. Such loans are registered in the memorandum accounts. When such interest is collected, it is recognized directly in the period's results. MFRS require recording the accrued interest and recognizing the corresponding reserve.

- In 2011, the amount derived from the change in the non-revolving consumer loans and mortgage loans rating methodology was recorded in "Prior years' income" under stockholders equity, with the express authorization of the Commission. MFRS require that they be charged against the period's result.

- The investments in provisions for personnel pensions, the saving fund and the provision for retirement obligations are submitted separately. They shall be presented in their net value as indicated under MFRS.

- The allowance for loan losses and the estimate of non-recoverability or difficult collection are added to the net result in the cash flows statement, but this is not required by MFRS.

- The direct policy acquisition costs are recorded in the income statement as incurred instead of deferring and amortizing them as the premiums are accrued as required under MFRS.

- Policy rights and interest (surcharges) on premiums are recorded in earnings as collected and not when they are accrued as required under MFRS.

- Some technical reserves, expressly pointed out by the Commission, are recorded gradually and not at the time the reserve amount is determined as required under MFRS.

- Current risk reserve may differ from the effects that the MFRS indicate regarding the magnitude and type of risk.

- In December 31, 2007 the main differences of the recognition of the effects of inflation in the financial statements of Seguros Banorte Generalli, S.A. de C.V. are listed below:

  Non-monetary items are stated as of December 31, 1990 and not as of the date the item contributions, acquisitions or generation were made.

  Pursuant to MFRS, the contingency reserve and the mathematic of individual life insurance are considered as monetary items, given their classification in the financial statements required by the Commission.

  Real property valuation is performed by means of appraisals and recording the average between the physical value and that of income capitalization. In lieu of appraisals, the National Consumer Price Index ("INPC") is applied instead of the using the change in general price levels adjustment method.

Some technical reserves are considered as non-monetary items, while the MFRS considers them as monetary. The effect of applying the INPC adjustment factor at the close of each month to the initial technical reserves liability balance is deducted from the net increases in the technical reserves income (results).

- Pursuant to the accounting standards established by the Comission, in the cash flow statement, cash and cash equivalents do not contemplate highly liquid short-term securities that are subject to inconsequential risks, as MFRS C-1 "Cash and cash equivalents" requires. Moreover the Commission establishes that the cash flows statements are based on the net result, whereas MFRS require them to be based on earnings before income taxes.
- Up until December 31, 2008 the Commission allowed the transfer of financial assets for securitization without having transferred all the control over the ceded asset. According to MFRS, these concepts should be evaluated and require substantial compliance with the transfer of control, risks and benefits.
- The Commission's accounting criteria indicate that in covering fair value, the adjustment to book value for the covered item should be reported as a separate item in the general balance sheet instead of including it with the covered primary position, according to MFRS.
- The Commission's accounting criteria indicates that for loan acquisitions, they should be recorded at their nominal value of the acquired loan under the loan portfolio item, while the difference originated when the acquisition price is lower than the portfolio's contractual value should be recorded in the period's results for an amount of up to the allowance for loan losses, while the remainder should be reported as a deferred loan which will be amortized as collected. When the acquisition price is higher than the portfolio's contractual value, it will be recorded as a deferred receivable, which will be amortized as collected. MFRS indicate that the loan portfolio should be recorded at fair value at the acquisition date, in other words, at the acquired purchase price.

6 - CASH AND CASH EQUIVALENTS

As of December 31, 2011 and 2010, this line item was composed as follows:

	2011	2010
Cash	Ps. 12,331	Ps. 12,308
Banks	38,481	46,113
Other deposits and available funds	3,156	917
	Ps. 53,968	**Ps. 59,338**

"Banks" is represented by cash in Mexican pesos and US dollars converted at the exchange rate issued by Banco de México of Ps. 13.9476 and Ps. 12.3496 as of December 31, 2011 and 2010, respectively, and is made up as follows:

	Mexican pesos		Denominated in US dollars		Total	
	2011	**2010**	**2011**	**2010**	**2011**	**2010**
Call money	Ps. -	Ps. 3,000	Ps. 7,671	Ps. 3,458	Ps. 7,671	Ps. 6,458
Deposits with foreign credit institutions	-	-	1,713	12,368	1,713	12,368
Domestic banks	434	834	-	-	434	834
Banco de México	28,591	26,345	72	108	28,663	26,453
	Ps. 29,025	**Ps. 30,179**	**Ps. 9,456**	**Ps. 15,934**	**Ps. 38,481**	**Ps. 46,113**

As of December 31, 2011 and 2010, the Financial Group had made monetary regulation deposits of Ps. 28,591 and Ps. 26,345, respectively.

As of December 31, 2011 and 2010, the total sum of restricted cash and cash equivalents is Ps. 39,655 and Ps. 33,660, respectively. This includes monetary regulation deposits, futures placed in the domestic and foreign market, call money and contracted transactions pending settlement in 24 and 48 hours.

The interbank loans are documented and accrued at an average rate of return of 0.348% and 0.182% in USD and 0.18% and 4.5% in pesos, as of December 31, 2011 and 2010, respectively.

As of December 31, 2011, "Other deposits and available funds" include Ps. 2,495 for funds due to be received in 24 and 48 hours, Ps. 35 in gold and silver coins, Ps. 130 immediately collectible and Ps. 13 in remittances. In 2010 it includes Ps. 857 for funds due to be received in 24 and 48 hours, Ps. 36 in gold and silver coins, Ps. 19 immediately collectible and Ps. 5 in remittances.

The exchange rates used for the conversion of gold and silver coins (Centenarios and Troy ounces, respectively) was Ps. 525.202 and Ps. 413.96, per unit, respectively, in 2011 and Ps. 430.964 and Ps. 399.63, per unit, respectively, in 2010.

7 - INVESTMENTS IN SECURITIES

a. Trading securities

As of December 31, 2011 and 2010, trading securities are as follows:

	2011				2010
	Acquisition cost	**Accrued interest**	**Valuation increase (decrease)**	**Book value**	**Book value**
CETES	Ps. 11,213	Ps. 3	(Ps. 1)	Ps. 11,215	Ps. 2,543
Bonds	4,650	5	(43)	4,612	558
Development Bonds	7,451	7	(6)	7,452	3,248
Saving Protection Bonds (BPAS)	56,964	308	16	57,288	39,227
UDIBONOS	151	-	(1)	150	-
Negotiable certificates	555	2	20	577	-
Bank securities	25,546	31	104	25,681	17,235
UMS	-	-	-	-	53
Securitization certificates	6,484	40	40	6,564	3,171
Treasury notes	-	-	-	-	23
Other securities	1,439	20	(13)	1,446	62
Investment funds	41	-	-	41	61
	Ps. 114,494	**Ps. 416**	**Ps. 116**	**Ps. 115,026**	**Ps. 66,181**

During 2011 and 2010, the Financial Group recognized under "Brokerage revenues" a loss and a profit of (Ps. 517) and Ps. 46, respectively, for the fair value valuation of these instruments.

As of December 31, 2011 and 2010, there are Ps. 106,561 and Ps. 58,154, respectively, in restricted trading securities associated mainly with repurchase operations.

As of December 31, 2011, the maturities of the securities (expressed at their acquisition cost), are as follows:

	One year or less	More than one and up to 5 years	More than 5 and up to 10 years	More than 10 years	Total
CETES	Ps. 6,782	Ps. 4,168	Ps. 11	Ps. 252	Ps. 11,213
Bonds	1,433	3,149	4	64	4,650
Development Bonds	-	7,451	-	-	7,451
Saving Protection Bonds (BPAS)	6,271	41,991	8,702	-	56,964
UDIBONOS	-	151	-	-	151
Negotiable certificates	-	555	-	-	555
Bank securities	8,831	14,182	2,533	-	25,546
Securitization certificates	2,243	4,103	137	1	6,484
Other securities	29	776	111	523	1,439
Investment funds	-	-	-	41	41
	Ps. 25,589	**Ps. 76,526**	**Ps. 11,498**	**Ps. 881**	**Ps. 114,494**

b. Securities available for sale

As of December 31, 2011 and 2010, securities available for sale were as follows:

	2011				2010
	Acquisition cost	Accrued interest	Valuation increase (decrease)	Book value	Book value
US Government Bonds	Ps. 10,474	Ps. 35	Ps. 247	Ps. 10,756	Ps. 7,873
UMS	-	-	-	-	258
CETES	290	-	-	290	-
Bonds	6,880	13	(85)	6,808	1,519
Development Bonds	11,862	21	(9)	11,874	-
Saving Protection Bonds (BPAS)	5,942	74	(14)	6,002	-
Bank securities	9,489	13	(6)	9,496	-
Shares	234	-	84	318	368
Corporate bonds	1,287	9	(18)	1,278	-
EUROBONDS	393	10	(13)	390	657
PEMEX bonds	2,918	54	72	3,044	870
CPO	22	1	(2)	21	-
Securitization certificates	3,027	8	59	3,094	743
Other securities	243	-	52	295	-
	Ps. 53,061	**Ps. 238**	**Ps. 367**	**Ps. 53,666**	**Ps. 12,288**

As of December 31, 2011 and 2010 there are Ps. 39,789 and Ps. 2,674, respectively, in restricted trading securities associated mainly with repurchasing operations.

As of December 31, 2011, these investments mature as follows (stated at their acquisition cost):

	One year or less	More than one and up to 5 years	More than 5 and up to 10 years	More than 10 years	Total
US Government Bonds	Ps. 699	Ps. 5,978	Ps. 3,797	Ps. -	Ps. 10,474
CETES	290	-	-	-	290
Bonds	-	6,880	-	-	6,880
Development Bonds	-	11,862	-	-	11,862
Saving Protection Bonds (BPAS)	-	5,942	-	-	5,942
Bank securities	3,547	5,942	-	-	9,489
Shares	-	-	-	234	234
Corporate bonds	-	1,287	-	-	1,287
EUROBONDS	-	393	-	-	393
PEMEX bonds	-	2,156	762	-	2,918
CPO	-	22	-	-	22
Securitization certificates	-	1,803	1,023	201	3,027
Other securities	-	-	-	243	243
	Ps. 4,536	**Ps. 42,265**	**Ps. 5,582**	**Ps. 678**	**Ps. 53,061**

c. Securities held to maturity

As of December 31, 2011 and 2010, securities held to maturity are as follows:

Medium and long-term debt instruments:

	2011			2010
	Acquisition cost	Accrued interest	Book value	Book value
Government bonds-support program for Special Federal Treasury Certificates	Ps. 793	Ps. -	Ps. 793	Ps. 759
Government bonds	1	-	1	606
Development Bonds	19,176	24	19,200	33,092
CETES	9,981	2	9,983	-
Saving Protection Bonds (BPAS)	59,449	294	59,743	72,203
UMS	2,576	68	2,644	2,338
Bank securities	10,791	102	10,893	14,021
EUROBONDS	861	18	879	-
PEMEX bonds	3,615	70	3,685	3,269
Private securitization certificates	54,434	48	54,482	13,583
Other securities	47	1	48	42
IXE fair value adjustment*	(203)	-	(203)	-
	Ps. 161,521	**Ps. 627**	**Ps. 162,148**	**Ps. 139,913**

*This adjustment corresponds to the fair value record of assets, liabilities and goodwill arising from the application of the purchase method for the acquisition of IXE, as mentioned in Note 2.

As of December 31, 2011 and 2010, there are Ps. 150,859 and Ps. 125,938, respectively, in restricted trading securities associated mainly with repurchasing operations.

As of December 31, 2011, these investments mature as follows (stated at their acquisition cost):

	One year or less	More than one and up to 5 years	More than 5 and up to 10 years	More than 10 years	Total
Government bonds- support program for Special Federal Treasury Certificates	Ps. -	Ps. -	Ps. -	Ps. 793	Ps. 793
Government bonds	-	1	-	-	1
Development Bonds	19,176	-	-	-	19,176
CETES	944	9,037	-	-	9,981
Saving Protection Bonds (BPAS)	28,022	31,427	-	-	59,449
UMS	-	2,576	-	-	2,576
Bank securities	1,615	6,336	-	2,840	10,791
EUROBONDS	151	-	397	313	861
PEMEX bonds	-	360	3,255	-	3,615
Private securitization certificates	500	9,660	8,639	35,635	54,434
Other securities	47	-	-	-	47
IXE fair value adjustment	-	-	-	-	(203)
	Ps. 50,455	**Ps. 59,397**	**Ps. 12,291**	**Ps. 39,581**	**Ps. 161,521**

Some of the investments in securities are given as collateral in derivatives transactions without any restriction; therefore, the receiver has the right to trade them and offer them as collateral.

d. Collateral

The fair value of the collateral given in derivative transactions as of December 31, 2011 and 2010 is as follows:

		2011		
		Fair value in millions		
Type of collateral:	**Instrument category**	**Pesos**	**USD**	**Euros**
Cash	-	Ps. 267	474	-
UMS	Held to maturity	-	168	-
PEMEX bonds	Held to maturity	-	238	5
PEMEX bonds	Available for sale	-	201	5
Bank bonds	Available for sale	171	69	-
Other	Available for sale	-	10	-
		Ps. 438	**1,160**	**10**

		2010		
		Fair value in millions		
Type of collateral:	**Instrument category**	**Pesos**	**USD**	**Euros**
Cash	-	Ps. 155	243	-
CETES	Trading	232	-	-
UMS	Held to maturity	-	189	-
PEMEX bonds	Held to maturity	-	238	20
UMS	Available for sale	-	10	-
PEMEX bonds	Available for sale	-	58	-
Bank bonds	Available for sale	-	137	-
		Ps. 387	**875**	**20**

As of December 31, 2011 and 2010, the Financial Group had no instruments received as collateral.

As of December 2011 and 2010, interest income from securities was Ps. 12,551 and Ps. 11,045, respectively.

During 2011 and 2010, accrued interest income from impaired instruments was Ps. 2 and Ps. 2, respectively.

The amount recorded for the impairment of available for sale and securities held to maturity as of December 31, 2011 and 2010 was:

Concept	2011	2010
Securities available for sale	Ps. 24	Ps. 24
Securities held to maturity	125	59
	Ps. 149	**Ps. 83**

8 - CREDITOR BALANCES UNDER REPURCHASE AND RESALE AGREEMENTS

As of December 31, 2011 and 2010, the creditor balance in repurchase transactions consist of:

Acting as seller of securities

Instrument	2011	2010
CETES	Ps. 16,848	Ps. 2,234
Development Bonds	38,552	36,298
Bonds IPAB	-	1,855
Quarterly IPAB bonds	66,046	83,137
Semi-annual IPAB bonds	56,434	26,350
10-year bonds	1,257	1,157
20-year bonds	10,326	5
UDIBONOS	101	1
10-year UDIBONDS	20	3
Negotiable CEBUR	570	-
Government securities	**190,154**	**151,040**
Promissory Notes	6,243	1,884
CEDES	12,393	3,749
Bank bonds	228	10,975
CEBUR Bank	18,943	-
Bank securities	**37,807**	**16,608**
Private paper	6,563	7,005
Short-term CEBUR	9,097	3,924
Mortgage certificates	135	170
Private securities	**15,795**	**11,099**
	Ps. 243,756	**Ps. 178,747**

With the Financial Group acting as the vendor, accrued premiums were charged to the results of operations as of December 31, 2011 and 2010, for Ps. 11,184 and Ps. 10,913, respectively.

During 2011, the period of repurchase transactions carried out by the Financial Group in its capacity as vendor ranged from 1 to 91 days.

Acting as securities purchaser

Instrument	2011 Repurchse agreement from debtors	2011 Receved, sold collateral in repurchase	2011 Debit difference	2011 Credit difference	2010 Repurchse agreement from debtors	2010 Received, sold collateral in repurchase	2010 Debit difference	2010 Credit difference
CETES	Ps. -	Ps. -	Ps. -	Ps. -	Ps. 50	Ps. 50	Ps. -	Ps. -
Development Bonds	2,704	2,703	1	-	-	-	-	-
Quarterly IPAB bonds	2,370	2,370	-	-	158	158	-	-
Semi-annual IPAB bonds	3,802	-	3,802	-	1,302	1,301	1	-
10-year bonds	-	-	-	-	2,639	2,639	-	-
20-year bonds	-	-	-	-	2,239	2,239	-	-
Government securities	**8,876**	**5,073**	**3,803**	**-**	**6,388**	**6,387**	**1**	**-**
Promissory Notes	-	-	-	-	964	964	-	-
CEDES	-	-	-	-	3,453	3,446	7	-
Bank bonds	49	49	-	-	-	-	-	-
CEBUR Bank	5,713	5,713	-	-	3,050	3,050	-	-
Bank securities	**5,762**	**5,762**	**-**	**-**	**7,467**	**7,460**	**7**	**-**
Private paper	1,387	1,387	-	-	657	86	571	-
Short-term CEBUR	6,963	6,967	27	31	1,510	1,517	4	11
Private securities	**8,350**	**8,354**	**27**	**31**	**2,167**	**1,603**	**575**	**11**
	Ps.22,988	**Ps. 19,189**	**Ps.3,830**	**Ps. 31**	**Ps.16,022**	**Ps.15,450**	**Ps. 583**	**Ps. 11**

With the Financial Group acting as the purchaser, accrued premiums were charged to the results of operations as of December 31 2011 and 2010, for Ps. 2,974 and Ps. 2,121, respectively.

During 2011, repurchase transactions carried out by the Financial Group in its capacity as purchaser ranged in term from 1 to 364 days.

As of December 31, 2011, the amount of goods corresponding to the guarantees given and received in repurchasing transactions that involved the transfer of property totaled Ps. 79 and Ps. 101, respectively, and by December 31, 2010, the totals were Ps. 3 in guarantees given and Ps. 46 in guarantees received.

9 – DERIVATIVES FINANCIAL INSTRUMENTS

The transactions carried out by the Financial Group involving derivatives correspond mainly to futures, swaps and options contracts. These transactions are done to hedge various risks and for trading purposes.

As of December 31, 2011, the Financial Group has evaluated the effectiveness of derivatives' transactions for hedging purposes and has concluded that they are highly effective.

As of December 31, 2011 and 2010, the Financial Group's derivatives positions held for trading purposes are as follows:

	2011		2010	
Asset position	**Nominal amount**	**Asset position**	**Nominal amount**	**Asset position**
Futures				
CETES-rate futures	Ps. 500	Ps. -	Ps. 500	Ps. -
TIIE-rate futures	42,141	-	160,469	-
Forwards				
Foreign currency forwards	7,630	547	135	72
Options				
Foreign currency options	109	-	-	-
Interest rate options	62,797	1,060	16,493	257
Swaps				
Interest rate swaps	467,532	12,389	289,938	6,106
Exchange rate swaps	9,290	1,858	5,328	1,028
Total trading	**589,999**	**15,854**	**472,863**	**7,463**
Options				
Interest rate options	9,750	100	15,550	80
Swaps				
Interest rate swaps	39,112	61	28,940	4
Exchange rate swaps	10,625	462	7,496	512
Total hedging	**59,487**	**623**	**51,986**	**596**
Total position	**Ps. 649,486**	**Ps. 16,477**	**Ps. 524,849**	**Ps. 8,059**

	2011		2010	
Liability position	**Nominal amount**	**Liability position**	**Nominal amount**	**Liability position**
Futures				
CETES-rate futures	Ps. 500	Ps. -	Ps. 500	Ps. -
TIIE-rate futures	42,141	-	160,469	-
Forwards				
Foreign currency forwards	8,149	464	115	2
Options				
Foreign currency options	254	1	60	1
Interest rate options	63,822	1,003	30,559	272
Swaps				
Interest rate swaps	458,809	12,587	289,954	6,106
Exchange rate swaps	9,179	1,954	5,273	857
Total trading	**582,854**	**16,009**	**486,930**	**7,238**
Swaps				
Interest rate swaps	39,976	2,418	28,940	2,043
Exchange rate swaps	738	2,887	3,921	1,456
Total hedging	**40,714**	**5,305**	**32,861**	**3,499**
Total position	**Ps. 623,568**	**Ps. 21,314**	**Ps. 519,791**	**Ps. 10,737**

The hedging instruments operated and their main underlying instruments are as follows:

Forwards	Options	Swaps	CCS
Fx-USD	Fx-USD	TIIE 28	TIIE 28
Fx-CAD	TIIE 28	TIIE 91	Libor
Fx-EUR	TIIE 91	CETES 91	Libor EUR
	Libor	Libor	

The risk management policies and internal control procedures for managing risks inherent to derivatives are described in Note 36.

Transactions carried out for hedging purposes have maturities from 2012 to 2032 and are intended to mitigate the financial risk derived from long-term loans offered by the Financial Group at fixed nominal rates, as well as the exchange rate risk generated by market instruments in the Financial Group's portfolio.

The book value of collateral used to ensure compliance with obligations derived from currency swap contracts as of December 31, 2011 is USD 685,953 thousand and EUR 25,888 thousand, and as of December 31, 2010 it was USD 632,002 thousand and EUR 20,326 thousand. Futures transactions are made through recognized markets, and as of December 31, 2011 they represent 5% of the nominal amount of all the derivatives' operations contracts; the remaining 95% correspond to option and swap transactions in OTC markets.

As of December 31, 2011 and 2010, the collateral was comprised mainly of cash, CETES, ITS BPAS, PEMEX bonds, UMS bonds and bank bonds restricted under the categories of trading, held to maturity and Securities available for sale. The restriction maturity date for this collateral is from 2012 to 2030. Their fair value is shown in Note 7 d).

As of December 31, 2011 and 2010, the Financial Group had no instruments received as collateral in derivatives transactions.

During 2011 and 2010, the net income associated with the valuation and realization of derivatives was Ps. 241 and Ps. 252, respectively.

The net amount of estimated gains or losses originated by transactions or events that are recorded in cumulative other comprehensive income to date in the financial statements and that are expected to be reclassified to earnings within the next 12 months totals Ps. 25.

As of December 31, 2011 and 2010, the main positions hedged by the Financial Group and the derivatives designated to cover such positions are:

Cash flow hedging

The Financial Group has cash flow hedges as follows:

- Forecast funding using TIIE rate Caps and Swaps.
- Recorded liabilities in Mexican pesos using TIIE rate Swaps.
- Recorded assets in foreign currency using Cross Currency Swaps.
- Recorded liabilities in foreign currency using Cross Currency Swaps.

Fair value assets hedging

The Financial Group has fair value hedges as follows:

- Recorded assets in Mexican pesos using TIIE rate Swaps.
- Recorded assets in foreign currency using Cross Currency Swaps.

As of December 31, 2011, there are 57 cash flow hedging transactions and 10 fair value hedging transactions. Cash flow hedging effectiveness varies between 86% and 101%, and fair value hedging effectiveness varies between 99% and 103%, which are well within the range established by the current accounting criteria (from 80% to 125%). Furthermore, there is no overhedging on any of the derivatives, so as of December 31, 2011, there are no ineffective portions that are recorded at the market value that the Financial Group has to record in earnings.

The following are the Financial Group's hedged cash flows as of December 31, 2011, expected to occur and affect earnings:

Concept	Up to 3 months	More than 3 months and up to 1 year	More and 1 and up to 5 years	More than 5 years
Forecast Funding	Ps. 371	Ps. 1,032	Ps. 3,634	Ps. 1,923
Liabilities in Mexican pesos	121	323	464	-
Assets denominated in USD	221	341	2,127	977
Liabilities denominated in USD	-	36	143	143
Assets denominated in Euros	3	15	28	3
	Ps. 716	**Ps. 1,747**	**Ps. 6,396**	**Ps. 3,046**

The fair value of the instruments designated as cash flow hedging, recognized in overall earnings in stockholders equity on December 31, 2011 and 2010 totaled Ps. 2,537 and Ps. 2,214, respectively. Furthermore, Ps. 15 and Ps. 42, respectively, were reclassified from stockholders' equity to results.

The (losses) gains recognized in derivatives financial instruments' results designated for trading were (Ps. 309) and Ps. 168, as of December 31, 2011 and 2010, respectively.

Trading derivatives and hedging derivatives: the loan risk is minimized through means of contractual compensation agreements, in which asset and liability derivatives with the same counterparty are settled for their net balance. Similarly, there may be other types of collateral such as credit lines, depending on the counterparty's solvency and the nature of the transaction.

The following table shows the cash flows hedging valuation balance:

	Valuation of cash flows hedging instruments	Net change in period	Reclassified to income
Balance, January 1, 2007	(Ps. 58)	Ps. -	Ps. -
Balance, December 31, 2007	(Ps. 308)	(Ps. 250)	Ps. -
Balance, December 31, 2008	(Ps. 1,567)	(Ps. 1,259)	Ps. 18
Balance, December 31, 2009	(Ps. 1,394)	Ps. 173	Ps. 47
Balance, December 31, 2010	(Ps. 2,114)	(Ps. 720)	Ps. 42
Balance, December 31, 2011	(Ps. 2,903)	(Ps. 789)	Ps. 15

10 - LOAN PORTFOLIO

As of December 31, 2011 and 2010, the loan portfolio by loan type is as follows:

	Performing Loan Portfolio		Past-due loan portfolio		Total	
	2011	2010	2011	2010	2011	2010
Commercial loans						
Denominated in domestic currency						
Commercial	Ps. 130,729	Ps. 99,851	Ps. 4,053	Ps. 3,765	Ps. 134,782	Ps. 103,616
Rediscounted portfolio	5,346	5,377	-	-	5,346	5,377
Denominated in USD						
Commercial	32,204	20,581	631	652	32,835	21,233
Rediscounted portfolio	744	674	-	-	744	674
Total commercial loans	**169,023**	**126,483**	**4,684**	**4,417**	**173,707**	**130,900**
Loans to financial institutions	11,560	5,521	1	-	11,561	5,521
Consumer loans						
Credit cardv	11,465	11,159	903	1,040	12,368	12,199
Other consumer loans	22,781	16,669	383	236	23,164	16,905
Mortgage loans	64,567	56,168	967	971	65,534	57,139
Government loans	71,162	47,550	11	-	71,173	47,550
	181,535	**137,067**	**2,265**	**2,247**	**183,800**	**139,314**
Total loan portfolio	**Ps. 350,558**	**Ps. 263,550**	**Ps. 6,949**	**Ps. 6,664**	**Ps. 357,507**	**Ps. 270,214**

Restructured loans

The restructured loans on December 31, 2011 and 2010 that modified their terms and rates are shown below:

	2011		2010	
	Performing	Past-due	Performing	Past-due
Commercial loans	Ps. 14,707	Ps. 400	Ps. 612	Ps. 185
Consumer loans	43	4	78	40
Mortgage loans	42	29	25	11
	Ps. 14,792	**Ps. 433**	**Ps. 715**	**Ps. 236**

As of December 31, 2011, past-due loans showed the following periods of delinquency:

	From 1 to 180 days	From 181 to 365 days	From 366 days to 2 years	More than 2 years	Total
Commercial loans					
Business loans	Ps. 1,175	Ps. 870	Ps. 2,018	Ps. 612	Ps. 4,675
Financial institutions' loans	1	-	-	-	1
Government loans	13	-	-	-	13
Consumer loans	1,211	6	74	2	1,293
Mortgage loans	637	137	25	168	967
	Ps. 3,037	**Ps. 1,013**	**Ps. 2,117**	**Ps. 782**	**Ps. 6,949**

As of December 31, 2010, past-due loans showed the following periods of delinquency:

Concept	From 1 to 180 days	From 181 to 365 days	From 366 days to 2 years	More than 2 years	Total
Commercial loans					
Business loans	Ps. 3,013	Ps. 495	Ps. 511	Ps. 398	Ps. 4,417
Consumer loans	1,270	4	1	1	1,276
Mortgage loans	873	69	21	8	971
	Ps. 5,156	**Ps. 568**	**Ps. 533**	**Ps. 407**	**Ps. 6,664**

Past-due loan movements for the years ended on December 31, 2011 and 2010 are shown below:

	2011	2010
Balance at the beginning of the year	Ps. 6,664	Ps. 6,154
IXE's NPLs incorporation	603	-
Liquidations	(1,954)	(2,074)
Write-offs*	(4,025)	(4,979)
Renewals	(555)	(531)
Loan portfolio purchases	1	-
Discounts	(95)	(105)
Foreclosures	(360)	(850)
Loan portfolio sales	(470)	-
Transfers to performing loans	(4,662)	(6,322)
Transfers from performing loans	11,735	15,409
Fluctuation from foreign exchange rate	67	(38)
Year-end balance	**Ps. 6,949**	**Ps. 6,664**

*Loans with 100% allowance for loan loss.

As of December 31, 2011, the balance of deferred fees was Ps. 1,949, and the amount recorded in results was Ps. 933. Furthermore, the deferred balance of costs and expenses associated with initial loan originations was Ps. 384, and the amount recorded in results was Ps. 213. As of December 31, 2010, the balance deferred fee was Ps. 1,623, and the amount recorded in results was Ps. 654. Furthermore, the deferred balance of costs and expenses associated with initial loan originations was Ps. 328, and the amount recorded in results was Ps. 386. The average term over which the deferred fee balance and the costs and expenses will be recorded is equivalent to the average term of the portfolio balance.

The collected fees and costs incurred are presented on a net basis in deferred loans and advanced collections within the consolidated balance sheets, as well as in interest income and interest expenses, respectively, in the consolidated income statements.

The average term of the portfolio's main segments are: a) commercial, 2.9 years; b) financial institutions, 3.1 years; c) mortgage, 17.9 years; d) government loans, 7.5 years; and e) consumer, 5.0 years.

During the years ended December 31, 2011 and 2010, the balance of fully reserved past-due loans that was written off was Ps. 4,153 and Ps. 5,551, respectively.

During the years ended December 31, 2011 and 2010, revenues from recoveries of previously written-off loan portfolios were Ps. 1,178 and Ps. 1,561, respectively.

Customer insurance policies that the Financial Group includes as part of the loan portfolio correspond to car insurance; the rest of the insurance policies are not recorded in the consolidated balance sheets and are collected when the loan is amortized by the client. The amount of financed car insurance policies by December 31, 2011 and 2010 is Ps. 19 and Ps. 23, respectively.

The loans granted per economic sectors as of December 31, 2011 and 2010, are shown below:

	2011		2010	
	Amount	Concentration percentage	Amount	Concentration percentage
Private (companies and individuals)	Ps. 173,707	48.59%	Ps. 130,900	48.44%
Financial institutions	11,561	3.23%	5,521	2.04%
Credit card and consumer	35,532	9.94%	29,104	10.77%
Mortgage	65,534	18.33%	57,139	21.15%
Government loans	71,173	19.91%	47,550	17.60%
	Ps. 357,507	**100%**	**Ps. 270,214**	**100%**

Policies and Procedures for Granting Loans

The granting, control and recovery of loans are regulated by the Financial Group's Credit Manual, which has been authorized by the Board of Directors. Accordingly, administrative portfolio control is performed in the following areas:

I. Business Areas (includes corporate, commercial, business, governmental and consumer banking), primarily through the branch network.
II. Operations Areas.
III. General Comprehensive Risk Management.
IV. Recovery Management.

Similarly, the Financial Group has manuals establishing the policies and procedures to be utilized for credit risk management purposes.

The structure of the credit management process is based on the following stages:

a. Product design
b. Promotion
c. Evaluation
d. Formalization
e. Operation
f. Administration
g. Recovery

Procedures have also been implemented to ensure that past-due loans are timely transferred and recorded in the accounting, and those loans with recovery problems are properly and promptly identified.

Pursuant to Commission Circular B6, "Loan Portfolio", distressed portfolio is defined as the commercial loans which, based on the current information and facts as well as on the loan revision process, are very unlikely to be fully recovered (both principal and interest) pursuant to the original terms and conditions. The performing and past-due portfolios are susceptible to be classified as a distressed portfolio. The commercial loans rating D and E risk degrees are as follows:

	2011	2010
Performing portfolio	Ps. 2,792	Ps. 2,283
Total rated portfolio	371,212	279,798
Distressed portfolio/total rated portfolio	0.75%	0.82%

The Financial Group's Treasury Department is the central unit responsible for balancing resource requirements and eliminating the interest rate risk derived from fixed rate transactions through the use of hedging and arbitrage strategies.

11 - LOANS RESTRUCTURED IN UDIS

As of December 31, 2011, there are no mortgage loans restructured in UDIS, while the balance on December 31, 2010 of performing and past-due loans was Ps. 45 and Ps. 1, respectively.

Early termination of mortgage loan borrower support programs

On June 30, 2010, the Federal Government through the SHCP and Banking Institutions signed an agreement for the early termination of the mortgage loan debtors support programs (*punto final* and UDIS trusts) (the Agreement), consequently as of January 1, 2011 the Financial Group absorbed its part of the early discount granted to mortgage loan debtors participating in the program.

Below are some of the effects of applying the Agreement that went into effect as of the signing date.

The total amount of Federal Government payment obligations for commercial loans as of December 31, 2011 is Ps. 112, which includes Ps. 110 associated with the conditioned discount portion from loans in Mexican pesos and UDIS; and Ps. 2 associated with the discount applied to those mentioned in number 3.1.2 of Circular 1430.

The obligations of the Federal Government on December 31, 2011 subject to the Agreement are described below:

	Payment date	Amount
Second amortization	June 1, 2012	Ps. 28
Third amortization	June 1, 2013	28
Fourth amortization	June 1, 2014	28
Fifth amortization	June 1, 2015	28
		Ps. 112

A monthly financial cost is incorporated to each amortization as of the day following the Cut-off Date and up to the close of the month prior to each payment date. The rate for January 2011 is the arithmetic average of the annual rate of return based on the 91-day CETES discount issued in December 2010, and for the subsequent months the 91-day future CETES rate of the previous month as published by Proveedor Integral de Precios, S.A. on the business day after the Cut-off Date, or that of the nearest month contained in said publication, taken on a 28-day return term, then dividing the resulting rate by 360 and multiplying the result by the number of days effectively elapsed during the period it is accrued, capitalized on a monthly basis.

An analysis of the allowance for loan losses for the loans included in the Agreement is detailed below:

	2010
Initial balance	Ps. 19
Financial Group support	67
Discounts and write-offs	14
Reserves reclassification	(9)
Contribution to settle fiduciary liability	1
Final balance	**Ps. 92**

During 2011, Ps. 28 was recognized in earnings related to the support of *punto final* and of GFNorte (resolution through the asset recovery unit) corresponding to loans that did not enter the program.

The maximum amount the Financial Group would absorb for loans not susceptible to the Early Termination program and that would be entitled to discount benefits program is Ps. 14.

Ps. 13 was used to repurchase Special CETES; the remaining balance not repurchased by the Federal Government is Ps. 793 with maturities between 2017 and 2027.

During 2010, the Financial Group recognized Ps. 330 as an allowance for loan losses and Ps. 56 in deferred taxes as a result of terminating the Trusts.

12 - ALLOWANCE FOR LOAN LOSSES

The Financial Group's portfolio classification, which serves as the basis for recording the allowance for loan losses, is detailed below:

	2011				
		Required allowances for losses			
Risk category	**Loan portfolio**	**Commercial portfolio**	**Consumer portfolio**	**Mortgage portfolio**	**Total**
Exempted portfolio	Ps. 113	Ps. -	Ps. -	Ps. -	Ps. -
Risk A	62,759	-	20	160	180
Risk A1	167,023	783	-	-	783
Risk A2	72,717	682	-	-	682
Risk B	25,129	-	934	266	1,200
Risk B1	24,405	568	249	-	817
Risk B2	7,770	63	464	-	527
Risk B3	2,167	232	-	-	232
Risk C	2,736	-	667	263	930
Risk C1	765	185	-	-	185
Risk C2	1,389	611	-	-	611
Risk D	1,929	430	829	57	1,316
Risk E	2,466	2,112	263	108	2,483
Unclassified	(156)	-	-	-	-
	Ps. 371,212	**Ps. 5,666**	**Ps. 3,426**	**Ps. 854**	**Ps. 9,946**
Less: recorded allowance					**9,944**
Complement of allowances*					**(Ps. 2)**

*The complement of allowances conforms to the general provisions applicable to Bank Institutions. To cover 100% of the past-due interest and for the effects of inquiries in the credit bureau, a total of Ps. 107 was recorded. In 2011 they include the effect of unifying the internal accounting policy for mortgage loan write-offs of FINCASA in the amount of (Ps. 109).

	2010				
		Required allowances for losses			
Risk category	**Loan portfolio**	**Commercial portfolio**	**Consumer portfolio**	**Mortgage portfolio**	**Total**
Exempted portfolio	Ps. 107	Ps. -	Ps. -	Ps. -	Ps. -
Risk A	66,862	-	75	181	256
Risk A1	115,479	576	-	-	576
Risk A2	65,389	621	-	-	621
Risk B	6,711	-	115	168	283
Risk B1	6,824	101	391	-	492
Risk B2	7,628	51	468	-	519
Risk B3	2,684	274	-	-	274
Risk C	1,944	-	628	92	720
Risk C1	968	219	-	-	219
Risk C2	1,190	552	-	-	552
Risk D	1,992	227	873	317	1,417
Risk E	2,240	1,919	326	-	2,245
Unclassified	(220)	-	-	-	-
	Ps. 279,798	**Ps. 4,540**	**Ps. 2,876**	**Ps. 758**	**Ps. 8,174**
Less: recorded allowance					**8,245**
Complement of allowances					**Ps. 71**

The sum of the rated loan portfolio includes Ps. 10,475 and Ps. 6,124 in loans granted to subsidiaries whose balance was eliminated in the consolidation process as of December 31, 2011 and 2010, respectively.

The total portfolio balance used as the basis for the classification above includes amounts related to credit commitments, which are recorded in memorandum accounts.

As of December 31, 2011 and 2010, the estimated allowance for loan losses is determined based on portfolio balances at those dates. As of December 31, 2011 and 2010, the allowance for loan losses includes a reserve to cover 100% of the delinquent interest owed.

As of December 31, 2011 and 2010, the allowance for loan losses represents 143% and 124%, respectively, of the past-due portfolio.

The estimated allowance includes the classification of loans granted in foreign currency, which are evaluated at the exchange rate in effect as of December 31, 2011 and 2010.

Consumer and mortgage loan rating

Modification of the consumer and mortgage loan rating methodology

On October 25, 2010 the Commission issued a resolution to the General Provisions for Banking Institutions modifying the applicable non-revolving consumer and mortgage loan rating so that the allowance for loan losses will be calculated on the basis of expected rather than incurred loss. This modification became effective on March 1, 2011.

Abiding by the above modification, as of March 31, 2011, the Financial Group recognized Ps. 350, net of its deferred taxes effect, in stockholders' equity under the prior years' earnings, which corresponds to the initial financial effect derived from applying the rating methodologies for non-revolving consumer and mortgage loans.

If the aforementioned effect had been recorded in the results of year, the affected items and amounts that the Financial Group would have recorded in the consolidated balance sheets and consolidated income statements would be:

Consolidated balance sheet	Balances, December 31, 2011	Effect	How it would have been presented
Stockholders' equity			
Retained earnings from prior years	Ps. 30,573	Ps. 350	Ps. 30,923
Net Income	Ps. 8,517	(Ps. 350)	Ps. 8,167
Total stockholders' equity	Ps. 77,082	Ps. -	Ps. 77,082
Consolidated income statements			
Provision for loan losses	Ps. 5,438	Ps. 582	Ps. 6,020
Net interest income after allowance for loan losses	Ps. 22,804	(Ps. 582)	Ps. 22,222
Deferred income taxes, net	Ps. 933	(Ps. 232)	Ps. 701
Net income	Ps. 8,517	(Ps. 350)	Ps. 8,167

Modification of the rating methodology of commercial loans granted to state and municipal governments

On October 5, 2011, the Commission published a resolution that modified the provisions regarding the rating methodology for loan portfolios granted to state and municipal governments. The resolution modifies the current model of reserves based on public ratings in order to establish a methodology by which the portfolio in question is rated and covered based on the expected losses for the next 12 months considering the probability of default, severity of the loss and exposure to non-compliance by each client.

The resolution went into effect on October 6, 2011 and its application was optional during the third or fourth quarter of 2011. As a result of this modification, the Financial Group opted to apply the aforementioned methodology with figures as of September 30, 2011. Thus, the Financial Group released Ps. 87 for the surplus reserves calculated using the above methodology. Such cancellation of surplus reserves was made to the year's earnings as established in the methodology.

The amount of allowances for loan losses for the Financial Group, calculated with the methodology referred in Exhibit 18 of such resolution was Ps. 961 and the amount of the allowance of the methodology in effect prior the current resolution totaled Ps. 1,048, both with figures as of September 30, 2011.

Movements in allowance for loan losses

An analysis of the movements in allowance for loan losses is detailed below:

	2011	2010
Balance at the beginning of the year	Ps. 8,245	Ps. 7,535
Increase charged to results	5,356	6,841
Discounts and write-offs	(4,901)	(6,066)
Valuation in foreign currencies and UDIS	63	(18)
Bonification granted to mortgage debtors	(72)	(70)
Created with profit margin (UDIS Trusts)	-	34
Loan acquisitions	(358)	2
Recognized against retained earnings from prior years	628	-
Acquisition of Ixe Grupo Financiero	972	-
Other	11	(13)
Year-end balance	**Ps. 9,944**	**Ps. 8,245**

As of December 31, 2011, the net amount of preventive loan loss reserves charged to the consolidated income statements totals Ps. 5,438, and is presented net of items registered in other operating income (expenses) (Ps. 84) and changes of the foreign exchange rate Ps. 2, such amounts affected to results for Ps. 5,356 credited directly to estimates. As of December 31, 2010, the net amount of preventive loan loss reserves charged to the consolidated income statements totals Ps. 6,889, and is preseted net of (Ps. 14) paid to other income or expenses, such amounts are affected against results is comprised of Ps. 6,841 credited directly to the estimate and Ps. 34 from the UDIS trust.

13 - ACQUIRED COLLECTION RIGHTS

As of December 31, 2011 and 2010, the acquired collection rights are comprised as follows:

	2011	2010	Valuation Method
INB I	Ps. 614	Ps. -	Cash Basis Method
Bancomer IV	258	360	Cash Basis Method
Banamex Mortgage	231	262	Cash Basis Method
INB II	117	-	Cash Basis Method
Bancomer III	98	111	Cash Basis Method
Serfin Mortgage	96	126	Cash Basis Method
Bital I	80	121	Cash Basis Method
Goldman Sach's	68	98	Cash Basis Method
Banorte Mortgage	127	158	Interest method
Commerce	586	-	Cost Recovery Method
Fincasa II	555	-	Cost Recovery Method
Solida Mortgage	310	382	Cost Recovery Method
Fincasa I	172	-	Cost Recovery Method
Grupo Binomio Constructor	115	-	Cost Recovery Method
Solución productiva	86		Cost Recovery Method
Serfin Commercial II	67	95	Cost Recovery Method
Confia I	56	72	Cost Recovery Method
Serfin Commercial I	54	81	Cost Recovery Method
Bital II	50	58	Cost Recovery Method
Banorte Sólida Commercial	32	34	Cost Recovery Method
Ixe Automotriz	20	-	Cost Recovery Method
GMAC Banorte	-	60	Cost Recovery Method
Cartera Segmento II	-	7	Cost Recovery Method
IXE fair value adjustment*	(233)	-	
	Ps. 3,559	**Ps. 2,025**	

* This adjustment corresponds to recording the fair value of the assets, liabilities and goodwill resulting from applying the acquisition cost method for the acquisition of IXE, as mentioned in Note 2.

As of December 31, 2011, the Financial Group recognized income from credit asset portfolios of Ps. 685 derived from applying the valuation methods (described in Note 4), together with the respective amortization of Ps. 547, the effects of which were recognized under the "Other operating income (expenses)" heading in the consolidated income statements. For the year ended December 31, 2010, the Financial Group recognized income of Ps. 595, together with the respective amortization of Ps. 482.

As of December 31, 2011, Ixe Soluciones, S.A. de C.V. had amortized the balance of the collection rights by means of settlements, collections in cash and sales of rights for Ps. 68, Ps. 16 and Ps. 86, respectively.

The Financial Group performs an analysis based on events or information to estimate the amount of expected cash flows to determine the estimated rate of return used in applying the valuation method for the amortization of the accounts receivable. If based on current events information, the analysis demonstrates that the expected future cash flows will decrease to the degree that they will not cover the book value, it will constitute an estimate for non-recoverability or difficult collection against the year's results for the amount that such expected cash flows are lower than the book value of the accounts receivable.

Assets other than cash that the Financial Group has received as part of portfolio collection or recovery have been mainly in real estate property.

The main feature considered for segmenting acquired portfolios has been the type of loan.

The INB I loan portfolio was acquired on March 23, 2011 for a total of 61.1 million USD and the INB II loan portfolio was acquired on December 26, 2011 for a total of 8.8 million USD.

14 – PREMIUM RECEIVABLES, net

The balance of premium receivables as of December 31, 2011 is made up as follows:

	2011
Liability	Ps. 83
Maritime and transportation	65
Fire	67
Automobile	968
Various	1,056
Accidents and health	827
Life	153
Pensions	86
	3,305
Federal public administration agencies' indebtedness	137
	Ps. 3,442

15 – ACCOUNTS RECEIVABLE FROM REINSURANCE

As of December 31, 2011, the other accounts receivable balance is as follows:

	2011
Insurance and annuities	Ps. 513
Reinsurers' participation for pending claims	1,289
Reinsurers' participation for current risk	776
Other participations	16
	Ps. 2,594

16 - OTHER ACCOUNTS RECEIVABLE, NET

As of December 31, 2011 and 2010, the other accounts receivable balance is as follows:

	2011	2010
Loans to officers and employees	Ps. 1,249	Ps. 1,211
Debtors from liquidation settlements	3,222	909
Debtors from cash collateral	4,419	3,159
Real estate property portfolios	1,940	1,864
Fiduciary rights	6,970	4,778
Sundry debtors in Mexican pesos	1,866	1,224
Sundry debtors in foreign currency	762	935
Other	288	419
	20,716	**14,499**
Allowance for doubtful accounts	(192)	(476)
	Ps. 20,524	**Ps. 14,023**

As of December 31, 2011 and 2010, the real estate property portfolios include Ps. 303 and Ps. 301, respectively, that corresponds to the collection rights of the INVEX trust that is valued applying the interest method.

Loans to officers and employees mature in 2 to 30 years and accrue a 6% to 10% interest.

17 - FORECLOSED ASSETS, NET

As of December 31, 2011 and 2010, the foreclosed assets' balance is as follows:

	2011	2010
Moveable property	Ps. 331	Ps. 64
Real estate property	2,459	1,107
Goods pledged for sale	18	18
	2,808	**1,189**
Allowance for losses on foreclosed moveable assets	(38)	(61)
Allowance for losses on foreclosed real estate assets	(474)	(312)
Allowance for losses on assets pledged for sale	(12)	(7)
	(524)	**(380)**
	Ps. 2,284	**Ps. 809**

18 - PROPERTY, FURNITURE AND EQUIPMENT, NET

As of December 31, 2011 and 2010, the property, furniture and equipment balance is as follows:

	2011	2010
Furniture and equipment	Ps. 9,001	Ps. 5,777
Property intended for offices	6,074	5,530
Installation costs	3,638	2,888
	18,713	**14,195**
Less - Accumulated depreciation and amortization	(6,928)	(4,879)
	Ps. 11,785	**Ps. 9,316**

The depreciation recorded in the results of 2011 and 2010 was Ps. 1,093 and Ps. 1,121, respectively.

The average estimated useful lives of the Financial Group's assets subject to depreciation are listed below:

	Useful Life
Transportation equipment	4 years
Computer equipment (except ATMs)	4.7 years
Computer equipment (ATMs)	7 years
Furniture and fixtures	10 years
Real estate	From 4 to 99 years

19 - PERMANENT STOCK INVESTMENTS

Investment in unconsolidated subsidiaries and associated companies are valued according to the equity method, as detailed below:

	Share %	2011	2010
Seguros Banorte Generali, S. A. de C. V.	51%	Ps. -	Ps. 1,243
Fondo Sólida Banorte Generali, S. A. de C. V., SIEFORE	99%	888	843
Pensiones Banorte Generali, S. A. de C. V.	51%	-	524
Banorte Mutual funds	Various	14	129
Controladora Prosa, S. A. de C. V.	19.73%	57	46
Afore XXI, S. A. de C. V.	50%	390	-
Transporte Aéreo Técnico Ejecutivo, S. A. de C. V.	45.33%	116	42
Concesionaria Internacional Anzaldúas, S.A. de C.V.	40%	82	156
Internacional de Inversiones, S.A.P.I. de C.V.	5.62%	95	95
Servicios Banorte Generali, S. A. de C. V.	33%	22	-
Commercial Banorte Generali, S. A. de C. V.	33%	12	-
Horizontes Banorte Generali, S. A. de C. V.	49%	65	-
Ixe Tarjetas (Credit Cards), S. A. de C. V.*	50%	356	-
Sociedades de Inversión Ixe Fondos (Mutual Funds)	Various	116	-
Others	Various	67	52
		Ps. 2,280	**Ps. 3,130**

* It includes the adjustment for (Ps. 98) that corresponds to recording the fair value of the assets, liabilities and goodwill resulting from applying the acquisition cost method for the acquisition of IXE, as mentioned in Note 2.

The Financial Group exercises significant influence over its affiliates valued under the equity method through its representation in the board of directors or equivalent management body, as well as through significant intercompany transactions.

20 - DEFERRED TAXES, NET

Deferred tax reported by the Financial Group is calculated based on the current taxable result of the year and enacted tax regulations; however, due to temporary differences between accounting and tax balance sheet accounts, the Financial Group has recognized a recoverable net deferred tax asset of (Ps. 39) and Ps. 1,340 as of December 31, 2011 and 2010, respectively, as detailed below:

	2011			2010		
	Temporary Differences	Deferred Effect		Temporary Differences	Deferred Effect	
		ISR	PTU		ISR	PTU
Temporary Differences _ Assets						
Allowance for loan losses	Ps. 669	Ps. 215	Ps. -	Ps. 339	Ps. 119	Ps. -
Tax loss carryforwards of UniTeller and Banorte USA	11	4	-	11	4	-
Tax loss carryforwards	1,845	554	-	5	2	-
State tax on deferred assets	25	9	-	10	3	-
Surplus preventive allowances for credit risks over the net tax limit	4,200	1,198	375	5,526	1,548	552
Excess of tax over book value of foreclosed and fixed assets	1,437	396	66	1,361	374	60
PTU	463	139	45	798	239	80
Fees collected in advance	364	110	31	20	6	2
Non-deductible provisions	2,352	706	97	1,390	417	131
Other assets	109	33	0	46	13	-
Total deferred assets	**Ps. 11,475**	**Ps. 3,364**	**Ps. 614**	**Ps. 9,506**	**Ps. 2,725**	**Ps. 825**
Temporary Differences_ Liabilities						
Excess of book over tax value of fixed assets and expected expenses	Ps. 7	Ps. 3	Ps. -	Ps. 33	Ps. 10	Ps. -
Unrealized loss in securities available-for-sale	247	86	-	75	26	-
Contribution to pension fund	2,772	778	270	2,000	560	200
ISR payable on UDI trusts	-	-	-	22	6	-
Portfolios acquired	2,271	660	122	2,126	617	110
Capitalizable projects' expenses	1,109	328	110	706	211	71
Unrealized capital gain from special allowance	177	54	-	170	51	-
Reversal of sales costs	-	-	-	8	3	-
Federal Home Loan Bank dividends	5	2	-	4	1	-
Intangible assets	480	145	-	64	22	-
IXE fair value adjustment*	1,659	498	-	-	-	-
Other	3,028	897	64	953	276	46
Total deferred liabilities	**Ps. 11,755**	**Ps. 3,451**	**Ps. 566**	**Ps. 6,161**	**Ps. 1,783**	**Ps. 427**
Net accumulated asset	**(Ps. 280)**	**(Ps. 87)**	**Ps. 48**	**Ps. 3,345**	**Ps. 942**	**Ps. 398**
Deferred tax (liability) asset, net			**(Ps. 39)**			**Ps. 1,340**

* This adjustment corresponds to recording the fair value of the assets, liabilities and goodwill resulting from applying the acquisition cost method for the acquisition of IXE, as mentioned in Note 2.

As discussed in Note 30, as of January 1, 2010 and up to December 31, 2012, the applicable income tax rate is 30% and it will be 29% in 2013. Pursuant to the provisions of NIF D-4, "Incomes Taxes", and INIF 8, "Effects of the Business Flat Tax", based on financial forecasts, the Financial Group adjusted their balances based on the rates likely to be in effect at the time of their recovery. Additionally, they made forecasts for the IETU and compared it to ISR, and concluded that they will continue to pay ISR. Thus no change was made to the deferred tax calculations.

Banorte USA's deferred tax assets and liabilities are determined using the liability method. According to this method, the net asset or liability of deferred taxes is determined based on the tax effects of temporary differences between the book and tax base of assets and liabilities. Derived from consolidating Banorte USA, as of December 31, 2011 a net amount of (Ps. 42) was added to deferred taxes determined at a rate of 35% as per the tax law of the USA.

21 - OTHER ASSETS

As of December 31, 2011 and 2010, other assets are as follows:

	2011	2010
Investment of the provisions for employee pension plans and savings fund	Ps. 6,281	Ps. 5,303
Other amortizable expenses	6,468	2,015
Accumulated amortization of other expenses	(534)	(188)
Goodwill	15,689	2,950
	Ps. 27,904	**Ps. 10,080**

As of December 31, 2010, the balance of the investments related to provisions for staff pensions and savings fund, is comprised of Ps. 4,698 corresponding to the defined benefit pension plan, seniority premiums and medical expenses for retirees, Ps. 1,383 for the voluntary defined contribution plan "secure your future" (see Note 26) and Ps. 200 for the savings fund. As of December 31, 2010, this balance is comprised of Ps. 3,827 for the defined benefit pension plan, seniority premiums and medical expenses for retirees and Ps. 1,283 for the voluntary defined contribution plan "secure your future" (see Note 25) and Ps. 193 for the savings fund.

Furthermore, the liability associated with the pension plan for personnel retirement and saving fund is presented on the consolidated balance sheet under "Sundry debtors and other accounts payables" line item and it's made up as follows:

	2011	2010
Defined benefits plan	Ps. 2,109	Ps. 1,857
Defined contribution plan	1,383	1,283
Saving fund	200	193
	Ps. 3,692	**Ps. 3,333**

As of December 31, 2011, goodwill was Ps. 15,689 and was comprised of the following: Ps. 9,856 for the purchase of Ixe Grupo Financiero, S.A.B. de C.V.,; Ps. 2,504 for the purchase of 50% of Afore XXI; Ps. 4 for the purchase of Royal SunAlliance Pensiones (Mexico), S.A. de C.V.; Ps. 25 for the purchase of Generali Mexico Compañía de Seguros, S.A.; Ps. 3,029 for the purchase of INB and Ps. 271 for the purchase of Uniteller. As of December 31, 2010, the goodwill was Ps. 2,950 and was comprised as follows: Ps. 28 for the purchase of Generali México Compañía de Seguros, S. A.; Ps. 2,682 for the purchase of INB; and Ps. 240 for the purchase of Uniteller. As mentioned in Note 4, goodwill is not amortized and is subject to annual impairment tests. No impairment of the goodwill value was detected as of December 31, 2011 and 2010.

22 - DEPOSITS

Liquidity Coefficient

The "Investment regime for transactions in foreign currency and conditions to be fulfilled during the term of transactions in such currency", designed for credit institutions by Banco de México, establishes the mechanism for determining the liquidity coefficient of liabilities denominated in foreign currency.

In accordance with such regime, during 2011 and 2010, the Financial Group generated a liquidity requirement of USD 327,525 thousand and USD 498,373 thousand, respectively, and held investments in liquid assets of USD 646,244 thousand and USD 1,069,131 thousand, representing a surplus of USD 318,719 thousand and USD 570,758 thousand, respectively.

Core Deposits

The liabilities derived from core deposits are made up as follows:

	2011	2010
Demand deposits		
Non-interest Bearing Checking accounts:		
Cash deposits	Ps. 86,400	Ps. 65,583
Checking accounts in US dollars for individual residents in the Mexican border	734	637
Demand deposit accounts	6,341	5,125
Interest Bearing Checking accounts:		
Other bank checking deposits	45,292	34,178
Savings accounts	346	262
Checking accounts in US dollars for individual residents of the Mexican border	1,621	1,615
Demand deposits accounts	48,879	42,417
	189,613	**149,817**
Time deposits		
General public:		
Fixed-term deposits	25,503	25,299
Retail time deposits	66,071	43,677
Promissory note with interest payable at maturity PRLV primary market for individuals	68,855	61,835
PRLV primary market for business entities	1,892	1,644
Foreign residents' deposits	28	28
Provision for interest	286	190
	162,635	132,673
Money market:		
Fixed-term deposits	297	2,648
Promissory notes	9,103	2,208
Provision for interest	1,689	1,491
	11,089	6,347
	173,724	**139,020**
Senior debt issued	**6,953**	**3,778**
	Ps. 370,290	**Ps. 292,615**

The funding rates which the Financial Group uses as reference are: a) for Mexican pesos, Interbank Interest Rate (TIIE), Average Cost of Funds (CCP) and; b) for foreign currency, the London Interbank Offered Rate (LIBOR).

These liabilities incur interest depending on the type of instrument and average balance held in the investments. The average interest rates and their currency of reference are shown below:

Immediately due and payable deposits:

	2011				2010			
Foreign exchange	**1Q**	**2Q**	**3Q**	**4Q**	**1Q**	**2Q**	**3Q**	**4Q**
Mexican pesos and UDIS	0.54%	0.54%	0.52%	0.57%	0.56%	0.62%	0.61%	0.57%
Foreign Currency	0.03%	0.03%	0.03%	0.03%	0.03%	0.03%	0.03%	0.03%
Ixe Banco								
Mexican pesos and UDIS	-	-	-	1.22%	-	-	-	-
Foreign Currency	-	-	-	0.03%	-	-	-	-
Banorte USA (INB)								
Demand deposits accounts	0.75%	0.57%	0.20%	0.18%	0.18%	0.14%	0.07%	0.12%
Money market	0.74%	0.67%	0.45%	0.40%	0.94%	0.92%	0.78%	0.81%

Time deposits:

	2011				2010			
Foreign exchange	**1Q**	**2Q**	**3Q**	**4Q**	**1Q**	**2Q**	**3Q**	**4Q**
General public								
Mexican pesos and UDIS	3.41%	3.52%	3.46%	3.49%	3.52%	3.55%	3.62%	3.37%
Foreign Currency	0.70%	0.71%	0.91%	0.70%	0.84%	0.91%	0.80%	0.69%
Money market	5.46%	5.61%	5.26%	5.08%	7.66%	6.53%	7.06%	7.32%
Ixe Banco								
Mexican pesos and UDIS	-	-	-	4.09%	-	-	-	-
Foreign Currency	-	-	-	2.72%	-	-	-	-
Banorte USA (INB)	2.32%	2.30%	2.11%	1.82%	2.76%	2.76%	2.61%	2.39%

As of December 31, 2011 and 2010, the terms set for these deposits are as follows:

	2011			
	From 1 to 179 days	From 6 to 12 months	More than 1 year	Total
General public				
Fixed-term deposits	Ps. 14,958	Ps. 4,760	Ps. 5,785	Ps. 25,503
Retail time deposits	65,971	96	4	66,071
Promissory note with interest payable at maturity PRLV primary market for individuals	68,274	519	62	68,855
PRLV primary market for business entities	1,700	28	164	1,892
Foreign residents deposits	20	2	6	28
Provision for interest	268	17	1	286
	151,191	**5,422**	**6,022**	**162,635**
Money market				
Fixed-term deposits	-	-	297	297
Promissory notes	-	-	9,103	9,103
Provision for interest	-	-	1,689	1,689
	-	**-**	**11,089**	**11,089**
Senior debt issued	**-**	**-**	**6,953**	**6,953**
	Ps. 151,191	**Ps. 5,422**	**Ps. 24,064**	**Ps. 180,677**

	2010			
	From 1 to 179 years	From 6 to 12 months	More than 1 year	Total
General public				
Fixed-term deposits	Ps. 14,879	Ps. 6,062	Ps. 4,358	Ps. 25,299
Retail time deposits	43,614	63	-	43,677
Promissory note with interest payable at maturity PRLV primary market for individuals	61,345	433	57	61,835
PRLV primary market for business entities	1,610	32	2	1,644
Foreign residents deposits	20	2	6	28
Provision for interest	174	15	1	190
	121,642	**6,607**	**4,424**	**132,673**
Money market				
Fixed-term deposits	-	-	2,648	2,648
Promissory notes	-	-	2,208	2,208
Provision for interest	-	4	1,487	1,491
	-	**4**	**6,343**	**6,347**
Senior debt issued	**-**	**-**	**3,778**	**3,778**
	Ps. 121,642	**Ps. 6,611**	**Ps. 14,545**	**Ps. 142,798**

23 - INTERBANK AND OTHER LOANS

The loans received from other banks as of December 31, 2011 and 2010 are as follows:

	Mexican pesos		Denominated in USD		Total	
	2011	2010	2011	2010	2011	2010
Immediately due						
Domestic banks (Call money)	Ps. 3,968	Ps. 4,837	Ps. -	Ps. -	Ps. 3,968	Ps. 4,837
	3,968	**4,837**	**-**	**-**	**3,968**	**4,837**
Short-term						
Banco de México	3,000	250	-	-	3,000	250
Commercial banking	1,585	326	1,050	321	2,635	647
Development banking	12,626	6,747	2,508	1,211	15,134	7,958
Public trusts	4,052	3,977	191	192	4,243	4,169
Provision for interest	131	87	7	3	138	90
	21,394	**11,387**	**3,756**	**1,727**	**25,150**	**13,114**
Long-term						
Commercial banking	988	1,524	–	1,284	988	2,808
Development banking	2,312	2,421	184	267	2,496	2,688
Public trusts	2,673	2,825	169	173	2,842	2,998
Provision for interest	4	-	–	2	4	2
	5,977	**6,770**	**353**	**1,726**	**6,330**	**8,496**
	Ps. 31,339	**Ps. 22,994**	**Ps. 4,109**	**Ps. 3,453**	**Ps. 35,448**	**Ps. 26,447**

These liabilities incur interest depending on the type of instrument and average balance of the loans.

The average interest rates are shown below:

	2011				2010			
Foreing exchange	**1Q**	**2Q**	**3Q**	**4Q**	**1Q**	**2Q**	**3Q**	**4Q**
Call Money								
Mexican pesos and UDIS	4.55%	4.52%	4.47%	4.45%	4.44%	4.63%	4.43%	4.48%
Other bank loans								
Mexican pesos and UDIS	5.54%	5.00%	4.93%	4.90%	6.01%	5.55%	5.56%	5.59%
Foreing Currency	1.55%	1.22%	1.60%	1.65%	1.30%	1.67%	1.79%	1.84%

Banorte USA liabilities accrue interest at an average rate of 2.86% and 4.09% as of December 2011 and 2010, respectively. Moreover, the loans obtained by Arrendadora y Factor Banorte, S.A. de C.V. accrue an average interest rate of 6.16% and 6.59% in Mexican pesos and 2.91% and 2.39% in U.S. dollars as of December 31, 2011 and 2010, respectively. Furthermore the interbank and other loans engaged by Ixe Banco are settled at annual rates between 2.05% and 7.25%.

24 – TECHNICAL RESERVES

The balance of the technical reserves as of December 31, 2011 is made up as follows:

	2011
Current risk:	
Life	Ps. 34,390
Accidents and health	847
Damages	2,325
	37,562
Contractual obligations:	
Claims and expirations	2,152
Unreported claims	742
Dividends on policies	362
Insurance funds under management	12
Security premiums	96
	3,364
Contingency:	
Catastrophic risk	408
Contingencies	634
Special	438
	1,480
	Ps. 42,406

25 - SUNDRY CREDITORS AND OTHER PAYABLES

As of December 31, 2011 and 2010, the balance of sundry creditors and other payables is as follows:

	2011	2010
Cashier and certified checks and other negotiable instruments	Ps. 1,841	Ps. 1,001
Provision for employee retirement obligations and saving fund	3,692	3,333
Provisions for other obligations	3,489	2,691
Other	6,424	2,846
	Ps. 15,446	**Ps. 9,871**

26 - EMPLOYEE RETIREMENT OBLIGATIONS

The Financial Group recognizes the liabilities for pension plans and seniority premiums using the projected unit credit method, which considers the benefits accrued at the date of the consolidated balance sheets and the benefits generated during the year.

The amount of current and projected benefits as of December 31, 2011 and 2010, related to the defined benefit pension plan, seniority premiums and retiree medical coverage, determined by independent actuaries, is analyzed below:

	2011			
	Pension plan	**Seniority premiums**	**Medical services**	**Total**
Projected benefit obligation (PBO)	(Ps. 885)	(Ps. 200)	(Ps. 2,029)	(Ps. 3,114)
Fund market value	1,512	345	2,841	4,698
Funded status	**627**	**145**	**812**	**1,584**
Transition asset (obligation)	7	(3)	82	86
Unrecognized prior service cost	1	(2)	-	(1)
Unrecognized actuarial losses	407	9	762	1,178
Net projected asset	**Ps. 1,042**	**Ps. 149**	**Ps. 1,656**	**Ps. 2,847**

	2010			
	Pension plan	**Seniority premiums**	**Medical services**	**Total**
Projected benefit obligation (PBO)	(Ps. 778)	(Ps. 174)	(Ps. 1,782)	(Ps. 2,734)
Fund market value	1,281	306	2,240	3,827
Funded status	**503**	**132**	**458**	**1,093**
Transition asset (obligation)	15	(7)	164	172
Unrecognized prior service cost	2	(2)	-	-
Unrecognized actuarial losses	277	7	564	848
Net projected asset	**Ps. 797**	**Ps. 130**	**Ps. 1,186**	**Ps. 2,113**

The Financial Group has a net prepayment (net prepaid asset) of Ps. 3 generated by transferring personnel from Sólida Administradora de Portafolios, S.A. de C.V. (Sólida) to Banorte. Moreover, as of December 31, 2011, a separate fund amounting to Ps. 4,698, (Ps. 3,827 in 2010) has been set aside to meet the above-mentioned obligations, in accordance with NIF D-3 and is recorded under "Other assets".

For the years ended December 31, 2011 and 2010, the net periodic pension cost is as follows:

	2011	2010
Service cost	Ps. 129	Ps. 103
Interest cost	237	227
Expected return on plan assets	(342)	(316)
Amortizations of unrecognized items:		
Transition obligation	86	86
Cost of the advance reduction/liquidation of obligations	(20)	-
Variations in assumptions	36	30
Net periodic pension cost	**Ps. 126**	**Ps. 130**

The rates used in the calculation of the projected benefit obligation and return on plan assets as of December 31, 2011 and 2010, are shown below:

Concept	2011 Nominal	2010 Nominal
Discount rate	8.50%	8.75%
Rate of wage increase	4.50%	4.50%
Long-term inflation rate	3.50%	3.50%
Expected long-term rate of return on plan assets of the Banorte Brokerage House	8.50%	10.25%
Expected long-term rate of return on plan assets	8.50%	8.75%

The liability for severance indemnities due to causes other than organizational restructuring, which was also determined by independent actuaries, is comprised as follows:

Concept	2011	2010
Defined and projected benefit obligations	(Ps. 256)	(Ps. 171)
Transition obligation	20	41
Net projected liability	**(Ps. 236)**	**(Ps. 130)**

For the years ended December 31, 2011 and 2010, the net periodic pension cost is as follows:

Concept	2011	2010
Service cost	Ps. 48	Ps. 26
Interest cost	18	12
Transition obligation	21	21
Variations in assumptions	133	14
Net periodic pension cost	**Ps. 220**	**Ps. 73**

The balance of the employee retirement obligations presented in this Note refers to the Financial Group's defined benefit pension plan for those employees who remain enrolled.

The labor obligations derived from the defined contribution pension plan do not require an actuarial valuation as established in NIF D-3, because the cost of this plan is equivalent to the Financial Group's contributions made to the plan's participants. This pension plan maintains a fund as of December 31, 2011 and 2010, equivalent to Ps. 1,404 and Ps. 1,283, respectively, which is recorded under "Other assets" and is equivalent to the recorded plan liability.

27 - SUBORDINATED DEBENTURES

As of December 31, 2011 and 2010, the subordinated debentures in circulation are as follows:

	2011	2010
Preferred subordinated, nonconvertible debentures, maturing in April 2016, denominated in US dollars, at an interest rate of 6.135%, payable semiannually with a final principal payment at maturity (10-year term).	Ps. -	Ps. 4,940
Non preferred subordinated nonconvertible debentures (Q BANORTE 08 debentures), maturing in February 2018, paying interest at the 28-day TIIE rate plus 0.60%.	3,000	3,000
Preferred subordinated nonconvertible debentures (Q BANORTE 08-2), maturing in June 2018, paying interest at the 28-day TIIE rate plus 0.77%.	2,750	2,750
Preferred subordinated nonconvertible debentures, BANORTE 09 maturing in March 2019, paying interest at the 28-day TIIE rate plus 2%, payable in 130 periods of 28 days each.	2,200	2,200
Nonpreferred subordinated nonconvertible debentures, maturing in April 2021, denominated in US dollars, at an interest rate of 6.862%, payable semiannually with a final principal payment at maturity (15-year term).	2,790	2,470
Preferred subordinated nonconvertible debentures, Q BANORTE 08-U maturing in February 2028, and interest at a 4.95% annual rate.	2,098	2,024
Perpetual subordinated debentures at an annual rate of 9.75%, payable on a quarterly basis with a total or partial maturity option as of February 26, 2012.	1,674	-
Perpetual 10-year subordinated debentures at an annual rate of 9.75%, payable twice a year with a total or partial maturity option as of October 14, 2020.	1,588	-
Subordinated debentures, maturing in June 2034, denominated in US dollars, at a 3-months LIBOR interest rate plus 2.75%.	144	127
Preferred subordinated debentures maturing in April 2034, denominated in US dollars, at a 3-months LIBOR interest rate plus 2.72%.	144	127
Accrued interest.	155	165
	Ps. 16,543	**Ps. 17,803**

The costs related to these debentures are amortized using the straight-line method over the term of the debt. The amortization charged to results was Ps. 17 and Ps. 6 in 2011 and 2010, respectively.

28 - TRANSACTIONS AND BALANCES WITH NON-CONSOLIDATED SUBSIDIARIES AND ASSOCIATED COMPANIES

Pursuant to article 73 of the LIC (Credit Institutions Law), the loans granted by Banorte to any related party cannot exceed 50% of the basic portion of its net capital. For the years ended December 31, 2011 and 2010, the amount of the loans granted to related parties were Ps. 12,732 and Ps. 8,772, respectively, representing 59.8% and 47.1%, respectively, of the limit established by the LIC.

Sale of loan portfolio packages between related parties (nominal values)

In February 2003, Banorte sold Ps. 1,925 of its own portfolio (with interest) to its subsidiary Sólida at a price of Ps. 378. Of this transaction, Ps. 1,891 were related to past-due loans amounts and Ps. 64 to the performing loan portfolio. The transaction was recorded based on figures as of August 2002, for which reason the final amount affecting the February 2003 balance sheet was Ps. 1,856, considering the collections made since August 2002. In conjunction with the loan portfolio sold, Ps. 1,577 of the associated allowance for loan losses was transferred as well.

In official letter 601-II-323110, dated November 5, 2003, the Commission established the accounting criteria to be applied to this transaction and issued a series of rulings whereby Banorte must provide detailed information on the activities of this transaction throughout its duration, in the understanding that this transaction was a one-time event and not a recurring portfolio transfer procedure.

Pursuant to the foregoing, below is a summary of the activity of the loan portfolio sold to Sólida since August 2002 and for the years of 2010 and 2011:

	Mexican pesos			Foreign Currency			Total		
Type of portfolio	**Aug 02**	**Dec 10**	**Dec 11**	**Aug 02**	**Dec 10**	**Dec 11**	**Aug 02**	**Dec 10**	**Dec 11**
Performing Loan Portfolio									
Commercial	Ps. 5	Ps. -	Ps. -	Ps. 5	Ps. -	Ps. -	Ps. 10	Ps. -	Ps. -
Mortgage	54	20	15	-	-	-	54	20	15
Total	**59**	**20**	**15**	**5**	**-**	**-**	**64**	**20**	**15**
Past-due portfolio									
Commercial	405	331	322	293	104	117	698	435	439
Consumer	81	72	72	-	-	-	81	72	72
Mortgage	1,112	323	303	-	-	-	1,112	323	303
Total	**1,598**	**726**	**697**	**293**	**104**	**117**	**1,891**	**830**	**814**
Total portfolio	**Ps. 1,657**	**Ps. 746**	**Ps. 712**	**Ps. 298**	**Ps. 104**	**Ps. 117**	**Ps. 1,955**	**Ps. 850**	**Ps. 829**
Reservas crediticias (1)									
Commercial	Ps. 326	Ps. 318	Ps. 321	Ps. 246	Ps. 104	Ps. 117	Ps. 572	Ps. 422	Ps. 438
Consumer	77	72	72	-	-	-	77	72	72
Mortgage	669	313	309	-	-	-	669	313	309
Total allowance for loan loss	**Ps. 1,072**	**Ps. 703**	**Ps. 702**	**Ps. 246**	**Ps. 104**	**Ps. 117**	**Ps. 1,318**	**Ps. 807**	**Ps. 819**

(1) Allowances required based on the classification methodology applied in Banorte that maintained a 99.99% equity interest in Sólida during 2011 and 2010.

As of December 31, 2011 and 2010, the composition of the Banorte's loan portfolio, including the loan portfolio sold to Sólida, is as follows:

	Mexican pesos		Foreign currency		Total	
Type of portfolio	**Dec 11**	**Dec 10**	**Dec 11**	**Dec 10**	**Dec 11**	**Dec 10**
Commercial loans	Ps. 192,102	Ps. 148,786	Ps. 16,426	Ps. 13,330	Ps. 208,528	Ps. 162,116
Consumer loans	29,775	27,637	-	-	29,775	27,637
Mortgage loans	60,948	54,013	-	-	60,948	54,013
Performing Loan Portfolio	**282,825**	**230,436**	**16,426**	**13,330**	**299,251**	**243,766**
Commercial loans	3,922	3,954	335	252	4,257	4,206
Consumer loans	1,294	1,348	-	-	1,294	1,348
Mortgage loans	1,060	1,025	-	-	1,060	1,025
Past-due portfolio	**6,276**	**6,327**	**335**	**252**	**6,611**	**6,579**
Total portfolio	**289,101**	**236,763**	**16,761**	**13,582**	**305,862**	**250,345**
Allowance for loan losses	8,939	8,131	487	297	9,426	8,428
Net portfolio	**Ps. 280,162**	**Ps. 228,632**	**Ps. 16,274**	**Ps. 13,285**	**Ps. 296,436**	**Ps. 241,917**
Allowance for loan losses					**142.58%**	**128.10%**
% of past-due portfolio					**2.16%**	**2.63%**

29 - INFORMATION BY SEGMENT

The main operations and balances per concept and/or business segment in the consolidated balance sheets and the consolidated income statements are comprised as follows:

a. The balances by servicing sector of the Financial Group, without considering the eliminations relative to the consolidation of the financial statements, are as follows:

	2011	2010
Banking sector:		
Net income	Ps. 7,260	Ps. 6,035
Stockholders' equity	54,909	44,316
Total portfolio	341,897	257,957
Past-due portfolio	6,583	6,523
Allowance for loan losses	(9,446)	(7,955)
Total net assets	726,082	564,386
Brokerage sector:		
Net income	418	403
Stockholders' equity	2,591	1,883
Portfolio balance	578,762	174,068
Total net assets	23,528	10,169
Long Term Savings' sector:		
Net income	1,157	903
Stockholders' equity	5,140	5,244
Total net assets	51,814	40,993
Other finance companies sector:		
Net income	708	500
Stockholders' equity	3,726	2,136
Total portfolio	22,115	15,884
Past-due portfolio	480	141
Allowance for loan losses	(545)	(289)
Total net assets	23,056	16,456
Others:		
Net income	(Ps. 1,026)	(Ps. 1,136)

b. The intermediation results for the years ended December 31, 2011 and 2010 are as follows:

	2011	2010
Valuation results		
Trading securities	Ps. 517	Ps. 46
Decrease in securities	(95)	-
Repurchase or resale agreement	-	30
Derivatives financial instruments	(175)	382
Total valuation results	**247**	**458**
Trading results		
Trading securities	981	455
Securities available for sale	283	214
Securities held to maturity	6	-
Derivatives financial instruments	79	(143)
Total securities' trading results	**1,349**	**526**
Spot foreign currency	1,134	690
Foreign currency forwards	-	(1)
Foreign currency futures	(4)	(2)
Foreign currency valuation	38	3
Minted metals trading	7	3
Minted metals valuation	7	12
Total foreign currency trading results	**1,182**	**705**
Total trading results	**2,531**	**1,231**
Total intermediation results	**Ps. 2,778**	**Ps. 1,689**

c. The performing loan portfolio, grouped by economic sectors and geographical location, is as follows:

2011

	Geographical location				
Economic sector	North	Central	West	South	Total
Agriculture	Ps. 3,322	Ps. 613	Ps. 903	Ps. 1,005	Ps. 5,843
Mining	365	197	16	10	588
Manufacturing	9,915	4,686	1,611	917	17,129
Construction	9,618	14,194	658	2,229	26,699
Public utilities	20	89	5	-	114
Commerce	13,870	12,497	3,619	6,899	36,885
Transportation	2,804	6,397	1,081	346	10,628
Financial services	15,174	5,359	1,080	1,505	23,118
Communal, social services	8,120	2,628	470	539	11,757
Public administration and services	36,165	13,239	6,891	10,094	66,389
INB	-	-	-	-	8,181
Credit card	-	-	-	-	11,465
Consumer	-	-	-	-	18,528
Mortgage	-	-	-	-	63,143
Other	-	-	-	-	112
Arrendadora y Factor Banorte	-	-	-	-	15,117
Ixe Banco*					
Commercial	-	-	-	-	24,999
Consumer	-	-	-	-	4,049
Mortgage	-	-	-	-	997
Fincasa Hipotecaria	-	-	-	-	3,579
Ixe Automotriz	-	-	-	-	337
Ixe Soluciones	-	-	-	-	111
IXE fair value adjustment**	-	-	-	-	790
Performing loan portfolio	**Ps. 99,373**	**Ps. 59,899**	**Ps. 16,334**	**Ps. 23,544**	**Ps. 350,558**

*29% of the Ixe Banco loans correspond to the commercial sector, 28% to the professional and technical services sector, 19% to industry, 7% to construction and 17% to other sectors. 80% of the loans are concentrated in the central region.
** This adjustment corresponds to recording the fair value of the assets, liabilities and goodwill resulting from applying the acquisition cost method for the acquisition of IXE, as mentioned in Note 2.

2010

	Geographical location				
Economic sector	North	Central	West	South	Total
Agriculture	Ps. 2,473	Ps. 1,094	Ps. 741	Ps. 911	Ps. 5,219
Mining	354	176	19	19	568
Manufacturing	7,830	5,014	1,459	635	14,938
Construction	5,346	7,433	557	2,023	15,359
Public utilities	35	293	2	1	331
Commerce	12,157	10,412	3,493	6,103	32,165
Transportation	1,174	5,062	123	253	6,612
Financial services	8,302	9,233	198	1,300	19,033
Communal, social services	6,680	5,234	1,520	417	13,851
Business groups	9	364	6	5	384
Public administration and services	24,164	16,189	2,188	4,901	47,442
International organization services	2	-	-	-	2
INB	-	-	-	-	9,232
Credit card	-	-	-	-	11,159
Consumer	-	-	-	-	16,668
Mortgage	-	-	-	-	56,168
Other	-	-	-	-	105
Arrendadora y Factor Banorte	-	-	-	-	14,314
Performing loan portfolio	**Ps. 68,526**	**Ps. 60,504**	**Ps. 10,306**	**Ps. 16,568**	**Ps. 263,550**

d. The past-due loan portfolio, grouped by economic sector and geographical location, is summarized as follows:

2011

Economic sector	North	Central	West	South	Total
	Geographical location				
Agriculture	Ps. 309	Ps. 72	Ps. 55	Ps. 50	Ps. 486
Mining	3	-	1	1	5
Manufacturing	108	171	64	30	373
Construction	582	81	23	15	701
Commerce	361	136	137	152	786
Transportation	13	1,262	5	9	1,289
Financial services	17	3	2	7	29
Communal, social services	61	29	37	10	137
Public administration and services	-	-	13	-	13
INB	-	-	-	-	269
Credit card	-	-	-	-	903
Consumer	-	-	-	-	320
Mortgage	-	-	-	-	900
Arrendadora y Factor Banorte	-	-	-	-	79
Ixe Banco*					
Commercial	-	-	-	-	295
Consumer	-	-	-	-	13
Mortgage	-	-	-	-	65
Fincasa Hipotecaria	-	-	-	-	335
Ixe Automotriz	-	-	-	-	66
Ixe Soluciones	-	-	-	-	174
Fair value adjustment**	-	-	-	-	(289)
Past-due loan portfolio	**Ps. 1,454**	**Ps. 1,754**	**Ps. 337**	**Ps. 274**	**Ps. 6,949**

*29% of the Ixe Banco loans correspond to the commercial sector, 28% to the professional and technical services sector, 19% to industry, 7% to construction and 17% to other sectors. 80% of the loans are concentrated in the central region.
**This adjustment corresponds to recording the fair value of the assets, liabilities and goodwill resulting from applying the acquisition cost method for the acquisition of IXE, as mentioned in Note 2.

2010

Economic sector	North	Central	West	South	Total
	Geographical location				
Agriculture	Ps. 261	Ps. 125	Ps. 46	Ps. 24	Ps. 456
Mining	5	-	1	1	7
Manufacturing	107	250	63	38	458
Construction	297	104	12	21	434
Commerce	329	231	148	159	867
Transportation	17	1,318	8	11	1,354
Financial services	10	13	-	1	24
Communal, social services	45	50	44	30	169
Business groups	-	-	-	1	1
INB	-	-	-	-	505
Credit card	-	-	-	-	1,040
Consumer	-	-	-	-	236
Mortgage	-	-	-	-	971
Arrendadora y Factor Banorte	-	-	-	-	142
Past-due loan portfolio	**Ps. 1,071**	**Ps. 2,091**	**Ps. 322**	**Ps. 286**	**Ps. 6,664**

e. Deposit accounts grouped by product and geographical location are as follows:

2011

	Geographical location								
Product	Monterrey	Mexico City	West	Northwest	Southeast	Oriente	Treasury and others	Foreign	Total
Non-interest bearing checking accounts	Ps. 13,590	Ps. 23,729	Ps. 7,767	Ps. 10,323	Ps. 10,198	Ps. 6,254	Ps. 165	Ps. -	Ps. 72,026
Interest-bearing checking accounts	8,050	27,542	5,249	7,063	11,889	2,630	193	-	62,616
Savings accounts	1	1	-	-	-	1	-	-	3
Current account Ps. and pre-established	3,414	6,346	1,866	3,569	3,326	2,425	145	-	21,091
Non-interest bearing demand deposits, USD	729	1,298	190	1,400	235	263	-	4,889	9,004
Interest bearing demand deposits, USD	1,705	1,468	265	2,090	242	953	(4)	4,618	11,337
Savings accounts in USD	-	-	-	-	-	-	-	343	343
Retail time deposits	9,716	26,063	7,612	8,272	11,057	7,053	2,001	-	71,774
Time deposits, USD	3,888	3,632	1,461	1,512	689	1,296	19	13,026	25,523
Customers money market	16,145	12,153	5,344	4,365	3,335	4,668	422	-	46,432
Financial intermediaries	-	-	-	-	-	-	12,800	4,184	16,984
Ixe Banco*									
Demand deposits	-	-	-	-	-	-	-	-	13,203
Time deposits	-	-	-	-	-	-	-	-	19,954
Total deposits	**Ps. 57,238**	**Ps. 102,232**	**Ps. 29,754**	**Ps. 38,594**	**Ps. 40,971**	**Ps. 25,543**	**Ps. 15,741**	**Ps. 27,060**	**Ps. 370,290**

*90% of the deposits are concentrated in the Mexico City location.

2010

	Geographical location							
Product	Monterrey	Mexico City	West	Northwest	Southeast	Treasury and other	Foreign	Total
Non-interest bearing checking accounts	Ps. 14,964	Ps. 22,000	Ps. 6,992	Ps. 8,876	Ps. 7,873	Ps. 89	Ps. -	Ps. 60,794
Interest-bearing checking accounts	7,532	26,293	4,093	6,041	7,580	166	-	51,705
Savings accounts	1	1	-	-	-	-	-	2
Current account in pesos and pre-established	4,042	5,983	1,612	3,024	2,840	138	-	17,639
Non-interest bearing demand deposits, USD	1,611	818	212	1,177	266	-	4,435	8,519
Interest bearing demand deposits, USD	2,258	1,398	465	2,038	218	-	4,520	10,897
Savings accounts in USD	-	-	-	-	-	-	258	258
Retail time deposits	12,623	26,581	6,843	7,551	9,881	1,754	-	65,233
Time deposits, USD	3,307	3,737	1,525	2,307	688	16	13,747	25,327
Customers money market	17,416	15,940	5,076	3,745	4,001	150	-	46,328
Financial intermediaries	-	-	-	-	-	2,208	3,705	5,913
Total deposits	**Ps. 63,754**	**Ps. 102,751**	**Ps. 26,818**	**Ps. 34,759**	**Ps. 33,347**	**Ps. 4,521**	**Ps. 26,665**	**Ps. 292,615**

30 - TAX ENVIRONMENT

In 2011 and 2010, the Financial Group was subject to ISR and IETU.

ISR

Income tax (ISR) is calculated considering certain inflation effects as taxable or deductible; until December 31, 2011 the ISR rate was 30%. On December 7, 2009, the decree was published reforming, adding and eliminating various provisions of the Income Tax Law that went into effect on January 1, 2010. Temporary provisions were established through which the income tax rate for 2012 will be 30%; 29% for 2013 and 28% for 2014.

Conciliation of the accounting and fiscal results

The principal items affecting the determination of the current tax expense of the Financial Group were the annual adjustment for inflation, the nondeductible amount of the allowance for loan losses exceding 2.5% of the average loan portfolio and the valuation of financial instruments.

Employee Profit Sharing (PTU)

The Financial Group determines employee statutory profit sharing based on the criteria established in the guidelines set forth by the Mexican Constitution.

Business Flat Tax

Revenues, as well as deductions and certain tax credits, are determined based on cash flows generated for each period. The rate is 17.5% for 2011 and 2010. The Asset Tax Law was eliminated upon enactment of LIETU; however, under certain circumstances, asset taxes paid in the ten years prior to the year in which ISR is paid, may be refunded, according to the terms of the law. As of December 31, 2011, the Financial Group has no recoverable asset taxes.

Based on financial projections, pursuant to the provisions in INIF-8, the Financial Group found that it will essentially pay ISR; therefore acknowledging only the deferred ISR.

31 - STOCKHOLDERS' EQUITY

At the Ordinary General Shareholders' Meeting held on April 29, 2011, it was agreed to transfer the profits of 2010 equal to Ps. 6,705 to earnings from prior years.

At the Ordinary General Shareholders'Meetings held on February 18, April 29 and October 17, 2010, it was agreed to decree cash dividends of Ps. 343, Ps. 419 and Ps. 395, respectively.

The Financial Group's shareholders' common stock as of December 31, 2011 and 2010 is comprised as follows:

	Number of shares with a nominal value of Ps. 3.50	
	2011	2010
	Paid-in Capital	Paid-in Capital
"O" Series	2,312,837,603	2,018,347,548

	Historical Amounts	
	2011	2010
	Paid-in Capital	Paid-in Capital
"O" Series	Ps. 8,095	Ps. 7,016
Restatement in Mexican pesos through December 2007	4,955	4,955
	Ps. 13,050	Ps. 11,971

Restrictions on profits

The distribution of stockholders' equity, except restated paid-in capital and retained tax earnings, will be subject to income tax on dividends payable by the Financial Group at the effective rate. Any tax paid on such distribution may be credited against that year's income tax paid on dividends and the two immediate fiscal years following such payment, charged against that year's tax and the provisional payments made.

The Financial Group's net profit is subject to the requirement of transferring at least 5% of each year's net income to the legal reserve until the reserve equals 20% of capital stock at par value. The legal reserve may not be distributed to the stockholders during the life of the Financial Group, except in the form of a stock dividend. As of December 31, 2011, the legal reserve was Ps. 3,224 and represents 25% of paid-in capital.

Share-based payments

During 2011 and 2010, the Financial Group recorded Ps. 68 and Ps. 42, respectively, in administration expenses as compensation for share-based payments against the contributed capital.

As of December 31, 2011 and 2010, the Financial Group has 8,053,128 and 4,222,151 shares, respectively, granted to its executives through various share-based payment plans. The share's average weighted price for all the plans during the year was Ps. 28.64.

During 2011, 3,830,977 shares were allotted. No shares were allotted in 2010. During 2011 and 2010, 1,592,821 and 1,861,226 shares were operated, respectively.

Capitalization ratio (pertaining to Banorte, the Financial Group's main subsidiary)

The capitalization rules for financial institutions establish requirements for specific levels of net capital, as a percentage of assets subject to both market and credit risk.

The information for December 31, 2011 sent to Banco de México to review is shown below.

- The capitalization ratio of Banorte as of December 31, 2011 was 12.90% of total risk (market, credit and operational), and 18.59% of credit risk, which in both cases exceed the current regulatory requirements.

- The capitalization ratio of Ixe Banco as of December 31, 2011 was 15.33% of total risk (market, credit and operational), and 21.63% of credit risk, which in both cases exceed the current regulatory requirements.

- The amount of net capital, divided by basic and complementary capital, is detailed below (these figures may differ from those in the basic financial statements):

Banorte

Net capital as of December 31, 2011	
Stockholders' equity	Ps. 50,210
Subordinated debentures and capitalization instruments	5,479
Deductions from investment in subordinated securities	(377)
Deduction from investments in shares of financial entities	(9,646)
Deduction from investments in shares of non-financial entities	(3,210)
Deduction of intangibles and deferred expenses or costs	(453)
Basic capital	**42,003**
Debentures and capitalization instruments	7,464
Allowance for loan losses	1,280
Deduction of investments in securitizations	(377)
Complementary capital	**8,367**
Net capital	**Ps. 50,370**

Characteristics of the subordinated debentures:

Concept	Issuance amount	Maturity	Basic capital proportion	Complementary capital proportion
Tier 1 capital debentures 2006	Ps. 2,831	13/10/2021	100%	0%
Tier 1 capital debentures 2008	Ps. 3,008	27/02/2018	88%	12%
Tier 2 capital debentures 2008	Ps. 2,131	15/02/2028	0%	100%
Tier 2 capital debentures 2008-2	Ps. 2,760	15/06/2018	0%	100%
Tier 2 capital debentures 2009	Ps. 2,211	18/03/2019	0%	100%

Assets subject to risk are detailed below::

Assets subject to market risk

Concept	Positions weighted by risk	Capital requirement
Nominal interest rate securities' transactions in Mexican pesos	Ps. 53,081	Ps. 4,246
Floating rate securities' transactions in Mexican pesos	11,359	909
Real interest rate or UDI denominated securities' transactions in Mexican pesos	1,995	160
UDIS or inflation indexed (INPC) securities' transactions	4	-
Nominal interest rate foreign exchange denominated securities' transaction in Mexican pesos	6,078	486
Foreign exchange transactions	3,917	313
Total	**Ps. 76,434**	**Ps. 6,114**

Assets subject to credit risk

Concept	Risk Weighted Assets	Capital requirement
Group III (weighted at 10%)	Ps. 14	Ps. 1
Group III (weighted at 11.5%)	1	-
Group III (weighted at 20%)	8,186	655
Group III (weighted at 23%)	1,039	83
Group III (weighted at 50%)	1,580	127
Group III (weighted at 57.5%)	326	26
Group IV (weighted at 20%)	3,530	282
Group V (weighted at 20%)	8,670	694
Group V (weighted at 50%)	9,757	781
Group V (weighted at 150%)	4,355	348
Group VI (weighted at 50%)	7,106	569
Group VI (weighted at 75%)	6,213	497
Group VI (weighted at 100%)	65,501	5,240
Group VII (weighted at 20%)	2,755	220
Group VII (weighted at 50%)	161	13
Group VII (weighted at 57.5%)	904	72
Group VII (weighted at 100%)	89,203	7,136
Group VII (weighted at 115%)	11,799	944
Group VII (weighted at 150%)	281	23
Group VIII (weighted at 125%)	2,430	194
Group IX (weighted at 100%)	29,001	2,320
Sum	**252,812**	**20,225**
For permanent shares, furniture and real property, and advance payments and deferred charges	18,160	1,453
Total	**Ps. 270,972**	**Ps. 21,678**

Assets subject to operational risk:

Concept	Risk Weighted Assets	Capital requirement
Total	**Ps. 42,906**	**Ps. 3,433**

Management

In order to manage capital, a weekly follow-up analysis is conducted on the requirements derived from the risk position, as well as supporting through strategy or transactions' simulations of the various areas of business operation in order to determine their consumption.

Ixe Banco

Net capital as of December 31, 2011	
Stockholders' equity	Ps. 4,689
Subordinated debentures and capitalization instruments	614
Deduction from investments in securitizations	
Deduction from investments in shares of financial entities	(451)
Deduction from investments in shares of non-financial entities	(27)
Deduction of intangibles and deferred expenses or costs	(114)
Basic capital	**4,711**
Debentures and capitalization instruments	2,733
Allowance for loan losses	174
Deduction of investments in securitizations	0
Complementary capital	**2,907**
Net capital	**Ps. 7,618**

Characteristics of the subordinated debentures:

Concept	Issuance amount	Maturity	Basic capital proportion	Complementary capital proportion
Tier 1 capital debentures 2007	Ps. 1,674	Perpetual	36%	64%
Tier 1 capital debentures 2010	Ps. 1,674	2020	0%	100%

Assets subject to risk are detailed below:

Assets subject to market risk

Concept	Positions weighted by risk	Capital requirement
Nominal interest rate securities' transactions in Mexican pesos	Ps. 4,635	Ps. 371
Floating rate securities' transactions in Mexican pesos	3,281	263
Real interest rates or UDI denominated securities' transactions in Mexican pesos	21	2
UDIS or inflation denominated (INPC) securities' transactions	1	-
Nominal interest rate foreign exchange denominated securities' transaction in Mexican pesos	575	46
Foreign exchange transactions	487	39
Transactions involving shares	1,032	82
Total	**Ps. 10,032**	**Ps. 803**

Assets subject to credit risk

Concept	Risk Weighted Assets	Capital requirement
Group II (weighted at 20%)	Ps. 60	Ps. 5
Group III (weighted at 10%)	54	4
Group III (weighted at 20%)	3,756	300
Group III (weighted at 50%)	568	45
Group III (weighted at 100%)	3	-
Group IV (weighted at 20%)	334	27
Group V (weighted at 150%)	1,007	81
Group VI (weighted at 50%)	347	28
Group VI (weighted at 75%)	154	12
Group VI (weighted at 100%)	3,944	315
Group VII (weighted at 20%)	587	47
Group VII (weighted at 23%)	8	1
Group VII (weighted at 50%)	129	10
Group VII (weighted at 100%)	16,209	1,294
Group VII (weighted at 115%)	1,034	86
Group VII (weighted at 150%)	225	18
Group VIII (weighted at 125%)	173	14
Group IX (weighted at 100%)	5,470	438
Sum	**34,062**	**2,725**
For permanent shares, furniture and real property, and advance payments and deferred charges	1,157	93
Total	**Ps. 35,219**	**Ps. 2,818**

Assets subject to market risk:

Concept	Assets weighted by risk	Capital requirement
Total	**Ps. 4,433**	**Ps. 355**

32 - FOREIGN CURRENCY POSITION

As of December 31, 2011 and 2010, the Financial Group holds certain assets and liabilities in foreign currency, mainly US dollars, converted to the exchange rate issued by Banco de México at Ps. 13.9476 and Ps. 12.3496 per USD 1.00, respectively, as shown below:

	Thousands of US dollars	
	2011	**2010**
Assets	6,889,507	5,543,911
Liabilities	6,551,328	5,234,040
Net asset position in US dollars	**338,179**	**309,871**
Net asset position in Mexican pesos	**Ps. 4,717**	**Ps. 3,827**

33 - POSITION IN UDIS

As of December 31, 2011 and 2010, the Financial Group holds certain assets and liabilities denominated in UDIS, converted to Mexican pesos based on the current conversion factor of Ps. 4.691316 and Ps. 4.526308, per UDI, respectively, as shown below:

	Thousands of UDIS	
	2011	2010
Assets	313,543	365,531
Liabilities	458,649	454,251
Net liability position in UDIS	**(145,106)**	**(88,720)**
Net liability position in Mexican pesos	**(Ps. 681)**	**(Ps. 402)**

34 - EARNINGS PER SHARE

Earnings per share is the result of dividing the net income by the weighted average of the Financial Group's shares in circulation during the year.

Earnings per share for the years ended December 31, 2011 and 2010 are shown below:

	2011			2010
	Net Income	Weighted share average	Earnings per share	Earnings per share
Net income per share	Ps. 8,517	2,249,104	Ps. 3.7868	Ps. 3.3222

35 - RISK MANAGEMENT (unaudited)

Authorized bodies

To ensure adequate risk management of the Financial Group, as of 1997, the Financial Group's Board of Directors created the Risk Policy Committee (CPR), whose purpose is to manage the risks to which the Financial Group is exposed, and ensure that the performance of operations adheres to the established risk management objectives, guidelines, policies and procedures.

Furthermore, the CPR provides oversight on the global risk exposure limits approved by the Board of Directors, and also approves the specific risk limits for exposure to different types of risk.

The CPR is composed of regular members of the Board of Directors, the CEO of the Financial Group, the Managing Directors of the Financial Group's entities, the Managing Director of Comprehensive Risk Management and the Managing Director of Internal Audits, who have voice, but not to vote.

To adequately carry out its duties, the CPR performs the following functions, among others:

1. Propose for the approval of the Board of Directors:

- The objectives, guidelines and policies for comprehensive risk management.
- The global limits for risk exposure.
- The mechanisms for implementing corrective measures.
- The special cases or circumstances in which the global and specific limits may be exceeded.

2. Approve and review at least once a year:

- The specific limits for discretionary risks, as well as tolerance levels for nondiscretionary risks.
- The methodology and procedures to identify, measure, oversee, limit, control, report and disclose the different kinds of risks to which the Financial Group is exposed.

- The models, parameters and scenarios used to perform the valuation, measurement and control of risks proposed by the Comprehensive Risk Management Unit.

3. Approve:

- The methodologies for identification, valuation, measurement and control of risks of the new operations, products and services which the Financial Group intends to introduce into the market.
- The corrective measures proposed by the Comprehensive Risk Management Unit.
- The manuals for comprehensive risk management.
- The technical evaluation of Comprehensive Risk Management aspects.

4. Assign and remove the person responsible for the Comprehensive Risk Management Unit, who is ratified by the Board of Directors.

5. Inform the Board, at least every quarter, of the exposure to risk and its possible negative effects, as well as a follow up on limits and tolerance levels.

6. Inform the Board of the corrective measures implemented.

36 - COMPREHENSIVE RISK MANAGEMENT UNIT (UAIR) (unaudited)

The function of the UAIR is to identify, measure, oversee, limit, control, report and disclose the different kinds of risk exposures of the Financial Group is exposed, which are the responsibility of the Office of Risk Management (DGAR).

The DGAR reports to the CPR in compliance with the requirements set forth in the Commission's circular, the "General Risk Management Rules Applicable to Credit Financial Groups", in relation to the independence of the different business areas.

The DGAR focuses Comprehensive Risk Management efforts on the following departments:

- Credit Risk Management Commercial and Consumer;
- Operational Risk Management;
- Market Risk Management and Liquidity;
- Credit Management;
- Risk Policy Management;
- Research and Development;
- Risk Management Tools.

The Financial Group currently has methodologies for managing risk in its different phases, such as credit, market, liquidity and operating risk.

The primary objectives of the DGAR are summarized as follows:

- Provide the different business areas with clear rules that facilitate their understanding so as to minimize risks and ensure that they are within the parameters established and approved by the Board of Directors and the Risk Policy Committee.
- Establish mechanisms that provide for follow-up on risk-taking within the Financial Group, ensuring that they are preventive as much as possible, and supported by advanced systems and processes.
- Standardize risk measurement and control.
- Protect the Financial Group's capital against unexpected losses from market movements, credit losses and operating risks.
- Develop valuation methods for the different types of risks.
- Establish procedures for portfolio optimization and loan portfolio management.

The Financial Group has segmented risk assessment and management into the following headings:

Credit Risk: volatility of revenues due to the creation of provisions for the impairment of credits and potential credit losses due to nonpayment by a borrower or counterparty.

Market Risk: volatility of revenues due to changes in market conditions, which affect the valuation of the positions from transactions involving assets, liabilities or generating contingent liabilities, such as: interest rates, exchange rates, price indexes, etc.

Liquidity Risk potential loss derived from the impossibility of renewing or contracting debt under normal conditions for the Financial Group, due to the anticipated or forced sale of assets at unusual discounts in order to meet its obligations.

Operational Risk: loss resulting from lack of adjustment or failure in processes, personnel, internal systems or external events. This definition includes Technological Risk and Legal Risk. Technological Risk groups includes all potential losses from damage, interruption, alteration or failures derived from the use or dependence on hardware, software, systems, applications, networks and any other information distribution channel, while Legal Risk involves the potential loss from penalties for noncompliance with legal and administrative regulations or the issuance of adverse final court rulings in relation to the operations performed by the Financial Group.

Credit risk

Risk that the customers, issuers or counterparty will fail to meet their payment obligations; therefore, adequate risk management is essential to maintain a high quality loan portfolio.

The Financial Group's credit risk management objectives are as follows:

- Improve the quality, diversification and composition of the loan portfolio to optimize the risk-return ratio.
- Provide senior management with reliable and timely information to support decision-making in credit matters.
- Provide the business departments with clear and sufficient tools to support credit placement and follow up.
- Support the creation of economic value for shareholders by means of efficient credit risk management.
- Define and constantly update the regulatory framework for credit risk management.
- Comply with the credit risk management reporting requirements established by the relevant authorities.
- Perform risk management in accordance with best practices; implementing models, methodologies, procedures and systems based on the latest international advances.

Individual credit risk

The Financial Group segments the loan portfolio into two large groups: the consumer and corporate portfolios.

Individual credit risk for the consumer portfolio is identified, measured and controlled by means of a parametric system (scoring) which includes models for each of the consumer products: mortgage, automotive, payroll credit, personal and credit card.

Individual risk for the corporate portfolio is identified, measured and controlled by means of the Target Markets, the Risk Acceptance Criteria and the Banorte Internal Risk Rating (CIR Banorte). In the case of IXE loans, expert analysis systems are in place and conducted by personnel specialized in each type of product based on the borrower's financial situation, economic viability and other features set forth in the law and internal policies. The individual SMEs (PYMES) risk is identified, measures and controlled by means of a parametric (scoring system).

The Target Markets and Risk Acceptance Criteria are tools which, together with the Internal Risk Rating CIR, form part of the credit strategy of the Financial Group and support the estimate of the credit risk level.

The Target Markets are activities selected by region and economic activity - supported by economic studies and portfolio behavior analyses - in which the Financial Group is interested in placing loans.

The Risk Acceptance Criteria are parameters which describe the risks identified by industries, facilitating an estimate of the risk involved for the Financial Group in granting a loan to a customer depending on the economic activity which it performs. The types of risks evaluated in the Risk Acceptance Criteria are the financial risk, operational risk, market risk, company lifecycle risk, legal and regulatory risk, credit history and quality of management.

Early Warnings are a set of criteria based on information and indicators of the borrowers and their environment that have been set forth for timely prevention and identification of likely impairment in the loan portfolio, in order to take credit risk mitigating preventive actions in a timely manner.

The CIR Banorte and the individual rating of the IXE loans are in line with the "General Regulations Applicable to the Classification Methodology for the Loan Portfolio of Credit Institutions" issued by the Commission on December 2, 2005. The CIR Banorte has been certified by the Commission and by an international external auditor since 2001.

The CIR Banorte is applied to loans in the commercial portfolio equal to or exceeding an amount equivalent in Mexican pesos to four million UDIS at the classification date.

Portfolio credit risk

The Financial Group has designed a portfolio credit risk methodology which, while also including the best and most current international practices with regard to identification, measurement, control and follow up, has been adapted to function within the context of the Mexican financial system.

The credit risk methodology identifies the exposure of all the loan portfolios of the Financial Group, overseeing risk concentration levels based on risk classifications, geographical regions, economic activities, currencies and type of product, for the purpose of identifying the portfolio profile and taking actions to diversify it and maximize profit with the lowest possible risk.

The calculation of loan exposure involves the generation of the cash flow from each of the loans, both in terms of principal and interest, for their subsequent discount. This exposure is sensitive to market changes, and facilitates the performance of calculations under different economic scenarios.

Apart from considering loan exposure, the methodology takes into account the probability of default, the recovery level associated with each customer and the sorting of the borrowers based on the Merton model. The probability of default is the probability that a borrower will not comply with its debt obligations to the Financial Group on the terms and conditions originally agreed. The probability of default is based on the transition matrixes which the Financial Group calculates according to the migration of borrowers to different risk classification levels. The recovery level is the percentage of the total exposure that is expected to be recovered if the borrower defaults on its obligations. The classification of borrowers based on the Merton model is intended to tie the future behavior of the borrower to credit and market factors on which, according to statistical techniques, it has been determined, that the borrower's "credit health" depends. For IXE loans, the Credit Risk+ model is used based on an actuarial focus of the loan, which considers the probability of default, the recovery level and each client's outstanding balance.

The primary results obtained are the expected loss and unexpected loss over a one-year time horizon. The expected loss is the median of the distribution of losses of the loan portfolio, which enables a measurement of the average loss expected in the following year due to noncompliance or variations in the credit status of the borrowers. The unexpected loss is an indicator of the loss expected under extreme circumstances, and is measured as the difference between the maximum loss based on the distribution of losses, at a specific confidence level, which in the case of the Financial Group is 95%, and the expected loss.

The results obtained are used as a tool for better decision-making in granting loans and portfolio diversification, in accordance with the global strategy of the Financial Group. The individual risk identification tools and the portfolio credit risk methodology are reviewed and updated periodically to incorporate new techniques that can support or strengthen them.

As of December 31, 2011, the total operating portfolio of Banco Mercantil del Norte, S.A. (Banco Mercantil del Norte) was Ps. 305,033. The expected loss represents 1.8% and the unexpected loss represents 3.6% of the total operating portfolio. The average expected loss was 2.0% for the period between October and December 2011.

The credit exposure of the investments made by Casa de Bolsa Banorte, S.A. de C.V. (Casa de Bolsa Banorte) was Ps. 314 and the expected loss represents 0.0490% of such exposure. The average expected loss was 0.0776% for the period between October and December 2011.

The total leasing and factoring operating portfolio of Arrendadora y Factor Banorte, S.A. de C.V. SOFOM, ER (Arrenda y Factor Banorte), including pure leasing, was Ps. 16,882. The expected loss represents 0.6% and the unexpected loss represents 2.7% of the total operating portfolio. The average expected loss was 0.6% for the period between October and December 2011.

As of December 31, 2011, the total operating portfolio of Ixe Banco, S.A. (Ixe Banco) was Ps. 31,611. The expected loss represents 2.1% and the unexpected loss represents 1.4% of the total operating portfolio. The average expected loss was 1.9% for the period between October and December 2011.

As of December 31, 2011, the exposure of Ixe Casa de Bolsa was Ps. 20,334 and the expected loss represents 0.1% of the total exposure. The average expected loss was 0.1% for the period between October and December 2011.

The total car leasing operating portfolio of Ixe Automotriz, S.A. de C.V. (Ixe Automotriz), including pure leasing, was Ps. 1,133. The expected loss represents 4.9% and the unexpected loss represents 0.4% of the total operating portfolio. The average expected loss was 5.2% for the period between October and December 2011.

The total operating portfolio of Fincasa Hipotecaria, S.A. de C.V. (Fincasa Hipotecaria) was Ps. 3,915. The expected loss represents 6.7% and the unexpected loss represents 3.5% of the total operating portfolio. The average expected loss was 6.7% for the period between October and December 2011.

The total operating portfolio of Ixe Soluciones, S.A. de C.V. (Ixe Soluciones) was Ps. 286. The expected loss represents 21.8% and the unexpected loss represents 24.5% of the total operating portfolio. The average expected loss was 21.5% for the period between October and December 2011.

Credit risk of financial instruments

There are specific policies for the origination, analysis, authorization and management of financial instruments to identify, measure, keep track of and control credit risk.

The origination policies define the type of financial instruments to operate and how to evaluate the credit quality of different types of issuers and counterparts. Credit quality is assigned by means of a rating obtained by an internal methodology, external rating evaluations or a combination of both. Additionally, there are maximum operating parameters depending on the type of issuer or counterparty, rating and operation type.

The analysis policies include the type of information and variables considered to analyze operations with financial instruments when they're presented for their authorization by the corresponding committee, including information about the issuer or counterparty, financial instrument, destination of the transaction within the Financial Group and market information.

The Credit Committee is the body that authorizes operational lines with financial instruments according to the authorization policies. The authorization request is submitted with all the relevant information by the business area and the areas involved in the operation and, if applicable, authorized by the Committee.

The policy to manage lines in order to operate financial instruments contemplates the procedures for registration, instrumentation, regulation compliance, revision, consumer monitoring, line management and responsibility of the areas and bodies involved in operating financial instruments.

Concentration of credit risk with financial instruments is managed continuously on an individual level, monitoring maximum operational parameters per counter-party or issuer depending on the rating and type of operation. For portfolios, there are economic and internal group risk diversification policies in place. Additionally, concentration is monitored by type of counter-party or issuer, size of the financial institutions and where they operate in order to get the right diversification and avoid unwanted concentrations.

Credit risk is measured through the rating associated with the issuer, issue or counterparty, which has an assigned degree of risk based on two elements:

1. The probability of default by the issuer, issue or counterparty; expressed as a percentage between 0% and 100%. The

higher the rating, the lower the probability of delinquency, and vice versa.

2. The severity of the loss with respect to the total operation's in the event of default, expressed as a percentage between 0% and 100%. The better the guarantees or credit structure, the lower the severity of the loss, and vice versa. In order to mitigate credit risk and reduce the severity of the loss in case of default, the Financial Group has signed ISDA contracts and netting agreements with its counterparties, which contemplate implementing credit lines and using collateral to mitigate losses as a result of defaults.

As of December 31, 2011, the credit risk exposure of the investments in securities was Ps. 212,611, of which 99.2% has a rating greater than or equal to A-(mex) on the local scale. This places them in investment grade; the three main issuers other than the Federal Government, Semi-Private agencies and Domestic Financial Institutions represent 16% of the basic capital as of September 2011. Additionally, the investment exposure with the same issuer other than the Federal Government that represents a concentration greater than or equal to 5% of the Net Capital as of September 2011 has a rating of at least AA+(mex) and is comprised of (term in weighted average, amount in million pesos and interest rate): exchange listed debt certificates and Pemex bonds with a 5-year 5-month maturity for Ps. 10,994 at 4.2%; exchange listed debt certificates, certificates of deposit and promissory notes of Banco Santander with a 1-year 2-month maturity for Ps. 10,116 at 4.9%; exchange listed debt certificates and certificates of deposit of Banco Inbursa with a maturity of 11 months for Ps. 7,152 at 4.7%; exchange listed debt certificates and certificates of deposit of Bancomer with a 10-month maturity for Ps. 6,135 at 4.9%; and exchange listed State and Municipal government loan securitization certificates with a 25-year 5-month maturity for Ps. 3,456 at 6.1%.

For derivatives, the exposure is (Ps. 4,941), of which 99.0% is rated at least A-(mex) on the local scale, which places them at investment grade; the three main counterparties other than the Federal Government, Semi-Private agencies and Domestic Financial Institutions represent 3% of the basic capital as of September 2011.

Regarding Casa de Bolsa Banorte, the exposure to credit risk of the investments in securitieswas Ps. 314, of which 100% has a rating greater than or equal to AA+(mex) on the local scale. This places them in investment grade; the three main issuers other than the Federal Government, Semi-Private agencies and Domestic Financial Institutions represent 15% of the basic capital as of September 2011. Additionally, the exposure of investments to the same issuer other than the Federal Government that represents a concentration greater than or equal to 5% of the Net Capital as of September 2011 has a rating of at least AA+(mex) and they are international investments of Deutsche Bank with a 1-year 5-month maturity for Ps. 314 at 8.2%. There are no operations for derivatives financial instruments.

Arrendadora y Factor Banorte have no investments in securities, nor derivatives financial instruments.

As of December 31, 2011, the risk of exposure in investment in securities of Ixe Banco is Ps. 42,480. 58.7% of the total is in instruments with a government or quasi-government counterparty; 24.3% is from banks and 17.0% is private investors.

The credit risk exposure for derivatives financial instruments at the close of the fourth quarter of 2011 is Ps. 111. The total is distributed as follows: 26.1% from banks and 73.9% private investors.

The credit risk exposure of the investments in securities risk of Ixe Casa de Bolsa is Ps. 20,332. 69.1% of the total is in instruments with a government or quasi-government counterparty and 30.9% is with banks. There are no operations for derivatives financial instruments.

Ixe Automotriz has no investments in securities or derivatives financial instruments.

The exposure in investments in securities of Fincasa Hipotecaria is Ps. 16 and it has no derivatives.

For Ixe Soluciones, the risk exposures of investments in securities is Ps. 221 in privately issued bonds. Ixe Soluciones has no position in derivatives financial instruments.

Risk Diversification

In December 2005, the CNBV issued the "General Rules for Risk Diversification in Performing Asset and Liability Transactions Applicable to Credit Institutions".

These regulations require that the Banks perform an analysis of the borrowers and/or loans they hold to determine the amount of their "Common Risk". Also, the Financial Group must have the necessary documentation to support that a person or group of persons represents a common risk in accordance with the assumptions established under such rules.

In compliance with the risk diversification rules for asset and liability transactions, the following information regarding Banco Mercantil del Norte is provided below:

Basic capital as of September 30, 2011	**Ps. 42,597**
I. Financings whose individual amounts represent more than 10% of basic capital:	
Credit transactions	
Number	3
Overall amount	13,975
% in relation to basic capital	33%
Money market transactions	
Number	-
Overall amount	-
% in relation to basic capital	0%
Overnight transactions	
Number	-
Overall amount	-
% in relation to basic capital	0%
II. Maximum amount of financing with the three largest debtors and common risk groups	**Ps. 22,841**

In compliance with the risk diversification rules for asset and liability transactions, the following information regarding Arrendadora y Factor Banorte is provided below:

Basic capital as of September 30, 2011	**Ps. 2,395**
I. Financings whose individual amounts represent more than 10% of basic capital:	
Credit transactions	
Number	14
Overall amount	5,411
% in relation to basic capital	226%
II. Maximum amount of financing with the three largest debtors and common risk groups	**Ps. 2,682**

In compliance with the risk diversification rules for asset and liability transactions, the following information regarding Ixe Banco is provided below:

Basic capital as of September 30, 2011	**Ps. 4,237**
I. Financings whose individual amounts represent more than 10% of basic capital (group level):	
Credit transactions	
Number	13
Overall amount	9,341
% in relation to basic capital	220%
Money market transactions	
Number	9
Overall amount	10,202
% in relation to basic capital	241%
Overnight transactions	
Number	-
Overall amount	-
% in relation to basic capital	0%
II. Maximum amount of financing with the three largest debtors and common risk groups	**Ps. 3,594**

In compliance with the risk diversification rules for asset and liability transactions, the following information regarding Ixe Automotriz is provided below:

Stockholders equity as of September 30, 2011	**Ps. 320**
I. Financings whose individual amounts represent more than 10% of stockholders' equity (group level):	
Credit transactions	
Number	4
Overall amount	198
% in relation to stockholders equity	62%
Money market transactions	
Number	-
Overall amount	-
% in relation to stockholders equity	0%
Overnight transactions	
Number	-
Overall amount	-
% in relation to stockholders' equity	0%
II. Maximum amount of financing with the three largest debtors and common risk groups	**Ps. 163**

In compliance with the risk diversification rules for asset and liability transactions, the following information regarding Fincasa Hipotecaria is provided below:

Stockholders equity as of September 30, 2011	**Ps. 707**
I. Financings whose individual amounts represent more than 10% of stockholders' equity (group level):	
Credit transactions	
Number	22
Overall amount	2,691
% in relation to stockholders equity	380%
Money market transactions	
Number	-
Overall amount	-
% in relation to stockholders equity	0%
Overnight transactions	
Number	-
Overall amount	-
% in relation to stockholders' equity	0%
II. Maximum amount of financing with the three largest debtors and common risk groups	**Ps. 582**

In compliance with the risk diversification rules for asset and liability transactions, the following information regarding Ixe Soluciones is provided below:

Stockholders equity as of September 30, 2011	**Ps. 424**
I. Financings whose individual amounts represent more than 10% of stockholders' equity (group level):	
Credit transactions	
Number	10
Overall amount	845
% in relation to stockholders equity	199%
Money market transactions	
Number	3
Overall amount	217
% in relation to stockholders equity	51%
Overnight transactions	
Number	-
Overall amount	-
% in relation to stockholders' equity	0%
II. Maximum amount of financing with the three largest debtors and common risk groups	**Ps. 354**

Market risk of Banco Mercantil del Norte

Value at risk

The exposure to market risk is determined through the calculation of the Value at Risk ("VaR"). The meaning of the VaR under this method is the potential day loss which could be generated in the valuation of the portfolios at a given date. This methodology is used both for the calculation of market risk and for the establishment and control of internal limits.

The Financial Group applies the nonparametric historical simulation method to calculate the VaR, considering for such purpose a 99% confidence level, using the 500 immediate historical scenarios, multiplying the result by a security factor that fluctuates between 3 and 4 depending on the annual Back Testing results calculated on the previous quarter, considering 10 days to dispose of the risk portfolio in question. These measures ensure that unforeseen volatiles are considered in the main risk factors that affect those portfolios.

The methodology is applied to all the portfolios of financial instruments on and off balance sheet, including money market and treasury transactions, capital, foreign-exchange and derivatives held for trading and hedging purposes, which are exposed to variations in their value due to changes in the risk factors affecting their market valuation (domestic and foreign interest rates, exchange rates and indexes, among others).

The average VaR for the portfolio of financial instruments was Ps. 2,392 for the last quarter in 2011.

	4Q10	1Q11	2Q11	3Q11	4Q11
VaR Banorte*	Ps. 1,600	Ps. 1,497	Ps. 1,640	Ps. 1,736	Ps. 2,392
Banorte net capital***	52,620	53,850	54,505	56,709	50,369
VaR / net capital Banorte	3.04%	2.78%	3.01%	3.06%	4.75%

* Quarterly Average.
*** Sum of net capital at the close of the quarter.

Also, the average of the VaR per risk factor for the Financial Group's portfolio of securities behaved as follows during the fourth quarter of 2011:

Risk factor	VaR
Domestic interest rate	Ps. 2,045
Foreign interest rate	331
Exchange rate	681
Total VaR	Ps. 2,392

The VaR for each of the risk factors presented is determined by simulating 500 historical scenarios of the variables comprising each of such factors, keeping constant the variables that affect the other risk factors shown. Also, the consolidated VaR for the Financial Group considers the correlations of all the risk factors influencing the valuation of the portfolios, the reason why the arithmetical sum of the VaR Factors does not match the individual amounts.

Operations with derivatives products

The Financial Group's individual VaR on a one-day time horizon for each type of trading and hedging derivatives for the fourth quarter of 2011 was:

Trading derivatives	4Q11	4Q10
Futures		
MEXDER rate futures	Ps. 2	Ps. 13
Exchange rate derivatives		
Forwards	1	-
Options	-	1
Interest rate options		
TIIE	3	3
LIBOR	1	1
Swap options		
LIBOR	-	2
TIIE	-	5
Interest rate swaps (IRS) and exchange rate		
TIIE swaps	12	11
LIBOR swaps	3	2
Cross currency exchange rate swaps	32	12
Total trading derivatives	**Ps. 54**	**Ps. 50**

Hedging derivatives	4Q11	4Q10
Swaps		
Cross currency exchange rate swaps for portfolio hedging in USD	Ps. -	Ps. 2
Cross currency exchange rate swaps for hedging obligations in USD	-	86
Cross currency exchange rate swaps for hedging bonds in USD	275	220
TIIE swaps for hedging obligations in Mexican pesos	18	30
TIIE swaps for hedging promissory notes in Mexican pesos	189	181
Interest rate options for hedging fixed rate portfolios	13	14
Total hedging derivatives	**Ps. 495**	**Ps. 533**

To calculate the VaR for each of the derivatives listed, the non-parametric historic simulation method is applied to a 99% level of confidence and a one-day horizon. For instance, the Value at Risk for TIIE Swaps is Ps. 12. This means that under normal conditions, 99 days out of every 100, the maximum potential loss is Ps. 12 in one day.

The trading and hedging derivatives' totals are the arithmetic sum of each VaR without considering any correlation among them.

Investments in securities

The Financial Group's individual VaR on a one-day time horizon for each type of trading securities for the fourth quarter of 2011 was:

Trading securities	4Q11	4Q10
Floating rate government bonds	Ps. 35	Ps. 11
Fixed rate government bonds	28	2
Securitization certificates	47	20
CEDES	7	2
US treasury bonds	-	1
PEMEX Eurobonds	8	29
UMS	-	6
Bank Eurobonds	21	37
Private company Eurobonds	8	8
Total	**Ps. 154**	**Ps. 116**

Securities at maturity	4Q11	4Q10
Floating rate government bonds	Ps. -	Ps. 52
Fixed rate government bonds	-	1
Securitization certificates	37	41
CEDES	9	-
Bank bonds	-	1
PEMEX bonds	115	90
UMS	54	64
Zero coupon bank bonds	2	8
Private company Eurobonds	-	-
Total	**Ps. 217**	**Ps. 257**

To calculate the VaR for each type of securities listed, the non-parametric historic simulation method is applied to a 99%% level of confidence and a one-day horizon. For instance, the Value at Risk for exchange listed debt certificates is Ps. 47. This means that under normal condition, 99 days out of every 100 the maximum potential loss is Ps. 47 in one day.

The trading and hedging derivatives totals are the arithmetic sum of the VaR of each without considering any correlation among them.

Backtesting analysis

To validate the effectiveness of the measurements of the calculation of the daily VaR as a measurement of market risk, the Backtesting analysis is updated each week. This analysis makes it possible to compare the estimated results through the VaR with the actual results generated.

The Backtesting results for the Financial Group as of December 2011 are as follows:

During 2011, there were four surplus events due mainly to movements in the discount curves and USD/MXP FX.

Sensitivity analysis and tests under extreme conditions

To improve analysis and obtain the impact of any movements in risk factors, sensitivity analyses and tests under extreme conditions are performed periodically. These analyses foresee potential situations in which the Financial Group might suffer extraordinary losses from the valuation of the financial instruments in which it holds positions.

Sensitivity for derivatives' transactions

Sensitivity analysis on derivatives transactions is carried out as follows:

- Estimate gain or loss of the securities valuation in the event of:
  - A parallel change of +100 basis points of domestic interest rates.
  - A parallel change of +100 basis points of foreign interest rates.
  - A 5% devaluation in the MXP/USD and MXP/EUR exchange rate.

The results may be gains or losses depending on the nature of the derivative.

Trading derivatives	+100 bp domestic rates	+100 bp foreign rates	+5% exchange rate
Futures			
MEXDER futures	(Ps. 31)	Ps. -	Ps. -
Exchange rate derivatives			
Options	-	-	(1)
Forwards	-	-	9
Interest rate options			
TIIE	(16)	-	-
LIBOR	-	10	-
Swap options			
LIBOR	-	-	-
TIIE	-	-	-
Interest rate swaps (IRS) and exchange rate			
TIIE Swaps	32	-	-
LIBOR Swaps	-	(1)	(21)
Cross exchange rate Swaps	(47)	(2)	(198)
Total trading derivatives	**(Ps. 62)**	**Ps. 7**	**(Ps. 211)**

Hedging derivatives	+100 bp domestic rates	+100 bp foreign rates	+5% exchange rate
Rate swaps and exchange rate			
Cross currency exchange rate swaps for hedging obligations in USD	Ps. -	Ps. -	Ps. -
Cross currency exchange rate swaps for hedging bonds in USD	(281)	496	(1,767)
TIIE swaps for hedging obligations in Mexican pesos	124	-	-
TIIE swaps for hedging promissory note in Mexican pesos	759	-	-
TIIE caps for fixed rate loan hedging	26	-	-
Total hedging derivatives	**Ps. 628**	**Ps. 496**	**(Ps. 1,767)**

In the event of any of above scenarios, the losses or gains of the trading securities will directly impact the Financial Group's consolidated income statements and capital hedging derivatives.

Based on the above analysis, it can be concluded that the portfolio of trading derivatives is exposed mainly to increases in domestic interest rates and exchange rate devaluations; however, the portfolio of hedging derivatives is exposed to foreign interest rate increases without considering the gain of the hedged liability.

Sensitivity for securities' trading

Sensitivity analysis on derivatives transactions is carried out as follows:

- Estimate gain or loss of the securities valuation in the event of:
  - A parallel change of +100 basis points of domestic interest rates.
  - A parallel change of +100 basis points of foreign interest rates.
  - A 5 devaluation in the MXP/USD and MXP/EUR exchange rate.
  - A change of +5 basis points in the spreads of government bonds.
  - A change of +50 basis points in sovereign risk.
  - A change of +10% in the IPC (Consumer Price Index).

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The results may be gains or losses depending on the nature of the instrument.

Trading securities	+100 bp domestic rates	+100 bp foreign rates	+5% exchange rate	+5 bp rate spreads	+50 bp sovereign risk
Floating rate government bonds	(Ps. 177)	Ps. -	Ps. -	(Ps. 149)	Ps. -
Fixed rate government bonds	(208)	-	-	-	-
Exchange listed debt certificates	(16)	-	-	-	-
CEDES	(4)	-	-	-	-
PEMEX bonds	-	(26)	57	-	(5)
Bank bonds in USD	-	(48)	166	-	-
Private company bonds	(13)	-	-	-	-
Total	**(Ps. 418)**	**(Ps. 74)**	**Ps. 223**	**(Ps. 149)**	**(Ps. 5)**

Securities at maturity	+100 bp domestic rates	+100 bp foreign rates	+5% exchange rate	+5 bp rate spreads	+50 bp sovereign risk
Variable rate government bonds	Ps. -	Ps. -	Ps. -	Ps. -	Ps. -
Securitization certificates	(70)	-	12	-	-
Promissory note payable upon maturity	19	-	-	-	-
Bank bonds	(1)	-	-	-	-
PEMEX eurobonds	-	(340)	988	-	(163)
CEDES	-	(1)	63	-	-
UMS	-	(114)	454	-	(57)
Zero coupon bank bonds	(1)	-	-	-	-
Private bonds in dollars	-	(8)	59	-	-
Total	**(Ps. 53)**	**(Ps. 463)**	**Ps. 1,576**	**Ps. -**	**(Ps. 220)**

In the event of any of above scenarios, the losses or gains of the operations with trading securities and securities held to maturity will directly impact the Financial Group's results.

In conclusion, trading securities and securities held to maturity are exposed to domestic interest rate increases, foreign rate increases, interest rate spreads and deterioration of the sovereign risk.

Market risk for Ixe Banco

To calculate the VaR, the non-parametric historical simulation methodology is used, considering a confidence level of 95% and using the last 100 historical scenarios.

The average VaR for Ixe Banco's financial instruments portfolio was Ps. 13 for the last quarter in 2011.

	4Q10	1Q11	2Q11	3Q11	4Q11
VaR Ixe Banco*	Ps. 11	Ps. 17	Ps. 13	Ps. 11	Ps. 13
Ixe Banco net capital***	6,511	6,468	7,662	7,366	7,577
Ixe Banco VaR/net capital	0.17%	0.26%	0.17%	0.15%	0.17%

* Quarterly Average.
*** Sum of net capital at the close of the quarter.

The one day time horizon VaR per Business Unit prior to the fourth quarter of 2011 is as follows:

	Total 4Q11	
Ixe Banco	**Average**	**Closing**
Value at Risk 95% 1 day		
Money market	8.45	8.63
Capital market	4.94	3.70
Foreign exchange market	0.01	0.02
Derivatives market	0.63	0.16
Treasury	14.05	16.94
TOTAL	12.58	16.43
Diversification effect	(15.51)	(13.03)
Net capital	7.577	7.577
VaR / Net Capital	**0.17%**	**0.22%**

The value at risk does not consider instruments held to maturity.

Market risk for Ixe Casa de Bolsa

The average VaR for Ixe Casa de Bolsa's securities' portfolio was Ps. 13 for the last quarter 2011.

	4Q10	1Q11	2Q11	3Q11	4Q11
VaR Ixe Casa de Bolsa*	Ps. 3	Ps. 4	Ps. 3	Ps. 3	Ps. 2
Net capital Ixe Casa de Bolsa***	663	544	565	578	672
VaR/Net capital Ixe Casa de Bolsa	0.41%	0.69%	0.54%	0.45%	0.24%

* Quarterly Average.
*** Sum of net capital at the close of the quarter.

The one day time horizon VaR per Business Unit prior to the fourth quarter of 2011 is as follows:

	Total 4Q11	
Ixe Casa de Bolsa	**Average**	**Closing**
Value at Risk 95% 1 day		
Money market	1.56	1.80
Capital market	0.18	0.10
Foreign exchange market	0.00	0.00
Derivatives market	0.00	0.00
Treasury	0.13	0.19
Total	1.64	1.77
Diversification effect	(0.23)	(0.33)
Net capital	672	672
VaR / Net Capital	**0.24%**	**0.26%**

The value at risk does not consider instruments held to maturity.

Market risk for Fincasa Hipotecaria

The average VaR for the Fincasa Hipotecaria loans for the fourth quarter of 2011 was Ps. 4, which represents 0.59% of the net capital as of December 2011. As of December 30, 2011, the VaR was 2.59 representing 0.37% of the net capital as of December 2011.

The historical simulation methodology with a 100-day horizon was used; policy dictates that estimates consider a 95% confidence level at a 1-month horizon.

	Total 4Q11	
Fincasa Hipotecaria	**Average**	**Closing**
VaR Balance	4.22	2.59
Net capital	713	707
VaR / Net Capital	**0.59%**	**0.37%**

Market risk for Ixe Automotriz

The average VaR for the Ixe Automotriz loans for the fourth quarter of 2011 was Ps. 1, which represents 0.28% of the net capital as of December 2011. As of December 30, 2011, the VaR was 1.00 representing 0.32% of the net capital as of December 2011.

The historical simulation methodology with a 100-day horizon was used; policy dictates that estimates consider a 95% confidence level at a 1-month horizon.

	Total 4Q11	
Ixe Automotriz	**Average**	**Closing**
VaR Balance	0.86	1.00
Net capital	305	319
VaR / Net Capital	**0.28%**	**0.32%**

Market risk for Ixe Soluciones

The average VaR for the Ixe Soluciones loans for the fourth quarter of 2011 was Ps. 3, which represents 0.99% of the net capital as of December 2011. As of December 30, 2011, the VaR was 3.34 representing 1.44% of the net capital as of December 2011.

The historical simulation methodology with a 100-day horizon was used; policy dictates that estimates consider a 95% confidence level at a 1-month horizon.

	Total 4Q11	
Ixe Soluciones	**Average**	**Closing**
VaR Balance	3.22	3.34
Net capital	325.65	304.12
VaR / Net Capital	**0.99%**	**1.43%**

Backtesting analysis

To validate the effectiveness of the measurements of the calculation of the daily VaR as a measurement of market risk, the Backtesting analysis is updated on a daily basis. This analysis makes it possible to compare the estimated results through the VaR with the actual results generated; furthermore, a statistical test, known as the Kupiec test, is conducted as back up.

During 2011, there were 11 surplus events for Ixe Banco due mainly to the volatility; whereas for Ixe Casa de Bolsa there were 13 such events for the same reason.

Sensitivity analysis and tests under extreme conditions

To improve analysis and obtain the impact of any movements in risk factors, sensitivity analyses and tests under extreme conditions are performed periodically. These analyses foresee potential situations in which the Financial Group might suffer extraordinary losses from the valuation of the financial instruments in which it holds positions.

Sensitivity for operations with securities and derivatives financial instruments

Sensitivity analysis on securities and derivative transactions is carried out as follows:

- Estimate gain or loss of the securities valuation in the event of:
    - A parallel change of +100 basis points of domestic interest rates.
    - A parallel change of +100 basis points of foreign interest rates.
    - A 5 devaluation in the MXP/USD and MXP/EUR exchange rate.
    - A change of +5 basis points in spreads of government bonds.
    - A change of -5% in the IPC (Consumer Price Index).

- A change of +5 basis points in spreads of government bonds.
- As stress analysis: +10% domestic interest rates; +3.5% foreign interest rates; fixed foreign exchange rate at 15.50 pesos per dollar; and +20 basis points rate spread.

The results may be gains or losses depending on the nature of the instrument. Such position contemplates the Bank and Broker Dealer's operations.

	TIIE+100PB	LIBOR +100PB	TC+5%	ST GUBER+5PB	IPC-5%	ST PRIV/ BNC+5PB	TOTAL	TIIE 10%LIBOR 3.5% TC 15.50 ST 20 PB
Money market	(88.11)	0.17	(0.33)	(40.39)	-	(31.62)	(160.28)	(744.74)
Derivatives	(0.69)	-	-	-	-	-	(0.69)	(3.59)
Capital	-	-	-	-	(12)	-	(12)	-
Foreign exchange	-	-	0.04	-	-	-	0.04	0.25
Treasury	41.06	(17.99)	16.54	(0.86)	(21.98)	(6.06)	10.71	226.66
Total	**(47.74)**	**(17.82)**	**16.25**	**(41.25)**	**(33.98)**	**(37.68)**	**(162.22)**	**(521.42)**

In the event of any of above scenarios, the losses or gains of the trading securities will directly impact the Financial Group's consolidated income statements and capital hedging derivatives.

In conclusion, trading securities and securities held to maturity are exposed to increases in domestic interest rates, foreign rates, and interest rate spreads.

Liquidity and balance sheet risk

In order to provide a measurement of liquidity risk in the Financial Group and provide follow-up consistently, the Financial Group relies on the use of financial ratios, which include the Liquidity Ratio (Current Assets/Liquid Liabilities). Liquid assets include cash and cash equivalents, trading securities and Securities available for sale. By the same token, liquid liabilities include immediate demand deposits, immediate demand interbank loans and short-term loans. The liquidity ratio at the end of the fourth quarter of 2011 was 91.3%, while the average during the quarter was 94.8%, as shown below:

	End of quarter				
	4Q10	1Q11	2Q11	3Q11	4Q11
Liquid assets	Ps. 132,713	Ps. 126,759	Ps. 127,601	Ps. 118,934	Ps. 164,484
Liquid liabilities	160,432	142,401	144,363	151,706	180,088
Liquidity ratio	82.7%	89.0%	88.4%	78.4%	91.3%

	Average				
	4Q10	1Q11	2Q11	3Q11	4Q11
Liquid assets	Ps. 125,871	Ps. 135,363	Ps. 138,778	Ps. 139,508	Ps. 157,210
Liquid liabilities	135,251	138,192	139,777	148,421	165,791
Liquidity ratio	93.1%	98.0%	99.3%	94.0%	94.8%

Average calculation considering the Liquidity Ratio's weekly estimates.

To quantify and follow up on the liquidity risk for its dollar portfolio, the Financial Group uses the criteria established by Banco de México for the determination of the Liquidity Ratio. It facilitates an evaluation of the differences between the flows of assets and liabilities in different time periods. The above promotes a healthier distribution of terms for these assets.

Also, to prevent concentration risks in relation to payment terms and dates for the Financial Group, gap analysis is performed to match the resources with the funding sources, which detects any concentration in a timely fashion. These analyses are performed separately by currency (Mexican pesos, foreign currency and UDIS).

Furthermore, balance sheet simulation analyses are prepared for the Financial Group, which provides either a systematic or dynamic evaluation of the future behavior of the balance sheet. The base scenario is used to prepare sensitivity analyses for movements in domestic, foreign and real interest rates. Also, tests are performed under extreme conditions to evaluate the result of extreme changes in interest, funding and exchange rates.

As an evaluation measure of the effectiveness of the simulation model, the projections are periodically compared with actual data. Using these tests, the assumptions and methodology used can be evaluated and, if necessary, adjusted.

The operation with derivatives allows leveling the differentials between assets and liabilities in different maturity gaps, minimizing the Liquidity Risk. Considering only the contractual obligations of the different types of hedging and trading swaps that the Financial Group operates, a maturity analysis is found below:

Net position

Gap	Asset position	Liability position	Net
1 month	415,367	(608,365)	(192,998)
3 months	2,161,094	(2,257,262)	(96,168)
6 months	1,092,209	(1,177,351)	(85,142)
1 year	2,160,134	(2,532,907)	(372,773)
2 years	4,186,826	(4,746,513)	(559,687)
3 years	10,567,620	(10,926,412)	(358,792)
4 years	2,533,577	(2,655,652)	(122,075)
5 years	2,207,140	(2,247,957)	(40,817)
7 years	7,946,184	(9,341,216)	(1,395,032)
10 years	4,764,113	(4,688,489)	75,624
15 years	474,836	(360,083)	114,753
20 years	170,664	(150,147)	20,517
>20 years	99,081	(100,674)	(1,593)
Total	**38,778,845**	**(41,793,028)**	**(3,014,183)**

Liquid Risk: IXE

In order to provide a measurement of liquidity risk and provide follow-up consistently, the Financial Group relies on the use of financial ratios, which include the Liquidity Ratio (Current Assets/Liquid Liabilities). Liquid assets include cash, government and bank trading securities, and monetary regulation deposits. The ratio at the end of 4Q11 for Ixe Banco was 106.26%. Additionally, the liquidity ratio (liquid assets / deposits) as of December 2011 was 25.40%.

Ixe Banco	4Q10	1Q11	2Q11	3Q11	4Q11
Gap accumulated over 1 month (MXP + UDIS)	(Ps. 371)	Ps. 468	Ps. 128	(Ps. 1,208)	Ps. 548
Liquid assets	8,717	8,855	5,455	5,470	8,052
Net capital	6,512	6,468	7,662	7,366	7,577
Liquidity vs. net capital	**133.87%**	**136.90%**	**71.20%**	**74.26%**	**106.26%**
Liquidity ratio	**28.98%**	**28.68%**	**17.88%**	**17.77%**	**25.40%**

The ratio at the end of 4Q11 for Ixe Casa de Bolsa was 57.50%.

Ixe Casa de Bolsa	4Q10	1Q11	2Q11	3Q11	4Q11
Gap accumulated over 1 month (MXP + UDIS)	Ps. 0.87	Ps. 0.00	Ps. 2.22	Ps. 2.51	Ps. 2.56
Liquid assets	403	203	387	387	386
Net capital	663	544	565	578	672
Liquidity vs. net capital	**60.77%**	**37.27%**	**68.49%**	**66.92%**	**57.50%**

The liquidity ratio vs. net capital for Fincasa Hipotecaria as of December 31, 2011 was 5.33%.

Fincasa Hipotecaria	USO – December 2011
Gap accumulated over 1 month (MXP + UDIS)	(Ps. 1,250.33)
Gap accumulated over 3 month (MXP + UDIS)	(2,022.74)
Liquid assets	37.69
Net capital	706.64
Basic capital	692.21
Liquidity vs. net capital	**5.33%**
Liquidity vs. net capital	**5.44%**

The liquidity ratio vs. net capital for Ixe Automotriz as of December 31, 2011 was 1.31%.

Ixe Automotriz	USO – December 2011
Gap accumulated over 1 month (MXP + UDIS)	(Ps. 775.12)
Gap accumulated over 3 month (MXP + UDIS)	(799.50)
Liquid assets	4.11
Net capital	318.75
Basic capital	317.79
Liquidity vs. net capital	**1.31%**
Liquidity vs. net capital	**1.31%**

The liquidity ratio vs. net capital for Ixe Soluciones as of December 31, 2011 was 0.07%.

Ixe Soluciones	USO – December 2011
Gap accumulated over 1 month (MXP + UDIS)	(Ps. 4.33)
Gap accumulated over 3 month (MXP + UDIS)	(1,041.94)
Liquid assets	0.21
Net capital	304.12
Basic capital	304.12
Liquidity vs. net capital	**0.07%**
Liquidity vs. net capital	**0.07%**

Operational risk

The Financial Group established a formal operational risk department denominated "Operational Risk Management Department" as part of its Risk Management Strategy.

The Financial Group defines operational risk as the potential loss due to failures or deficiencies in internal controls because of operations processing and storing or in data transfer, and adverse administrative and judicial rulings, frauds or theft (this definition includes technological and legal risk).

Operational Risk Management's objectives are: a) to enable and support the organization to reach its institutional objectives through operational risk prevention and management; b) to ensure that the existing operational risks and the required controls are duly identified, evaluated and aligned with the organization's risk strategy; and c) to ensure that operational risks are duly quantified in order to assign the proper capital for operational risk.

Operational risk management's cornerstones

I. Policies, objectives and guidelines

The Financial Group has documented the operational risk policies, objectives, guidelines, methodologies and responsible areas.

The Operational Risk Department works closely with the Controllership Department to promote effective Internal Control that defines the proper procedures and controls the mitigation of Operational Risk. The Internal Audit Department follows up on compliance.

The Comptroller, as part of the Internal Control System, performs the following risk-mitigating activities: a) internal control validation; b) institutional regulations' management and control; c) monitoring of operating process' internal control by means of control indicator reports submitted by the process controllers in the various areas; d) money-laundering prevention process management; e) regulatory provisions controls and follow-up; and f) analysis and assessment of operating processes and projects with the participation of the directors in each process in order to ensure proper internal control.

II. Quantitative and qualitative measuring tools

Operating Losses Database

To record operational loss events, a system is in place that enables the central information supplier areas to directly record such events online, which are classified by type of event in accordance with the following categories (in line with the Basle II Agreement proposals):

Types of events	Description
Internal fraud	Losses derived from actions intended to defraud, illegally seize ownership or evade the regulations, law or policies of the Institution (excluding diversity/discrimination events) involving at least one internal party.
External fraud	Losses derived from actions taken by third parties intended to defraud, illegally seize ownership or evade the law.
Labor relations and job safety	Losses derived from actions inconsistent with laws or employment, health or safety agreements, or which result in the payment of claims for damages to personnel or diversity/discrimination claims.
Customers, products and business practices	Losses derived from negligence or unintentional breaches which prevent compliance with professional obligations with customers (including trust and adaptation requirements or due to the nature or design of a product.
Natural disasters and other events	Losses due to damage or harm to physical assets due to natural disasters or other events.
Business incidences and system failures	Losses derived from incidences in the business and system failures.
Process execution, delivery and management	Losses derived from errors in transaction processing or in process management, as well as relations with counterparties and suppliers.

This historical database provides the statistics of the operating events experienced by the Financial Group in order to be able to determine the respective trends, frequency, impact and distribution; furthermore, the database will serve to calculate capital requirements for advanced models in the future.

Legal and tax contingencies database

For the recording and follow-up of legal, administrative and tax issues that may arise from adverse unappealable rulings, an internal system called "Legal Risk Issues Monitoring System" (SMARL) was developed. This system enables the central data supplying areas to record such events directly and on-line, which are then classified by company, sector and legal issue, among others.

As part of the Financial Group's Legal Risk management initiative, legal and tax contingencies are estimated by the attorneys that process the issues based on an internal methodology. This makes it possible to create the necessary book reserve to face such estimated contingencies.

Risk management model

The Financial Group and its subsidiaries have defined objectives, which are achieved through different plans, programs and projects. Compliance with such objectives may be adversely affected due to operating risks, for which reason a methodology must be in place to manage them within the organization. Consequently, operational risk management is now an institutional policy defined and supported by senior management.

To perform operational risk management, each of the operating risks involved in the processes must be identified in order to analyze them. In this regard, the risks identified by Regulations Control are recorded in a risk matrix and processed to eliminate or mitigate them (trying to reduce their severity or frequency) and to define the tolerance levels, as applicable. In this regard, the risks identified by the Comptroller are recorded in a risk matrix and processed to eliminate or mitigate them (trying to reduce their severity or frequency) and to define the tolerance levels, as applicable.

III. Calculating capital requirement

Pursuant to the Operational Risk Capitalization Rules, the Financial Group has adopted a Basic Model, which is calculated and reported periodically to the authorities. Assets subject to operational risk are found in the corresponding note of the Rules.

IV. Information and reporting

The information generated by the databases and the Management Model is processed regularly in order to report the main operating events detected, trends, identified risks (risk matrix) and the mitigating strategies to the Risk Policy Committee and the Board of Directors. The status of the principal initiatives for operational risk mitigation implemented by the different areas of the organization is also reported.

Technological risk

It is defined as the potential loss due to damage, interruption, alteration or failures in the use of or dependence on hardware, software, IT systems, applications, networks and any other data distribution channel for rendering services to customers. Technology risk forms an inherent part of operational risk, for which reason its management is performed throughout the entire organization.

To address operational risk associated with data integrity, the "Integrity Committee" was created. Its objectives include aligning data security and control efforts to a preventive approach, defining new strategies, policies, processes or procedures and solving data security issues that affect or may affect the Financial Group's assets.

The Financial Group performs the functions for technological risk management set forth by the Commission under the guidelines established by the institutional regulations and the Integrity Committee.

To address the operational risk caused by high impact external events, the Financial Group has a Business Continuity Plan (BCP) and Disaster Recovery Plan (DRP) based on a same-time data replication system at an alternate computer site. This guarantees the back-up and recovery of critical applications in the event of an operational contingency.

Legal risk

Legal risk is defined as the potential loss due to noncompliance with applicable legal and administrative provisions, adverse administrative and judicial rulings, and imposed penalties.

The legal risk must be measured as an inherent part of operating risk in order to understand and estimate its impact. Therefore, those legal issues which result in actual operating losses in the SMARL system are recorded in the database of operational events in accordance with a predetermined classification.

Based on the statistics of the current legal issues and real loss events, the Financial Group can identify specific legal or operating risks, which are analyzed in order to eliminate or mitigate them in an attempt to reduce or limit their future occurrence or impact.

Operational Risk: IXE

IXE has an operational risk management manual and an internal control system that covers operating, technological risks and incorporates policies, procedures, roles and responsibilities of government agencies in operational risk management. It also has processes, policy and procedures manuals for the operational processes in every single area of the institution.

For operational risk management, it has a model to identify, evaluate, mitigate, manage and monitor operational, legal and technological risk throughout the entire company, and the support of the process owners and operational risk delegates.

To record operational loss events, IXE uses a database that enables the central information providing areas to report the events directly. Such events are classified by type and line of business. This classification renders statistics of the operational events so their trends, frequency, impact and distribution may be determined.

The functions of technological risk management set forth by the Commission are carried out under the guidelines established by the institutional norms.

Moreover, IXE has a business continuity plan and a disaster recovery plan that back up and recover the institution's critical applications if needed.

A database is used to record and follow up, and classify legal, administrative and tax issues that may lead to unfavorable resolutions not subject to appeal, and it enables the central information providers to report such matters directly.

Pursuant to the operational risk capitalization rules in effect, Ixe has adopted the basic model that is calculated and reported regularly to the competent authority.

37 - MEMORANDUM ACCOUNTS

	2011	2010
Operations on behalf of third parties		
Banks customers (current accounts)	Ps. 70	Ps. 9
Settlement of customer transactions	76	1
Customer securities received in custody	497,608	172,922
Customer repurchase agreements	58,841	28,647
Securities lending transactions on behalf of clients	-	-
Collateral pledged on account of clients	5,981	-
Managed trusts	4,181	4,348
Investment banking transactions on account of third parties (net)	75,989	-
	Ps. 642,746	**Ps. 205,927**
Proprietary transactions		
Other contingent assets and liabilities (unaudited)	Ps. 255	Ps. 256
Credit commitments (unaudited)	30,562	23,558
Deposits of assets	3,107	2,429
Assets in trusts or under mandate (unaudited)	248,561	124,723
Managed assets in custody (unaudited)	377,098	230,140
Investment banking transactions on account of third parties (net) (unaudited)	-	78,069
Collateral received by the institution	124,475	62,224
Collateral received and sold or given as a pledge by the entity	66,970	36,195
Interest accrued but not charged of past due loans	327	136
	Ps. 851,355	**Ps. 557,730**

38 - COMMITMENTS

As of December 31, 2011 and 2010, the Financial Group had the following contingent obligations and commitments:

- Other contingent obligations and opening of credits totaling Ps. 30,817 (Ps. 25,640 in 2010), which are recorded in memorandum accounts.

- Certain operating equipment is leased. Total property lease payments for the years ended December 31, 2011 and 2010, were Ps. 202 and Ps. 207, respectively.

39 - CONTINGENCIES

As of December 31, 2011, there are lawsuits filed against the Financial Group in civil and business court cases; however, the Financial Group's attorneys consider that the claims filed are unsubstantiated and, in the event of an adverse ruling, they would not significantly impact the Financial Group's consolidated financial position. As of December 31, 2011, the Financial Group has recorded a reserve for contentious matters of Ps. 150 (Ps. 118 in 2010).

40 - PREVENTIVE MECHANISM FOR SAVINGS' PROTECTION

The objective of the Institute for the Protection of Bank Savings (IPAB) is to protect the deposits of small customers and thereby contribute to maintaining the financial system's stability and the proper functioning of the payments systems.

According to the Law of Bank Savings Protection (LPAB), the IPAB manages a bank savings protection system that guarantees the payment of bank deposits or loans or credits to Full Service Banking Institution up to an amount equivalent to 400 thousand UDIS per individual or business entity, regardless of the number or type of such obligations in the customer's favor and charged to a single bank.

On July 30, 2007, general rules were issued for addressing joint accounts or those in which there is more than one account holder, referred to in art.14 of the LPAB, as well as the rules banks must observe for classifying information relative to transactions associated with guaranteed obligations.

The IPAB plays a major role in the implementation of the LPAB resolutions methods and the Law of Credit Institutions (LIC) as timely and adequate mechanisms for salvaging and liquidating Full Service Banking Institutions in financial trouble that may affect their solvency. The purpose is to provide maximum protection to the public while minimizing the negative impact that salvaging an institution may have on others in the banking system.

During 2011 and 2010, the amount of contributions to the IPAB payable by Banorte for fees amounted to Ps. 1,284 and Ps. 1,084, respectively.

41 – NEW ACCOUNTING GUIDELINES

On October 6, 2011, the Commission issued a resolution to the General Provisions for Banking Institutions modifying Circular B-6 "Loan Portfolios", by which it clarifies the specific treatment applicable to loan restructuring and renewals. Furthermore, the circular clarifies the conditions for considering a loan as performing or past-due. This modification will become effective on March 1, 2012.

The main changes to the provisions mentioned above are:

- The loan restructuring or renewal fees shall be deferred during the term of the loan.
- "Sustained payment" requires that the loan amortizations cover at least 20% of the principal or the total amount of the interest of any type that have been accrued according to the restructuring or renewal payments model.
- If various loans granted to a single borrower are consolidated by means of a restructuring or renewal, the loan will be treated as the worst of the loans involved in the consolidation.
- In order to prove sustained payment, the Financial Group shall show the evidence of the borrower's payment capacity to the Commission.
- This includes the treatment for loans with principal and interest amortizations that are restructured or renewed before 80%% of the original term has elapsed. It also mentions the treatment for the time during the last 20% of the original term.
- Conditions by which the original loan may undergo changes without being considered as a restructuring are also clarified.

42 – SUBSEQUENT EVENTS

a. Acquisition of 50% of Ixe Tarjetas de Crédito S.A. de C.V.

Banorte acquired 50% of the capital stock of Ixe Tarjetas, S.A. de C.V., Sociedad Financiera de Objeto Múltiple (Ixe Tarjetas) by means of an agreement entered into with CMC Holding Delaware, Inc. Such agreement establishes that the transfer of the shares in favor of Banorte would be carried out on January 1, 2012 and, in exchange, Banorte paid in advance 62,653,160 USD as a consideration. The acquisition consisted of 50,000 Class I, Series B shares and 820,220,500 Class II, Series B shares; all of which represent 50% of the stake in Ixe Tarjetas. With the aforementioned acquisition by Banorte and with 50% in possession of Ixe Banco, the Financial Group holds 100% of Ixe Tarjetas' capital stock, fully controlling it as of January 1, 2012. This transaction registered Ps. 426 in goodwill.

b. Strategic merger with Afore XXI

On January 16, 2012, the mergers of Afore Banorte and Afore XXI and their respective Siefores became effective through registering such Agreements in the Public Registry of Commerce. Derived from this merger, Banorte is currently evaluating the loss of control over the Afore; the effect on the assets and liabilities if not consolidated would be a reduction of Ps. 1,614 and Ps. 317, respectively.

c. Merger of Broker Dealers

On January 2, 2012, the regulating bodies authorized the merger of Casa de Bolsa Banorte as the merged entity and Ixe Casa de Bolsa as the merging entity. The merger will become effective as of January 1, 2012.