2011 Annual Report

Grupo Financiero Banorte, S. A. B. de C. V.

IN ACCORDANCE WITH REGULATIONS APPLICABLE TO THE FINANCIAL INFORMATION OF CONTROLLING COMPANIES OF FINANCIAL GROUPS SUBJECT TO SUPERVISION BY THE NATIONAL BANKING AND SECURITIES COMMISSION (CNBV), PUBLISHED IN THE MEXICAN OFFICIAL GAZZETTE OF THE FEDERATION (DIARIO OFICIAL DE LA FEDERACION) ON JANUARY 31ST, 2011, AND MODIFIED THROUGH THE RESOLUTION PUBLISHED IN THE OFFICIAL GAZZETTE ON JULY 18TH, 2011.

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I. MANAGEMENT ANALYSIS AND COMMENTS

When analyzing the information contained herein it is important to take the following into consideration:

- ✓ *Changes to Accounting Criteria. In January 2011, the CNBV issued a series of regulations to modify the accounting criteria of credit institutions and the controlling companies of financial groups. The main changes are:*
  - *For Controlling Companies. Criteria A-2 "Application of particular norms". The facility of not consolidating permanent investments in Insurance or Annuities companies has been eliminated with this criteria. As of February 1st, such institutions must be consolidated with the financial statements of the controlling companies. As a consequence, the consolidation of "Seguros y Pensiones Banorte Generali" (the Insurance and Annuities companies) has initiated.*
  - *For Credit Institutions. Criteria D-2 "Income Statement". The way the Income Statement is presented is modified, mainly eliminating the items of "Non Operating Income (Expenses), net" and the accounts that were previously registered there will now be registered under "Other Operating Income (Expenses)" in the Income Statement.*

For more information about the changes to accounting criteria, refer to the corresponding section in the notes of the Audited Financial Statements (Note 4 - Significant Accounting Policies). As a result of these accounting changes, some representative operating ratios, such as the Efficiency Ratio published in the 2010 Annual Report (sent to authorities in February and June 2011) have been modified in this document.

- ✓ *The arithmetic operations were carried out in pesos and in the following tables are presented in million pesos. As a result, it seems that some totals have minimal errors, which is not the case as it is matter of rounding off figures.*

A) OPERATING RESULTS

SELECTED FINANCIAL INFORMATION

	2011	2010	2009
Net Income Grupo Financiero Banorte (GFNorte) (*)	*$8,517*	*$6,705*	*$5,854*
Total Assets GFNorte (*)	*$829,277*	*$590,230*	*$567,138*
Total Liabilities GFNorte (*)	*$752,195*	*$540,003*	*$522,164*
Stockholders' equity GFNorte (*)	*$77,082*	*$50,227*	*$44,974*
Stockholders' equity GFNorte excluding minority interest (*)	*$70,849*	$46,117	$41,366
INFORMATION PER SHARE			
Net income per share (pesos)	$3.66	$3.32	$2.90
Dividend approved per share (pesos) (1)	$0.52	$0.52	$0.52
Book value per share (pesos) (excluding minority interest)	$30.45	$22.85	$20.50
Shares outstanding (millions)	2,326.4	2,018.3	2,017.8
INFRASTRUCTURE AND EMPLOYEES			
Bank branches (2)	1,285	1,134	1,088
ATMs (automated teller machines)	6,367	5,004	4,478
Full-time employees	24,015	19,747	19,311
Full-time employees and professional services	24,027	19,759	19,327
PROFITABILITY RATIOS			
NIM before REPOMO	4.1%	4.2%	4.3%
NIM adjusted for credit risks	3.3%	2.9%	2.8%
Return on Assets (ROA)	1.1%	1.2%	1.0%

	2011	2010	2009
Return on Equity (ROE)	14.1%	15.5%	14.9%
OPERATIONS			
Efficiency Ratio [3]	55.7%	51.4%	52.6%
Operating Efficiency Ratio [4]	3.2%	3.0%	3.0%
Liquidity Ratio	101.8%	84.0%	63.2%
ASSET QUALITY INDICATORS			
Past due loan ratio	1.9%	2.5%	2.5%
PDL Reserve coverage	143.1%	123.7%	122.4%
CAPITALIZATION RATIO (BANKING SECTOR)	**12.9%**	**16.1%**	**16.8%**

(*) Million Pesos.
(1) Dividends approved by the Shareholders' Assemblies in 2010 and 2011 were: a total dividend of Ps.0.52 per share in 2010, to be paid in three installments (Ps 0.17 in October 2010, Ps 0.17 in February 2011 and Ps 0.18 in May 2011). The total dividend of Ps 0.52 per share decreed in 2011 was also to be paid in three installments (Ps 0.17 in October 2011, Ps 0.17 in February 2012 and Ps 0.18 in May 2012).
(2) Includes bank modules and excludes agencies abroad.
(3) Non Interest Expense / (Total Operating Income – Margin + Loan Loss Provisions)
Due to the reclassification of the item "Non Operating Income (Expenses), net" under Non Interest Income applied in January 2011, the Ratio published in the 2010's Annual Report (sent to the authority in February and June 2011) has been modified in this document.
(4) Non Interest Expense/ Average Total Assets.

MANAGEMENT ANALYSIS AND COMMENTS

In 2011 GFNorte reported profits of Ps 8.52 billion, 27% higher than in 2010 and 45% higher than in 2009.

Net Income for the Consolidated Banking Sector (100% including the Afore by the participation method and Ixe Banco) was Ps 7.26 billion in 2011, 20% higher than 2010; when excluding profits generated by the Afore, Net Income was Ps 6.54 billion, representing 77% of GFNorte's profits. Net Income for The Long Term Savings Sector, which includes the Afore, Insurance and Annuities companies, and for the first time Afore XXI Banorte, was Ps 1.16 billion, a 28% YoY increase from 2010; the contribution to GFNorte's profits was Ps 573 million according to its participation in these businesses. Other Finance companies, which include Arrendadora and Factor Banorte, as well as Warehousing, Ixe Automotriz and Fincasa Hipotecaria (Ixe's Mortgage and Home Developer Financing Unit), totaled Ps 708 million in 2011, 42% higher compared to 2010. The Brokerage Sector comprised of Casa de Bolsa Banorte, Ixe Casa de Bolsa and Ixe Fondos, generated accumulated profits of Ps 418 million in 2011, 4% higher than in 2010.

Grupo Financiero Banorte

Consolidated Income Statement of the Group

	2011	2010	2009
Interest Income	**53,003**	**43,845**	**45,451**
Premium revenue (Net)	**15,275**	**-**	**-**
Interest Expense	**(24,628)**	**(21,113)**	**(22,268)**
Net Increase in Technical Reserves	**(9,316)**	**-**	**-**
Casualty rate, Claims and other Contractual Obligations (Net)	**(6,092)**	**-**	**-**
NET INTEREST INCOME (NII)	**28,242**	**22,732**	**23,183**
Preventive Provisions for Loan Losses	**(5,438)**	**(6,889)**	**(8,286)**
NET INTEREST INCOME ADJUSTED FOR CREDIT RISK	**22,804**	**15,843**	**14,897**
Fees Charged	**11,054**	**9,234**	**8,291**
Fees Paid	**(2,879)**	**(1,548)**	**(1,338)**
Trading Income	**2,778**	**1,689**	**1,244**
Other Operating Income	**2,814**	**2,320**	**1,852**
Non Interest Income (1) (2)	**13,767**	**11,695**	**10,049**
Non Interest Expense (3)	**(23,409)**	**(17,691)**	**(17,024)**
OPERATING INCOME	**13,162**	**9,847**	**7,922**
Equity in Earnings of unconsolidated Subsidiaries and Associated Companies	**(41)**	**320**	**313**
PRE-TAX INCOME	**13,121**	**10,167**	**8,235**
Income Tax	**(2,619)**	**(2,735)**	**(2,581)**
Deferred Income Tax (net)	**(933)**	**(70)**	**536**
Taxes (3)	**(3,552)**	**(2,805)**	**(2,045)**
NET INCOME FROM CONTINUOS OPERATIONS	**9,569**	**7,362**	**6,190**
Minority Interest	**(1,052)**	**(657)**	**(336)**
NET INCOME	**$ 8,517**	**$ 6,705**	**$ 5,854**

Million Pesos.

(1) As a result of the new accounting criteria which came into effect in April 2009, recoveries of previously written-off loans are registered as non interest income in "Other Operating Income".

(2) In January 2011, accounting criteria D-2 came into effect requiring items that were previously registered under "Other Income and Expenses, net" after Net Operating Results, to be registered under Non Interest Income; as well as the incorporation of "Other Operating Income (Expense) from Insurance and Annuities".

(3) As a result of applying new accounting criteria in April 2009, employee profit sharing is registered as a non interest expense.

The following is a breakdown of the most important items of the Income Statement:

Net Interest Income

	2011	2010	2009
Interest Income	**50,255**	**43,226**	**44,873**
Insurance and Annuities-Interest Income	**1,825**	**0**	**0**
Interest Expense	**24,409**	**20,969**	**22,235**
Insurance and Annuities-Interest Expense	**0**	**0**	**0**
Premium revenue (Net)	**15,275**	**0**	**0**
Net Increase in Technical Reserves	**9,316**	**0**	**0**
Casualty rate, Claims and other Contractual Obligations (Net)	**6,092**	**0**	**0**
Loan Origination Fees	**922**	**619**	**578**
Fees Paid	**219**	**144**	**33**
Net Interest Income	**$28,242**	**$22,732**	**$23,183**
Provisions	**5,438**	**6,889**	**8,286**
Net Interest Income Adjusted for Credit Risk	**22,804**	**15,843**	**14,897**
Average Productive Assets	**689,523**	**545,229**	**537,603**
Net Interest Margin (1)	**4.1%**	**4.2%**	**4.3%**
NIM after Provisions (2)	**3.3%**	**2.9%**	**2.8%**

Million Pesos.

1) NIM (Net Interest Margin) = Net Interest Income / Average Productive Assets for that period.

2) Net Interest Income adjusted for Credit Risk / Average Productive Assets

Since January 2011, the new Accounting Criteria A-2 was implemented for the consolidation of the Insurance and Annuities' companies. As a result, accumulated Net Interest Income since that quarter has been Ps 1.7 billion.

In 2011, Net Interest Income increased by 24% YoY from Ps 22.73 to Ps 28.24 billion as a result of greater loan volumes, a stable funding cost, as well as the extraordinary impacts of integrating the results of the Insurance and Annuities' companies and of Ixe Grupo Financiero.

Average NIM, including the results of the Insurance and Annuities' companies, was 4.1% in 2011, declining (0.1 pp) compared to 2010, as a result of the 26% increase in productive assets (due to the merger with Ixe) which offset the increase in Net Interest Income.

Provisions charged to results in 2011 were Ps 5.44 billion, a (21%) YoY decline as a result of lower requirements in the Corporate portfolio (Ps 1.25 million in provisions were created for the Mexicana loan at closing of 2010), as well as fewer provisions for the Credit Card, Mortgage and Commercial portfolios.

Average NIM adjusted for Credit Risks was 3.3% in 2011, an increase of 0.4 pp YoY compared to 2010. The improvement in this ratio was a result of growth in Net Interest Income and an important reduction in Loan Loss Provisions derived from an improvement in the quality of the portfolio.

Loan Loss Provisions represented 19.3% of the Net Interest Income in 2011, comparing favorably to the 30.3% in 2010.

Annual accumulated loan loss provisions for 2011 represented 1.7% of the average loan portfolio, (1.0) pp less than in 2010.

Non Interest Income

	2011	2010	2009
Fees for Commercial and Mortgage Loans	50	13	-
Fund Transfers	421	389	248
Account Management Fees	1,160	1,018	946
Fiduciary	353	316	254
Income from Real Estate Portfolios	1,117	906	818
Electronic Banking Services	872	940	1,030
Credit Card Fees	2,990	2,601	2,310
Fees from IPAB (1)	-	0	1
Fees charged by Afore	1,323	1,269	1,070
Other Fees Charged (2)	2,770	1,783	1,613
Fees Charged on Services	**11,054**	**9,234**	**8,291**
Fund transfers	37	29	21
Other Fees Paid	2,842	1,519	1,317
Expenses from Real Estate Portfolios	0	0	-
Fees Paid on Services	**2,879**	**1,548**	**1,338**
Net Fees	**8,175**	**7,686**	**6,953**
Foreign Exchange	1,182	705	875
Securities-Realized Gains	1,349	526	522
Securities-Unrealized Gains	247	458	(153)
Trading Income	**2,778**	**1,689**	**1,244**
Subtotal Other Operating Income (Expenses) (3)	1,501	1,739	980
Non Operating Income (Expense), net (4)	819	581	872
Other Operating Income (Expense) from Insurance and Annuities (5)	494	-	-
Other Operating Income (Expenses)	**2,814**	**2,320**	**1,852**
Non Interest Income	**$13,767**	**$11,695**	**$10,049**

Million Pesos.
1) Includes fees received by the Recovery Bank and by the Bank.
2) Includes fees from letters of credit, transactions with pension funds, Warehouse services, financial advisory services and securities trading by the Brokerage House, among others.
3) As of April 2009, the CNBV issued changes to the main accounting criteria that require recording this item under Non Interest Income. The majority of these revenues correspond to recoveries of previously charged-off loans.
4) In January 2011, the CNBV issued changes to accounting criteria in which items previously registered under "Other Income and Expenses, net" after Net Operating Results, are now registered under Non Interest Income as from January 1st. (Criteria D-2).
5) In January 2011, the CNBV issued changes to accounting criteria to consolidate Insurance and the Annuities' companies (Criteria A-2).

The following table identifies the sources of Non Interest Income:

	2011	2010	2009
Services	$7,058	$6,780	$6,135
Recovery	1,117	906	818
Trading	2,778	1,689	1,244
Other Operating Income (Expense)	2,814	2,320	1,852
Non Interest Income	**$13,767**	**$11,695**	**$10,049**

Million Pesos.

Since 2011, the new Accounting Criteria A-2 was implemented in order to consolidate the Insurance and Annuities' companies and D-2 to report "Other Operating Income (Expenses)": i) "Non Operating Income, (Expenses) net", which was previously reported after "Operating Income", is now reported as "Non Interest Income", and ii) "Other Operating Income (Expenses) from Insurance and Annuities" which was previously consolidated under the participation method, is now included in the results of the Financial Group. Both items are registered under "Other Operating Income (Expenses)."

At closing of 2011, Non Interest Income totaled Ps 13.77 billion, increasing by 18% YoY due to growth in all items, especially trading revenues which grew by 64% YoY, as well as a 21% yearly increase in Other Operating Income and Expenses mainly due to growth in Recoveries of acquired portfolios, as well as to the accounting reclassifications carried out during 1Q11 which incorporated revenues from the Insurance and Annuities' companies and Non Operating Income (Expense), net.

- **Service Fees**

The pending regulatory changes to eliminate or limit service fees in certain items according to Circular 22/2010 issued by the Bank of Mexico (Central Bank) during the second half of 2010, came into effect during 1Q11. Some dispositions of this Circular came into effect during August 2010, and others in January 2011.

Service Fees reached Ps 7.06 billion in 2011, 4% higher vs. 2010 due to the inclusion of Ixe's service fees, as well as to the following increases: i) 55% in Other Service Fees Charged due to the increased business volumes for Banorte-Ixe in areas such as Wholesale Banking, ii) 15% in Card Credit fees due to the 8% expansion in the Credit card portfolio and the 17% increase in revenues from client transactions, iii) 14% in account management fees driven by clientele growth and iv) 4% in service fees charged by the Afore as a result of a 10% increase in Assets Under Management, without taking into consideration those that were included after the merger with Afore XXI at the end of December 2011. Growth in these items was partially offset by the (7%) reduction in electronic banking fees as a result of regulatory changes, and by the 86% increase in Fees Paid as a result of greater interchange fees paid mainly to Visa and MasterCard, as a consequence of greater credit and debit cards transactions by our clients.

- **Recoveries**

Non Interest Income from Recoveries (including previously written-off proprietary loans and foreclosed assets classified under "Other Operating Income and Expenses") remained practically at the same level as in 2010, taking into account the extraordinary recovery of Ps 629 million in 2010. Recoveries from real estate portfolios, which include income related to investment projects mainly with home developers increased by 23%, and revenues from recoveries of acquired portfolios increased by 88%. However, these were almost entirely off-set by a (25%) reduction in revenues from previously written-off portfolios as a result of the extraordinary recovery of Ps 629 million that was registered for the Comercial Mexicana loan in 4Q10.

	2011	2010	2009
Loan Recoveries	1,207	1,612	846
Income from purchased assets	99	110	93
Other Operating Income	296	21	54
Other Operating Expense	(101)	(4)	(13)
Subtotal Other Operating Income (Expenses)	**$1,501**	**$1,739**	**$980**
Other Products	1,625	1,639	1,914
Other Recoveries	451	240	525
Other (Expenses)	(1,258)	(1,298)	(1,566)
Non Operating Income (Expense), net	**$819**	**$581**	**$872**
Other Operating Income (Expense) from Insurance and Annuities	**$494**	**$0**	**$0**
Other Operating Income (Expenses)	**$2,814**	**$2,320**	**$1,852**

Million Pesos.

- **Trading**

During 2011, Trading revenues totaled Ps 2.78 billion, a 64% YoY increase due to the consolidation of the Insurance and Annuities' companies, to the adequate management of the trading positions, as well as to the inclusion of IXE's results as of 2Q11.

Non Interest Expense

	2011	2010	2009
Personnel	$9,882	$7,077	$6,763
Professional Fees	2,200	1,414	1,465
Administrative and Promotional	4,864	4,128	4,452
Rents, Depreciation & Amortization	2,867	2,206	1,727
Taxes other than income tax expenses	1,370	893	865
Contributions to IPAB	1,341	1,136	1,073
Employee Profit Sharing (PTU) (1)	885	837	679
Non Interest Expense	**$23,409**	**$17,691**	**$17,024**

Million Pesos.

(1) As a result of applying new accounting criteria in April 2009 employee profit sharing is registered as a Non Interest Expense.

In 2011, Non Interest Expense was Ps 23.41 billion, 32% higher YoY vs. 2010 mainly due to the merger with Ixe. The increase was in all expense items, with the main changes as follows: i) Ps 2.81 billion in Personnel Expenses (+40%) as a result of the merger with Ixe and growth in business areas, as well as the payment of incentives linked to results and adjustments to provisions of long term retention and indemnification plans; ii) Ps 786 million in Professional Fees Paid (+56%) as a result of more advisory services linked to the business and loan recoveries, the merger process with Ixe, and IT development; iii) Ps 736 million in Administration and Promotional Expenses (+18%) related to more credit card operations, advertising campaigns linked to the merger with Ixe, transfer of cash and insurance payments linked to the sale of mortgages and payroll loans and iv) Ps 662 million in Rents, Depreciations and Amortizations (+30%) due to the recognition of anticipated depreciation of 42 closed branches, the new furniture of some buildings and computer equipment, as well as more rents for offices as a result of growth in the branch network.

The Efficiency Ratio was 55.7% in 2011, 4.3 pp higher than in 2010.

Performing Loan Portfolio

	2011	2010	2009
Commercial	$121,512	$87,825	$84,118
Consumer	98,521	83,545	74,932
Corporate	59,070	44,176	40,245
Government	71,162	47,550	38,993
Subtotal	**350,265**	**263,096**	**238,288**
Recovery Bank	292	454	666
Total Performing Loans	**$350,558**	**$263,550**	**$238,954**
Past due loans	**6,949**	**6,664**	**6,154**
% NPL Ratio	**1.9%**	**2.5%**	**2.5%**

Million Pesos.

Performing Consumer Loan Portfolio

	2011	2010	2009
Mortgage	$64,276	$55,718	$49,221
Car Loans	9,354	8,208	7,424
Credit Cards	11,465	11,159	11,801
Payroll	13,426	8,460	6,487
Consumer Loans	**$98,521**	**$83,545**	**$74,932**

Million Pesos.

Total Performing Loans increased by 33% YoY, growing by Ps 87.17 billion to Ps 350.27 billion at closing of 2011 (excluding the proprietary portfolio managed by the Recovery Bank). All items in this portfolio increased as a result of the merger with Ixe and a greater demand for credit in the industry.

Past Due Loans

At closing of 2011, Past Due Loans totaled Ps 6.95 billion, growing by 4% YoY mainly due to the incorporation of Ixe's past due loans. During the same period, the PDL Ratio was 1.9%, (0.5 pp) lower compared to the level registered in 2010, this decrease is due to an improvement in the quality of the Credit Card, Mortgage and Commercial portfolios.

The PDL ratios by segment during the last 12 months, including Ixe as of 2Q11, were:

	2010	2011
Credit Cards	8.5%	7.3%
Payroll	1.8%	1.7%
Car loans	1.0%	1.6%
Mortgage	1.7%	1.5%
Commercial	3.4%	2.7%
Corporate	2.9%	2.1%
Government	0.0%	0.0%

Deposits

	2011	2010	2009
Non Interest Bearing Demand Deposits	$91,860	$69,615	$61,611
Interest Bearing Demand Deposits (1)	98,085	80,218	75,977
Total Demand Deposits (2)	**189,944**	**149,833**	**137,588**
Time Deposits – Retail	118,491	88,805	84,808
Core Deposits	**308,435**	**238,638**	**222,396**
Money Market (3)	60,859	54,142	52,646
Total Banking Sector Deposits	**$369,295**	**$292,780**	**$275,042**
GFNorte's Total Deposits (4)	**$370,290**	**$292,615**	**$274,888**
Third Party Deposits	123,918	145,602	156,864
Total Assets Under Management	**$493,213**	**$438,382**	**$431,906**

Million Pesos.
(1) Excludes IPAB cash management checking accounts for loan portfolios managed from Banpaís and Bancen. The balances of these accounts to 2009, 2010 and 2011 were Ps 20 million, Ps 0 million and Ps 0 million, respectively.
(2) Includes Debit Cards.
(3) Includes Bank Bonds (Customers and Financial intermediaries).
(4) Includes eliminations between subsidiaries (2009 = Ps 154 million; 2010= Ps 165 billion; 2011= Ps (995) billion)

At closing of 2011, Total Deposits were Ps 370.3 billion, 27% higher YoY vs. 2010, driven by growth in all items mainly due to the merger with Ixe. Demand deposits increased by 27% annually, Retail Time Deposits grew by 33% and Money Market by 12% YoY.

1. Banking Sector

Accumulated Net Income for the Consolidated Banking Sector (100% including the Afore by the participation method and Ixe Banco) was Ps 7.26 billion in 2011, 20% higher than in 2010 as a result of higher Total Revenues and fewer Provisions.

Net income of the Banking Sector grew from Ps 5.13 billion in 2009 to Ps 7.26 billion in 2011, a 41% increase.

Consolidated Income Statement – Banking Sector

	2011	2010	2009
= Net Interest Income (NII)	**$25,105**	**$21,700**	**$22,357**
- Preventive Provisions for Loan Losses	5,311	6,772	8,181
= Net Interest Income Adjusted for Credit Risk	**19,794**	**14,928**	**14,176**
+ Non Interest Income	**10,843**	**9,431**	**8,045**
= Total Operating Income	**30,637**	**24,359**	**22,221**
- Non Interest Expense	**20,694**	**16,080**	**15,437**
= Operating Income	**9,943**	**8,279**	**6,784**
+ Equity in Earnings of unconsolidated Subsidiaries and Associated Companies	158	222	161
= Pre-Tax Income	**10,101**	**8,502**	**6945**
- Income Tax and Profit Sharing	**1,902**	**2,431**	**2,352**
- Tax on Assets	**-**	**-**	**-**
- Deferred Income Tax and Profit Sharing	**938**	**36**	**(539)**
= Net Income for Continuous Operations	**7,260**	**6,035**	**5,132**
+ Extraordinary items, net	**-**	**-**	**-**
- Minority Interest	**(0)**	**(0)**	**-**
= Net Income	**$7,260**	**$6,035**	**$5,132**

Million Pesos.
Does not include Afore. It’s results are included in the Subsidiaries’ equity through the participation method.

The following is a breakdown of the most important items of the P&L:

Net Interest Income

	2011	2010	2009
Interest Income	$46,703	$41,406	$43,329
Interest Expense	22,271	20,180	21,517
Loan Origination Fees	886	619	578
Fees Paid	213	144	33
Net Interest Income	**$25,105**	**$21,700**	**$22,357**
Provisions	**5,311**	**6,772**	**8,181**
Net Interest Income Adjusted for Credit Risk	**$19,794**	**$14,928**	**$14,176**
Average Productive Assets	$613,405	$525,977	$525,686
% Net Interest Margin (NIM) (1)	**4.1%**	**4.1%**	**4.3%**
% NIM after Provisions (2)	**3.2%**	**2.8%**	**2.7%**

Million Pesos.
1) NIM (Net Interest Margin) = Net Interest Income / Average Productive Assets for that period.
2) Net Interest Income adjusted for Credit Risk / Average Productive Earnings Assets.

In 2011, Net Interest Income was Ps 25.11 billion, a 16% increase vs. 2010, as a result of higher loan volumes, a stable funding cost, as well as the impact of the merger with Ixe Grupo Financiero. NII increased by 12% vs. 2009.

Non Interest Income

	2011	2010	2009
Fees for Commercial and Mortgage Loans	$12	$13	-
Fund Transfers	421	389	248
Account Management Fees	1,160	1,018	946
Fiduciary	329	288	254
Income from Real Estate Portfolios	1,117	906	818
Electronic Banking Services	872	940	1,030
Credit Card Fees	2,990	2,601	2,310
Fees from IPAB (1)	-	-	1
Other Fees Charged	1,711	1,052	874
Fees Charged on Services	**8,612**	**7,207**	**6,482**
Fund transfers	37	29	21
Other Fees Paid	1,860	1,452	1,218
Expenses from Real Estate Portfolios	-	-	-
Fees Paid on Services	**1,897**	**1,481**	**1,239**
Net Fees	**6,714**	**5,726**	**5,243**
Foreign Exchange	1,197	703	875
Securities-Realized Gains	1,088	285	237
Securities-Unrealized Gains	(722)	459	(158)
Trading Income	**1,564**	**1,447**	**953**
Subtotal Other Operating Income (Expenses) (2)	1,517	1,737	127
Non Operating Income (Expense), net (3)	1,048	521	861
Other Operating Income (Expenses)	**2,565**	**2,258**	**987**
Non Interest Income	**$10,843**	**$9,431**	**$7,184**

Million Pesos.
1) Includes fees received by the Recovery Bank and by the Bank.
2) As of April 2009, the CNBV issued changes to the main accounting criteria that require recording this item under Non Interest Income. The majority of these revenues correspond to recoveries of previously charged-off loans.
3) In January 2011, the CNBV issued changes to accounting criteria in which items previously registered under " Non Operating Income (Expense), net " after Net Operating Results, are now registered under Non Interest Income as from January 1st. (Criteria D-2).

The following table shows a breakdown of Non Interest Income:

	2011	2010	2009
Services	$5,597	$4,820	$4,426
Recovery	1,117	906	818
Trading	1,564	1,447	953
Other Operating Income (Expense)	2,565	2,258	987
Non Interest Income	**$10,843**	**$9,431**	**$7,184**

Million Pesos.

Non Interest Income was Ps 10.84 billion in 2011, an increase of 15% YoY, driven by growth in all items:

- **Service Fees:** increased in 2011 to Ps 5.60 billion, 16% higher YoY vs. 2010 due to the inclusion of Ixe's service fees, as well as to the following increases: i) 15% in Credit card fees due to an 8% growth in the portfolio and a 17% increase in revenues from client transactions, and ii) 14% in account management fees as a result of an increase in the number of accounts. Growth in these items was partially offset by a (7%) reduction in electronic banking fees as a result of regulatory changes and a 28% increase in Fees Paid due greater interchange fees mainly to Visa and Mastercard, resulting from greater use of credit and debit cards by our clients.

- **Recoveries:** Non Interest Income from recoveries (including previously written-off proprietary portfolios and sales of foreclosed assets which are classified under "Other Operating Income and Expenses") increased by 2% in 2011. Recoveries of real estate portfolios, which include revenues related mainly to investment projects with home developers increased by 23%, while revenues from recoveries of acquired portfolios increased by 97%. This dynamic was offset by a (25%) reduction in revenues from recoveries of previously written-off portfolios due to the extraordinary recovery of Ps 629 million registered in 4Q10 corresponding to the Comercial Mexicana loan.

- **Trading:** trading revenues totaled Ps 1.56 billion, an increase of 8% vs. 2010, due to the adequate management of trading positions and to the inclusion of IXE's results since June 2011.

Non Interest Expense

	2011	2010	2009
Personnel Expenses	$8,803	$6,556	$6,156
Professional Fees	1,693	1,382	1,440
Administrative and Promotional Expenses	4,184	3,551	4,006
Rents, Depreciations and Amortizations	2,803	1,852	1,337
Other Taxes	1,008	775	756
Contributions to IPAB	1,341	1,136	1,073
Employee Profit Sharing PTU (1)	861	827	668
Non Interest Expense	**$20,694**	**$16,080**	**$15,437**

Million Pesos.
(1) As a result of applying new accounting criteria in April 2009, employee profit sharing is registered as a Non Interest Expense.

In 2011, Non Interest Expense was Ps 20.69 billion, an increase of 29% YoY vs. 2010, mainly as a result of the merger with Ixe, which caused an increase in practically all items, especially in Personnel expenses, Professional Fees, Administration and Promotional, Rents, Depreciations and Amortizations. The efficiency ratio was 57.6% in 2011.

Performing Loan Portfolio

	2011	2010	2009
Commercial	$105,153	$73,524	$72,219
Consumer	97,889	83,543	74,924
Corporate	63,654	46,364	42,037
Government	68,325	47,549	38,982
Subtotal	**335,022**	**250,980**	**228,162**
Recovery Bank	292	454	666
Total Performing Loans (1)	**$335,314**	**$251,434**	**$228,828**
Past due loans	**6,583**	**6,523**	**6,051**
% NPL Ratio	**1.9%**	**2.5%**	**2.6%**

Million Pesos.

(1) Balances without considering Eliminations of GFNorte

Performing Consumer Loan Portfolio

	2011	2010	2009
Mortgage	$63,849	$55,718	$49,221
Car Loans	9,205	8,208	7,424
Credit Cards	11,465	11,159	11,801
Payroll	13,371	8,458	6,479
Consumer Loans	**$97,889**	**$83,543**	**$74,924**

Million Pesos.

In 2011, Total Performing Loans grew from Ps 250.98 billion to Ps 335.02 billion, when excluding the loan portfolios managed by the Recovery Bank. The loan portfolio shows sustained growth in all segments as a result of the bank's strategies to promote loan activity, the merger with Ixe and greater demand in the industry.

At closing of 2011, past due loans grew by 1% YoY, with a PDL ratio of 1.9%, (including INB's NPLs) which is (0.6 pp) lower than in 2010.

Deposits

	2011	2010	2009
Non Interest Bearing Demand Deposits	$91,860	$69,615	$61,611
Interest Bearing Demand Deposits (1)	98,085	80,218	75,977
Total Demand Deposits (2)	**189,944**	**149,833**	**137,588**
Time Deposits – Retail	118,491	88,805	84,808
Core Deposits	**308,435**	**238,638**	**222,396**
Money Market (3)	60,859	54,142	52,646
Total Banking Sector Deposits	**$369,295**	**$292,780**	**$275,042**
Third Party Deposits	123,918	145,602	156,864
Total Assets Under Management	**$493,213**	**$438,382**	**$431,906**

Million Pesos.

(1) As of 2004, IPAB checking accounts for deposit of cash collections related to managed portfolios of Banpaís and Bancen are excluded, retroactively for comparison. The balances of these accounts for 2009, 2010 and 2011 were Ps 20 million, Ps 0 million and Ps 0 million respectively.
(2) Includes debit cards.
(3) Includes bank bonds, comprised of clients and financial intermediaries.

Total Deposits grew by 29% YoY, driven mainly by the merger with Ixe. Demand deposits increased by 27% and Retail Time Deposits increased by 33%. Total Deposits grew from Ps 238.64 in 2010 to Ps 308.44 in 2011.

2. Brokerage

	2011	2010	2009
Net Income	$418	$403	$203
Stockholders' Equity	2,591	1,883	1,396
Total Assets	23,528	10,169	5,273
Assets Under Management	578,762	174,068	135,621

Million Pesos.

The Brokerage Sector (Banorte broker dealer, Ixe broker dealer and Ixe mutual funds) reported Net Income of Ps 418 million in 2011, a 4% increase from 2010. This growth is mainly due to higher clients' resources managed by the mutual funds translating into more service fees, as well as more revenues from investment banking activity in 2011.

3. Long Term Savings

	2011	2010	2009
Afore			
Net Income	$443	$440	$288
Stockholders' Equity	1,297	1,780	1,340
Total Assets	1,614	2,096	1,557
AUM	203,216	86,271	72,287
Insurance			
Net Income	$665	$451	$438
Stockholders' Equity	2,701	2,436	2,370
Total Assets	15,921	13,419	12,257
Annuities			
Net Income	$49	$12	$31
Stockholders' Equity	1,142	1,028	1,016
Total Assets	34,279	25,478	18,212

Million Pesos.

- **Afore**

On December 23rd, 2011, the merger with Afore XXI was approved by the Shareholders' Meetings. In 2011, the Afore reported net Income of Ps 443 million, a 1% YoY increase.

Afore XXI Banorte's market share in managed funds was 13.0% as of December 2011, ranking 4th in the market. Total accounts managed were more than 7 million or 16.6% of all the accounts in the system, ranking 1st in the market.

- **Insurance**

Profits were Ps 665 million in 2011 (51% corresponds to GFNorte), a 48% YoY increase, due to a 20% growth in revenues resulting from higher amounts of issued and earned premiums, as well as a 14% recovery in financial revenues, generating positive operating leverage.

- **Annuities**

Annuities reported net income of Ps 49 million in 2011 (51% corresponds to GFNorte), due to greater revenues as a result of a 30% growth in financial revenues and a 36% increase in technical reserves.

4. Other Finance Companies

	2011	2010	2009
Leasing and Factoring (1)			
Net Income	$616	$443	$403
Stockholders' Equity	2,446	1,930	1,486
Total Portfolio	16,882	15,884	13,461
Past Due Loans	79	141	103
Total Assets	16,814	15,679	13,434
Warehousing			
Net Income	$40	$57	$22
Stockholders' Equity	246	206	144
Inventories	43	49	119
Total Assets	277	777	211
Ixe Automotriz			
Net Income	$30	-	-
Stockholders' Equity	337	-	-
Total Portfolio	1,318	-	-
Past Due Loans	66	-	-
Total Assets	1,390	-	-
Fincasa Hipotecaria			
Net Income	$22	-	-
Stockholders' Equity	697	-	-
Total Portfolio	3,915	-	-
Past Due Loans	335	-	-
Total Assets	4,575	-	-

Million Pesos.
(1) The merger of the Leasing and Factoring companies came into effect as of February 2008

- **Leasing and Factoring**

Arrendadora y Factor Banorte generated profits of Ps 616 million in 2011, a 39% YoY increase vs. 2010 due to higher financial revenues derived from a 6% increase in the loan portfolio and reduced reserves due to an improvement in asset quality as a result of a (44%) reduction in NPLs.

At closing of 2011 the PDL ratio was 0.5%, lower than in 2010, while the Capitalization Ratio was 14%, considering total risk weighted assets of Ps 16.9 billion. Arrendadora y Factor Banorte is ranked in 1st place in terms of loans and assets among the 40 companies in this sector in accordance to the information available to date.

- **Warehouse**

Net income for Warehousing was Ps 40 million in 2011, a (29%) YoY decline vs. 2010, mainly due to a decline in revenues related to the commercialization of inventories. At closing of 2011 the Capitalization Ratio was 10.7% considering Ps 2.3 billion in total certificates at risk in circulation. The Warehouse ranks 3rd amongst the 20 Warehousing Companies in terms of generated profits.

- **Ixe Automotriz**

Ixe Automotriz reported profits of Ps 30 million during the nine months that it was part of GFNorte in 2011.

- **Fincasa Hipotecaria**

Fincasa Hipotecaria reported profits of Ps 22 million during the nine months that it was part of GFNorte in 2011.

5. Other Companies

	2011	2010	2009
Ixe Soluciones			
Net Income	($64)	$-	-
Stockholders' Equity	346	-	-
Total Portfolio	286	-	-
Past Due Loans	174	-	-
Total Assets	1,397	-	-
Ixe Servicios			
Net Income	$2	$-	-
Stockholders' Equity	22	-	-
Total Assets	31	-	-
Pronegocio (Microlending)			
Net Income	$-	$-	$15
Stockholders' Equity	-	-	-
Total Portfolio	-	-	-
Past Due Loans	-	-	-
Total Assets	-	-	-

The Board of Directors' Meeting held on January 29th, 2009, approved the merger of Banco Mercantil del Norte as the merging company, with Créditos Pronegocio, S.A. de C.V., as the merged entity. The final merger agreement was signed on August 31st, 2009 after receiving the necessary authorizations from the regulating authorities.

B) FINANCIAL SITUATION, LIQUIDITY AND CAPITAL RESOURCES

NET INCOME AND PROFITABILITY INDEXES

GFNorte Equity (*)

	2011	2010	2009
Paid-in Capital	13,050	11,971	11,956
Premium of Subscribed & Issued Shares	18,006	1,673	1,525
Subscribed Capital	**$31,056**	**$13,644**	**$13,481**
Capital Reserves	3,224	3,181	3,154
Retained Earnings	30,573	25,492	20,681
Surplus (Deficit) from Valuation of Securities Available for Sale	188	309	206
Results from Valuation of Hedging Instruments	(2,537)	(2,214)	(1,369)
Results from Conversions of Foreign Operations	(172)	(1,000)	(641)
Net Income	8,517	6,705	5,854
Earned Capital	**$39,793**	**$32,473**	**$27,885**
Minority Interest	6,233	4,110	3,608
Total Shareholders' Equity	**$77,082**	**$50,227**	**$44,974**

Million Pesos.

The Banking Sector (100% including the Afore by the participation method and Ixe Banco) contributed with profits of Ps 7.26 billion in 2011, a 20% YoY increase from the previous year.

Banking Sector Equity (*)

	2011	2010	2009
Paid-in Capital	14,727	11,488	11,488
Premium of Subscribed & Issued Shares	3,294	2,491	2,490
Subscribed Capital	**$18,021**	**$13,979**	**$13,977**
Capital Reserves	5,990	5,172	4,659
Retained Earnings	26,437	22,066	18,339
Surplus (Deficit) from Valuation of Securities Available for Sale	58	432	315
Results from Valuation of Hedging Instruments	(2,675)	(2,316)	(1,404)
Results from Conversions of Foreign Operations	(192)	(1,061)	(679)
Net Income	7,260	6,035	5,132
Earned Capital	**$36,878**	**$30,328**	**$26,361**
Minority Interest	10	10	10
Total Shareholders' Equity	**$54,909**	**$44,316**	**$40,348**

Million Pesos.
(*) Does not include the Afore

Banco Mercantil del Norte's Capitalization Ratio

	Dic-11	Dic-10	Dic-09
Tier 1 Capital	42,003	39,369	35,380
Tier 2 Capital	8,367	13,252	14,277
Net Capital	**$50,370**	**$52,621**	**$49,657**
Credit Risk Assets	270,972	222,146	203,305
Market & Operational Risk Assets	119,340	104,335	92,741
Total Risk Assets (1)	**$390,312**	**$326,481**	**$296,046**
Net Capital / Credit Risk Assets	**18.6%**	**23.7%**	**24.4%**
Capitalization Ratio			
Tier 1	10.8%	12.1%	12.0%
Tier 2	2.1%	4.1%	4.8%
Total Capitalization Ratio	**12.9%**	**16.1%**	**16.8%**

Million Pesos.
(1) Without intercompany eliminations.

At closing of 2011 the Capitalization Ratio was 12.9% considering credit, market and operational risks and 18.6% when only considering credit risks. The Tier 1 ratio was 10.8% and Tier 2 was 2.1%. On an annual basis, the Capitalization Ratio in 2011 is (3.2 pp) less than in 2010 due to:

1) Profits generated between 4Q10 and 4Q11: + 1.8 pp.
2) FX impact on Subordinated Obligations: + 0.1 pp.
3) Dividends Received from Afore Banorte Generali: + 0.1 pp.
4) Increase in Risk Assets: - 2.5 pp.
5) Prepayment of Subordinated Debt: - 1.4 pp.
6) Investment in Afore XXI's capital: - 0.8 pp.
7) Payment of Dividends: - 0.2 pp.
8) Valuation of hedging instruments and securizations: - 0.2 pp.
9) Change in methodology for creating reserves in Consumer loans: - 0.1 pp.

Ixe Banco's Capitalization Ratio

	Dic-11
Tier 1 Capital	4,711
Tier 2 Capital	2,907
Net Capital	**$7,618**
Credit Risk Assets	35,219
Market & Operational Risk Assets	14,465
Total Risk Assets (1)	**$49,684**
Net Capital / Credit Risk Assets	**21.6%**
Tier 1	9.5%
Tier 2	5.9%
Total Capitalization Ratio	**15.3%**

At closing of December 2011, the Capitalization Ratio was 15.3% taking into consideration credit. market and operational risks, and 21.6% considering only credit risks. The Tier 1 ratio was 9.5% while Tier 2 was 5.9%. On an annual basis, the Capitalization Ratio in December 2011 is lower than the level in December 2010 as a result of:

1) Impact of intangibles and assets that are deferred for over a year: + 1.0 pp
2) FX impact on Subordinated Obligations: + 0.9 pp.
3) Impact of capital increase: + 0.8 pp
4) Impact of permanent investments in shares: - 0.02 pp.
5) The growth of risk assets during the period: - 3.1 pp.

CASH FLOW STATEMENT

The cash flow statement reveals the availability of cash that the institution has at a certain point in time in order to meet its obligations with creditors. The structure of the cash flow statement provides details regarding the cash generated by the operation and uses of resources for net financing and the investment program. As of December 2011, available cash amounted to Ps 53.97 billion, 9% lower than the Ps 59.34 billion registered in December 2010.

GFNorte Cash Flow Statement

	2011	2010
Net Income	**$8,517**	**$6,705**
Operations that do not generate or require resources:		
Technical Reserves	9,316	-
Depreciations and Amortizations	1,596	1,181
Provisions	(250)	430
Caused & Deferred Taxes	3,552	2,805
Undistributed earnings of subsidiaries and associates	1,093	337
	23,824	11,458
OPERATING ACTIVITIES:		
Change in Margin accounts	(75)	(159)
Change in Treasury operations (investments in securities)	(111,755)	7,626
Change in repo debtor balances	(3,247)	(579)
Change in Derivatives (assets)	(8,741)	(2,639)
Change in Loan Portfolio	(83,992)	(25,173)
Change in acquired collection rights	(1,767)	523
Change in account receivables of insurance company (net)	(953)	-
Change in debtor premiums (net)	(3,442)	-
Change in reinsurance companies (net) (assets)	(2,594)	-
Change in benefits to be received from securitization operations	94	(518)
Change in foreclosed assets	(1,413)	94
Change in other performing assets	(4,584)	(2,243)
Change in Deposits	75,035	18,975
Change in loans from banks and other institutions	9,001	5,483
Change in repo creditor balances	65,008	(6,892)
Change in collateral sold or given in guarantee	20	9
Change in Derivatives (liabilities)	10,577	2,684
Change in Technical reserves (net)	33,090	-
Change in reinsurance companies (net) (liabilities)	1,246	-
Change in subordinated obligations (liabilities)	(1,293)	(350)
Change in other operating liabilities	7,753	(645)
Change in hedging instruments (related to operations)	(214)	136
Income Tax Payments	(2,556)	(2,592)
Net cash generated from operations	(978)	5,198
INVESTMENT ACTIVITIES:		
Receivables from acquisition of property and fixed assets	253	304
Payments for acquisition of property and fixed assets	(3,318)	(2,215)
Payments for acquisition of subsidiaries	-	69
Payments for acquisition of other permanent investments	(3,004)	(171)
Receivables from other permanent investments	131	1
Receivables from cash dividends	20	227
Net cash used for investment activities	(5,918)	(1,785)
FINANCING ACTIVITIES:		
Payment of cash dividends	(1,157)	(1,029)
Repurchase of shares	461	69
Net cash used for financing activities	(696)	(960)
Change in permanent investments due to consolidation	2,060	-
Increase (decrease) in cash and equivalents	(5,532)	2,453
Adjustments to cash flow for variations in exchange rates	162	(133)
Cash and equivalents at the beginning of the period	59,338	57,018
Cash and equivalents at the end of the period	$53,968	$59,338

Million Pesos.

DIVIDENDS

On October 17, 2011, the Ordinary General Shareholders' Meeting approved changes to the Dividend Policy, in order to align dividend payments to the Financial Groups' business performance. As of this year, dividend payments will be as follows:

1. 16% of recurring net income in the event that profit growth is between 0% and 10% during the year.
2. 18% of recurring net income in the event that profit growth is between 11% and 20% during the year.
3. 20% of recurring net income in the event that profit growth is greater than 21%.

POLICIES GOVERNING TREASURY ACTIVITIES OF THE BANK (MAIN SUBSIDIARY OF THE FINANCIAL GROUP)

Regulatory Framework

1. All operations carried out by the Treasury will be executed in strict accordance to regulations set by the regulatory authorities of the Banking Institutions such as Central Bank (BANXICO), National Banking and Securities Commission (CNBV), Ministry of Finance and Public Credit (SHCP), as well as to those established in the Ley de Instituciones de Credito (Law of Credit Institutions).

2. The Treasury is subject to the policies regarding thresholds and management of liquidity risks set by the Risk Policies' Committee in the manual of Risk Administration.

Treasury Management

In order to maintain a prudent strategy in the management of assets and liabilities through stable funding sources, constitute and maintain liquid assets at optimum levels, the Treasury will monitor the following limits to maintain an appropriate level of liquidity:

1. Diversification of funding sources, accessing several markets in order to diversify funding sources.

2. Structure liabilities in such a way so as to avoid the accumulation of maturities that significantly influence the administration and control of the resources that the Treasury operates.

3. Ensure liquidity in adverse times by tapping long term liabilities.

4. Liquid Assets. Maintain a balanced liquid assets-total assets ratio.

5. Additional Liquidity. Maintain a highly liquid inventory of assets to ensure the immediate availability of resources.

6. Transfer Prices. The Treasury will have the exclusive faculty to determine and propose to the Risk Policies' Committee the transfer costs of assets and liabilities.

Sources of Financing/International Treasury

Sources of financing for the International Treasury should be classified in a monthly report indicating the sources of available resources, their use and concentration:

1. Public:
   - Checking accounts (via the network of branches and corporations).

2. Market:
    - Commercial paper.
    - Cross Currency Swaps
    - Syndicated Loans.
    - Securitizations
    - Deposit Certificates.

3. National banks and Development Funds:
    - National banks.
    - Funds.

4. Correspondent Banks:
    - Foreign banks.

5. Available lines of credit: (not available)
    - Commercial paper.
    - Correspondent Banks.

a. Through diverse Long Term Financing Programs, proposals will be studied, analyzed and implemented, in order to consolidate an adequate debt profile.

b. Send the liquidity coefficients tests' results to the authorities and the Head of Risk Control simultaneously, so it can be monitored.

c. The International Treasury will review the liquidity ratio limits set by the Risk Policies' Committee and the authorities on a daily basis.

d. The International Treasury, in coordination with the Head of Risk Control, will monitor the results of its daily calculations of liquidity coefficients.

PAID AND DEFERRED TAXES

Concept	As of December 31st, 2011
Income Tax (ISR)	2,619
Profit Sharing (PTU)	472
IMPAC	0
Updated caused taxes	0
Deferred ISR & PTU	933
Updated deferred taxes	0
Total	**$4,024**

Million Pesos.

Temporary Asset Differences	ISR	PTU	Net
Tax losses	554	0	554
Provisions for possible loan losses	215	0	215
Uniteller & Banorte USA tax losses	4	0	4
Deferred State Tax on assets	9	0	9
Non-deductible provisions and accumulated income	706	97	803
Excess book value over fiscal value of repossessed and fixed assets	396	66	462
Reducible Profit Sharing	139	45	184
Excess of preventive reserves for credit risks on fiscal limit	1,198	375	1,573

Temporary Asset Differences	ISR	PTU	Net
Fees collected in advance	110	31	141
Others	33	0	33
Total Assets	**$3,364**	**$614**	**$3,978**

Temporary Liability Differences	ISR	PTU	Net
Applied tax losses	(86)	0	(86)
Capital project expenses	(329)	(110)	(439)
Excess book value over fiscal value for fixed assets and anticipated expenses	(3)	0	(3)
Pension Fund Contributions	(778)	(270)	(1,048)
Loan Portfolio Acquisitions	(660)	(122)	(782)
Provisions	(895)	(64)	(959)
Federal Home Loan Bank Dividends	(2)	0	(2)
Intangible Assets	(146)	0	(146)
Deferred derived from applying the purchase methodology to Ixe	(498)	0	(498)
Unrealized capital gain from Special Reserve	(54)	0	(54)
Total Liabilities	**($3,451)**	**($566)**	**($4,017)**
Assets (Liabilities) Accumulated Net	**($87)**	**$48**	**($39)**

Million Pesos.

Banorte recognizes the effect of deferred taxes determined under the method of assets and liabilities, in accordance with NIF D-4 "Accounting Approaches for Income Tax, Taxes on Assets and Employee Profit Sharing", and the INIF-8 "Effects of Corporate Tax at a Basic Rate (IETU)", through the comparison of the accounting and fiscal values of the same. Temporary differences arise from this comparison to which the corresponding tax rate was applied.

On the other hand, employee profit sharing (PTU) is calculated taking into consideration the temporary differences that arise during the year to which the corresponding fiscal rate is applied, creating a liability or benefit in the future, likewise, projections were made to calculate the IETU and compare it with the ISR, determining that Banorte and its subsidiaries will continue paying Income Tax (ISR), therefore, no adjustments were made to the calculation of deferred taxes.

The net effect of all the aforementioned operations are shown in the Balance Sheet under assets entitled “Deferred Taxes”.

The deferred taxes for each subsidiary as of December 31st, 2011 are as follows:

Deferred Taxes	As of December 31st, 2011
Banco Mercantil del Norte S.A.	65
Grupo Financiero Banorte S.A.B. de C.V.	(492)
Casa de Bolsa Banorte S.A. de C.V.	(102)
Almacenadora Banorte S.A. de C.V.	(5)
Seguros Banorte Generali S.A. de C.V.	128
Pensiones Banorte Generali S.A. de C.V.	(107)
IXE Banco S.A.	265
IXE Casa de Bolsa S.A. de C.V.	53
IXE Fondos S.A. de C.V.	2
IXE Automotriz S.A. de C.V.	27
IXE Soluciones S.A. de C.V.	36
Fincasa Hipotecaria S.A. de C.V.	91
Total	**($39)**

Million Pesos.

TAX CREDITS OR DEBTS

The tax credits listed below are currently in litigation:

	As of December 31st, 2011
BANORTE	**$224**
Value Added Tax (IVA) not credited for the 2006 fiscal year	200
IMSS fees, various occupations	5
INFONAVIT fees, various occupations	19
RETIREMENT SAVINGS (AFORE BANORTE)	**$23**
Fiscal year 2003 (330-SAT-17738)	8
Fiscal year 2004 (330-SAT-VIII-6-11775)	15
BROKERAGE	**$60**
Fiscal year 2003 (document 900 06 05-2008-11006)	25
Fiscal year 2007 (document 900 06 05-2010-03968)	35
MUTUAL FUNDS (OPERADORA DE FONDOS BANORTE, S. A. DE C. V.)	**$6**
Fiscal year 2004 (document 900 06-02-2008-15698)	6
ANNUITIES (PENSIONES BANORTE GENERALI, S.A, DE C.V.)	**$24**
Fiscal year 2003 (document 900 06 01-2009-9512)	8
Fiscal year 2006 (document 900-06-02-02-00-2009-5083)	9
Fiscal year 2007 (document 900 06-05-2010-03908)	7
INSURANCE (SEGUROS BANORTE GENERALI, S. A. DE C. V.)	**$345**
Fiscal year 2002 (document 900 06 01-2008-6558)	10
Fiscal year 2002 (document 900 06 01-2008-6557)	273
Fiscal year 2003 (document 900-06-01-2009-9518)	15
Fiscal year 2004 (document 900-06-01-2010-9212)	47

Million Pesos.

C) Internal Control

At Grupo Financiero Banorte, we recognize that internal control is the responsibility of each member of the Institution and therefore, it is implicit in daily performance, in order to be permanently spread and promoted at all levels within the Institution.

The Internal Control System (ICS) of Grupo Financiero Banorte, S. A. B. de C.V., has been structured in accordance with guidelines set by its Board of Directors and establishes the general internal control framework for the companies that comprise GFNorte, as well as how the internal workings should be operated, in order to provide reasonable security with regard to effectiveness and efficiency of operations, dependability of financial information and the fulfillment of regulations and the legal framework.

The ICS's mission is to support the operation of appropriate internal controls in transactions, generation and recording of information. It is comprised of several elements:

A. Board The Board of Directors with the support of the Advisory Board, Management Committee, the Risk Policies' Committee, the Audit and Corporate Practices' Committee, the Human Resources' Committee and of the Designation Committee.

B. The CEO and his support groups, comprised of the Unit of Integral Risk Administration (UAIR), Legal and Compliance, are responsible to ensure that the appropriate levels of control and risk in the Group's operations are maintained.

C. Internal Audit, External Audit and the Commissary (the Commissary only applies to subsidiaries of GFNorte) provide additional support to oversee ICS operations and provide reasonable assurance on the dependability of the information generated.

D. Top Management is responsible to ensure that the ICS operates in accordance with the functions and responsibilities that were assigned to it, as well as promoting compliance with regulations established for the Institution and the strategies defined by the CEO.

E. Documents that establish the general criteria of control that should be followed in the operation and registration of transactions, in the use of human resources, materials and technologies; in the use, security, opportunity and reliability of information; and in the due execution of external and internal norms. The Code of Conduct establishes the behavior that all consultants, officials or employees of the Group should assume in carrying out their activities.

F. Manuals of policies and procedures that standardize documentation, registration and liquidation operations carried out by the Institution and establish control points that should be observed, assuring the segregation of functions, the clear assignment of responsibilities, the back-up of information and the prevention of illicit acts.

During 2011 activities were continuously being developed that focused on strengthening the control environment, evaluating and managing risks, establishing and monitoring controls, and ensuring the quality of the information; placing special emphasis on:

A. The Board of Directors analyzed and, at the request of CAPS, ratified its authorization of the basic ICS documents: Code of Conduct, Objectives and Limitations of Internal Control and General Policies for Human Resources and Materials, according to that specified in the external regulation.

B. The process of incorporating the financial institutions that previously integrated IXE Grupo Financiero began, in order to align them to the internal control system of Grupo Financiero Banorte, both in terms of corporate governance, as well as in the structures and systems of the areas of Control.

C. The different Corporate Government Committees received the necessary financial, economic, accounting and/or legal information corresponding to each case, in order to make the appropriate decisions.

D. Manuals of policies and procedures were kept updated with changes in external regulations, new products and changes to institutional procedures or improvements in internal controls. Additionally, the follow-up of improvements regarding observations made by different ICS members was also maintained.

E. Requirements made by Supervising Authorities were met and the delivery of information required by external regulations was fulfilled.

F. The different business and support processes of GFNorte's operations are monitored through Process and Management Controllers, who periodically report on the execution and if the case identification of areas of opportunity for their timely remediation.

II. MAIN TRANSACTIONS AND INTRAGROUP EXHIBITS

OPERATIONS WITH RELATED PERSONS AND CONFLICTS OF INTEREST

At GFNorte, loans to related individuals and companies do not exceed the limit of 50% of basic capital.

	GFNorte		
	Dic-11	**Dic-10**	**Dic-09**
Portfolio Art. 73	$12,732	$8,772	$7,362
Portfolio Art. 73 / 50% of Basic Capital	59.8%	47.1%	46.2%

On **December 31st, 2011**, the total portfolio of performing loans under Article 73 of the Law of Credit Institutions, was Ps 12.732 billion (including Ps 566 million in loan obligations, which are registered in memorandum accounts), representing 4.2% of total loan obligations (excluding the balance of Debtor Support Programs). Of the total related loans, Ps 4.72 billion were loans granted to clients linked to members of the Board of Directors, Ps 1.09 billion were to clients linked to shareholders, and Ps 6.92 billion were linked to companies related to GFNorte.

The related loans were granted and rated in accordance with the same policies, procedures and rating systems that apply to the rest of GFNorte's loan portfolio, based on the general dispositions applicable to credit institutions with regard to rating of loan portfolios issued by the CNBV and the internal methodology authorized by CNBV, to rate the commercial loan portfolio. 100% of related loans are rated as Category "A" and a large majority of these loans are classified as commercial loans.

In accordance with Article 73 of the Law of Credit Institutions, the balance of GFNorte's related loan portfolio for individuals and corporations at closing of December 2011 was 59.8% of the limit set by Banco de Mexico (Central bank) of 50% of the basic part of the net capital.

On **December 31, 2010**, the total portfolio of performing loans under Article 73 of the Law of Credit Institutions, was Ps 8.77 billion (including Ps 948 million in loan obligations, which are registered in memorandum accounts), representing 3.5% of total loan obligations (excluding the balance of Debtor Support Programs). Of the total related loans, Ps 2.43 billion were loans granted to clients linked to members of the Board of Directors, Ps 1.83 billion were to clients linked to shareholders, and Ps 4.52 billion were linked to companies related to GFNorte.

The related loans were granted and rated in accordance with the same policies, procedures and rating systems that apply to the rest of GFNorte's loan portfolio, based on the general dispositions applicable to credit institutions with regard to rating of loan portfolios issued by the CNBV and the internal methodology authorized by CNBV, to rate the commercial loan portfolio. 97% of related loans were rated as Category "A" and the majority of these loans were classified as commercial loans.

In accordance with Article 73 of the Law of Credit Institutions, the balance of GFNorte's related loan portfolio for individuals and corporations at closing of December 2010 was 47.1% of the limit set by Banco de Mexico (Central bank) of 50% of the basic part of the net capital.

III. BOARD OF DIRECTORS

The Board of Directors of Grupo Financiero Banorte, S. A. B. de C. V (GFNorte) is made up of 15 members of which 8 (53.33%) are independent. Alternate Members can only replace their respective proprietary members in the event of a temporary vacancy, with the understanding that Alternates of Independent Board Members must have this same capacity. The Chairman Emeritus has no alternate.

Frequency of sessions: The Board meets every quarter and under extraordinary circumstances by request of the Board's Chairman, by 25% of the proprietary members, or by the President of the Audit and Corporate Practices' Committee.

Quorum: 51% of the Board Members with the inclusion of at least one independent.

- All proprietary members of the Board have voice and vote in the sessions.
- In the absence of a proprietary member, the alternate is entitled to vote and his/her presence is considered part of the required quorum.
- When a proprietary member is present, the alternate is not entitled to vote and his/her presence is not considered part of the required quorum.
- Decisions are made by the majority of votes of those present.

The Board of Directors named for the 2011 fiscal year by the Annual General Ordinary Shareholders' Meeting and the General Ordinary Shareholders' Meeting of April 29rd and July 21st, 2011 respectively is composed of the following members:

NAME	POSITION	WITH THE COMPANY SINCE	PROFESSIONAL BACKGROUND
Roberto González Barrera	Chairman Emeritus	October 1993	• Chairman of the Board of Directors of Grupo Maseca. • Chairman of the Board of Directors of Banco Mercantil del Norte, SA.
Guillermo Ortiz Martínez	Chairman of the Board of Directors	February 2011	• Chairman of the Board of Directors of Banco Mercantil del Norte, S. A. • Guillermo Ortiz y Asociados, S. C. Consultancy. • Governor of Banco de Mexico and Secretary of Finance and Public Credit.
Bertha González Moreno	Proprietary Patrimonial Member	April 1999	• Director Emeritus of Patronato Cerralvo, A. B. P.
David Villarreal Montemayor	Proprietary Patrimonial Member	October 1993	• CEO of Artefactos Laminados, S. A.
Francisco Alcalá de León	Proprietary Independent Member	April 2001	• Chairman of Frajal Consultores, S. C.
Manuel Saba Ades	Proprietary Patrimonial Member	July 2011	• Chairman of the Board of Directors of Grupo Casa Saba, S.A.B. de C.V.
Herminio Blanco Mendoza	Proprietary Independent Member	April 2005	• Chairman and CEO of Soluciones Estratégicas. • Member of the Board of Directors of Banco Latinoamericano de Exportaciones, Bladex. • Member of the Board of Directors of Cydsa, S.A. • Advisor to Mr. Lakshimi Mittal

NAME	POSITION	WITH THE COMPANY SINCE	PROFESSIONAL BACKGROUND
			(Chairman of the Board of Directors and CEO of Mittal Steel). • Secretary of Commerce and Industrial Development
Everardo Elizondo Almaguer	Proprietary Independent Member	April 2010	• Professor of Microeconomics of the Instituto Tecnológico y de Estudios Superiores de Monterrey (ITESM). • Deputy Governor of Banco de Mexico.
Patricia Armendáriz	Proprietary Independent Member	April 2009	• CEO of Credipyme, S.A. de C.V. • President of Consultoría Internacional
Armando Garza Sada	Proprietary Independent Member	July 2011	• Chairman of the Board of Directors of Grupo Alfa, S.A.B. de C.V. • Director of Desarrollo de Alfa, S.A.B. de C.V.
Héctor Reyes Retana	Proprietary Independent Member	July 2011	• Independent Advisor to Consupago, S.A. de C.V: • Independent Advisor to Banco del Ahorro Nacional y Servicios Financieros, S.N.C. • Advisor to Creación de Proméxico • Managing Director of Banco Nacional de Comercio Exterior, S.N.C. (National Foreign Trade Bank)
Juan Carlos Braniff Hierro	Proprietary Independent Member	July 2011	• Chairman and CEO of Capital Inmobiliario.
Eduardo Livas Cantú	Proprietary Independent Member	April 1999	• Independent Advisor.
Enrique Castillo Sánchez Mejorada	Proprietary Related Member	July 2011	• Managing Director of Wholesale Bank of Banco Mercantil del Norte • Managing Director of Wholesale Bank of Ixe Grupo Financiero, S.A. • Chairman of the Board of Directors of Ixe Grupo Financiero.
Alejandro Valenzuela del Río	Proprietary Related Member	October 2007	• CEO of Grupo Financiero Banorte S. A. B. de C. V. • Managing Director of Corporate Relations of Grupo Financiero Banorte, S. A. B. de C. V. • Managing Director of Treasury and Investor Relations of Grupo Financiero, S. A. B. de C. V.
Roberto González Moreno	Patrimonial Alternate Member	April 2004	• President and CEO of Corporación Noble, S. A. de C. V.
Juan Antonio González Moreno	Patrimonial Alternate Member	April 2004	• CEO of Gruma (Asia) • Director of Special Projects of Mission Food (Grupo Maseca).
José G. Garza Montemayor	Patrimonial Alternate Member	October 1993	• CEO of Productos Laminados de Monterrey, S. A. de C.V.
Alberto Saba Ades	Patrimonial Alternate Member	July 2011	• Vice-president of the Board of Directors of Grupo Saba, S.A.B. de C.V. • CEO of Grupo Xtra, S.A. de C.V.

NAME	POSITION	WITH THE COMPANY SINCE	PROFESSIONAL BACKGROUND
Isaac Becker Kabacnik	Independent Alternate Member	April 2002	• Chairman of Becker e Hijos, S.A. de C.V. and of Becktel, S.A. de C.V.
Manuel Aznar Nicolin	Independent Alternate Member	March 2007	• Partner at the offices of Kuri Breña, Sánchez Ugarte y Aznar, S.C.
Javier Martínez Ábrego	Independent Alternate Member	October 1993	• Chairman of the Board of Directors of Motocicletas y Equipos, S.A. de C.V.
Carlos Chavarría Garza	Independent Alternate Member	April 2003	• CEO of Corporativo de Grupo Transregio, S.A.
Ramón A. Leal Chapa	Independent Alternate Member	July 2011	• CFO of Alfa Corporativo • Planning Director of Vitro
Julio César Méndez Rubio	Independent Alternate Member	July 2011	• CEO of Soluciones Especializadas Confianza, S.A. DE C.V., Sofom E.N.R. • Deputy Managing Director of Loans of Banco Nacional de Comercio Exterior
Guillermo Mascareñas MIlmo	Independent Alternate Member	July 2011	• Associate Director of Alpha Patrimonial, S.A. de C.V.
Alfredo Livas Cantú	Independent Alternate Member	October 1993	• President of Praxis Financiera, S.C.
Javier Molinar Horcasitas	Related Alternate Member	July 2011	• Managing Director- Integration Offices of Banco Mercantil del Norte, S.A. • Managing Director, Ixe Grupo Financiero, S.A. • CEO, Ixe Banco, S.A.
José Marcos Ramírez Miguel	Related Alternate Member	July 2011	• Managing Director Wholesale Bank Banco Mercantil del Norte, S.A. • Managing Director Wholesale Bank Grupo Financiero Santander

IV. RENUMERATION AND BENEFITS

The total amount of compensations and benefits provided in 2011 for the main officials of GFNorte was approximately Ps 220.3 million.

Compensations and benefits are as follows:

- **Fixed Compensation**: Salary.

- **Annual Bonus Plan for 2011:**

  The Bonus Plan for each business area evaluates estimated profit for that particular business, as well as an evaluation of individual performance, which takes into account the achievement of each participant's goals and objectives. The bonus is also adjusted according to operational risk evaluations carried out by Internal Audit Department.

  Eligible personnel of staff areas are evaluated according to the fulfillment of the estimated profit for the Group, as well as their individual performance based on the achievement of each candidate's goals and objectives.

  For executive personnel (Underdirector and Manger levels) of business areas, full compliance with the annual bonus objective is equivalent to 5.2 months' salary, while for eligible staff personnel (Underdirector and Manger levels) it is 4.4 months' salary. For executive personnel of business areas (Director Level) full compliance with the annual bonus objective is equivalent to 5.8 months' salary, while for eligible staff personnel (Director Level) it is the equivalent to 4.7 months' salary.

- **Banorte's Long Term Incentive Plans:**

  Stock Options:

  The long term outline for incentives consists of assigning to Directors designated by the Compensation Committee, a stock options package through a trust with a vesting period of 3 years. Participants will be entitled to exercise one third of the package each year; purchasing the shares at the price with which they were originally acquired by the trust and their right to acquire those shares expires after 6 years.

  The gains for the executive will be the difference between the strike price, the price originally determined by the trust, and the share's exercise price at the time they exercise their rights.

  The share plans currently in effect are those dated September 2007.

  Restricted Stock:

  The long term outline for incentives under this heading consists of assigning to Directors designated by the Compensation Committee, a stock package through a trust with a vesting period of 2 or 3 years, depending on the agreement at the time the stock is assigned. Participants will be entitled to exercise a portion of the package each year (equal portions for each year); receiving a bonus to purchase the shares at the price with which they were originally acquired by the trust. These contracts are celebrated on established dates as they are only effective for the same 2 or 3 years corresponding to the assignment instructions.

  The share plans currently in effect are those dated July 2009.

FOR BANORTE:

- **Vacations:** From 10 to 30 working days depending on the number of years of service.

- **Legally Mandated Christmas Bonus:** Equivalent to 42 days of salary.

- **Savings Fund:** The Corporation matches the amount of the employee's contribution, up to a maximum of 13% of their monthly salary with the legal limits in accordance to those established in the Income Tax Law.

- **Medical Service:** Banorte provides medical services through renowned specialized institutions, obtaining efficiency in cost and service.

- **Life Insurance:** In the event of death or total incapacity, a life insurance policy provides a sum of up to 36 months' salary. In the event of an accidental death, the compensation would be double, with prior verification by the insurance company.

- **Pension and Retirement:** The institution has two types of plans: one with defined benefits (Traditional and Special), and a second with defined contribution (Ensure Your Future).

  Ensure Your Future: was established on January 1st, 2001. This is a defined contribution plan, whereby a percentage of individual contributions by the employee and GFNorte is deposited in a fund for withdrawal by that employee upon termination of their labor relationship. This plan has an "initial individual contribution" (only for employees hired prior to January 1st, 2001) that are pension benefits for past services accumulated to date. The maximum monthly contribution is 10% of the gross nominal wage (5% employee and 5% company).

FOR IXE

- **Vacations:** 12 working days in the first 4 years, as of the 5th year the LFT (Ley Federal del Trabajo or Federal Labor Law) table applies.

- **Legally Mandated Christmas Bonus:** Equivalent to 30 days of salary

- **Savings Fund:** The Corporation matches the amount of the employee's contribution, up to a maximum of 13% of their monthly salary with the legal limits in accordance to those established in the Income Tax Law.

- **Medical Service:** IXE provides medical coverage through the administration of a major medical expenses insurance policy.

- **Life Insurance:** In the event of death or total incapacity, a life insurance policy provides an amount of up to 37 months' salary. In the event of an accidental death, the compensation would be double, with prior verification by the insurance company.

- **Pension and Retirement:** The institution has its own defined retirement contribution plan (Ixe Construye).

  Ixe Construye: is a defined contribution plan, whereby a percentage of individual contributions made by the employee and IXE is deposited into a fund for withdrawal by that employee upon termination of their labor relationship. This plan has an "initial individual contribution" that are pension benefits for past services accumulated to date. The maximum monthly contribution is 10.33% of the gross nominal wage (5% employee and 5.33% company).

  The total amount accumulated by GFNorte, for pensions, retirement or similar plans for their main officers is Ps $48.7 million.

V. RESPONSIBLE OFFICERS

The undersigned hereby declare that within the scope of our respective functions, we have truthfully prepared the information contained in this annual report related to Grupo Financiero Banorte, which to the best of our knowledge and understanding reasonably reflects the situation.

Dr. Alejandro Valenzuela del Río
Chief Executive Officer of Grupo Financiero Banorte, S. A. B. de C. V.

Ing. Rafael Arana de la Garza
Chief Financial Officer

Lic. Jorge Eduardo Vega Camargo
Managing Director of Comptrollership

Lic. Benjamín Vidargas Rojas
Managing Director of Internal Audit

C. P. C. Nora Elia Cantu Suarez
Executive Director Accounting and Fiscal

VI. BASIC AUDITED FINANCIAL STATEMENTS

The Audited Financial Statement is available online (www.banorte.com) in Investor Relations/ Financial Statements/ 2011 Audited Information.

This same report is also available in this same link, in the "Annual Reports" section under the title: “2011 Annual Report CNBV”.