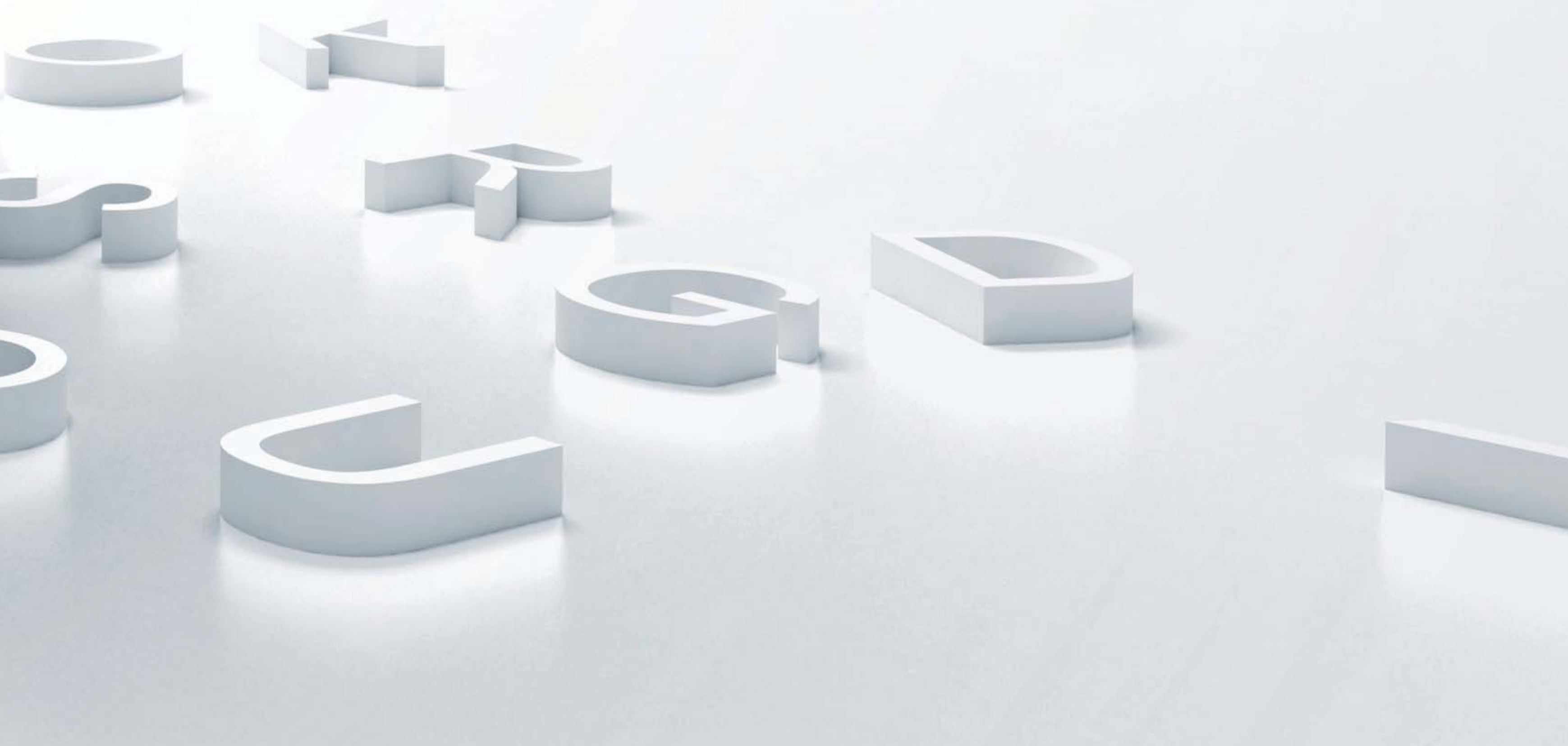
GRUPO FINANCIERO
BANORTE

Annual Report 2010

Audited Financial Statements

Index

BANORTE
Annual Report 2010



Mexico, D.F., March 31st, 2011.
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 fiscal year of 2010.

The contents of this document will refer to Grupo Financiero Banorte (GFNorte) and in some sections to 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 relevant companies are: Banco Mercantil del Norte, S. A.; Casa de Bolsa Banorte, S. A. de C. V. (Broker Dealer); Arrendadora y Factor Banorte, S. A. de C. V. (Leasing and Factoring); Seguros Banorte Generali, S. A. de C. V. (Insurance); Banorte Generali, S. A. de C. V. AFORE; Sólida Administradora de Portafolios, S. A. de C. V. and Inter National Bank.

I. Regarding Audit:

a) On the state of the Internal Control System (SCI) and Internal Audit of GFNorte and its relevant entities, and the description of their deficiencies and deviations, this Committee took into consideration the following elements:

1. Revision of annual Internal Control reports about activities of the afore-mentioned relevant entities, prepared by their respective Managing Directors, as well as the opinion emitted by Internal Audit.

2. This Committee reviewed the reports on the revision of the Internal Accounting Control of Banco Mercantil del Norte, S. A., Arrendadora y Factor Banorte, S. A. de C. V., Banorte Generali, S. A. de C. V. AFORE and Casa de Bolsa Banorte, S. A. de C. V., Internal Control observation reports prepared by the External Auditor, and the follow-up of corrective measures taken with regard to areas of opportunity detected and identified in these reports; as well as the opinion of the financial statements of GFNorte and its subsidiaries.

3. Observations on control deficiencies or deviations of GFNorte and its subsidiaries, presented by Internal Audit in the sessions of this Committee, including the relevant entities and the follow-up of corrective measures taken.

4. Reports of inspection visits by competent supervising authorities, and the follow-up on the implementation of pertinent corrective measures.

5. Controllership reports of GFNorte, Arrendadora y Factor Banorte, S. A. de C. V.; as well as reports of the Controllerships of Seguros Banorte Generali, S. A. de C. V., and Banorte Generali, S. A. de C. V. AFORE.

6. The opinion about the situation of the System of Internal Control of the relevant entities emitted by Internal Audit.

In relation to Inter National Bank (INB), we can inform the permanent follow-up to the fulfillment of the commitments regarding the Formal Agreement with the Office of the Comptroller of Currency (OCC), INB's regulator, through which commitments were assumed to strengthen INB's loan portfolio's management processes, management of critical assets and revision of loans, as well as the establishment of a program to ensure adequate reserves for leases and loans, and the formulation of a strategic plan. In 2010 the annual revision was made by these authorities, they state the fulfillment of the commitments and take the decision of maintaining the Formal Agreement while it comes the moment of a new revision of the actions' results, actions that require a longer time of implementation and maturation.

Taking these elements into consideration, and as a result of the surveillance carried out by this Committee in sessions throughout the year with the participation of SCI third parties such as the External Auditor, Internal Audit and the Controllership, we can report that the SCI of GFNorte and its subsidiaries and the Internal Audit work appropriately, providing a reasonable degree of security regarding the achievement of objectives related to effectiveness and efficiency of operations, reliability of financial information issued and fulfillment of applicable norms, and that deficiencies or deviations were not detected that could significantly affect them.

b) In relation to possible significant nonfulfillment of operations and accounting registration policies, we can report that none were detected; and that the identified areas of opportunity have been reported to those responsible, and measures have been taken to correct these, as well as implement them in the follow-up system.

c) Regarding the performance evaluation of the individual providing the external audit services, we can report that in the pursuit of his activities and in his relationship with the administration and the Committee, the firm of Galaz, Yamazaki, Ruiz Urquiza, S. C (member of Deloitte Touche Tohmatsu) was verified to have provided quality performance; as well as the Auditor in charge, who has applied work methodologies according to the international best practices that adequately fulfill the applicable regulation properly.

   We also consider that the content of their reports and findings are of quality and useful in supporting the activities of this Committee, pointing out that their results and opinions do not present discrepancies with management.

d) On the description of services provided by the External Auditor in addition to the auditing of financial statements, we can inform that at the beginning of the fiscal year, they were hired to make a diagnosis on the execution of applicable norms and best practices with regards to corporate governance; necessary requirements for the issuance of debt abroad by Banco Mercantil del Norte under the rule 144A of the Securities Act, and the registration of GFNorte shares in North America's Financial Market, as well as the revision of procedures previously agreed on IXE Grupo Financiero (IXE) Financial Statements and the review of the financial information Pro Forma on the effect of the merger between GFNorte and IXE which was added in the brochure regarding the corporate restructuring for GFNorte shareholders, in compliance with the provisions applicable to securities issuers.

   The Board of Directors approved the proposal of this Committee to hire these services, after verifying that no conflict of interest existed; and the services were conducted throughout 2010. The services of other independent experts were hired to evaluate the quality of Banorte's most important borrowers that form the loan portfolio and to evaluate the reach of Internal Audit revisions on aspects of Information Technology.

e) Revision of the financial statements of GFNorte and its subsidiaries for the year ending December 31st, 2010 were carried out; as well as the External Auditor's findings before their publication; with the participation of management, the External Auditor, the Commissary, Internal Audit and the Controllership, having found that they were prepared in accordance with the regulations and applicable accounting practices, and therefore, we recommend that the Board of Directors approve these financial statements. Additionally, this Committee conducts a periodic revision of the intermediate financial statements on a quarterly basis.

f) On the main modifications to accounting policies and criteria adopted by GFNorte and its subsidiaries during the 2010 fiscal year, various modifications were carried out as a consequence of changes in the applicable regulations and the criteria for charge offs in the commercial portfolio, which are described thoroughly in Note 4 "Significant Accounting Policies" of GFNorte's financial statements in which a detailed explanation of these modifications can be found.

g) There were no relevant observations in the actions exercised by shareholders, consultants, directors, employees or a third party regarding the accounting, internal control or topics related to the internal or external audits, or from accusations on irregularities. We can report that according to international best practices, one of the institutional channels of communication is anonymous accusations done through EthicsPoint. Reports received through this tool are directed to the members of this Committee and to diverse directors of the organization, for their knowledge and attention. This Committee follows up on the resolution of the accusations.

h) With regards to the resolutions approved by the Shareholders' Meetings and the Board of Directors, none of these organisms requested that this Committee follow up on the adopted resolutions.

i) Among other activities carried out by the Committee is the revision of results of independent experts' recommendations hired to evaluate the quality of the loan portfolio's main clients and the coverage of Internal Audit's works on critical aspects of information technology. The Committee also reviewed the methodologies used by branches to selfevaluate operational risk and its compliance, the individual rating of the loan portfolio and Internal Audit of specific loans. Attention was also given to the recommendations resulting from the diagnosis of corporate governance practices.

II. Regarding Corporate Practices:

a) With respect to observations regarding the performance of relevant managers, we can report that management has defined relevant Directors of GFNorte and its subsidiaries to be those officials that the bank must inform the respective authorities when they are hired because of the specific regulation that applies to them.

With regard to the performance of relevant management during the 2010 fiscal year, this Committee reports that there were no cases in which managers acted outside of the established policies and procedures.

b) With respect to operations with related parties, this Committee verified that as of December 31st, 2010, the amount of the loans granted to related parties was Ps 8.77 billion which is lower than the limits established by the corresponding regulation, and that these transactions were approved by the Board of Directors for those cases where approval was required in accordance with the applicable regulations. Inter-company transactions were conducted at market prices, which were verified by the External Auditor in the revisions that it conducted.

We can also report that during the 2010 fiscal year, there were no unusual non recurring operations or that due to the importance of their amount required approval from the Board of Directors. For its relevance, the proposal to merge with IXE Grupo Financiero was approved by the Board of Directors.

c) With regard to the compensation of relevant directors, we can report that management defined the appointment policies and the comprehensive retribution packages for relevant officers which include: (i) a fixed compensation; (ii) a bonus plan based mainly on the fulfillment of the profits estimated; and (iii) a long term incentive plan providing some Directors an option to purchase shares in accordance with programs approved by this Committee. During the next fiscal year these policies will be revised in coordination with the Remuneration Committee considering the new arrangements applicable to the fact.

d) Finally, we can report that during the 2010 fiscal year, the Board of Directors did not grant waivers to board members or top managers to take advantage of business opportunities.

Sincerely,

Francisco J. Alcalá de León
President of the Audit and Corporate Practices'
Committee of GFNorte

Deloitte.

February 21, 2011

Galaz, Yamazaki, Ruiz Urquiza, S. C.
Lázaro Cárdenas 2321 Poniente, PB
Residencial San Agustín
66260 Garza García, N. L., México.
Tel: +52 (81) 8133 7300
Fax: +52 (81) 8133 7383
www.deloitte.com/mx

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, 2010 and 2009, and the related consolidated statements of income, 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 accompanying consolidated financial statements describes the Financial Group's operations. Note 4 describes the accounting criteria established by the Commission in the "General Provisions Applicable to Banking Institutions", 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 in Mexico. As explained in Note 12 in August 2009 the Commission issued modifications to the consumer loan rating methodology allowing financial institutions to record the initial cumulative effect derived from applying the corresponding loan rating methodology to credit card transactions either directly to retained earnings within stockholders' equity or in results of operations over a 24-month period. The Financial Group decided to record the cumulative effect of the change in methodology directly to retained earnings within stockholders' equity, which totaled Ps. 683 million, net of deferred taxes.

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, 2010 and 2009, and the results of their operations, changes in their stockholders' equity and 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

C. P. C. 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, 2010 AND 2009
(In millions of Mexican pesos)

ASSETS	2010	2009
CASH AND CASH EQUIVALENTS	**Ps. 62,497**	**Ps. 59,268**
MARGIN SECURITIES	**177**	**18**
INVESTMENTS IN SECURITIES		
Trading securities	66,181	24,459
Available for sale securities	12,288	11,701
Held to maturity securities	139,913	190,332
	218,382	**226,492**
DEBTOR BALANCES UNDER REPURCHASE AND RESALE AGREEMENTS	**583**	**4**
DERIVATIVES FINANCIAL INSTRUMENTS		
For trading purposes	7,463	4,824
For hedging purposes	596	1,056
	8,059	**5,880**
PERFORMING LOAN PORTFOLIO		
Commercial loans		
Business loans	126,483	117,237
Financial institutions' loans	5,521	7,131
Government loans	47,550	38,993
Consumer loans	27,828	25,712
Mortgage loans	56,168	49,881
TOTAL PERFORMING LOAN PORTFOLIO	**263,550**	**238,954**
PAST-DUE LOAN PORTFOLIO		
Commercial loans		
Business loans	4,417	3,163
Consumer loans	1,276	1,942
Mortgage loans	971	1,049
TOTAL PAST-DUE LOAN PORTFOLIO	**6,664**	**6,154**
LOAN PORTFOLIO	**270,214**	**245,108**
(Minus) ALLOWANCE FOR LOAN LOSSES	(8,245)	(7,535)
LOAN PORTFOLIO, net	**261,969**	**237,573**
ACQUIRED COLLECTION RIGHTS	**2,025**	**2,548**
TOTAL LOAN PORTFOLIO, net	**263,994**	**240,121**
RECEIVABLES GENERATED BY SECURITIZATIONS	**950**	**432**
OTHER ACCOUNTS RECEIVABLE, net	**10,864**	**11,324**
MERCHANDISE INVENTORY	**49**	**119**
FORECLOSED ASSETS, net	**809**	**928**
PROPERTY, FURNITURE AND EQUIPMENT, net	**9,316**	**8,622**
PERMANENT STOCK INVESTMENTS	**3,130**	**3,036**
DEFERRED TAXES, net	**1,340**	**1,411**
OTHER ASSETS		
Other assets, deferred charges and intangible assets	**10,408**	**9,483**
TOTAL ASSETS	**Ps. 590,558**	**Ps. 567,138**

MEMORANDUM ACCOUNTS (Note 34)
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 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 balance sheet dates above. The stockholders' equity amounts to Ps. 7,016 (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	2010	2009
DEPOSITS		
Demand deposits	Ps. 149,817	Ps. 137,581
Time deposits		
General public	132,673	134,141
Money market	6,347	3,186
Senior debt issued	3,778	-
	292,615	**274,908**
INTERBANK AND OTHER LOANS		
Demand loans	4,837	21
Short-term loans	13,114	13,385
Long-term loans	8,496	7,562
	26,447	**20,968**
ASSIGNED SECURITIES PENDING SETTLEMENT	**-**	**159**
CREDITOR BALANCES UNDER REPURCHASE AND RESALE AGREEMENTS	**178,747**	**185,480**
COLLATERAL SOLD OR PLEDGED		
Repurchase or resale agreements (creditor balance)	**11**	**2**
DERIVATIVES FINANCIAL INSTRUMENTS		
For trading purposes	7,238	4,553
For hedging purposes	3,499	3,822
	10,737	**8,375**
OTHER ACCOUNTS PAYABLES		
Income tax	711	617
Employee profit sharing	797	676
Creditors from settlements of transactions	867	2,224
Sundry debtors and other payables	9,871	8,968
	12,246	**12,485**
SUBORDINATED DEBENTURES	**17,803**	**18,168**
DEFERRED CREDITS AND ADVANCED COLLECTIONS	**1,725**	**1,619**
TOTAL LIABILITIES	**540,331**	**522,164**
STOCKHOLDERS' EQUITY		
PAID-IN CAPITAL		
Common stock	11,971	11,956
Additional paid-in capital	1,673	1,525
	13,644	**13,481**
OTHER CAPITAL		
Capital reserves	3,181	3,154
Retained earnings from prior years	25,492	20,681
Result from valuation of securities available for sale	309	206
Result from valuation of instruments for cash flow hedging	(2,214)	(1,369)
Cumulative foreign currency translation adjustment	(1,000)	(641)
Net income	6,705	5,854
	32,473	**27,885**
NONCONTROLLING INTEREST	**4,110**	**3,608**
TOTAL STOCKHOLDERS' EQUITY	**50,227**	**44,974**
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**Ps. 590,558**	**Ps. 567,138**

Dr. Alejandro Valenzuela del Río
Chief Executive Officer

Ing. Sergio García Robles Gil
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 Tax

GRUPO FINANCIERO BANORTE, S. A. B. DE C. V. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009
(In millions of Mexican pesos)

	2010	2009
Interest income	Ps. 41,479	Ps. 45,451
Interest expense	(18,747)	(22,268)
NET INTEREST INCOME	**22,732**	**23,183**
Provision for loan losses	(6,889)	(8,286)
NET INTEREST INCOME AFTER ALLOWANCE FOR LOAN LOSSES	**15,843**	**14,897**
Commission and fee income	9,234	8,291
Commission and fee expense	(1,548)	(1,338)
Brokerage revenues	1,689	1,244
Other revenues	1,739	980
	11,114	**9,177**
NET OPERATING REVENUES	**26,957**	**24,074**
Administrative and promotional expenses	(17,691)	(17,024)
OPERATING INCOME	**9,266**	**7,050**
Other income	1,879	2,438
Other expenses	(1,298)	(1,566)
	581	**872**
INCOME BEFORE INCOME TAX	**9,847**	**7,922**
Current income tax	(2,735)	(2,581)
Deferred income taxes, net	(70)	536
	(2,805)	**(2,045)**
INCOME BEFORE EQUITY IN EARNINGS OF UNCONSOLIDATED SUBSIDIARIES AND ASSOCIATED COMPANIES	**7,042**	**5,877**
Equity in earnings of unconsolidated subsidiaries and associated companies	320	313
INCOME BEFORE NONCONTROLLING INTEREST	**7,362**	**6,190**
Noncontrolling interest	(657)	(336)
NET INCOME	**Ps. 6,705**	**Ps. 5,854**

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 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 income statement dates above.
The accompanying Consolidated Statements of Income 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 statements of income.

Dr. Alejandro Valenzuela del Río Chief Executive Officer	Ing. Sergio García Robles Gil 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 Tax

GRUPO FINANCIERO BANORTE, S. A. B. DE C. V. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009
(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 available for sale securities	Result from valuation of cash flow hedging instruments
Balances, January 1, 2009	**Ps. 11,941**	**Ps. 1,468**	**Ps. 2,720**	**Ps. 16,935**	**(Ps. 550)**	**Ps. -**
TRANSACTIONS APPROVED BY STOCKHOLDERS						
Issuance (repurchase) of shares	15	(328)	83	-	(221)	-
Transfer of prior year's result	-	-	-	7,014	-	-
Creation of reserves as per General Stockholders' meeting on April 30, 2009	-	-	351	(351)	-	-
Dividend declared at the General Stockholders' meeting on October 5, 2009	-	-	-	(364)	-	-
Total transactions approved by stockholders	**15**	**(328)**	**434**	**6,299**	**(221)**	**-**
COMPREHENSIVE INCOME						
Net income	-	-	-	-	-	-
Result from valuation of available for sale securities	-	-	-	-	592	-
Effect of subsidiaries, affiliates and mutual funds	-	(5)	-	(47)	-	-
Result from valuation of cash flow hedging instruments	-	-	-	-	-	209
Application of the effect of holding non-monetary assets	-	(4)	-	(1,640)	385	(1,578)
Change in credit card loan rating methodology (net of deferred taxes)	-	-	-	(683)	-	-
Total comprehensive income	**-**	**(9)**	**-**	**(2,370)**	**977**	**(1,369)**
Noncontrolling interest	-	394	-	(183)	-	-
Balances, December 31, 2009	**11,956**	**1,525**	**3,154**	**20,681**	**206**	**(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 available for sale securities	-	-	-	-	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)**
Noncontrolling interest	**-**	**-**	-	-	-	-
Balances, December 31, 2010	**Ps. 11,971**	**Ps. 1,673**	**Ps. 3,181**	**Ps. 25,492**	**Ps. 309**	**(Ps. 2,214)**

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 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.

	OTHER CAPITAL					
	Cumulative foreign currency translation adjustment	Effect of holding non-monetary assets	Net income	Total majority interest	Total non-controlling interest	Total stockholders' equity
Balances, January 1, 2009	**Ps. 1,095**	**(Ps. 2,821)**	**Ps. 7,014**	**Ps. 37,802**	**Ps. 1,944**	**Ps. 39,746**
TRANSACTIONS APPROVED BY STOCKHOLDERS						
Issuance (repurchase) of shares	-	-	-	(451)	-	(451)
Transfer of prior year's result	-	-	(7,014)	-	-	-
Creation of reserves as per General Stockholders' meeting on April 30, 2009	-	-	-	-	-	-
Dividend declared at the General Stockholders' meeting on October 5, 2009	-	-	-	(364)	-	(364)
Total transactions approved by stockholders	**-**	**-**	**(7,014)**	**(815)**	**-**	**(815)**
COMPREHENSIVE INCOME						
Net income	-	-	5,854	5,854	-	5,854
Result from valuation of available for sale securities	-	-	-	592	-	592
Effect of subsidiaries, affiliates and mutual funds	(54)	-	-	(106)	-	(106)
Effect of the acquisition of the remaining 30% of the subsidiary INB	(1,698)	-	-	(1,698)	-	(1,698)
Result from valuation of cash flow hedging instruments	-	-	-	209	-	209
Application of the effect of holding non-monetary assets	16	2,821	-	-	-	-
Change in credit card loan rating methodology (net of deferred taxes)	-	-	-	(683)	-	(683)
Total comprehensive income	**(1,736)**	**2,821**	**5,854**	**4,168**	**-**	**4,168**
Noncontrolling interest	-	-	-	211	1,664	1,875
Balances, December 31, 2009	**(641)**	**-**	**5,854**	**41,366**	**3,608**	**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 available for sale securities	-	-	-	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**
Noncontrolling interest	-	-	-	-	502	502
Balances, December 31, 2010	**(Ps. 1,000)**	**Ps. -**	**Ps. 6,705**	**Ps. 46,117**	**Ps. 4,110**	**Ps. 50,227**

Dr. Alejandro Valenzuela del Río
Chief Executive Officer

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Deputy Managing Director – Accounting and Tax

GRUPO FINANCIERO BANORTE, S. A. B. DE C. V. AND SUBSIDIARIES
CONSOLIDATED CASH FLOW STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009
(In millions of Mexican pesos)

	2010	2009
Net income	**Ps. 6,705**	**Ps. 5,854**
Items not requiring (generating) resources:		
Provision for loan losses	6,889	8,286
Provision for uncollectible or doubtful accounts receivable	164	182
Depreciation and amortization	1,181	954
Other Provisions	430	(1,786)
Current and deferred income tax	2,805	2,045
Equity in earnings of unconsolidated subsidiaries and associated companies	337	(313)
	18,511	**15,222**
OPERATING ACTIVITIES:		
Changes in margin securities	(159)	(11)
Changes in investments in securities	7,626	12,312
Changes in debtor balances under repurchase and resale agreements	(579)	144
Changes in asset position of derivative financial instruments	(2,639)	501
Change in loan portfolio	(32,062)	(8,167)
Changes in acquired collection rights	523	502
Changes in receivables generated by securitizations	(518)	364
Change in foreclosed assets	94	(94)
Change in other operating assets	(1,461)	(969)
Change in deposits	18,975	15,344
Change in interbank and other loans	5,483	(15,644)
Change in creditor balances under repurchase and sale agreements	(6,892)	(7,088)
Collateral sold or pledged	9	-
Change in liability position of derivative financial instruments	2,684	(717)
Change in subordinated debentures	(350)	(2,481)
Change in other operating liabilities	(3,274)	(2,365)
Change in hedging instruments related to operations	136	133
Net operating activity cash flows	**6,107**	**6,986**
INVESTMENT ACTIVITIES:		
Proceeds on disposal of property, furniture and fixtures	304	259
Acquisition of property, furniture and fixtures	(2,215)	(1,447)
Sale of subsidiaries and associated companies	69	
Acquisition of subsidiaries and associated companies	(171)	(183)
Sale of other permanent investments	1	1
Acquisition of other permanent investments	-	(1)
Dividends received	227	135
Net investment activities cash flows	**(1,785)**	**(1,236)**
FINANCING ACTIVITIES:		
Dividends paid	(1,029)	(364)
Repurchase of shares	69	(451)
Net financing activity cash flows	**(960)**	**(815)**
Net increase in cash and cash equivalents	3,362	4,935
Adjustments to cash flows from variation in the foreign exchange rate	(133)	(63)
Cash and cash equivalents at the beginning of the year	59,268	54,396
Cash and cash equivalents at the end of the year	**Ps. 62,497**	**Ps. 59,268**

These statements of cash flows, 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 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.
The accompanying consolidated statements of cash flows 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 statements of cash flows.

Dr. Alejandro Valenzuela del Río Chief Executive Officer	Ing. Sergio García Robles Gil 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 Tax

**GRUPO FINANCIERO BANORTE, S. A. B. DE C. V. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009**
(In millions of Mexican pesos, except exchange rates and Note 31)

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). Their 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 and its subsidiaries are regulated, depending on their activities, by the Commission, the Mexican National Insurance and Bond 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, securities brokerage activities, management of retirement funds, leasing, the purchase and sale of uncollected invoices and notes, rendering of general warehousing services, annuities (pensions) and providing life insurance and casualty insurance.

Per 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 their capacity as regulator of the Financial Group include reviewing the financial information and requesting modifications to such information.

The Financial Group performs their activities throughout Mexico and the United States of America (U.S.).

The Financial Group's consolidated financial statements have been approved by the Board of Directors at their January 25, 2011 meeting in accordance with the responsibility assigned to them.

2 – SIGNIFICANT EVENTS DURING THE YEAR

a. Issuance of promissory senior notes

On July 19, 2010, Banco Mercantil del Norte, S. A. de C. V., Institución de Banca Múltiple, Grupo Financiero Banorte (Banorte) successfully concluded the issuance in the international market of unsecured senior debt promissory notes for a total amount of 300 million USD with a maturity of 5 years and an 4.437% rate (United States Treasury (UST) + 262.5 bps). Standard and Poor's rated these securities BBB- and Moody's A3.

b. Listing of American Depositary Receipts (ADRs) operations in the OTCQX International Premier platform

On July 15, 2010, the Level 1 ADR's program (ticker: GBOOY) was authorized to operate in OTCQX International Premier; the highest level in the "Over The Counter" (OTC) market.

c. Exposure to Compañía Mexicana de Aviación, S. A. de C. V. (CMA)

In August 2010, CMA filed for bankruptcy and suspended its operations. The outstanding balance of the loan granted by Banorte to Gamma Servicios de Negocios, S. A. de C. V. (Gamma Servicios), a CMA subsidiary, totaled Ps.1,576 at the time of such filing. As the loan granted to Gamma Servicios was secured with present and future collection rights derived from the sale of plane tickets using credit card sales in Mexico and the U.S., it was partially amortized by the resources obtained through some of these guarantees. As of December 31, 2010 and 2009, the outstanding loan balance is Ps. 1,252 and Ps. 1,576, respectively. To date, the reserves that Banorte has constituted to cover potential losses from this loan equal 100% of the outstanding balance. Since the loan's origination, the collection rights derived from ticket sales have been voluntarily and irrevocably transferred by CMA to the Administration and Payment Trust managed by HSBC México, S. A., Institución de Banca Múltiple, Grupo Financiero HSBC, and by accounts in custody of banks in the U.S. According to the external Counsel, for the time being, it is impossible to predict the final outcome of the bankruptcy proceeding or the potential losses stemming from this loan.

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

On November 17, 2010, the Financial Group and IXE Grupo Financiero signed a merger agreement through an exchange of shares valued at Ps. 16,232 at the moment. The Financial Group will issue approximately 308 million new shares and will exchange them at an exchange ratio of 0.3889943074 shares of the Financial Group for each IXE Grupo Financiero share. Such merger, still subject to government authorization, is expected to be formalized during the first quarter of 2011. The operations of both companies will be merged into a single financial group called Grupo Financiero Banorte, S. A. B. de C. V.

e. Securitization of Controladora Commercial Mexicana, S. A. B. de C. V.'s loan (CCM)

In December 2010, Banorte securitized CCM's loan, transferring the risks and benefits related to the loan to a Trust created especially for this transaction (the Trust). The Trust issued Series A stock certificates for Ps. 190, Series B for Ps. 175, Series C for Ps. 168 and Series D for Ps. 63, placed among private investors, which secured the holders the net payment of the funds received from each tranche of CCM's loan which they are linked to, once the expenses related to the Trust are discounted. The securitization was recorded as a sale and reported in 2010 a profit for Ps. 596. This profit is equivalent to the difference between the received assets recorded at fair value and the book value of the transferred assets.

3 – BASIS OF PRESENTATION

Monetary unit of the financial statements

The consolidated financial statements and notes as of December 31, 2010 and 2009 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 the Financial Group and its subsidiaries mentioned below. All significant intercompany balances and transactions have been eliminated in consolidation.

As of December 31, 2010 and 2009, the Financial Group's consolidated subsidiaries and its equity ownership is as follows:

Banco Mercantil del Norte, S. A. and subsidiaries	92.72%
Casa de Bolsa Banorte, S. A. de C. V. and subsidiaries	99.99%
Arrendadora y Factor Banorte, S. A. de C. V.	99.99%
Almacenadora Banorte, S. A. de C. V.	99.99%

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 in 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 peso) 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 rate for stockholders' equity, and c) weighted average rate of the period for income, costs and expenses. The conversion effects are presented in the Financial Group'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 statements of income, in accordance with the accounting practices established by the Commission. In 2010 and 2009, comprehensive income includes the net income of the year, the result from valuation of available for sale securities, 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 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.

Recognition of the effects of inflation in 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 2010 and 2009 was 14.55% and 15.03%, respectively. Therefore, the Mexican economy is considered as non-inflationary according to the NIF B-10 definition. As of January 1, 2008, the Financial Group is no longer adjusting for the effects of inflation. However, assets, liabilities and stockholders' equity as of December 31, 2010 and 2009 include the restatement effects recorded up through December 31, 2007.

The Mexican inflation rates for the years ended December 31, 2010 and 2009 were 4.29% and 3.72%, 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 Banco de México at the consolidated balance sheet date.

Trading securities

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

At 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.

Available for sale securities

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 the trading or held to maturity securities.

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

Held-to-maturity securities

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 to hold 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 available for sale securities, 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 from held to maturity to available for sale is allowed, provided there is no intention or ability of holding them to maturity. The Commission's expressed authorization is required to reclassify securities to held to maturity, or from trading to securities available for sale.

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.

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 it's available for sale securities and those held to maturity show any impairment loss, by means of an evaluation on the quarterly balance sheet date or whenever there are indications of an impairment loss.

Securities are deemed as impaired and therefore incur 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 an impact on the estimated future cash flows, which must be determined in a reliable manner.

These events may include: issuer's 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 reduction in the issue 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 applies 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 statements of income 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 obligated 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 that serve 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:

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

<u>Transactions for trading purposes:</u> 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 the delivery date.

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 to receive and/or deliver the underlying, as well as the right and obligation to receive and/or deliver the cash equivalent to the underlying, object of the contract.

The derivatives are presented in a specific item in assets or liabilities depending on whether their fair value (as a consequence of the rights and/or obligations it establishes) corresponds to a 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 to settle the net amount or to realize the asset and cancel the liability simultaneously.

In the case of transactions for trading purposes, their 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 used to establish the price is the reference or underlying value.

The premium is the price the holder pays to 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 income statement in the account "Trading results" and the corresponding 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 risk policies regarding hedging contracts to protect the Financial Group's balance sheet is to anticipate interest and exchange rate fluctuations, thereby protecting the Shareholders' Equity.

For hedging derivatives, the Financial Group applies in all cases the cash flow hedging method and the accumulated compensation method to measure effectiveness. Both 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 that the derivative 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 71, which establishes conditions for the use of hedge 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 test, and when they result in over-hedging, they are immediately recognized in current earnings.

    b. The effective hedge component recognized in stockholders' equity associated with the hedged item is adjusted to equal the lower (in absolute terms) of these items:

        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.

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 is 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 derivative flows, 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 valued under the Black and Scholes method, which in addition to the present value, 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 makes 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 both exchange rate forwards and currency swaps, as well as interest rates by means of interest rate swaps. This is done with the purpose of setting the rates paid in debt issued by the Financial Group, thereby insuring its payment, and to make investments that generate greater value for the customers. The main strategy is to insure the Financial Groups' future income and expenses, maximizing the benefits.

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 give written notice to the affected parties in an event 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 are expired or diminished in value; the Financial Group's 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 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 set forth in Circular B-5 paragraph 22. The main embedded derivatives recognized by the Financial Group are from service and leasing contracts established in US dollars.

Loan portfolio

The loan portfolio represents the balance of 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 of loans will be recorded as a deferred 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 of a renewal, are recorded as a deferred credit and amortized over a 12-month period against the year's results in the commission and fee income line item.

The costs and expenses associated with the initial granting 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 which 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 in the balance sheet 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 and 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 classification provisions

The loan portfolio is rated according to the rules issued by the Commission and the internal methodology authorized by such Commission.

In the case of consumer and mortgage loans, the Financial Group applies the general provisions applicable to credit institutions in rating the loan portfolio as issued by the Commission on October 25, 2010 and December 2, 2005, respectively. The Financial Group uses the internal methodology authorized by the Commission for rating commercial loans.

Such provisions also establish general methodologies for the rating and calculation of allowances 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 to commercial loans, called Internal Risk Classification (CIR Banorte). CIR Banorte applies to commercial loans with outstanding balances equal to or greater than 4 million UDIS or its equivalent in Mexican pesos. This methodology is explained below.

The commercial loan portfolio rating procedure requires credit institutions to 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 period in their financial statements. Furthermore, during the months following each quarterly close, financial institutions must apply to any loan the respective rating used at the close of the immediately preceding quarter, based on the outstanding balance 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 on the date of the following quarterly rating against the period's results. Additionally, recoveries on previously written-off loan portfolio are recorded in the period's results.

Derived from the acquisition of 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 renews for a two-year period, as of 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 rate the debtor, except in financing 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, for which 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 classifying the loan portfolio as issued 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 are 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 income statement, 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 income statement.

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 actually collected by the sum of the expected cash flows is between 0.8 and 1.25 when such effectiveness is evaluated.

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 receipt, which grants it the right over the trust's cash flow remnants after paying the holders for their certificates. This receipt is recorded at its fair value under "Receivables generated by securitizations".

The Financial Group provides management services for the transferred financial assets and records the revenue in the period's earning when accrued. These revenues are stated under "Other income."

The valuation of the benefits to be received from securitization operations is recorded in the income statement under other income or other 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 the percentage of non-recoverability in order 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 are 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 expenses", is restated using the replacement cost at the time of the sale prior to 2008.

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 that of the foreclosed property, the difference is recorded in the period's results under "Other Revenues."

When the value of the asset or the accrued or past due amortizations leading to the foreclosure, net of estimates, is lower than that of 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 personal property, the provisions referenced in the preceding paragraph must be treated as follows:

Personal 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 property, provisions must be created as follows:

Real 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, 2010, 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, personal or real property, the reserve percentages contained in the preceding table can be applied to the adjusted value.

Property, furniture and equipment

Property, furniture and equipment are recorded at acquisition cost. The balances of acquisitions made until December 31, 2007, were restated using factors derived from the value of the UDI of that date.

Depreciation is calculated using the straight-line method based on the useful lives of the assets as estimated by independent appraisers.

Permanent stock investments

The Financial Group recognizes its investments in associated companies where it has control or significant influence 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 noncontrolling 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, 2010 and 2009.

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 México and development fund financing. Furthermore, this includes discounted loan portfolios from funds provided by banks specializing in financing economic, productive or development activities.

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 Company'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. The pension plan is invested in a fund.

The employees who were hired prior to January 1, 2001 and 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 may 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 consideration received in 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.

Main subsidiaries' income recognition

Banorte Casa de Bolsa

Permanent stock investments – represented mainly by stockholders' equity shares of the distributing Investment Companies. Permanent stock investments are originally recorded at their acquisition cost and restated up to December 31, 2007, based on the factor derived from the UDI or the equity method, as applicable, based on the last available financial statements, and if necessary, losses in value are recorded based on the information provided by the affiliated companies' management. Regarding the mutual funds managed by the Operating Company, the valuation increase is from comparing the original value to the book value one day prior to the close of the period. The valuation effect at book value is recorded in the statement of income under "Share in subsidiaries and affiliates' income".

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

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 income as accrued.

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

- Ceded portfolio – the amount is recorded in loan portfolios, minus the difference between loans and the financed amount.

- Profit from acquired documents (interest) - calculated in advance, per completed month and upon maturity, recorded in factoring, and both are applied to results as accrued.

Recognition of income – interest from leasing and financial factoring is recognized as income as 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 as collected.

Profit to realize from financial leasing is recognized as income as 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 as accrued.

Afore Banorte-Generali

Recognition of income - the administration fees are recognized as income as 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 statement as realized.

Seguros Banorte-Generali

Income from 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, illness and damage is recorded in terms of the policies contracted in the year, even though 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 consolidated financial statements do not include the insurance and annuities sector subsidiaries. MFRS require that all controlled subsidiaries be consolidated, regardless of the sector to which they belong.

- The costs associated with credit originations until April 2009 were recorded in the income statement as incurred. According to the MFRS, the costs should be identified with the income they generate in the same period regardless of the date they are incurred.

- 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 Securities" instead of presenting them under the heading of "Derivative financial instruments", as established by MFRS.
- When loans are classified as past-due, interest is not recorded, and the related accrued interest is reflected in 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.
- Only trading securities may be transferred to another category with the Commission's express authorization. MFRS allow transfers if the financial instrument is in a non-liquid market and certain requirements are met.
- The new accounting standards associated with the consolidation of special purpose entities and securitization transactions in effect as of January 1, 2009, as well as the recognition and cancellation of financial assets in effect as of October 14, 2008, are applied prospectively, and the effects of previous operations are not modified as required by MFRS.
- In 2009, the cumulative effect of applying the consumer loan rating methodology for credit card operations was charged to retained earnings from prior years with the Commission's expressed authorization. MFRS require that they be charged in the period's result.

6 – CASH AND CASH EQUIVALENTS

As of December 31, 2010 and 2009, this line item was composed as follows:

	2010	2009
Cash	Ps. 12,308	Ps. 9,415
Banks	46,113	45,949
Other deposits and available funds	4,076	3,904
	Ps. 62,497	**Ps. 59,268**

On December 31, 2010, "Other deposits and available funds" include Ps. 857 for funds due to be received in 24 and 48 hours, and Ps. 36 in gold and silver coins. In 2009, it included Ps. 1,598 for funds due to be received in 24 and 48 hours, and Ps. 35 in gold and silver coins.

The exchange rate used for the conversion of gold and silver coins (Centenarios and Troy ounces, respectively) was Ps. 17,872.67 and Ps. 399.63, per unit, respectively, in 2010 and Ps. 14,627.95 and Ps. 239.89, per unit, respectively, in 2009.

"Banks" is represented by cash in Mexican pesos and US dollars converted at the exchange rate issued by Banco de México of Ps. 12.3496 and Ps. 13.0659 as of December 31, 2010 and 2009, respectively and is made up as follows:

	Mexican pesos		Denominated in US dollars		Total	
	2010	2009	2010	2009	2010	2009
Call money	Ps. 3,000	Ps. 2,447	Ps. 3,458	Ps. 653	Ps. 6,458	Ps. 3,100
Deposits with foreign credit institutions	-	-	12,368	15,928	12,368	15,928
Domestic banks	834	370	-	-	834	370
Banco de México	26,345	26,510	108	41	26,453	26,551
	Ps. 30,179	**Ps. 29,327**	**Ps. 15,934**	**Ps. 16,622**	**Ps. 46,113**	**Ps. 45,949**

As of December 31, 2010 and 2009, the Financial Group had made monetary regulation deposits of Ps. 26,345 and Ps. 26,342, respectively.

As of December 31, 2010 and 2009, the total sum of restricted cash and cash equivalents is Ps. 36,819 and Ps. 33,289, 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 0.182% and 0.167% in USD and 4.5% and 4.5% in pesos, as of December 31, 2010 and 2009, respectively.

7 – INVESTMENTS IN SECURITIES

a. Trading securities

As of December 31, 2010 and 2009, trading securities are as follows:

	2010				2009
	Acquisition cost	Accrued interest	Valuation increase (decrease)	Book value	Book value
CETES	Ps. 2,544	Ps. -	(Ps. 1)	Ps. 2,543	$926
Bonds	532	25	1	558	520
Development Bonds	3,241	4	3	3,248	3,136
Savings protection bonds (BPAS)	39,000	194	33	39,227	9,494
Bank securities	17,218	12	5	17,235	9,994
UMS	54	1	(2)	53	-
Securitization certificates	3,114	14	43	3,171	260
Treasury notes	23	-	-	23	65
Other securities	61	1	-	62	-
Investment funds	61	-	-	61	64
	Ps. 65,848	**Ps. 251**	**Ps. 82**	**Ps. 66,181**	**$24,459**

During 2010 and 2009, the Financial Group recognized a profit (loss) of Ps. 46 and (Ps. 17), respectively, under "Brokerage revenues" for the fair value valuation of these instruments.

As of December 31, 2010 and 2009, there are Ps. 58,154 and Ps. 19,310, respectively, in restricted trading securities associated mainly with repurchase operations.

As of December 31, 2010, 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
CETES	Ps. 2,544	Ps. -	Ps. -	Ps. -	Ps. 2,544
Bonds	532	-	-	-	532
Development Bonds	1,070	2,171	-	-	3,241
Savings protection bonds (BPAS)	2,463	35,595	942	-	39,000
Bank securities	13,440	3,778	-	-	17,218
UMS	-	-	54	-	54
Securitization certificates	44	2,870	-	200	3,114
Treasury notes	-	-	23	-	23
Other securities	2	-	27	32	61
Investment funds	-	-	-	61	61
	Ps. 20,095	**Ps. 44,414**	**Ps. 1,046**	**Ps. 293**	**Ps. 65,848**

b. Available for sale securities

As of December 31, 2010 and 2009, available for sale securities were as follows:

	2010				2009
	Acquisition cost	Accrued interest	Valuation increase (decrease)	Book value	Book value
US Government bonds	Ps. 7,769	Ps. 28	Ps. 76	Ps. 7,873	Ps. 6,603
UMS	248	10	-	258	361
Bonds	1,424	10	85	1,519	2,718
MASTER CARD	-	-	-	-	35
BMV shares	234	-	134	368	219
EUROBONDS	608	15	34	657	941
PEMEX bonds	833	12	25	870	824
Securitization certificates	755	1	(13)	743	-
	Ps. 11,871	**Ps. 76**	**Ps. 341**	**Ps. 12,288**	**Ps. 11,701**

As of December 31, 2010 and 2009 there are Ps. 2,674 and Ps. 2,489, respectively, in restricted trading securities.

As of December 31, 2010, 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. -	Ps. -	Ps. 7,769	Ps. -	Ps. 7,769
UMS	248	-	-	-	248
Bonds	-	183	1,241	-	1,424
BMV shares	-	-	-	234	234
EUROBONDS	-	364	244	-	608
PEMEX bonds	63	124	603	43	833
Securitization certificates	-	53	702	-	755
	Ps. 311	**Ps. 724**	**Ps. 10,559**	**Ps. 277**	**Ps. 11,871**

c. Held to maturity securities

As of December 31, 2010 and 2009, held to maturity securities are as follows:

Medium and long-term debt instruments:

	2010			2009
	Acquisition cost	Accrued interest	Book value	Book value
Government bonds- support program for Special Federal Treasury Certificates	Ps. 756	Ps. 3	Ps. 759	Ps. 725
Government bonds	578	28	606	631
Development bonds	33,035	57	33,092	33,127
Saving protection bonds (BPAS)	71,826	377	72,203	103,759
UMS	2,277	61	2,338	2,470
Bank securities	13,930	91	14,021	26,005
PEMEX bonds	3,207	62	3,269	4,991
Private securitization certificates	13,536	47	13,583	18,582
Other securities	41	1	42	42
	Ps. 139,186	**Ps. 727**	**Ps. 139,913**	**Ps. 190,332**

As of December 31, 2010 and 2009, there are Ps. 125,938 and Ps. 175,369, respectively, in restricted trading securities associated mainly with repurchase operations.

As of December 31, 2010, 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. 756	Ps. 756
Government bonds	578	-	-	-	578
Development bonds	22,746	10,289	-	-	33,035
Saving protection bonds (BPAS)	32,683	39,143	-	-	71,826
UMS	-	516	1,761	-	2,277
Bank securities	11,554	1,559	-	817	13,930
PEMEX bonds	-	450	2,757	-	3,207
Private securitization certificates	1,205	5,245	1,933	5,153	13,536
Other securities	3	-	11	27	41
	Ps. 68,769	**Ps. 57,202**	**Ps. 6,462**	**Ps. 6,753**	**Ps. 139,186**

Some of the investments in securities are given as collateral in derivative 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 derivatives' transactions as of December 31, 2010 and 2009, is as follows:

		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**

		2009		
		Fair value in millions		
Type of collateral:	**Instrument category**	**Pesos**	**USD**	**Euros**
Cash	-	Ps. 102	164	-
CETES	Trading	120	-	-
UMS	Held to maturity	-	167	-
PEMEX bonds	Held to maturity	-	353	20
UMS	Available for sale	-	13	-
PEMEX bonds	Available for sale	-	56	-
Bank bonds	Available for sale	-	116	-
		Ps. 222	**869**	**20**

As of December 31, 2010 and 2009, the Financial Group had no instruments received as collateral.

As of December 31, 2010 and 2009, interest income from securities was Ps. 11,045 and Ps. 14,458, respectively.

During 2010 and 2009, accrued interest income not collected from impaired instruments was Ps. 2 and Ps. 13, respectively.

The amount recorded for impaired available for sale and held to maturity securities as of December 31, 2010 and 2009 was:

Concept	2010	2009
Available for sale securities	Ps. 24	Ps. 81
Held to maturity securities	59	59
	Ps. 83	**Ps. 140**

8 – CREDITOR BALANCES UNDER REPURCHASE AND RESALE AGREEMENTS

As of December 31, 2010 and 2009, the creditor balance in repurchase transactions consist of:

Acting as seller of securities

Instrument	2010	2009
CETES	Ps. 2,234	Ps. 697
Development bonds	36,298	36,159
Bonds IPAB	1,855	654
Quarterly IPAB bonds	83,137	86,513
Semi-annual IPAB bonds	26,350	25,587
10-year bonds	1,157	625
20-year bonds	5	491
UDIBONOS	1	1
10-year UDIBONDS	3	3
Government securities	**151,040**	**150,730**
Promissory notes	1,884	5,055
CEDES	3,749	9,035
CEBUR bank	10,975	7,628
Bank securities	**16,608**	**21,718**
Private paper	7,005	9,114
CEBUR government short term	3,924	2,481
Mortgage certificates	170	212
CEBUR government	-	1,200
Securitization certificates	-	25
Private securities	**11,099**	**13,032**
	Ps. 178,747	**Ps. 185,480**

With the Financial Group acting as the vendor, accrued premiums charged to the results of operations during 2010 and 2009, totaled Ps. 10,913 and Ps. 13,434, respectively.

During 2010, repurchase transactions carried out by the Financial Group in its capacity as vendor ranged in term from 1 to 91 days.

Acting as securities purchaser

Instrument	2010 Repurchase agreement from debtors	2010 Received, sold collateral in repurchase	2010 Debit difference	2010 Credit difference	2009 Repurchase agreement from debtors	2009 Received, sold collateral in repurchase	2009 Debit difference	2009 Credit difference
CETES	Ps. -	Ps. -	Ps. -	Ps.	Ps. 400	Ps. 400	Ps. -	Ps. -
Development bonds	50	50	-	-	7,113	7,114	1	2
Quarterly IPAB bonds	158	158	-	-	1	-	1	-
Semi-annual IPAB bonds	1,302	1,301	1	-	390	390	-	-
7-year bonds	-	-	-	-	-	-	-	-
10-year bonds	2,639	2,639	-	-	221	219	2	-
20-year bonds	2,239	2,239	-	-	73	73	-	-
10-year UDIBONDS	-	-	-	-	1,120	1,120	-	-
Government securities	**6,388**	**6,387**	**1**	**-**	**9,318**	**9,316**	**4**	**2**
Promissory notes	964	964	-	-	1,785	1,785	-	-
CEDES	3,453	3,446	7	-	-	-	-	-
Bank acceptances	3,050	3,050	-	-	-	-	-	-
Bank securities	**7,467**	**7,460**	**7**	**-**	**1,785**	**1,785**	**-**	**-**
Private paper	657	86	571	-	-	-	-	-
CEBUR government	1,510	1,517	4	11	-	-	-	-
Private securities	**2,167**	**1,603**	**575**	**11**	**-**	**-**	**-**	**-**
	Ps. 16,022	**Ps. 15,450**	**Ps. 583**	**Ps. 11**	**Ps. 11,103**	**Ps. 11,101**	**Ps. 4**	**Ps. 2**

With the Financial Group acting as the purchaser, accrued premiums charged to the results of operations during 2010 and 2009 totaled Ps. 2,121 and Ps. 2,173, respectively.

During 2010, repurchase transactions carried out by the Financial Group in its capacity as purchaser ranged in term from 1 to 354 days.

By December 31, 2010, the amount of securities corresponding to guarantees granted and received in repurchase transactions that involved the transfer of property totaled Ps. 3 and Ps. 46, respectively, and by December 31, 2009, the totals were Ps. 120 in guarantees granted and Ps. 4 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, 2010, 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, 2010 and 2009, the Financial Group's derivatives positions held for trading purposes are as follows:

	2010		2009	
Asset position	**Nominal amount**	**Asset position**	**Nominal amount**	**Asset position**
Futures				
CETES-rate futures	Ps. 500	Ps. -	Ps. -	Ps. -
TIIE-rate futures	160,469	-	600	-
Forwards				
Foreign currency forwards	135	72	3,454	313
Options				
Foreign currency options	-	-	283	2
Interest rate options	16,493	257	8,485	126
Swaps				
Interest rate swaps	289,938	6,106	194,317	2,612
Exchange rate swaps	5,328	1,028	7,377	1,771
Total trading	**472,863**	**7,463**	**214,516**	**4,824**
Options				
Interest rate options	15,550	80	24,200	188
Swaps				
Interest rate swaps	28,940	4	27,648	8
Exchange rate swaps	7,496	512	9,996	860
Total hedging	**51,986**	**596**	**61,844**	**1,056**
Total position	**Ps. 524,849**	**Ps. 8,059**	**Ps. 276,360**	**Ps. 5,880**

	2010		2009	
Liability position	**Monto nominal**	**Liability position**	**Nominal amount**	**Liability position**
Futures				
CETES-rate futures	Ps. 500	Ps. -	Ps. -	Ps. -
TIIE-rate futures	160,469	-	600	-
Forwards				
Foreign currency forwards	115	2	2,825	88
Options				
Foreign currency options	60	1	287	2
Interest rate options	30,559	272	9,168	71
Swaps				
Interest rate swaps	289,954	6,106	194,340	2,713
Exchange rate swaps	5,273	857	7,322	1,679
Total trading	**486,930**	**7,238**	**214,542**	**4,553**
Swaps				
Interest rate swaps	28,940	2,043	27,650	980
Exchange rate swaps	3,921	1,456	4,146	2,842
Total hedging	**32,861**	**3,499**	**31,796**	**3,822**
Total position	**Ps. 519,791**	**Ps. 10,737**	**Ps. 246,338**	**Ps. 8,375**

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

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

The risk management policies and internal control procedures for managing risks inherent to derivatives are described in Note 33.

Transactions carried out for hedging purposes have maturities from 2011 to 2030 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, 2010 is USD 632,002 thousand and EUR 20,326 thousand, and as of December 31, 2009 it was USD 704,841 thousand and EUR 20,255 thousand. Futures transactions are made through recognized markets, and as of December 31, 2010 they represent 0.10% of the nominal amount of all the derivatives' operations contracts; the remaining 99.90% correspond to option and swap transactions in OTC markets.

As of December 31, 2010 and 2009, 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 available for sale securities. The restriction maturity date for this collateral is from 2011 to 2030. Their fair value is shown in Note 7 d).

As of December 31, 2010 and 2009, the Financial Group had no instruments received as collateral in derivatives' transactions.

During 2010 and 2009, the net income on financial assets and liabilities associated with derivatives was Ps. 252 and Ps. 200, respectively.

The net amount of estimated gains or losses to date originated by transactions or events that are recorded in cumulative other comprehensive income in the consolidated financial statements and that are expected to be reclassified to earnings within the next 12 months totals Ps. 48.

As of December 31, 2010 and 2009, 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 liabilities in foreign currency using Cross Currency Swaps.
- Recorded assets in foreign currency using Cross Currency Swaps.

As of December 31, 2010, there are 27 files related to hedging transactions. Their effectiveness ranges between 85% and 100%, well within the range established by the accounting standards in effect (80% to 125%). Furthermore, there is no overhedging on any of the derivatives, so as of December 31, 2010, there are no ineffective portions that the Financial Group has to record in earnings.

The following are the Financial Group's hedged cash flows as of December 31, 2010 expected to occur and affect earnings:

Concept	Up to 3 months	More than 3 months and up to 1 year	More than 1 and up to 5 years	More than 5 years
Forecasted funding	Ps. 254	Ps. 800	Ps. 3,883	Ps. 1,316
Liabilities in Mexican pesos	111	337	983	19
Liabilities denominated in USD	-	3,932	-	-
Assets denominated in USD	360	378	2,510	7,645
Assets denominated in Euros	-	21	373	-
	Ps. 725	**Ps. 5,468**	**Ps. 7,749**	**Ps. 8,980**

As of December 31, 2010 and 2009, Ps. 2,114 and Ps. 1,404, respectively, were recognized in other comprehensive income in stockholders' equity. Furthermore, Ps. 43 and Ps. 127, respectively, were reclassified from stockholders' equity to results.

Trading 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 value of cash flow hedging comprehensive income:

	Valuation of cash flow 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

10 – LOAN PORTFOLIO

As of December 31, 2010 and 2009, the loan portfolio by loan type is as follows:

	Performing loan portfolio		Past-due loan portfolio		Total	
	2010	2009	2010	2009	2010	2009
Commercial loans						
Denominated in domestic currency						
Commercial	Ps. 99,851	Ps. 90,189	Ps. 3,765	Ps. 2,325	Ps. 103,616	Ps. 92,514
Rediscounted portfolio	5,377	4,831	-	-	5,377	4,831
Denominated in USD						
Commercial	20,581	21,471	652	838	21,233	22,309
Rediscounted portfolio	674	746	-	-	674	746
Total commercial loans	**126,483**	**117,237**	**4,417**	**3,163**	**130,900**	**120,400**
Loans to financial institutions	5,521	7,131	-	-	5,521	7,131
Consumer loans						
Credit card	11,159	11,801	1,040	1,610	12,199	13,411
Other consumer loans	16,669	13,911	236	332	16,905	14,243
Mortgage loans	56,168	49,881	971	1,049	57,139	50,930
Government loans	47,550	38,993	-	-	47,550	38,993
	137,067	**121,717**	**2,247**	**2,991**	**139,314**	**124,708**
Total loan portfolio	**Ps. 263,550**	**Ps. 238,954**	**Ps. 6,664**	**Ps. 6,154**	**Ps. 270,214**	**Ps. 245,108**

As of December 31, 2010, the deferred balance of fees is Ps. 1,623, and the amount recorded in results was Ps. 654. Furthermore, the deferred balance of costs and expenses associated with the initial loan origination is 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 average terms of the portfolio's main balances are: a) commercial, 3 years; b) financial institutions, 3.2 years; c) mortgage, 17.7 years; d) government loans, 8.1 years; and e) consumer, 2.5 years.

During the years ended December 31, 2010 and 2009, the balance of written off loans that had been fully reserved as past-due loans was Ps. 5,551 and Ps. 8,278, respectively.

For the years ended December 31, 2010 and 2009, revenues from recoveries of previously written-off loan portfolios were Ps. 1,561 and Ps. 848, respectively.

Customer insurance policies that the Financial Group includes as part of the loan portfolio are car insurance; the rest of the policies are not recorded in the general balance sheet and are collected when the loan amortization is charged to the client. The amount of financed car insurance policies by December 31, 2010 and 2009 is Ps. 23 and Ps. 14, respectively.

The loan portfolio grouped into economic sectors as of December 31, 2010 and 2009, is shown below:

	2010		2009	
	Amount	Reserve percentage	Amount	Reserve percentage
Private (companies and individuals)	Ps. 130,900	48.44%	Ps. 120,400	49.12%
Financial institutions	5,521	2.04%	7,131	2.91%
Credit card and consumer	29,104	10.77%	27,654	11.28%
Mortgage	57,139	21.15%	50,930	20.78%
Government	47,550	17.60%	38,993	15.91%
	Ps. 270,214	**100%**	**Ps. 245,108**	**100%**

Loan support programs

Special accounting treatment for the Hurricane "Alex" flood aid program

Given the negative impact of the floods caused by Hurricane Alex, the Financial Group decided to assist in the region's economic recovery; this includes the states of Nuevo León, Coahuila, Tamaulipas, San Luis Potosí and Oaxaca. The support program included the following:

Car, credit card and consumer loan support consisting of:

- Car loans – Deferral of up to three monthly installments or freezing of balances with no interest charged for three months.
- Credit cards – Minimum monthly payment was waived for up to three months, and in some case balances were frozen without interest charges or penalties for such period.
- Personal and payroll loans – Capital and interest payment deferral for up to 3 months.

In that regard, the Commission issued a special accounting standard in document number 100/042/2010 applicable to the Financial Group from July 1 to September 30, 2010, which authorized the Financial Group not to consider as restructured loans the ones which payment of the principal and interest was deferred for three months according to the Plan, as per paragraph 24 of criterion B-6 "Loan portfolio" and to keep them in the current loans during such period. These loans were considered as performing loans to determine the allowance for loan losses.

If such special standards had not been authorized, the Financial Group would have presented the following loan amounts in the December 31, 2010 consolidated balance sheet:

PERFORMING LOAN PORTFOLIO	
Commercial loans	
Business loans	Ps. 126,482
Loans to financial institutions	5,521
Government loans	47,550
Consumer loans	27,825
Mortgage loans	56,168
TOTAL PERFORMING LOAN PORTFOLIO	**263,546**
PAST-DUE LOAN PORTFOLIO	
Commercial loans	
Business loans	4,417
Consumer loans	1,280
Mortgage loans	971
TOTAL PAST-DUE LOAN PORTFOLIO	**6,668**
LOAN PORTFOLIO	
(Minus) ALLOWANCE FOR LOAN LOSSES	(8,256)
LOAN PORTFOLIO, net	**261,958**
ACQUIRED COLLECTION RIGHTS	**2,025**
TOTAL LOAN PORTFOLIO, net	**Ps. 263,983**

Moreover, the period's net income would have been Ps. 6,693 as a result of the additional Ps. 12 in allowance for loan losses that would have been created if such support had not been provided to the borrowers.

The amount of deferred payments from consumer loans derived from the plans as of December 31, 2010 totals Ps. 6.

Policies and procedures for granting loans

The granting, control and recovery of loans is 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 amounts related to the past-due portfolio are timely transferred and recorded in the books and records, and those loans with recovery problems are properly and promptly identified.

Pursuant to the Commission's Circular B-6, "Loan Portfolio", the 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 identified as a distressed portfolio. The commercial loan rating D and E risk degrees are as follows:

	2010	2009
Performing portfolio	Ps. 2,283	Ps. 1,373
Total rated portfolio	279,798	253,660
Distressed portfolio/total rated portfolio	0.82%	0.54%

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

The loans restructured in UDIS correspond to mortgage loans. The balance as of December 31, 2010 and 2009 is detailed below:

	2010	2009
Current portfolio	Ps. 45	Ps. 542
Current accrued interest	-	2
Past-due portfolio	1	14
Past-due accrued interest	-	1
	Ps. 46	**Ps. 559**

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. As of December 31, 2010, the Financial Group recorded a Ps. 57 reserve to face such obligation.

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, 2010 (cut-off date) is Ps. 140, which includes Ps. 138 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. Such amount may vary if there are no indications of sustained payment by March 31, 2011 as per the Agreement.

The Federal Government obligations subject to the Agreement are described below:

	Payment date	Amount
First amortization	December 1, 2011	Ps. 28
Second amortization	June 1, 2012	28
Third amortization	June 1, 2013	28
Fourth amortization	June 1, 2014	28
Fifth amortization	June 1, 2015	28
		Ps. 140

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.

A rollforward 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
Debt forgiveness, discounts and write-offs	14
Reserves reclassification	(9)
Contribution to settle fiduciary liability	1
Final balance	**Ps. 92**

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

Ps. 13 were used to repurchase Special Federal Treasury Certificates (CETES); the remaining balance of Special CETES not repurchased by the Federal Government is Ps. 760 with maturities between 2017 and 2027.

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:

2010

Risk category	Loan portfolio	Required allowances for losses: 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**
Additional allowance					**Ps. 71**

2009

Risk category	Loan portfolio	Required allowances for losses: Commercial portfolio	Consumer portfolio	Mortgage portfolio	Total
Exempted portfolio	Ps. 56	Ps. -	Ps. -	Ps. -	Ps. -
Risk A	58,169	-	63	159	222
Risk A1	106,990	495	-	-	495
Risk A2	57,118	520	-	-	520
Risk B	6,269	-	102	184	286
Risk B1	5,700	74	266	-	340
Risk B2	8,249	84	509	-	593
Risk B3	2,579	269	-	-	269
Risk C	2,494	-	795	132	927
Risk C1	1,404	301	-	-	301
Risk C2	803	380	-	-	380
Risk D	2,592	245	1,356	264	1,865
Risk E	1,272	1,008	272	-	1,280
Unclassified	(35)	-	-	-	-
	Ps. 253,660	**Ps. 3,376**	**Ps. 3,363**	**Ps. 739**	**Ps. 7,478**
Less: recorded allowance					**7,535**
Additional allowance					**Ps. 57**

The sum of the rated loan portfolio includes Ps. 6,124 and Ps. 5,114 in loans granted to subsidiaries whose balance was eliminated in the consolidation process as of December 31, 2010 and 2009, respectively.

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

The additional allowances comply with the general provisions applicable to credit institution and the notices issued by the Commission to regulate debtor support programs, denominated in UDIS trusts.

As of December 31, 2010 and 2009, the estimated allowance for loan losses is determined based on portfolio balances at those dates. As of December 31, 2010 and 2009, the allowance for loan losses includes a reserve for 100% of the delinquent interest owed.

As of December 31, 2010 and 2009, the allowance for loan losses represents 124% and 122%, 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, 2010 and 2009.

Credit card rating

Changes in the rating methodology for consumer loan portfolio related to credit card transactions

On August 12, 2009 the Commission issued a resolution amending the general regulations applicable to banking institutions, this change modified the methodology for the classification of revolving consumer loans so that the parameters used for estimating loan loss reserves reflect, the expected 12 months losses of credit cards based on the current environment.

As a result of this modification, the Financial Group opted to recognize against the results of previous years the initial cumulative financial effect resulting from the first application of the provisions mentioned under section I of the second transitory article. This condition occurred in September 2009.

The accounting record originated in the Financial Group for this recognition led to a charge of Ps. 1,102 in the account "Retained earnings" within stockholders' equity, against claims by the same amount to the account "Allowance for loan loss reserves" within the loan portfolio item in the balance sheet. Furthermore, a deferred tax was registered to reflect the change through a charge of Ps. 419 in the asset account "Deferred Taxes" in the balance sheet, against a credit in the account "Retained earnings" within stockholders' equity.

If the recognition of the abovementioned effect would have been made against earnings, the items affected and the amounts recorded and presented at both the balance sheet and the income statement of the Financial Group, would have been:

Consolidated Balance Sheet		**Effect**	**How would be presented**
Stockholders' equity			
Retained earnings from prior years	Ps. 20,681	Ps. 683	Ps. 21,364
Net income	5,854	(683)	5,171
Total stockholders' equity	**Ps. 44,974**	**Ps. -**	**Ps. 44,974**
Consolidated Statement of Income			
Provision for loan losses	8,286	1,102	9,388
Net interest income after allowance for loan losses	**14,897**	**(1,102)**	**13,795**
Deferred income taxes, net	(535)	(419)	(954)
Net income	**Ps. 5,854**	**(Ps. 683)**	**Ps. 5,171**

Movements in allowance for loan losses

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

	2010	2009
Balance at the beginning of the year	Ps. 7,535	Ps. 6,690
Increase charged to results	6,841	8,208
Debt forgiveness and write-offs	(6,066)	(8,464)
Valuation in foreign currencies and UDIS	(18)	(19)
Rebates granted to housing debtors	(70)	(46)
Created with profit margin (UDIS Trusts)	34	59
Loan purchase	2	-
Recognized against retained earnings from prior years	-	1,136
Other	(13)	(29)
Year-end balance	**Ps. 8,245**	**Ps. 7,535**

As of December 31, 2010, the net amount of preventive loan loss reserves charged to the consolidated statement of income totals Ps. 6,889 and Ps. 14 charged to "Other revenues". These amounts charged to results are made up of Ps. 6,841 credited directly to the estimate and Ps. 34 from the UDIS trust. As of December 31, 2009, the net amount of preventive loan loss reserves charged to the consolidated statement of income totals Ps. 8,282 and is comprised of Ps. 8,286 directly credited to the estimate and Ps. 4 charged to "Other revenues".

13 – ACQUIRED COLLECTION RIGHTS

As of December 31, 2010 and 2009, the acquired collection rights are comprised as follows:

	2010	2009	Valuation Method
Bancomer IV	Ps. 360	Ps. 456	Cash Basis Method
Banamex Mortgage	262	302	Cash Basis Method
Serfin Mortgage	126	160	Cash Basis Method
Bital I	121	171	Cash Basis Method
Bancomer III	111	125	Cash Basis Method
Goldman Sach's	98	145	Cash Basis Method
Banorte Mortgage	158	196	Interest Method
Solida Mortgage	382	473	Cost Recovery Method
Serfin Commercial II	95	105	Cost Recovery Method
Serfin Commercial I	81	92	Cost Recovery Method
Confia I	72	80	Cost Recovery Method
GMAC Banorte	60	66	Cost Recovery Method
Bital II	58	72	Cost Recovery Method
Banorte Sólida Commercial	34	35	Cost Recovery Method
Cartera Segmento II	7	-	Cost Recovery Method
Santander	-	70	Interest method (commercial); cash basis method (mortgage)
	Ps. 2,025	**Ps. 2,548**	

As of December 31, 2010, the Financial Group recognized income from credit asset portfolios of Ps. 595, together with the respective amortization of Ps. 482, the effects of which were recognized under the "Other income" heading in the consolidated statement of income. For the year ended December 31, 2009, the Financial Group recognized income of Ps. 718, together with the respective amortization of Ps. 448.

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 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 receivable.

The result of the expected cash flows of the portfolios Serfín Commercial I, GMAC Banorte, Bital II Solida Mortgage, Serfin Commercial II and Cartera Segmento II were not highly effective since the quotient resulting from dividing the flows collected by the sum of expected cash flows was below 0.8. As a result, the Financial Group decided to move these portfolios to the cost recovery method.

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

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

14 – OTHER ACCOUNTS RECEIVABLE, NET

As of December 31, 2010 and 2009, the other accounts receivable balance is as follows:

	2010	2009
Loans to officers and employees	Ps. 1,211	Ps. 1,134
Debtors from liquidation settlement	909	2,706
Real property portfolios	1,864	1,183
Fiduciary rights	4,778	4,104
Sundry debtors in Mexican pesos	1,838	1,182
Sundry debtors in foreign currency	321	928
Other	419	380
	11,340	**11,617**
Allowance for doubtful accounts	(476)	(293)
	Ps. 10,864	**Ps. 11,324**

The real property portfolios include Ps. 301 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 interest at a 6% to 10% rate.

15 – FORECLOSED ASSETS, NET

As of December 31, 2010 and 2009, the foreclosed assets balance is as follows:

	2010	2009
Personal property	Ps. 64	Ps. 67
Real property	1,107	1,230
Goods pledged for sale	18	14
	1,189	**1,311**
Allowance for losses on foreclosed assets	(380)	(383)
	Ps. 809	**Ps. 928**

16 – PROPERTY, FURNITURE AND EQUIPMENT, NET

As of December 31, 2010 and 2009, the property, furniture and fixtures balance is as follows:

	2010	2009
Furniture and equipment	Ps. 5,777	Ps. 5,207
Property intended for offices	5,530	5,272
Installation costs	2,888	2,750
	14,195	**13,229**
Less - Accumulated depreciation and amortization	(4,879)	(4,607)
	Ps. 9,316	**Ps. 8,622**

The depreciation recorded in the results of 2010 and 2009 was Ps. 1,121 and Ps. 997, 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	4.7 years
Furniture and fixtures	10 years
Real estate	From 4 to 99 years

17 – PERMANENT STOCK INVESTMENTS

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

	Share %	2010	2009
Seguros Banorte Generali, S. A. de C. V.	51%	Ps. 1,243	Ps. 1,209
Fondo Solida Banorte Generali, S. A. de C. V., SIEFORE	99%	843	719
Pensiones Banorte Generali, S. A. de C. V.	51%	524	518
Banorte Investment funds	Various	129	121
Controladora Prosa, S. A. de C. V.	19.73%	46	49
Servicio Pan Americano de Protección, S. A. de C. V.	8.50%	-	115
Transporte Aéreo Técnico Ejecutivo, S. A. de C. V.	45.33%	42	72
Fideicomiso Marhnos (Sólida)	100%	156	156
Internacional de Inversiones (Sólida)	5.62%	95	-
Others	Various	52	77
		Ps. 3,130	**Ps. 3,036**

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.

18 – DEFERRED TAXES, NET

The 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. 1,340 and Ps. 1,411 as of December 31, 2010 and 2009, respectively, as detailed below:

	2010			2009		
	Temporary differences	Deferred effect		Temporary differences	Deferred effect	
		ISR	PTU		ISR	PTU
Temporary differences assets						
Allowance for loan losses	Ps. 339	Ps. 119	Ps. -	Ps. 315	Ps. 110	Ps. -
Tax loss carryforwards of Uniteller and Banorte USA	11	4	-	-	-	-
Tax loss carryforwards	5	2	-	(72)	(25)	-
State tax on deferred assets	10	3	-	6	2	-
Surplus preventive allowances for credit risks over the net tax limit	5,526	1,548	552	4,757	1,332	476
Excess of tax over book value of foreclosed and fixed assets	1,361	374	60	1,132	308	52
PTU	798	239	80	775	232	77
Fees collected in advance	20	6	2	-	-	-
Non-deductible provisions	1,390	417	131	-	-	-
Other assets	46	13	-	1,422	427	135
Total assets	**Ps. 9,506**	**Ps. 2,725**	**Ps. 825**	**Ps. 8,335**	**Ps. 2,386**	**Ps. 740**
Temporary differences liabilities						
Excess of book over tax value of fixed assets and expected expenses	Ps. 33	Ps. 10	Ps. -	Ps. 16	Ps. 4	Ps. -
Unrealized loss in available-for-sale securities	75	26	-	-	-	-
Unrealized capital gain from special allowance	170	51	-	125	38	-
ISR payable on UDI trusts	22	6	-	145	40	-
Portfolios acquired	2,126	617	110	2,302	655	111
Capitalizable projects expenses	706	211	71	528	159	53
Reversal of sales costs	8	3	-	16	4	-
Contribution to pension fund	2,000	560	200	1,500	420	150
Federal Home Loan Bank dividends	4	1	-	-	-	-
Intangible assets	64	22	-	-	-	-
Other	953	276	46	260	81	-
Total liabilities	**Ps. 6,161**	**Ps. 1,783**	**Ps. 427**	**Ps. 4,892**	**Ps. 1,401**	**Ps. 314**
Net accumulated asset	**Ps. 3,345**	**Ps. 942**	**Ps. 398**	**Ps. 3,443**	**Ps. 985**	**Ps. 426**
Deferred tax, net			**Ps. 1,340**			**Ps. 1,411**

As discussed in Note 27, 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 of deferred taxes is determined based on the tax effects of temporary differences between the book and tax base of assets and liabilities. Due to the consolidation of Banorte USA, a net amount of Ps. 38 was added to deferred taxes determined at a rate of 35% as per the tax law of the USA.

19 – OTHER ASSETS

As of December 31, 2010 and 2009, other assets are as follows:

	2010	2009
Plan assets held for employee pension plans and savings fund	Ps. 5,303	Ps. 4,255
Other amortizable expenses	2,343	2,200
Accumulated amortization of other expenses	(188)	(93)
Goodwill	2,950	3,121
	Ps. 10,408	**Ps. 9,483**

As of December 31, 2010, the balance of the investments related to provisions for staff pensions and savings fund, is comprised of Ps. 3,827, which corresponds to the defined benefit pension plan, seniority premiums and medical expenses for retirees, Ps. 1,283 for the voluntary defined contribution plan "secure your future" and Ps. 193 for the savings fund. As of December 31, 2009, this balance is comprised of Ps. 3,115 for the defined benefit pension plan, seniority premiums and medical expenses for retirees and Ps. 1,140 for the voluntary defined contribution plan "secure your future" (see Note 23).

As of December 31, 2010, goodwill was Ps. 2,950 and was comprised of the following: Ps. 28 for the purchase of Banorte Generali, S. A. de C. V., AFORE; Ps. 2,682 for the purchase of INB and Ps. 240 for the purchase of Uniteller. As of December 31, 2009, the goodwill was Ps. 3,121 and was comprised as follows: Ps. 29 for the purchase of Banorte Generali, S. A. de C. V., AFORE; Ps. 2,838 for the purchase of INB; and Ps. 254 for the purchase of Uniteller. As mentioned in Note 4, goodwill is not amortized and is subject to annual impairment tests. No impairment to goodwill value was noted as of December 31, 2010 and 2009.

20 – 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 2010 and 2009 the Financial Group generated a liquidity requirement of USD 498,373 thousand and USD 755,917 thousand, respectively, and held investments in liquid assets of USD 1,069,131 thousand and USD 1,230,740 thousand, representing a surplus of USD 570,758 thousand and USD 474,823 thousand, respectively.

Deposits

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

	2010	2009
Immediately due and payable deposits		
Checking accounts earning no interest:		
Cash deposits	Ps. 65,583	Ps. 59,334
Checking accounts in US dollars for individual residents of the Mexican border	637	662
Demand deposits accounts	5,125	4,142
Checking accounts earning interest:		
Other bank checking deposit	34,178	35,395
Savings accounts	262	268
Checking accounts in US dollars for individual residents of the Mexican border	1,615	2,055
Demand deposits accounts	42,417	35,705
IPAB checking accounts	-	20
	Ps. 149,817	**Ps. 137,581**
Time deposits		
General public:		
Fixed term deposits	Ps. 25,299	Ps. 25,711
Over the counter investments	43,677	49,156
Promissory note with interest payable at maturity (PRLV) primary market for individuals	61,835	57,819
PRLV primary market for business entities	1,644	1,195
Foreign residents deposits	28	83
Provision for interest	190	177
	132,673	**134,141**
Money market:		
Fixed-term deposits	2,648	459
Over the counter promissory notes	2,208	1,430
Provision for interest	1,491	1,297
	6,347	**3,186**
	139,020	**137,327**
Senior debt issued	**3,778**	**-**
	Ps. 292,615	**Ps. 274,908**

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:

	2010				2009			
Foreign exchange	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Mexican pesos and UDIS	0.56%	0.62%	0.61%	0.57%	0.99%	0.73%	0.60%	0.59%
Foreign currency	0.03%	0.03%	0.03%	0.03%	0.05%	0.04%	0.03%	0.03%
Banorte USA (INB)								
Demand deposits accounts	0.18%	0.14%	0.07%	0.12%	0.19%	0.09%	0.12%	0.13%
Money market	0.94%	0.92%	0.78%	0.81%	1.47%	1.30%	1.06%	1.04%

Time deposits:

	2010				2009			
Foreign exchange	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
General public								
Mexican pesos and UDIS	3.52%	3.55%	3.62%	3.37%	5.68%	4.45%	3.55%	3.50%
Foreign currency	0.84%	0.91%	0.80%	0.69%	0.91%	0.79%	0.90%	0.79%
Money market	7.66%	6.53%	7.06%	7.32%	8.59%	7.54%	5.72%	6.61%
Banorte USA (INB)	2.76%	2.76%	2.61%	2.39%	3.84%	3.56%	3.19%	2.95%

As of December 31, 2010 and 2009, the terms at which these deposits are traded are as follows:

	2010			
	From 1 to 179 days	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
Over the counter investments	43,614	63	-	43,677
PRLV primary market for individuals	61,345	433	57	61,835
PRLV primary market for business entities	1,610	32	2	1,644
Foreign resident 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
Over the counter 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**

	2009			
	From 1 to 179 days	From 6 to 12 months	More than 1 year	Total
General public				
Fixed-term deposits	Ps. 15,740	Ps. 6,972	Ps. 2,999	Ps. 25,711
Over the counter investments	49,105	51	-	49,156
PRLV primary market for individuals	57,337	418	64	57,819
PRLV primary market for business entities	1,170	25	-	1,195
Foreign residents deposits	20	20	43	83
Provision for interest	162	13	2	177
	123,534	**7,499**	**3,108**	**134,141**
Money market:				
Fixed-term deposits	-	-	459	459
Over the counter promissory notes	-	-	1,430	1,430
Provision for interest	-	11	1,286	1,297
	-	**11**	**3,175**	**3,186**
	Ps. 123,534	**Ps. 7,510**	**Ps. 6,283**	**Ps. 137,327**

21 – INTERBANK AND OTHER LOANS

The loans received from other banks as of December 31, 2010 and 2009 are as follows:

	Mexican pesos		Denominated in US dollars		Total	
	2010	2009	2010	2009	2010	2009
Immediately due						
Domestic banks (Call money)	Ps. 4,837	Ps. 21	Ps. -	Ps. -	Ps. 4,837	Ps. 21
	4,837	**21**	**-**	**-**	**4,837**	**21**
Short-term:						
Banco de México	250	-	-	1,964	250	1,964
Commercial banking	326	204	321	220	647	424
Development banking	6,747	6,233	1,211	1,593	7,958	7,826
Public trusts	3,977	2,801	192	314	4,169	3,115
Provision for interest	87	54	3	2	90	56
	11,387	**9,292**	**1,727**	**4,093**	**13,114**	**13,385**
Long-term						
Commercial banking	1,524	895	1,284	1,439	2,808	2,334
Development banking	2,421	1,553	267	319	2,688	1,872
Public trusts	2,825	3,236	173	116	2,998	3,352
Provision for interest	-	-	2	4	2	4
	6,770	**5,684**	**1,726**	**1,878**	**8,496**	**7,562**
	Ps. 22,994	**Ps. 14,997**	**Ps. 3,453**	**Ps. 5,971**	**Ps. 26,447**	**Ps. 20,968**

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

The average interest rates are shown below:

	2010				2009			
Foreign exchange	**1Q**	**2Q**	**3Q**	**4Q**	**1Q**	**2Q**	**3Q**	**4Q**
Call money								
Mexican pesos and UDIS	4.44%	4.63%	4.43%	4.48%	7.52%	5.53%	4.53%	4.46%
Other bank loans								
Mexican pesos and UDIS	6.01%	5.55%	5.56%	5.59%	7.61%	6.51%	5.66%	5.48%
Foreign currency	1.30%	1.67%	1.79%	1.84%	3.00%	2.04%	1.30%	0.92%

Banorte USA liabilities accrue interest at an average rate of 4.09% and 1.91% as of December 2010 and 2009, respectively. Moreover, the Arrendadora y Factor Banorte, S. A. de C. V. loans accrue an average interest rate of 6.59% and 6.46% in Mexican pesos and 2.39% and 2.86% in U.S. dollars as of December 31, 2010 and 2009, respectively.

22 – SUNDRY CREDITORS AND OTHER PAYABLES

As of December 31, 2010 and 2009, the balance of sundry creditors and other payables is as follows:

	2010	2009
Cashier and certified checks and other negotiable instruments	Ps. 1,001	Ps. 796
Provision for employee retirement obligations	3,333	2,773
Provisions for other obligations	2,691	2,291
Other	2,846	3,108
	Ps. 9,871	**Ps. 8,968**

23 – EMPLOYEE RETIREMENT OBLIGATIONS

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

The amount of current and projected benefits as of December 31, 2010 and 2009, related to the defined benefit pension plan, seniority premiums and retiree medical coverage, determined by independent actuaries, is analyzed below:

	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**

	2009			
	Pension plan	Seniority premiums	Medical services	Total
Projected benefit obligation (PBO)	(Ps. 725)	(Ps. 149)	(Ps. 1,633)	(Ps. 2,507)
Fund market value	1,125	269	1,749	3,143
Funded status	**400**	**120**	**116**	**636**
Transition asset (obligation)	22	(10)	246	258
Unrecognized prior service cost	2	(3)	-	(1)
Unrecognized actuarial losses	217	4	488	709
Net projected asset	**Ps. 641**	**Ps. 111**	**Ps. 850**	**Ps. 1,602**

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, 2010, a separate fund amounting to Ps. 3,827, (Ps. 3,143 in 2009) 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, 2010 and 2009, the net periodic pension cost is as follows:

	2010	2009
Service cost	Ps. 103	Ps. 95
Interest cost	227	197
Expected return on plan assets	(316)	(274)
Amortizations of unrecognized items:		
Transition obligation	86	86
Variations in assumptions	30	27
Net periodic pension cost	**Ps. 130**	**Ps. 131**

The rates used in the calculation of the projected benefit obligation and return on plan assets as of December 31, 2010 and 2009, are shown below:

Concept	2010 Nominal	2009 Nominal
Discount rate	8.75%	9.25%
Rate of wage increase	4.50%	4.50%
Rate of increase in costs and expenses of other postretirement benefits	n/a	5.57%
Long-term inflation rate	3.50%	3.50%
Expected long-term rate of return on plan assets of the Banorte Brokerage House	10.25%	10.25%
Expected long-term rate of return on plan assets	8.75%	10.00%

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

Concept	2010	2009
Defined and projected benefit obligations	(Ps. 171)	(Ps. 158)
Transition obligation	41	62
Net projected liability	**(Ps. 130)**	**(Ps. 96)**

For the years ended December 31, 2010 and 2009, the net periodic pension cost is as follows:

Concept	2010	2009
Service cost	Ps. 26	Ps. 27
Interest cost	12	12
Transition obligation	21	21
Variations in assumptions	14	8
Net periodic pension cost	**Ps. 73**	**Ps. 68**

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. Moreover, this pension plan maintains a fund as of December 31, 2010 and 2009, equivalent to Ps. 1,283 and Ps. 1,140, respectively, which is recorded under "Other assets" and is equivalent to the recorded plan liability.

24 – SUBORDINATED DEBENTURES

As of December 31, 2010 and 2009, the subordinated debentures in circulation are as follows:

	2010	2009
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. 4,940	Ps. 5,226
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).	2,470	2,613
Preferred subordinated nonconvertible debentures, Q BANORTE 08-U maturing in February 2028, paying interest at a 4.95% annual rate.	2,024	1,941
Subordinated debentures, maturing in June 2034, denominated in US dollars, at a 3-months LIBOR interest rate plus 2.75%.	127	135
Preferred subordinated debentures maturing in April 2034, denominated in US dollars, at a 3-months LIBOR interest rate plus 2.72%.	127	135
Accrued interest.	165	168
	Ps. 17,803	**Ps. 18,168**

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. 6 and Ps. 8 in 2010 and 2009, respectively.

25 – TRANSACTIONS AND BALANCES WITH NON-CONSOLIDATED SUBSIDIARIES AND ASSOCIATED COMPANIES

The balances and transactions with subsidiaries and associated companies as of December 31, 2010 and 2009, are as follows:

	Revenues		Accounts receivable	
Institution	**2010**	**2009**	**2010**	**2009**
Seguros Banorte Generali, S. A. de C. V.	Ps. 650	Ps. 598	Ps. 29	Ps. 9

	Expenses		Accounts payable	
Institution	**2010**	**2009**	**2010**	**2009**
Seguros Banorte Generali, S. A. de C. V.	Ps. 251	Ps. 101	Ps. 19	Ps. 5

All balances and transactions with the subsidiaries indicated in Note 3 have been eliminated in consolidation.

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 their net capital. For the years ended December 31, 2010 and 2009, the amount of the loans granted to related parties is Ps. 8,772 and Ps. 7,362, respectively, representing 47.1% and 46.2%, respectively, of the limit established by the LIC.

Loan portfolio sales

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

In February 2003 Banorte sold Ps. 1,925 of its proprietary portfolio (with interest) to its subsidiary Sólida at a price of Ps. 378. Of this transaction, Ps. 1,891 was related to past-due amounts and Ps. 64 to the performing portfolio. The transaction was recorded based on figures as of August 2002, and therefore 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 2009 and 2010:

	Mexican pesos			Foreign currency			Total		
Type of portfolio	**Aug 02**	**Dec 09**	**Dec 10**	**Aug 02**	**Dec 09**	**Dec 10**	**Aug 02**	**Dec 09**	**Dec 10**
Performing loan portfolio									
Commercial	Ps. 5	Ps. -	Ps. -	Ps. 5	Ps. -	Ps.	Ps. 10	Ps. -	Ps. -
Mortgage	54	27	20	-	-	-	54	27	20
Total	**59**	**27**	**20**	**5**	**-**	**-**	**64**	**27**	**20**
Past-due portfolio									
Commercial	405	361	331	293	110	104	698	471	435
Consumer	81	72	72	-	-	-	81	72	72
Mortgage	1,112	350	323	-	-	-	1,112	350	323
Total	**1,598**	**783**	**726**	**293**	**110**	**104**	**1,891**	**893**	**830**
Total portfolio	**Ps. 1,657**	**Ps. 810**	**Ps. 746**	**Ps. 298**	**Ps. 110**	**Ps. 104**	**Ps. 1,955**	**Ps. 920**	**Ps. 850**
Allowance for loan losses(1)									
Comercial	326	349	318	246	110	104	572	459	422
Consumo	77	72	72	-	-	-	77	72	72
Hipotecario	669	336	313	-	-	-	669	336	313
Total de reservas	**Ps. 1,072**	**Ps. 757**	**Ps. 703**	**Ps. 246**	**Ps. 110**	**Ps. 104**	**Ps. 1,318**	**Ps. 867**	**Ps. 807**

(1) Allowances required based on the classification methodology applied in Banorte that maintained a 99.99% equity interest in Sólida during 2010 and 2009.

As of December 31, 2010 and 2009, 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 10**	**Dec 09**	**Dec 10**	**Dec 09**	**Dec 10**	**Dec 09**
Commercial loans	Ps. 148,786	Ps.133,823	Ps. 13,330	Ps. 11,316	Ps. 162,116	Ps. 145,139
Consumer loans	27,637	25,525	-	-	27,637	25,525
Mortgage loans	54,013	47,378	-	-	54,013	47,378
Performing loan portfolio	**230,436**	**206,726**	**13,330**	**11,316**	**243,766**	**218,042**
Commercial loans	3,954	2,583	252	150	4,206	2,733
Consumer loans	1,348	2,014	-	-	1,348	2,014
Mortgage loans	1,025	1,151	-	-	1,025	1,151
Past-due portfolio	**6,327**	**5,748**	**252**	**150**	**6,579**	**5,898**
Total portfolio	**236,763**	**212,474**	**13,582**	**11,466**	**250,345**	**223,940**
Allowance for loan losses	8,131	7,425	297	384	8,428	7,809
Net portfolio	**Ps. 228,632**	**Ps. 205,049**	**Ps. 13,285**	**Ps. 11,082**	**Ps. 241,917**	**Ps. 216,131**
Allowance for loan losses					**128.10%**	**132.40%**
% of past-due portfolio					**2.63%**	**2.63%**

26 – INFORMATION BY SEGMENT

The main operations and balances per concept and/or business segment in the general balance sheet and the statement of income are comprised as follows:

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

	2010	2009
Banking sector:		
Net income	Ps. 6,035	Ps. 5,132
Stockholders' equity	44,316	40,348
Total portfolio	257,957	234,878
Past-due portfolio	6,523	6,051
Allowance for loan losses	(7,955)	(7,358)
Total net assets	564,386	548,560
Brokerage sector:		
Net income	403	203
Stockholders' equity	1,883	1,396
Portfolio balance	174,068	135,621
Total net assets	10,169	5,273
Savings sector:		
Net income	903	772
Stockholders' equity	5,244	4,727
Total net assets	40,993	32,026
Other finance companies sector:		
Net Income	500	425
Stockholders' equity	2,136	1,631
Total portfolio	15,884	13,461
Past-due portfolio	141	103
Allowance for loan losses	(289)	(177)
Total net assets	Ps. 16,456	Ps. 13,645

b. The trading results for the years ended December 31, 2010 and 2009 are as follows:

	2010	2009
Valuation results		
Trading securities	Ps. 46	(Ps. 17)
Repurchase or resale agreement	30	(156)
Derivative financial instruments	382	20
Total valuation results	**458**	**(153)**
Purchase-sale results		
Trading securities	455	318
Available for sale securities	214	23
Derivative financial instruments	(143)	180
Total securities purchase sale	**526**	**521**
Spot foreign currency	690	731
Foreign currency forwards	(1)	154
Foreign currency futures	(2)	(1)
Foreign currency valuation	3	(20)
Minted metals purchase sales	3	4
Minted metals valuation	12	8
Total foreign currency purchase sale	**705**	**876**
Total purchase sale results	**1,231**	**1,397**
Total trading results	**Ps. 1,689**	**Ps. 1,244**

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

	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**

	2009				
	Geographical location				
Economic sector	North	Central	West	South	Total
Agriculture	Ps. 2,314	Ps. 1,167	Ps. 581	Ps. 732	Ps. 4,794
Mining	347	18	14	13	392
Manufacturing	7,872	4,725	1,661	688	14,946
Construction	6,042	6,236	546	1,828	14,652
Public utilities	43	252	2	1	298
Commerce	10,543	7,241	3,307	6,031	27,122
Transportation	1,308	6,173	105	269	7,855
Financial services	8,975	11,280	130	1,473	21,858
Communal social services	2,524	4,242	1,514	369	8,649
Business groups	12	457	2	6	477
Public administration and services	21,403	12,938	2,070	2,516	38,927
INB	-	-	-	-	14,100
Credit card	-	-	-	-	11,801
Consumer	-	-	-	-	13,726
Mortgage	-	-	-	-	47,351
Other	-	-	-	-	54
Arrendadora y Factor Banorte	-	-	-	-	11,952
Performing loan portfolio	**Ps. 61,383**	**Ps. 54,729**	**Ps. 9,932**	**Ps. 13,926**	**Ps. 238,954**

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

	2010				
	Geographical location				
Economic sector	North	Central	West	South	Total
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**

	2009				
	Geographical location				
Economic sector	North	Central	West	South	Total
Agriculture	Ps. 77	Ps. 129	Ps. 33	Ps. 20	Ps. 259
Mining	2	3	1	7	13
Manufacturing	121	175	73	46	415
Construction	89	105	12	27	233
Commerce	363	298	147	195	1,003
Transportation	41	27	13	19	100
Financial services	8	15	1	6	30
Communal social services	74	49	47	37	207
Business groups	1	-	-	-	1
INB	-	-	-	-	1,047
Credit card	-	-	-	-	1,610
Consumer	-	-	-	-	332
Mortgage	-	-	-	-	801
Arrendadora y Factor Banorte	-	-	-	-	103
Past-due loan portfolio	**Ps. 776**	**Ps. 801**	**Ps. 327**	**Ps. 357**	**Ps. 6,154**

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

	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 preestablished	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
Over the counter promissory notes	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
Money desk customers	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**

	2009							
	Geographical location							
Product	Monterrey	Mexico City	West	Northwest	Southeast	Treasury and other	Foreign	Total
Non-interest bearing checking accounts	Ps. 13,209	Ps. 19,770	Ps. 5,845	Ps. 7,773	Ps. 7,963	Ps. 70	Ps. -	Ps. 54,630
Interest-bearing checking accounts	6,417	23,033	4,041	6,192	8,039	162	-	47,884
Savings accounts	1	1	-	-	-	-	-	2
Current account in pesos and preestablished	3,449	5,232	1,492	2,733	2,556	122	-	15,584
Non-interest bearing demand deposits, USD	834	848	199	1,085	221	-	3,694	6,881
Interest bearing demand deposits, USD	2,454	1,570	577	2,463	238	-	5,012	12,314
Savings accounts in USD	-	-	-	-	-	-	265	265
Over the counter promissory notes	11,362	25,040	6,358	7,245	9,009	1,474	-	60,488
Time deposits, USD	3,328	4,095	1,775	2,255	897	17	13,427	25,794
Money desk customers	19,366	14,858	6,953	4,588	2,877	127	-	48,769
Financial intermediaries	-	-	-	-	-	2,277	-	2,277
FOBAPROA checking accounts bearing interest	20	-	-	-	-	-	-	20
Total deposits	**Ps. 60,440**	**Ps. 94,447**	**Ps. 27,240**	**Ps. 34,334**	**Ps. 31,800**	**Ps. 4,249**	**Ps. 22,398**	**Ps. 274,908**

27 – TAX ENVIRONMENT

In 2010 and 2009 the Financial Group was subject to ISR and IETU.

Income tax

Income tax (ISR) is calculated considering as taxable or deductible certain inflation effects; as of until December 31, 2010 and 2009, the ISR rate was 30% and 28%, respectively. On December 7, 2009, the decree was published reforming, adding and repealing 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 from 2011 to 2012 will be 30%; 29% for 2013 and 28% for 2014.

Book to tax reconciliation

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 that was over 2.5% of the average loan portfolio and the valuation of financial instruments.

PTU

The Financial Group determine 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% and 17.0% for 2010 and 2009, respectively. The Asset Tax Law was repealed 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, 2010, 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.

28 – STOCKHOLDERS' EQUITY

At the Stockholders' Ordinary General Meeting held on April 23, 2010, the resolution was adopted to transfer the profits of 2009 equal to Ps. 5,854 to the account "earnings from prior years".

At the Stockholders' Ordinary General Meetings held on February 15, 2010, April 23, 2010 and October 4, 2010, the resolution was adopted to declare cash dividends of Ps. 343 on each of said dates.

The Financial Group's shareholders' common stock as of December 31, 2010 and 2009 is comprised as follows:

	Number of shares with a nominal value of Ps. 3.50	
	2010	2009
"O" Series	2,018,347,548	2,017,847,548

	Historical Amounts	
	2010	2009
"O" Series	Ps. 7,016	Ps. 7,000
Restatement in Mexican pesos through December 2007	4,955	4,956
	Ps. 11,971	**Ps. 11,956**

Restrictions on profits

Stockholders' equity distribution, except restated paid-in capital and tax retained earnings, will be subject to a tax payable by the Financial Group at the rate in effect when the dividend is distributed. Any tax paid on such distribution may be credited against the income tax payable of the year in which the tax on the dividend is paid and the two fiscal years following such payment against the year's tax and its partial payments.

The Financial Group's net profit is subject to the requirement that at least 5% of net income of each year be transferred 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, 2010 and 2009, the legal reserve is Ps. 3,181 and Ps. 2,444, respectively, and represents 27% and 20% of paid-in capital, 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 as of December 31, 2010 sent to Banco de México to review is shown below.

- The capitalization ratio of Banorte as of December 31, 2010 was 16.12% of total risk (market, credit and operational), and 23.68% 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):

Net capital as of December 31, 2010	
Stockholders' equity	**Ps. 44,306**
Subordinated debentures and capitalization instruments	**5,135**
Deduction of investment in securitized instruments	(446)
Deduction of investments in shares of financial entities	(6,124)
Deduction of investments in shares of non-financial entities	(3,238)
Deduction of intangibles and deferred expenses or costs	(264)
Basic capital	**39,369**
Debentures and capitalization instruments	12,413
Allowance for loan losses	1,285
Deduction of investment in securitized instruments	(446)
Complementary capital	**13,252**
Net capital	**Ps. 52,621**

Characteristics of the subordinated debentures:

Concept	Issuance amount	Maturity	Basic capital proportion	Complementary capital proportion
Complementary capital debentures 2006	Ps. 5,006	13/10/2016	0%	100%
Basic capital debentures 2006	Ps. 2,507	13/10/2021	100%	0%
Basic capital debentures 2008	Ps. 3,008	27/02/2018	87%	13%
Complementary capital debentures 2008	Ps. 2,056	15/02/2028	0%	100%
Complementary capital debentures 2008-2	Ps. 2,760	15/06/2018	0%	100%
Complementary 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
Transactions in Mexican pesos with nominal interest rate	Ps. 47,037	Ps. 3,763
Transactions with debt instruments in Mexican pesos with variable interest rates	10,374	830
Transactions in Mexican pesos with real interest rates or denominated in UDIS	1,802	144
Transactions in UDIS or with yields referenced to the National Consumer Price Index (INPC)	2	-
Transactions in Mexican pesos with nominal interest rates	4,700	376
Exchange transactions	1,604	129
Total	**Ps. 65,519**	**Ps. 5,242**

Assets subject to credit risk

Concept	Assets weighted by risk	Capital requirement
Group III (weighted at 10%)	Ps. 13	Ps. 1
Group III (weighted at 11.5%)	1	0
Group III (weighted at 20%)	11,451	916
Group III (weighted at 23%)	483	39
Group III (weighted at 50%)	2,226	178
Group III (weighted at 57.5%)	608	48
Group III (weighted at 100%)	150	12
Group IV (weighted at 20%)	2,851	228
Group V (weighted at 20%)	7,282	583
Group V (weighted at 50%)	3,723	298
Group V (weighted at 150%)	4,899	392
Group VI (weighted at 50%)	6,445	515
Group VI (weighted at 75%)	5,608	449
Group VI (weighted at 100%)	59,100	4,728
Group VII (weighted at 20%)	845	68
Group VII (weighted at 50%)	99	8
Group VII (weighted at 100%)	72,788	5,823
Group VII (weighted at 115%)	7,556	604
Group VII (weighted at 150%)	635	51
Group VIII (weighted at 125%)	1,948	156
Group IX (weighted at 100%)	19,387	1,551
Sum	**208,098**	**16,648**
For permanent shares, furniture and real property, and advance payments and deferred charges	14,086	1,127
Total	**Ps. 222,184**	**Ps. 17,775**

Assets subject to credit risk:

Concept	Assets weighted by risk	Capital requirement
Total	**Ps. 38,816**	**Ps. 3,105**

29 – FOREIGN CURRENCY POSITION

As of December 31, 2010 and 2009, 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. 12.3496 and Ps. 13.0659 per USD 1.00, respectively, as shown below:

	Thousands of US dollars	
	2010	**2009**
Assets	5,543,911	5,497,623
Liabilities	5,234,040	5,166,587
Net asset position in US dollars	**309,871**	**331,036**
Net asset position in Mexican pesos	**Ps. 3,827**	**Ps. 4,325**

30 – POSITION IN UDIS

As of December 31, 2010 and 2009, the Financial Group holds certain assets and liabilities denominated in UDIS, converted to Mexican pesos based on the current equivalency of Ps. 4.526308 and Ps. 4.340166, per UDI, respectively, as shown below:

	Thousands of UDIS	
	2010	**2009**
Assets	365,531	207,824
Liabilities	454,251	544,676
Net liability position in UDIS	**(88,720)**	**(336,852)**
Net liability position in Mexican pesos	**(Ps. 402)**	**(Ps. 1,462)**

31 – 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, 2010 and 2009 are shown below:

	2010			2009
	Net income	**Weighted share average**	**Earnings per share**	**Earnings per share**
Net income per share	Ps. 6,705,043,285	2,018,257,560	Ps. 3.3222	Ps. 2.9021

32 – 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 of Comprehensive Risk Management, the Managing Director of Long Term Savings, and the Managing Director of the Brokerage House, as well as the Managing Director of Internal Audits, who has the right to speak 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.

4. Appoint 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 follow up on limits and tolerance levels.
6. Inform the Board of the corrective measures implemented.

33 – COMPREHENSIVE RISK MANAGEMENT UNIT (UAIR) (unaudited, regarding Banorte, the Financial Group's main subsidiary)

The function of the UAIR is to identify, measure, oversee, limit, control, report and disclose the different kinds of risk to which the Financial Group is exposed, and which is 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 through six different departments:

- Operating and credit risk management;
- Market risk management;
- Credit management;
- Risk policy management;
- Consumer loan quality; and
- 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 impairment of credits and potential credit losses due to nonpayment by a borrower or counterpart.

Market risk: Volatility of revenues due to changes in the market, which affect the valuation of the positions from operations 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 debts or contracting others under normal conditions for the Financial Group, due to the anticipated or forced sale of assets at unusual discounts to meet its obligations.

Operating risk: Loss resulting from lack of adaptation 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 of 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 counterparts will not comply with their payment obligations; therefore, adequate risk management is essential to maintain a high quality loan portfolio.

The Financial Group 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).

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 has interest to place 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 credit 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, operating 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 is 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 a 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 ascertaining 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 obligation 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 as of the migration of the 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 sorting of the borrowers based on the Merton model is intended to tie the future behavior of the borrower to credit and market factors on which, using statistical techniques, the borrower's "credit health" depends.

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, 2010, the total portfolio of the Financial Group is Ps. 249,495. The expected loss represents 2.2% and the unexpected loss represents 3.7% of the total operating portfolio. The average expected loss was 2.2% for the period between October and December 2010. As of December 31, 2009, the Financial Group's total operating portfolio is Ps. 223,019. The expected loss represents 2.4% and the unexpected loss represents 3.9% of the total operating portfolio. The average expected loss was 2.5% for the period between October and December 2009.

Credit risk of financial instruments

There are specific policies for the origination, analysis, authorization and management of financial instruments to identify, measure, keep track 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 counterpart, rating and operation type.

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 counterpart, financial instrument, operation destination and market information.

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

The financial instrument operating lines management policy 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.

Concentrating loan risk with financial instruments is managed continuously on an individual level, monitoring maximum operation 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 by means of the rating associated with the issuer, issue or counterpart, which has an assigned degree of risk measured based on two elements:

1. The probability of delinquency by the issuer, issue or counterpart; expressed as a percentage between 0% and 100%. The higher the rating, the lower the probability of delinquency and vice versa.

2. The gravity of the loss with respect to the operation's total in the event of noncompliance, 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 gravity of the loss in case of noncompliance, the Financial Group and counter-parts entered into ISDA contracts settling agreements, which contemplate implementing credit lines and using collateral to mitigate losses due to noncompliance.

As of December 31, 2010, the investment in securities exposure to credit risk is Ps. 200,026, of which 99.2% has a rating greater than or equal to A-(mex) on the local scale. This places them in investment grade and the three main issuers other than the Federal Government, Semi-Private agencies and Domestic Financial Institutions represent 20% of the basic capital as of September 2010. 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 2010 has a rating of at least AA+(mex) and is made up of (term and weighted average interest rate): 6-month Bancomer stock certificates for Ps. 11,580 at 5.0%; 4-month Inbursa stock certificates and bonds for Ps. 9,772 at 4.8%; 5-year 8-month certificates of deposit of Pemex for Ps. 7,347 at 4.7%; and 26-year 5-month State and Municipal Governments securitized loan certificates for Ps. 4,085 at 4.9%.

For derivatives, the exposure is (Ps. 3,045), of which 99.9% is rated at least A-(mex) on the local scale, which places them at an investment grade and the three main counterparts other than the Federal Government, Semi-Private agencies and Domestic Financial Institutions represent 3% of the basic capital as of September 2010.

As of December 31, 2009, the investment in securities exposure to credit risk is Ps. 213,274, of which 99.4% has a rating greater than or equal to A-(mex) on the local scale. This places them in investment grade and the three main issuers other than the Federal Government, Semi-Private agencies and Domestic Financial Institutions represent 23% of the basic capital as of September 2009. 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 2009 has a rating of at least AA+(mex) as is made up of (term and weighted average interest rate): 3-month Bancomer stock certificates for Ps. 14,001 at 4.8%; 5-month Pemex stock certificates and bonds for Ps. 8,445 at 6.2%; 3-month certificates of deposit of the Federal Mortgage Association for Ps. 5,012 at 4.8%; 27-year State and Municipal Governments securitized loan certificates for Ps. 4,321 at 5.3%; 4-month Banobras stock certificates and bonds for Ps. 4,043 at 4.8%; and 11-day Banco Inbursa promissory notes for Ps. 3,004 at 4.6%.

For derivatives, the exposure is (Ps. 2,669), of which 99.9% is rated at least A-(mex) on the local scale, which places them at an investment grade and the three main counterparts other than the Federal Government, Semi-Private agencies and Domestic Financial Institutions represent 5% of the basic capital as of September 2009.

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 Financial Group 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 is provided below:

Basic capital as of September 30, 2010	**Ps. 37,233**
I. Financing whose individual amount represents more than 10% of basic capital:	
Credit transactions	
Number of financings	1
Amount of financings taken as a whole	4,437
% in relation to basic capital	12%
Money market transactions	
Number of financings	2
Amount of financings taken as a whole	8,753
% in relation to basic capital	24%
Overnight transactions	
Number of financings	1
Amount of financings taken as a whole	5,455
% in relation to basic capital	15%
II. Maximum amount of financing with the three largest debtors and common risk groups	**Ps. 18,527**

Market risk

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 such portfolios.

Such methodology is applied to all financial instrument portfolios within and beyond the scope of the Financial Group, 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. 1,600 for the last quarter 2010.

	4Q09	1Q10	2Q10	3Q10	4Q10
VaR Banorte*	Ps. 2,584	Ps. 3,442	Ps. 2,677	Ps. 2,246	Ps. 1,600
Banorte net capital***	49,679	49,878	50,184	51,187	52,620
VaR / net capital Banorte	5.20%	6.90%	5.33%	4.39%	3.04%

* 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 2010:

Risk factor	VaR
Domestic interest rate	Ps. 1,582
Foreign interest rate	300
Exchange rate	141
Total VaR	Ps. 1,600

The VaR for each of the risk factors presented is determined by simulating 500 historical scenarios of the variables comprising each of such factors, maintaining constant the variables that affect the other risk factors shown. By the same token, the consolidated VaR for the Financial Group considers the correlations of all the risk factors influencing the valuation of the portfolios, for which reason the arithmetical sum of the VaR Factor does not match.

Operations with derivative products

The one-day individual VaR that the Financial Group has for each type of trading and hedging derivatives for the fourth quarter of 2010 is:

Trading derivatives	4Q09	4Q10
Futures		
MEXDER rate futures	Ps. -	Ps. 13
Exchange rate derivatives		
Forwards	15	-
Options	-	1
Interest rate options		
TIIE	4	3
Libor	-	1
Swap options		
Libor	-	2
TIIE	2	5
Rate swaps (IRS) and exchange rate		
TIIE swaps	12	11
LIBOR swaps	2	2
Cross currency exchange rate swaps	207	12
Total trading derivatives	**Ps. 242**	**Ps. 50**

Hedging derivatives	4Q09	4Q10
Swaps		
Cross currency exchange rate swaps for portfolio hedging in USD	Ps. 8	Ps. 2
Cross currency exchange rate swaps for hedging obligations in USD	145	86
Cross currency exchange rate swaps for hedging bonds in USD	304	220
TIIE swaps for hedging obligations in Mexican pesos	63	30
TIIE swaps for hedging promissory note in Mexican pesos	265	181
Rate operations for hedging portfolio at a fixed rate	59	14
Total hedging derivatives	**Ps. 844**	**Ps. 533**

To calculate the VaR for each of the types 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 trading UMS is Ps. 64. This means that under normal condition, 99 days out of every 100 the maximum potential loss is Ps. 64 in one day.

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

Investments in securities

The one-day individual VaR that the Financial Group has for each type of securities for the fourth quarter of 2010 was:

Trading securities	4Q09	4Q10
Variable rate government bonds	Ps. 7	Ps. 11
Fixed rate government bonds	2	2
Bank bonds	3	-
Securitization certificates	37	20
CEDES	-	2
Capital	13	-
US treasury bonds	3	1
PEMEX eurobonds	28	29
UMS	12	6
Bank eurobonds	107	37
Private company eurobonds	11	8
Total	**Ps. 223**	**Ps. 116**

Securities at maturity	4Q09	4Q10
Variable rate government bonds	Ps. 92	Ps. 52
Fixed rate government bonds	4	1
Securitization certificates	42	41
CEDES	4	-
Bank bonds	-	1
PEMEX eurobonds	157	90
UMS	89	64
Zero coupon bank bonds	11	8
Private company eurobonds	4	-
Total	**Ps. 403**	**Ps. 257**

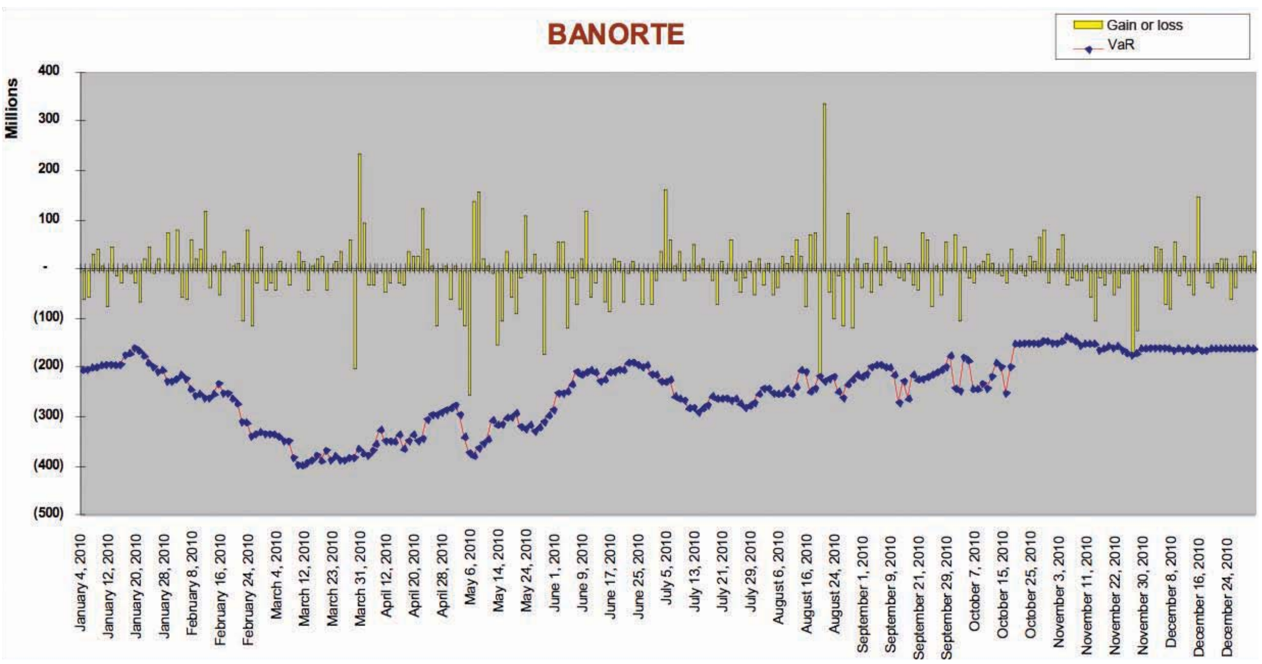
To calculate the VaR for each of the derivatives listed, the non-parametric historic simulation method is applied to a 99% level of confidence and a one-day horizon. For instance, the Value at Risk for TIIE Swaps is Ps. 11. This means that under normal condition, 99 days out of every 100 the maximum potential loss is Ps. 11 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 during 2010 are as follows:



During 2010 there was only one excess event on November 25th.

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 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.

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 rate futures	(Ps. 118)	Ps. -	Ps. -
Exchange rate derivatives			
Options	-	-	(2)
Forwards	-	-	(1)
Interest rate options			
TIIE	(10)	-	-
Libor	-	12	-
Swap options			
Libor		(38)	(1)
TIIE	(33)	-	-
Interest rate swaps (IRS) and exchange rate			
TIIE Swaps	(2)	-	-
LIBOR Swaps	-	28	(1)
Cross currency exchange rate Swaps	(47)	-	-
Total trading derivatives	**(Ps. 210)**	**Ps. 2**	**(Ps. 5)**

Hedging derivatives	+100 bp domestic rates	+100 BP foreign rates	+5% Exchange rate
Rate swaps and exchange rate			
Cross exchange rate Swaps for hedging obligations in USD	Ps. 25	(Ps. 30)	Ps. 196
Cross exchange rate Swaps for hedging bonds in USD	(239)	400	(466)
TIIE Swaps for hedging obligations in Mexican pesos	168	-	-
TIIE Swaps for hedging promissory note in Mexican pesos	617	-	-
TIIE caps for fixed rate loan hedging	28	-	-
Total hedging derivatives	**Ps. 599**	**Ps. 370**	**(Ps. 270)**

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

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

Sensitivity for operations with securities

Sensitivity analysis on 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 government bonds surcharges.
    - A change of +50 basis points in sovereign risk.
    - A change of +10% in the IPC (consumer price index).

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
Variable rate government bonds	(Ps. 52)	Ps. -	Ps. -	(Ps. 39)	Ps. -
Fixed rate government bonds	(14)	-	-	-	-
Securitization certificates	(4)	-	-	-	-
CEDES	(2)	-	-	-	-
US treasury bonds	-	(2)	1	-	-
PEMEX eurobonds	-	(51)	64	-	(22)
UMS	-	(4)	16	-	(2)
Bank eurobonds	-	(71)	90	-	-
Private company eurobonds	-	-	9	-	-
Total	**(Ps. 72)**	**(Ps. 128)**	**Ps. 180**	**(Ps. 39)**	**(Ps. 24)**

Securities held to 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. 275)	Ps. -	Ps. -	(Ps. 173)	Ps. -
Fixed rate government bonds	(6)	-	-	-	-
Securitization certificates	(25)	-	-	-	-
Bank bonds	(4)	-	-	-	-
PEMEX eurobonds	-	(183)	280	-	(93)
UMS	-	(116)	154	-	(59)
Zero coupon bank bonds	(2)	(49)	-	-	-
Private company eurobonds	-	-	-	-	-
Total	**(Ps. 312)**	**(Ps. 348)**	**Ps. 434**	**(Ps. 173)**	**(Ps. 152)**

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.

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 available for sale securities. 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 2010 is 82.7%, while the average during the quarter is 93.1%, as shown below:

	End of quarter				
	4Q09	**1Q10**	**2Q10**	**3Q10**	**4Q10**
Liquid assets	Ps. 91,931	Ps. 109,668	Ps. 141,019	Ps. 127,518	Ps. 132,713
Liquid liabilities	143,834	132,465	140,406	140,506	160,432
Liquidity ratio	63.9%	82.8%	100.4%	90.8%	82.7%

	Average				
	4Q09	**1Q10**	**2Q10**	**3Q10**	**4Q10**
Liquid assets	Ps. 92,729	Ps. 96,900	Ps. 123,044	Ps. 129,638	Ps. 125,871
Liquid liabilities	130,575	124,820	122,584	126,698	135,251
Liquidity ratio	71.0%	77.6%	100.4%	102.3%	93.1%

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 a leveling of 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	Ps. -	(Ps. 2)	(Ps. 2)
3 months	-	-	-
6 months	1	-	1
1 year	1	(546)	(545)
2 years	2	(5)	(3)
3 years	-	(12)	(12)
4 years	1	(35)	(34)
5 years	1	(43)	(42)
7 years	460	(75)	385
10 years	86	(922)	(836)
15 years	12	-	12
20 years	429	(401)	28
> 20 years	657	(8)	649
Total	**Ps. 1,650**	**(Ps. 2,049)**	**(Ps. 399)**

Operational risk

In January 2003, 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 operation processing and storing or in data transfer, and adverse administrative and judicial rulings, frauds or theft (this definition includes technology 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.

Regulations Control, 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 insure proper internal control.

II. Quantitative and qualitative measuring tools

Operating Losses Database

To record operating loss events, a system has been developed internally known as the "Operating Loss and Events Capture System" (SCERO). This system 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 ruling, 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 had 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. A new operating risk management model and the technology tool for its implementation are currently been developed.

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 operating risk mitigation implemented by the different areas of the organization is also reported.

Technology 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 operating risk, for which reason its management is performed throughout the entire organization.

To address operating risk associated with data integrity, the “Integrity Committee” was created. Its objectives include aligning data security and control efforts to a prevention 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 technology risk management set forth by the Commission under the guidelines established by the institutional regulations and the Integrity Committee.

To address the operating risk caused by high impact external events, the Financial Group has a Business Continuity Plan (BCP) and Business Recovery Plan (BRP) 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 operating 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 SCERO 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.

34 – MEMORANDUM ACCOUNTS

	2010	2009
Banks customers (current accounts)	Ps. 9	Ps. 4
Settlement of customer transactions	1	(80)
Customer valuables received in custody	172,922	134,480
Customer repurchase agreements	28,647	35,680
Managed trusts	4,348	4,641
	Ps. 205,927	**Ps. 174,725**
Other contingent assets and liabilities	Ps. 256	Ps. 273
Credit commitments	3,155	2,272
Deposits of assets	2,429	1,632
Assets in trusts or under mandate	124,723	112,942
Managed assets in custody	230,140	158,547
Investment banking transactions on account of third parties (net)	78,069	74,646
Collateral received by the institution	62,224	33,464
Collateral received and sold or given as a pledge by the entity	36,195	43,165
Past-due loan portfolio accrued but not charged interest	136	198
	Ps. 537,327	**Ps. 427,139**

35 – COMMITMENTS

As of December 31, 2010 and 2009, the Financial Group had the following contingent obligations and commitments:

- Other contingent obligations and opening of credits totaling Ps. 3,411 (Ps. 2,545 in 2009), which are recorded in memorandum accounts.
- Certain real property and operating equipment are leased. Total property lease payments for the periods ended December 31, 2010 and 2009, were Ps. 207 and Ps. 197, respectively.

36 – CONTINGENCIES

As of December 31, 2010, 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. A reserve of Ps. 118 is recorded for such contentious matters.

37 – SAVINGS PREVENTIVE AND PROTECTION MECHANISM

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 2010 and 2009, the amount of contributions to the IPAB payable by Banorte for fees amounted to Ps. 1,084 and Ps. 1,073, respectively.

38 – NEW ACCOUNTING PRINCIPLES

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 housing mortgage loan rating so that the allowance for loan losses will be calculated on the basis of expected rather than incurred loss. This modification will become effective on March 1, 2011. The Financial Group considers that the initial impact from entry into force of this amendment is approximately Ps. 600 increase in the reserve requirement. This will be recognized in stockholders' equity no later than March 31, 2011, in the prior year's results.