Audit and Corporate Practices' Committee Report and Audited Financial Statements

BANORTE ixe

Annual Report 2012

Index

Mexico D.F. March 21st, 2013.

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 2012 fiscal year.

The contents of this report refer to Grupo Financiero Banorte (GFNorte) and the following relevant entities: Banco Mercantil del Norte, S.A., Ixe Banco, S.A., Inter National Bank, Casa de Bolsa Banorte Ixe, S.A. de C.V., Banorte Ixe Tarjetas, S.A. de C.V. SOFOM ER, Arrendadora y Factor Banorte, S.A. de C.V. SOFOM ER, Ixe Automotriz, S.A. de C.V. SOFOM ER, Fincasa Hipotecaria, S.A. de C.V. SOFOM ER, Ixe Soluciones, S.A. de C.V. SOFOM ER, Sólida Administradora de Portafolios, S.A. de C.V., Seguros Banorte Generali, S.A. de C.V. and Pensiones Banorte Generali, S.A. de C.V.

I. With regard to Audit:

a) With regard to the status of GFNorte's and its relevant entities' Internal Control System (SCI) and Internal Audit, as well as the deficiencies and deviations, the following elements were taken into consideration:

1. Annual reports on the Internal Control activities of the relevant entities prepared by their CEOs.
2. Reports from Internal Comptrollers and Normative Comptrollers of some relevant entities containing their opinion about the functioning of the SCI.
3. Internal Audit's opinion about the status of the SCI of the relevant entities.
4. Reports about relevant weaknesses and findings at GFNorte and its Subsidiaries presented by Internal Audit and follow-up of corrective measures.
5. Reports on Internal Control observations from the External Auditor and the audited financial statements for GFNorte and Subsidiaries.
6. Reports on inspection visits by the corresponding regulator.
7. Reports from GFNorte Commissioners and their relevant entities.
8. Reports from other Audit Committees on relevant events and minutes of their meetings.
9. Internal Audit's reports on its activities and compliance with its work program, and the results of its quality assurance and improvement program.

Taking the previous elements into consideration, and as a result of the surveillance work carried out by this Committee in its sessions, we can inform that generally the SCI of GFNorte and its relevant entities works appropriately and no weaknesses or deviations were detected that could significantly affect them.

We can report that Internal Audit has maintained independence in its operations, complied reasonably with its approved work program in accordance with best practices and supervised the efficient implementation of actions to correct findings and identified areas of opportunity.

b) There were no significant instances of non-compliance with GFNorte and its relevant entities' operating guidelines, policies and accounting registries. The areas of opportunity identified were informed to those responsible and measures were taken to attend those for which there is a follow-up system to ensure due implementation.

c) Regarding the performance evaluation of the entity providing external audit services, it can be reported that in the development of its activities and in its relation with management and the Committee, the quality of the firm Galaz, Yamazaki, Ruiz Urquiza, S. C. (member of Deloitte Touche Tohmatsu), has been noted, as well as the designated Auditor.

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

d) With respect to the description and valorization of additional or complementary services performed by the External Auditor, we can inform that it was approved to hire them in order to review transfer prices in intercompany operations, and some trusts and equity permanent investments, as well as to report on some local taxes, and that such services do not represent a conflict of interest.

Independent experts were hired to conduct goodwill deterioration tests for GFNorte and some entities, to assess the quality of the main borrowers of some relevant entities and to review GFNorte's normativity management process.

e) A review was made of the financial statements of GFNorte and its Subsidiaries for the year ended December 31st, 2012 and the External Auditor's report, confirming that they were prepared in all material aspects in accordance with the applicable accounting rules. Therefore, their approval was recommended to the Board. The Committee also conducted a quarterly review of the interim financial statements.

f) With respect to changes to policies and accounting criteria used during the fiscal year, we inform that modifications were made to comply with changes to the applicable provisions, which are detailed in Note 4 "Main Accounting Policies" of GFNorte's financial statements, which contain a detailed explanation of the afore-mentioned modifications and their effects.

The Board also approved changes to accounting policies for loan portfolio write-downs and estimating legal and fiscal contingencies, as well as criteria for identifying credit restructurings arising from troubled loans.

g) No relevant observations were made by shareholders, board members, directors, employees or any third party during the year with respect to accounting, internal controls or internal and external audits or complaints about irregularities. We can inform that in accordance with best practices there is an anonymous complaints system which the Committee follows up.

h) With respect to the follow-up to Shareholders' and Board of Directors' Meetings, there were no requests to the Committee to follow up any agreement.

i) Relevant activities performed by the Committee include the comprehensive review of basic SCI documents, the review of the process for determining the fair value of the assets of Ixe entities and recognition of their impairment, and the approval of communication policies with other Audit Committees responsible for overseeing some relevant entities.

The effectiveness tests of the hedging mechanisms for the perpetual bond issued by Ixe were reviewed with Management and Internal and External Auditors, and it was determined that it did not comply with the effectiveness requirements. Thus, its accounting registry was corrected, leading to an important adjustment to the accounting registry of that Institution's Stockholders' Equity.

Regarding Inter National Bank we can inform that the Office of the Comptroller of the Currency (OCC) terminated the Formal Agreement containing commitments related to loan management and review processes, management of critical assets and reserve adequacy, and the development of a strategic plan.

II. With regard to Corporate Practices:

a) With respect to observations related to the performance of relevant directors, we can report that the Human Resources Committee informed that there were no cases in which they acted outside of the established policies.

b) Operations with related parties were approved by this Board and as at December 31st, 2013 loans granted by Banco Mercantil del Norte and Ixe Banco to related parties amounted to Ps 13.33 billion. Intercompany operations took place at market prices which were verified by the External Auditor who did not report any relevant findings.

We can inform that no unusual or non recurring transactions took place during the year requiring the Board's approval.

c) Regarding the remuneration packages of the CEO and relevant officers, we can report that there is a Remuneration System that has been approved by this Board that divides the remuneration into ordinary and extraordinary, including rules for the deferment of the latter based on established risk indicators and compliance with stated policies.

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

Sincerely,

Héctor Reyes Retana y Dahl
President of the Audit and Corporate Practices' Committee
Grupo Financiero Banorte

Deloitte.

February 27, 2013

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We have audited the accompanying consolidated financial statements of Grupo Financiero Banorte, S.A.B. de C.V. and Subsidiaries (the Financial Group), which comprise the consolidated balance sheets as of December 31, 2012 and 2011, the consolidated statements of income, changes in stockholders' equity and cash flows for the years then ended, as well as a summary of the significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements.

Management is responsible for the reasonable preparation and fair presentation of these consolidated financial statements in accordance with the accounting criteria set forth by the National Banking and Securities Commission (the Commission) in the "General Provisions Applicable to Financial Group Holding Companies subject to the Supervision by the National Banking and Securities Commission" (the Provisions), and for such internal controls as management deems necessary for the preparation of consolidated financial statements that are free of material misstatement, whether due to fraud or error.

Responsibility of the Independent Auditors

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We have conducted our audits in accordance with International Standards of Auditing. Those standards require that we comply with the ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involving performing procedures to obtain evidence supporting the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Financial Group's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion about the effectiveness of the Financial Group's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the consolidated financial statements present fairy, in all material respects, the financial position of Grupo Financiero Banorte, S.A.B. de C.V. and Subsidiaries as of December 31, 2012 and 2011, and their financial performance and their cash flows for the years then ended in accordance with the accounting practices prescribed by the Commission.

Other matters

As explained in Note 11, during 2011, the Commission issued modifications to the accounting criteria and to the methodologies for rating state and municipal loans, non-revolving consumer loans as well as mortgage loans. The Commission criteria stipulate that the effect of the change in the methodology for commercial, non-revolving consumer and mortgage loans was recorded under "Past years' results" in stockholders' equity in the amount of Ps. 350 million, net of deferred taxes, and the change in the methodology for rating state and municipal government loans by Ps. 87 million was recorded in the Consolidated Income Statement.

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

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

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

February 27, 2013

GRUPO FINANCIERO BANORTE, S.A.B. DE C.V. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2012 AND 2011
(In millions of Mexican pesos)

ASSETS	2012	2011
CASH AND CASH EQUIVALENTS	**Ps. 68,480**	**Ps. 53,653**
MARGIN SECURITIES	**496**	**252**
INVESTMENTS IN SECURITIES		
Trading securities	123,233	115,027
Securities available for sale	115,291	53,666
Securities held to maturity	106,850	162,148
	345,374	**330,841**
DEBTOR BALANCES UNDER REPURCHASE AND RESALE AGREEMENTS	**5,695**	**3,830**
DERIVATIVES FINANCIAL INSTRUMENTS		
For trading purposes	18,239	15,854
For hedging purposes	27	623
	18,266	**16,477**
VALUATION ADJUSTMENTS FOR ASSET HEDGING	**174**	**123**
PERFORMING LOAN PORTFOLIO		
Commercial loans		
Business loans	186,061	169,023
Financial institutions' loans	8,434	11,560
Government loans	88,293	71,162
Consumer loans	46,036	34,246
Mortgage loans	72,608	64,567
TOTAL PERFORMING LOAN PORTFOLIO	**401,432**	**350,558**
PAST-DUE LOAN PORTFOLIO		
Commercial loans		
Business loans	6,138	4,684
Financial institutions' loans	4	1
Government loans	60	11
Consumer loans	1,467	1,286
Mortgage loans	812	967
TOTAL PAST-DUE LOAN PORTFOLIO	**8,481**	**6,949**
LOAN PORTFOLIO	**409,913**	**357,507**
(Minus) Allowance for loan losses	(11,734)	(9,944)
LOAN PORTFOLIO, net	**398,179**	**347,563**
ACQUIRED COLLECTION RIGHTS	**3,109**	**3,559**
TOTAL LOAN PORTFOLIO, net	**401,288**	**351,122**
ACCOUNTS RECEIVABLE FROM INSURANCE AND ANNUITIES, net	**885**	**953**
PREMIUM RECEIVABLES, net	**3,137**	**3,442**
ACCOUNTS RECEIVABLE FROM REINSURANCE, net	**2,715**	**2,594**
RECEIVABLES GENERATED BY SECURITIZATIONS	**883**	**856**
OTHER ACCOUNTS RECEIVABLE, net	**23,097**	**20,348**
MERCHANDISE INVENTORY	**351**	**43**
FORECLOSED ASSETS, net	**2,939**	**2,284**
PROPERTY, FURNITURE AND EQUIPMENT, net	**11,986**	**11,716**
PERMANENT STOCK INVESTMENTS	**5,170**	**2,040**
OTHER ASSETS		
Other assets, deferred charges and intangible assets	**25,631**	**24,573**
TOTAL ASSETS	**Ps. 916,567**	**Ps. 825,147**

MEMORANDUM ACCOUNTS (Note 36)
These balance sheets, consolidated with those of the financial entities and other companies that form part of the Financial Group and are susceptible to consolidation, were prepared according to Accounting Principles applicable to Financial Service Holding Companies issued by the Mexican National Banking and Securities Commission according to article 30 of the Law of Financial Institutions. Such principles are consistently applied in the consolidated financial statements, which are presented according to sound practices and applicable legal and administrative provisions and reflect all the operations conducted by the Financial Group, its financial service subsidiaries and the other companies that form part of the Financial Group and are consolidated as of the balance sheet dates above.

As of December 31, 2012, the stockholders' equity amounts to Ps. 8,116 (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.

LIABILITIES	2012	2011
DEPOSITS		
Demand deposits	Ps. 211,171	Ps. 189,616
Time deposits		
General public	187,055	162,635
Money market	21,533	11,089
Senior debt issued	4,566	6,953
	424,325	**370,293**
INTERBANK AND OTHER LOANS		
Demand loans	295	3,968
Short-term loans	27,628	25,150
Long-term loans	7,982	6,330
	35,905	**35,448**
TECHNICAL RESERVES	**51,722**	**42,406**
NON-ASSIGNED SECURITIES PENDING SETTLEMENT	**-**	**4**
CREDITOR BALANCES UNDER REPURCHASE AND RESALE TRANSACTIONS	**244,031**	**243,756**
COLLATERAL SOLD OR PLEDGED		
Repurchase or resale agreements (creditor balance)	**37**	**31**
DERIVATIVES FINANCIAL INSTRUMENTS		
For trading purposes	17,777	16,009
For hedging purposes	4,461	5,305
	22,238	**21,314**
VALUATION ADJUSTMENT FOR HEDGING OF FINANCIAL LIABILITIES	**-**	**(91)**
ACCOUNTS PAYABLE TO REINSURERS, net	**805**	**1,246**
OTHER ACCOUNTS PAYABLES		
Income tax	1,786	530
Employee profit sharing	738	481
Creditors from settlements of transactions	8,413	2,705
Sundry creditors and other payables	15,028	12,140
	25,965	**15,856**
SUBORDINATED DEBENTURES	**19,455**	**16,543**
DEFERRED TAXES, net	**978**	**40**
DEFERRED CREDITS AND ADVANCED COLLECTIONS	**2,597**	**1,867**
TOTAL LIABILITIES	**828,058**	**748,713**
STOCKHOLDERS' EQUITY		
PAID-IN CAPITAL		
Common stock	13,072	13,050
Additional paid-in capital	18,320	18,006
	31,392	**31,056**
OTHER CAPITAL		
Capital reserves	3,399	3,224
Retained earnings from prior years	37,644	30,573
Result from valuation of securities available for sale	1,598	188
Result from valuation of instruments for cash flow hedging	(2,493)	(2,537)
Cumulative foreign currency translation adjustment	(547)	(172)
Net income	10,888	8,517
	50,489	**39,793**
MINORITY INTEREST	**6,628**	**5,585**
TOTAL STOCKHOLDERS' EQUITY	**88,509**	**76,434**
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**Ps. 916,567**	**Ps. 825,147**

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

GRUPO FINANCIERO BANORTE, S.A.B. DE C.V. AND SUBSIDIARIES
CONSOLIDATED INCOME STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011
(In millions of Mexican pesos)

	2012	2011
Interest income	Ps. 64,127	Ps. 52,930
Premium revenue, net	16,321	15,275
Interest expense	(30,874)	(24,628)
Increase in technical reserves	(8,708)	(9,316)
Casualty rate, claims and other contractual obligations, net	(8,057)	(6,092)
NET INTEREST INCOME	**32,809**	**28,169**
Provisions for loan losses	(6,172)	(5,438)
NET INTEREST INCOME AFTER ALLOWANCE FOR LOAN LOSSES	**26,637**	**22,731**
Commission and fee income	11,539	9,733
Commission and fee expense	(3,480)	(2,856)
Brokerage revenues	4,152	2,778
Other operating income (expenses)	2,300	2,814
Non interest expense	(25,535)	(22,588)
	(11,024)	**(10,119)**
OPERATING INCOME	**15,613**	**12,612**
Equity in earnings of unconsolidated subsidiaries and associated companies	590	157
INCOME BEFORE INCOME TAX	**16,203**	**12,769**
Current income tax	(3,653)	(2,446)
Deferred income taxes, net	(475)	(953)
	(4,128)	**(3,399)**
INCOME BEFORE NONCONTROLLING INTEREST	**12,075**	**9,370**
Minority interest	(1,187)	(853)
NET INCOME	**Ps. 10,888**	**Ps. 8,517**

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

The accompanying Consolidated Income Statements have been approved by the Board of Directors in accordance with the responsibility assigned to them.

The attached Notes are an integral part of these Consolidated Income Statements.

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

GRUPO FINANCIERO BANORTE, S.A.B. DE C.V. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011
(In millions of Mexican pesos)

	PAID-IN CAPITAL		OTHER CAPITAL			
	Common stock	Additional paid-in capital	Capital reserves	Retained earnings from prior years	Result from valuation of securities available for sale	Result from valuation of instruments for cash flow hedging
Balances, January 1, 2011	**Ps. 11,971**	**Ps. 1,673**	**Ps. 3,181**	**Ps. 25,492**	**Ps. 309**	**(Ps. 2,214)**
TRANSACTIONS APPROVED BY STOCKHOLDERS:						
Issuance (repurchase) of shares	1	171	43	(87)	333	-
Transfer of prior year's result	-	-	-	6,705	-	-
Dividend declared at the General Stockholders' meeting on:						
February 18, 2011	-	-	-	(343)	-	-
April 29, 2011	-	-	-	(419)	-	-
October 17, 2011	-	-	-	(395)	-	-
Merger effect of IXE Grupo Financiero, S.A.B. de C.V. (Stock issuance)	1,078	16,161	-	-	-	-
Total transactions approved by stockholders	**1,079**	**16,332**	**43**	**5,461**	**333**	**-**
COMPREHENSIVE INCOME:						
Net income	-	-	-	-	-	-
Result from valuation of securities available for sale	-	-	-	-	(454)	-
Effect of subsidiaries, affiliates and mutual funds	-	1	-	(30)	-	-
Result from valuation of instruments for cash flow hedging	-	-	-	-	-	(323)
Effect of modification to consumer loans rating rules (net of differed tax)	-	-	-	(350)	-	-
Total comprehensive income	**-**	**1**	**-**	**(380)**	**(454)**	**(323)**
Minority interest	-	-	-	-	-	-
Balances, December 31, 2011	**13,050**	**18,006**	**3,224**	**30,573**	**188**	**(2,537)**
TRANSACTIONS APPROVED BY STOCKHOLDERS:						
Issuance (repurchase) of shares	22	314	-	4	(307)	-
Transfer of prior year's result	-	-	-	8,517	-	-
Creation of reserves as per General Stockholders' meeting on April 27, 2012	-	-	175	(175)	-	-
Dividend declared at the General Stockholders' meeting on:						
February 17, 2012	-	-	-	(395)	-	-
April 27, 2012	-	-	-	(419)	-	-
October 11, 2012	-	-	-	(426)	-	-
Total transactions approved by stockholders	**22**	**314**	**175**	**7,106**	**(307)**	**-**
COMPREHENSIVE INCOME:						
Net income	-	-	-	-	-	-
Result from valuation of securities available for sale	-	-	-	-	1,717	-
Effect of subsidiaries, affiliates and mutual funds	-	-	-	(35)	-	-
Result from valuation of instruments for cash flow hedging	-	-	-	-	-	44
Total comprehensive income	**-**	**-**	**-**	**(35)**	**1,717**	**44**
Minority interest	-	-	-	-	-	-
Balances, December 31, 2012	**Ps. 13,072**	**Ps. 18,320**	**Ps. 3,399**	**Ps. 37,644**	**Ps. 1,598**	**(Ps. 2,493)**

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

	OTHER CAPITAL				
	Cumulative foreign currency translation adjustment	Net income	Total majority interest	Minority interest	Total stockholders' equity
Balances, January 1, 2011	**(Ps. 1,000)**	**Ps. 6,705**	**Ps. 46,117**	**Ps. 4,110**	**Ps. 50,227**
TRANSACTIONS APPROVED BY STOCKHOLDERS:					
Issuance (repurchase) of shares	-	-	461	-	461
Transfer of prior year's result	-	(6,705)	-	-	-
Dividend declared at the General Stockholders' meeting on:					
February 18, 2011	-	-	(343)	-	(343)
April 29, 2011	-	-	(419)	-	(419)
October 17, 2011	-	-	(395)	-	(395)
Merger effect of IXE Grupo Financiero, S.A.B. de C.V. (Stock issuance)	-	-	17,239	-	17,239
Total transactions approved by stockholders	**-**	**(6,705)**	**16,543**	**-**	**16,543**
COMPREHENSIVE INCOME:					
Net income	-	8,517	8,517	-	8,517
Result from valuation of securities available for sale	-	-	(454)	-	(454)
Effect of subsidiaries, affiliates and mutual funds	828	-	799	-	799
Result from valuation of instruments for cash flow hedging	-	-	(323)	-	(323)
Effect of modification to consumer loans rating rules (net of differed tax)	-	-	(350)	-	(350)
Total comprehensive income	**828**	**8,517**	**8,189**	**-**	**8,189**
Minority interest	-	-	-	1,475	1,475
Balances, December 31, 2011	**(172)**	**8,517**	**70,849**	**5,585**	**76,434**
TRANSACTIONS APPROVED BY STOCKHOLDERS:					
Issuance (repurchase) of shares	-	-	33	-	33
Transfer of prior year's result	-	(8,517)	-	-	-
Creation of reserves as per General Stockholders' meeting on April 27, 2012	-	-	-	-	-
Dividend declared at the General Stockholders' meeting on:					
February 17, 2012	-	-	(395)	-	(395)
April 27, 2012	-	-	(419)	-	(419)
October 11, 2012	-	-	(426)	-	(426)
Total transactions approved by stockholders	**-**	**(8,517)**	**(1,207)**	**-**	**(1,207)**
COMPREHENSIVE INCOME:					
Net income	-	10,888	10,888	-	10,888
Result from valuation of securities available for sale	-	-	1,717	-	1,717
Effect of subsidiaries, affiliates and mutual funds	(375)	-	(410)	-	(410)
Result from valuation of instruments for cash flow hedging	-	-	44	-	44
Total comprehensive income	**(375)**	**10,888**	**12,239**	**-**	**12,239**
Minority interest	-	-	-	1,043	1,043
Balances, December 31, 2012	**(Ps. 547)**	**Ps. 10,888**	**Ps. 81,881**	**Ps. 6,628**	**Ps. 88,509**

Dr. Alejandro Valenzuela del Río
CEO

Ing. Rafael Arana de la Garza
CFO

Lic. Benjamín Vidargas Rojas
Managing Director – Audit

Lic. Jorge Eduardo Vega Camargo
Deputy Managing Director – Controller

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

GRUPO FINANCIERO BANORTE, S.A.B. DE C.V. AND SUBSIDIARIES
CONSOLIDATED CASH FLOW STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011
(In millions of Mexican pesos)

	2012	2011
Net income	**Ps. 10,888**	**Ps. 8,517**
Items not requiring (generating) resources:		
Technical reserves	8,708	9,316
Depreciation and amortization	1,148	1,549
Other provisions	2,265	(271)
Current and deferred income tax	4,128	3,399
Equity in earnings of unconsolidated subsidiaries and associated companies	597	696
	27,734	**23,206**
OPERATING ACTIVITIES:		
Changes in margin accounts	(244)	233
Changes in investments in securities	(15,296)	(51,179)
Changes in debtor balances under repurchase and resale agreements	(1,865)	1,191
Changes in asset position of derivatives	(2,437)	(4,866)
Change in loan portfolio	(51,380)	(52,461)
Changes in acquired collection rights	450	(598)
Changes in accounts receivable from insurance and annuities, net	69	(953)
Changes in debtor premiums, net	305	(3,442)
Changes in reinsurance (net) (asset)	(122)	(2,594)
Changes in receivables generated by securitizations	(26)	108
Change in foreclosed assets	(692)	(1,008)
Change in other operating assets	(837)	(6,595)
Change in deposits	55,653	42,465
Change in interbank and other loans	474	(884)
Change in creditor balances under repurchase and sale agreements	271	14,554
Collateral sold or pledged	6	20
Change in liability position of derivative financial instruments	1,861	4,966
Change in technical reserves (net)	608	33,090
Changes in reinsurance (net) (liability)	(441)	1,246
Change in subordinated debentures	2,933	(4,389)
Change in other operating liabilities	4,103	1,988
Change in hedging instruments related to operations	(248)	1,865
Income tax	(1,821)	(1,935)
Net cash flows provided by (used in) operating activity	**19,058**	**(5,972)**
INVESTING ACTIVITIES:		
Proceeds on disposal of property, furniture and equipment	1,335	1,832
Payments for acquisition of property, furniture and equipment	(2,798)	(4,244)
Payment on acquisitions of Subsidiaries and associated companies	(1,727)	(3,002)
Sale of other permanent investments	-	183
Charges for cash Dividends	251	469
Cash flow received from Ixe companies	-	4,368
Net cash flows used in investment activity	**(2,939)**	**(394)**
FINANCING ACTIVITIES:		
Dividends paid	(1,240)	(1,157)
Repurchase of shares	33	461
Net cash flows used in financing activity	**(1,207)**	**(696)**
Change in permanent investments due to consolidation	**-**	**2,060**
Net increase (decrease) in cash and cash equivalents	14,912	(5,002)
Effects from changes in the value of cash and cash equivalents	(85)	162
Cash and cash equivalents at the beginning of the year	53,653	58,493
Cash and cash equivalents at the end of the year	**Ps. 68,480**	**Ps. 53,653**

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

Dr. Alejandro Valenzuela del Río
CEO

Ing. Rafael Arana de la Garza
CFO

Lic. Benjamín Vidargas Rojas
Managing Director – Audit

Lic. Jorge Eduardo Vega Camargo
Deputy Managing Director – Controller

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

GRUPO FINANCIERO BANORTE, S.A.B. DE C.V. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011
(In millions of Mexican pesos, except exchange rates and Note 32)

1 – ACTIVITY AND REGULATORY ENVIRONMENT

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

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

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

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

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

The Financial Group's consolidated financial statements have been approved by the Board of Directors at its January 17, 2013 meeting in accordance with the responsibilities assigned to this Organ.

At the Extraordinary General Shareholders' Meeting held on March 30, 2011, it was agreed to merge IXE Grupo Financiero, S.A.B. de C.V. with the Financial Group, once the authorization and the relevant agreements were registered in the Public Registry of Commerce in Monterrey, Nuevo Leon; on April 15, 2011, the merger took effect with the Financial Group as the merging entity. Prior to this merger, the Financial Group increased the variable part of its capital by Ps. 1,078 through the issuance of 308,010,234 ordinary, nominative Series "O" shares, which were exchanged for shares of IXE Grupo Financiero, S.A.B. de C.V., who after the merger ceased to exist as a legal entity.

2 – SIGNIFICANT EVENTS DURING THE YEAR

a. **Acquisition of 99.99% of Ixe Tarjetas de Crédito S.A. de C.V. SOFOM ER**

Banco Mercantil del Norte, S.A., Institución de Banca Múltiple, Grupo Financiero Banorte (Banorte) acquired 50% of the capital stock of Ixe Tarjetas, S.A. de C.V., SOFOM ER (Ixe Tarjetas) by means of an agreement entered into with CMC Holding Delaware, Inc. Such agreement established that the transition of the stock share in favor of Banorte would be carried out on January 1, 2012, and, in exchange, Banorte made a payment of USD 62.7 as consideration. The acquisition consisted of 50,000 Class I, Series B shares and 820,220,500 Class II, Series B shares; all of which represent 50% of the share holdings in Ixe Tarjetas. This acquisition generated goodwill of Ps. 727.

Furthermore, in April 2012 Banorte acquired 49.99% of the stock share of Ixe Tarjetas that was in the possession of Ixe Banco, S.A., Institución de Banca Múltiple, Grupo Financiero Banorte (Ixe Banco) at its book value for a total of Ps. 480 that was recorded as permanent investment. With these two acquisitions Banorte now holds 99.99% of the stock share in Ixe Tarjetas and controls this subsidiary, and consequently, consolidates its financial statements beginning in April 2012.

Ixe Tarjetas later changed its business name to Banorte Ixe Tarjetas, S.A. de C.V., Sociedad Financiera de Objeto Múltiple, Entidad Regulada, Grupo Financiero Banorte.

b. **Brokerage Houses Merger**

On December 7, 2011, at the Extraordinary General Stockholders' Meeting it was approved a merger agreement between Casa de Bolsa Banorte, S.A. de C.V., Grupo Financiero Banorte, as the merged company, and Ixe Casa de Bolsa, S.A. de C.V., Grupo Financiero Banorte, as the merging company.

On December 9, 2011, pursuant to the provisions of article 10 of the Law for the Regulation of Financial Institutions and the approval of the Commission and Banco de México, the SHCP [Ministry of Treasury] issued document UBVA/099/2011 by which it authorized the merger of Ixe Casa de Bolsa, S.A. de C.V., Grupo Financiero Banorte as the surviving acquiring corporation, and Casa de Bolsa Banorte, S.A. de C.V., Grupo Financiero Banorte as the acquired corporation that ceased to exist. The merger became effective on January 1, 2012 once the relevant merger agreements were recorded in the Public Registry of Commerce.

c. **Strategic merger of Afore Banorte Generali and Afore XXI**

On December 23, 2011, the Extraordinary General Stockholders' Meeting approved a merger agreement between Banorte Generali, S.A. de C.V., AFORE, as the acquired company, and Afore XXI, S.A. de C.V., (Afore XXI) as the acquiring company.

The merger was authorized by CONSAR in Official Document D00/-100/-095/-2011 dated December 5, 2011.

On January 16, 2012, the mergers of Afore Banorte and Afore XXI and their respective Siefores went into effect with the registration of such Agreements in the Public Register of Property and Commerce. Since then, this entity changed its business name to Afore XXI Banorte, S.A. de C.V. (Afore XXI Banorte).

As a result of the merger, Banorte determined the loss of its control over Afore XXI Banorte. Since then, it no longer consolidates its financial statements; instead it is recognized under the equity method given its significant influence. The net assets of Afore XXI Banorte were then Ps. 1,297. The consolidated financial statements as of December 31, 2011 reflect the effects of the deconsolidation of Afore XXI Banorte, in order to make them comparable with the 2012 consolidated financial statements. As a result, there is a net asset effect of Ps. 648.

d. **Acquisition of Afore Bancomer through Afore XXI Banorte**

On November 27, 2012 the Financial Group reached an agreement with Banco Bilbao Vizcaya Argentaria, S.A. and BBVA Bancomer, S.A., Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer (Grupo BBVA) by which Afore XXI-Banorte acquired Administradora de Fondos para el Retiro Bancomer, S.A. de C.V. (Afore Bancomer).

In November 2012, Banorte made a capital contribution in the amount of Ps. 1,560 to Afore XXI-Banorte, thereby increasing the permanent investment in this entity's equity. This was part of the Afore Bancomer purchase transaction, which was finalized in January 2013 as described in Note 41.

e. **Issuance of subordinated debentures**

On June 8, 2012, Banorte made the fifth issuance of Subordinated Debentures (BANORTE 12), Preferred and Not Susceptible to Conversion to Shares in the local market, for an amount of Ps. 3,200, with 10 year maturity, pre-payable on the fifth, with a rate equivalent to the 28-day TIIE plus 1.5 percentage points. Moody's and HR Rating rated the securities Aaa.mx and HR AA+, respectively. The capitalization levels were strengthened by this issuance.

f. **Spin-offs and mergers**

On December 17, 2012 the Financial Group submitted a request to the Commission and the Ministry of Finance and Public Credit (SHCP) for their authorization to implement a disinvestment plan by which Banorte would withdraw its investment in Sólida Administradora de Portafolios, S.A. de C.V. (Sólida) and simultaneously carry out the merger of Banorte as the acquiring company with Ixe Banco and Fincasa Hipotecaria, S.A. de C.V. (Fincasa) as the acquired corporations.

The disinvestment plan will be carried out during 2013 under the following terms:

(i) Spin off Banorte, creating a new corporation (the Spun-off Corporation); leaving Banorte as the spinning-off company to continue carrying out the activities reserved to full-service banking institutions (the Spin-off).

(ii) As a result of the Spin-off, Banorte's assets, consisting of all of Sólida's capital stock shares, will be invested in the Spun-off Corporation.

(iii) Conduct the merger of the Spun-off Corporation, as the acquired corporation, with Sólida, the acquiring company, by which the latter assumes the rights and obligations of the former; and

(iv) Merge Sólida, as the acquired company, to Ixe Soluciones, S.A. de C.V., Sociedad Financiera de Objeto Múltiple, Entidad Regulada, Grupo Financiero Banorte (Ixe Soluciones), as the acquiring company, by which the latter assumes the rights and obligations of Sólida.

After the merger, Ixe Soluciones will perform all the activities currently carried out in Sólida, consequently modifying its business purpose and company name to Sólida Administradora de Portafolios, S.A. de C.V., Sociedad Financiera de Objeto Múltiple, E.R., Grupo Financiero Banorte.

The merger of Ixe Soluciones will go into effect once the corresponding authorization is obtained and recorded in the Public Registry of Commerce along with the relevant agreements.

The Banorte – Ixe Banco and Fincasa merger will become effective once the Commission gives its authorization and it is recorded in the Public Registry of Commerce along with the merger agreements.

The financial statements that will be used to carry out the spin-off and mergers described above will be those published nearest to the corresponding Stockholders' Meetings.

Furthermore, the Commission and SHCP are processing the request to authorize the merger of Ixe Automotriz, S.A. de C.V., Sociedad Financiera de Objeto Múltiple, E.R. Grupo Financiero Banorte as the acquired company, with Arrendadora y Factor Banorte, S.A. de C.V, Sociedad Financiera de Objeto Múltiple, Entidad Regulada, Grupo Financiero Banorte as the acquiring corporation.

g. **Effects of suspending the hedging accounting of the derivatives financial instruments that cover Ixe Banco's permanent bond**

In accordance with NIF B-7 "Business acquisitions", the Financial Group increased the goodwill from the acquisition of Ixe Grupo Financiero by Ps. 193, derived from the correction of an error in Ixe Banco originated from a date prior to the date of acquisition. The identification of the error is mentioned below.

In February 2007, Ixe Banco issued a perpetual bond for USD 120 million, with a quarterly interest payment of 9.75% and an early repurchase option as of February 26, 2012, and two foreign exchange swaps to cover the fluctuation of the interest rate in USD and the exchange rate USD of both interest and principal.

A verification of the retrospective evidence of the hedging concluded that such evidence was not highly effective, as it was outside the 80%-125% range. This ineffectiveness started since the outset of the swaps deal in May 2009. Therefore, the hedging relationship was revoked and the hedging accounting was suspended, pursuant to the criteria in effect.

At the time the hedging was cancelled, stated as the adjustment to the fair value of the primary position (Ps. 223), of which Ps. 193 was recorded in the Financial Group as goodwill and Ps. 30 in the year's net income.

h. **Restating of securities held-to-maturity**

In December 2012, Banorte restated securities held to maturity denominated in foreign currency to Securities available for sale, made up of bonds issued by the government of the United Mexican States (UMS) and bonds issued by Petróleos Mexicanos (PEMEX) for an amount of USD 418.5 million and EUR 19.0 million. The book value of the securities was Ps. 5,769, with a market value of Ps. 6,676, recognizing an appreciated surplus of Ps. 907 in the stockholders equity.

According to the Commission's Circular B-2 "Investments in Securities", Banorte may not classify securities acquired as of that date and up to December 31, 2014 in the category of Securities held to maturity.

i. **Increase in Goodwill derived from the acquisition of Ixe Grupo Financiero**

Pursuant to Bulletin B-7 "Business Acquisitions", the Financial Group continued the valuation and analysis process of the fair value of the assets and liabilities acquired from the Ixe Grupo Financiero companies. As of March 31, 2012, Management identified a difference of Ps. 1,488 in the fair value of some assets, mainly in the loans, collections rights and foreclosed assets items. The Financial Group analyzed the aforementioned assets and found that the events, facts and circumstances that caused the reduction in their fair value took place prior to the date on which Ixe Grupo Financiero was acquired, and the adjustments should have been recognized before the purchase. Consequently, on March 31, 2012, the Financial Group recognized these effects as an increase in goodwill generated by the acquisition of Ixe Grupo Financiero.

The results of applying the purchase method are described below:

Goodwill		Fair value
Swapped shares	(300,420,101 x 55.97)	Ps. 16,814
Shares in the trust	(7,590,133 x 55.97)	425
Consideration value		17,239
Merged assets		111,289
Merged liabilities		105,587
Merged net fixed assets		5,702
Total goodwill from the acquisition		**Ps. 11,537**

j. **Stockholders' equity of Ixe Soluciones and Fincasa**

By December 31, 2012, the subsidiaries Ixe Soluciones and Fincasa (the Companies) had lost more than two thirds of their capital stock and, according to the General Corporation and Partnership Law, this might cause the Companies' dissolution at the request of an interested third party. These factors indicate that the Companies may not continue operating. However, their main creditor is Banorte. Furthermore, there is a liability arrangement between the Companies and the Financial Group, pursuant to article 28 of the Financial Groups Regulation Law, by which the Financial Group will answer unlimitedly for the Companies and fulfill their obligations. Therefore the Management does not believe there is any risk of dissolving the companies. Additionally, as mentioned in subsection f) in this note, the Companies will be merged with Sólida and Banorte, respectively, in the short term and this situation will be corrected on the merger date.

3 – BASIS OF PRESENTATION

Monetary unit of the financial statements

The consolidated financial statements and notes as of December 31, 2012 and 2011 and for the years then ended include balances and transactions in Mexican pesos of purchasing power of such dates.

Consolidation of financial statements

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

As of December 31, 2012 and 2011, Grupo Financiero Banorte, S.A.B. de C.V.'s consolidated subsidiaries and its equity ownership is as follows:

	2012	2011
Banco Mercantil del Norte, S. A. and Subsidiaries	92.72%	92.72%
Arrendadora y Factor Banorte, S. A. de C. V. SOFOM, ER	99.99%	99.99%
Almacenadora Banorte, S. A. de C. V.	99.99%	99.99%
Seguros Banorte Generali, S. A. de C. V.	51.00%	51.00%
Pensiones Banorte Generali, S. A. de C. V.	51.00%	51.00%
Ixe Banco, S. A.*	99.99%	99.99%
Casa de Bolsa Banorte Ixe, S. A. de C. V. (was Ixe Casa de Bolsa)*	99.99%	99.99%
Ixe Fondos, S. A. de C. V.*	99.99%	99.99%
Ixe Servicios, S. A. de C. V.*	99.99%	99.99%
Ixe Automotriz, S. A. de C. V. SOFOM, ER and Subsidiary*	99.99%	99.99%
Ixe Soluciones, S. A. de C. V. SOFOM, ER*	99.99%	99.99%
Fincasa Hipotecaria, S. A. de C. V. SOFOM, ER and Subsidiary*	99.99%	99.99%
Casa de Bolsa Banorte, S. A. de C. V. and Subsidiaries***	-	99.99%
Banorte-Ixe Tarjetas, S. A. de C. V. SOFOM, ER **	-	50%

*Subsidiary consolidated as of April 2011.

**Subsidiary consolidated in Banco Mercantil as of April 2012.

***Subsidiary merged with Casa de Bolsa Banorte Ixe S.A. de C.V. as of January 2012.

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 pesos) according to the following methodology:

Foreign operations whose recording and functional currency are one and the same, convert their financial statements using the following exchange rates: a) year-end rate for assets and liabilities, b) historical for stockholders' equity, and c) weighted average of the period for income, costs and expenses. In 2012 and 2011, 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 Income Statements, in accordance with the accounting practices established by the Commission. In 2012 and 2011, comprehensive income includes the net income of the year, the result from valuation of securities available for sale; the effect of subsidiaries, affiliates and mutual funds; the result from valuation of cash flow hedging instruments; the application of the cumulative result of non-monetary asset holdings, and the change in credit card loan rating methodology.

4 – SIGNIFICANT ACCOUNTING POLICIES

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

Pursuant to accounting criteria A-1, "Basic Framework of the Accounting Criteria Applicable to Banking Institutions", prescribed by the Commission, the Institutions' accounting will adhere to Mexican Financial Reporting Standards (NIF), defined by the Mexican Board of Financial Reporting Standards (previously 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.

Changes in accounting policies

On October 5, 2011, the Commission issued a resolution to the General Provisions for Banking Institutions modifying criteria B-6 "Loan Portfolios", by which it clarifies the specific treatment applicable to loan restructuring and renewals. Furthermore, the circular clarifies the conditions for considering a loan as performing or past-due. This modification will eventually become effective on March 1, 2012.

The main changes to the provisions mentioned above are:

- The loan restructuring or renewal fees shall be deferred during the term of the loan.
- "Sustained payment" requires that the loan amortizations cover at least 20% of the principal or the total amount of the interest of any type that have been accrued according to the restructuring or renewal payments model.
- If various loans granted to a single borrower are consolidated by means of a restructure or renewal, the loan will be treated as the worst of the loans involved in the consolidation.
- In order to prove sustained payment, the Financial Group shall show the evidence of the borrower's payment capacity available to the Commission.
- This includes the treatment for loans with principal and interest amortizations that are restructured or renewed before 80% of the original term has elapsed. It also mentions the treatment for the time during the last 20% of the original term.
- It clarifies the conditions under which the original loan may undergo changes that are not to be considered as restructuring.

On July 5, 2012, the Official Gazette of the Federation published the Resolution that modifies the General Provisions Applicable to Banking Institutions regarding the updating of accounting criteria B-10 "Trusts" (B-10) and C-5 "Consolidation of Entities with a Specific Purpose" (C-5).

The main changes to criteria B-10 are that the valuation of the property held in trust recognized in memorandum accounts will be made pursuant to the accounting criteria for banking institutions except in the case of property held in trust of the trusts that so request it, and, if applicable, obtain and maintain their assets recorded in the National Securities Registry; in which case, said assets shall be valued based on the accounting standards the Commission establishes for such purpose in its general provisions applicable to securities issuers and other stock market participants.

The main changes to criteria C-5 state that for the consolidation of the Specific Purpose Entity (EPE), the consolidating entity shall abide by the stipulations of NIF B-8 "Consolidated or combined financial statements"; therefore the EPE's financial statements to consolidate shall be drawn up based on the same accounting criteria and, in the case of transactions of the same nature, the same accounting policies as the consolidating entity. In the opposite case or when the Commission expressly provides, the EPE shall use the accounting criteria or policies different from those applicable to the consolidating entity. The EPE's financial statements that are used for the consolidation shall be modified to make them consistent with those of the consolidating entity.

Recognition of the inflation effects in the financial information

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

The cumulative Mexican inflation over the three years prior to 2012 and 2011 was 12.12% and 15.09%, respectively. Therefore, the Mexican economy is considered as non-inflationary according to the NIF B-10 definition. However, assets, liabilities and stockholders' equity as of December 31, 2012 and 2011 include the restatement effects recorded up through December 31, 2007.

The Mexican inflation rates for the years ended December 31, 2012 and 2011 were 3.91% and 3.65%, respectively.

Cash and cash equivalents

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

Trading securities

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

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

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

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

Securities available for sale

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

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

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

Securities held to maturity

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

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

<u>General valuation standards</u>

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

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

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

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

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

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

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

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

An impairment loss on a security is recorded against the year's results if there is objective evidence of such impairment as a result of one or more events, occurring after the initial recording of the security, that have had an impact on the estimated future cash flows that can be reliably determined. The effect of recording the impairment of securities is shown in Note 6.

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

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

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

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

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

The events considered by the model are divided into:

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

d. Information that the market has about the issuer (rating assigned by Commission-approved agencies).

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

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

Customer repurchase agreements (repos)

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

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

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

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

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

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

Derivatives financial instruments

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

<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 delivery date of the goods.

Forward and futures contracts

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

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

In the case of transactions for trading purposes, 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 to which said price is established is the reference or underlying value.

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

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

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

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

Swaps

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

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

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

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

The Financial Group documents hedging transactions from the moment the derivatives instruments are designated as hedging transactions. A file for each transaction is created in order to have documented proof as per Circular B-5 paragraph 71 "Derivatives financial instruments and hedging operations" (B5) issued by the Commission, which establishes conditions for the use of hedging accounting.

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

- A cash flow hedging transaction is recorded as follows:

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

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

- A fair value hedging transaction is recorded as follows:

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

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

<u>Valuation method</u>

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

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

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

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

<u>Cancellation of hedging accounting</u>

A cash flow hedging relation is cancelled when:

1. The hedging instrument expires or is sold, terminated or enforced;
2. The hedging fails to meet the requirements of documentation, evaluation and effectiveness measuring;
3. The projected transaction is not expected to occur;
4. The hedging designation is revoked.

For cases 1 and 2, the profit or loss recorded in net income stays in that account until the projected transactions occurs. For case 3, the profit or loss recorded in net income should be immediately restated in results; and for case 4, if the hedging is on a projected transaction, the loss or profit stated in net income should stay in that account until the projected transactions is realized. Otherwise, it should be immediately restated in results.

A fair value hedging relation is canceled when:

1. The hedging instrument expires or is sold, terminated or enforced;
2. The hedging fails to meet the requirements of documentation, evaluation and effectiveness measuring;
3. The hedging designation is revoked.

Any adjustment to the result from the valuation adjustment of the hedged item attributable to the covered risk, should be amortized in the period's results. The amortization start as soon as the adjustment turns up, and under no circumstance after the hedged item is no longer adjusted due to changes in the fair value attributable to the risk covered. The adjustment should be amortized in full on the due date of the hedged item.

Operation strategies

Trading

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

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

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

Hedging

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

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

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

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

Contingencies

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

At present no such contingency situations have arisen.

Embedded derivatives

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

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

Loan portfolio

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

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

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

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

The fees charged for the initial granting, restructuring and renewal of loans will be recorded as a 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 or a renewal, are recorded as a deferred credit and amortized over a 12-month period against the year's results in the fee income line item.

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

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

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

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

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

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

The Financial Group regularly evaluates whether a past-due loan should remain on the Consolidated Balance 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, unsecured by any fund.

Consumer loans – 180 days or more overdue.

Mortgage loans – 270 days or more overdue.

Allowance for loan losses

Application of new portfolio rating criteria

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

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

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

Since June 2001, the Financial Group has the Commission's approval to apply its own methodology, called Internal Risk Classification (CIR Banorte) to the commercial loans of Banorte and Arrendadora y Factor Banorte, S.A. de C.V. SOFOM ER. CIR

Banorte applies to commercial loans with outstanding balances equal to or greater than 4 million UDIS or its equivalent in Mexican pesos. Loan classification and reserve allowance are determined based on the rules set by the Commission. This methodology is explained below.

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

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

On December 3, 2012, the Commission issued Document 111-1/53384/2012, which renewed for a 7-month period, effective December 1, 2012, the authorization for such internal loan rating methodology.

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

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

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

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

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

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

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

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

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

General description of rules established by the Commission

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

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

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

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

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

Probability of default

- Non-revolving consumer loan – it takes into account the current arrears, the payments made on the past due balances, how many times the original value is paid, the type of loan, the remaining terms, among other things.
- Revolving consumer loan – considers the current situation and historical behavior regarding the number of outstanding payments, the life of the accounts, payments made with respect to the balance, as well as the used percentage of the authorized credit line.
- Mortgage loan – it considers the current arrears, maximum number of arrears over the last four periods, willingness to pay and the value of the property with respect to the loan balance.
- Government loans – considers payment experience, rating agencies' evaluation, financial risk, social-economical risk and financial soundness.

Severity of the loss

- Non-revolving consumer loan – depends on the number of missed payments.
- Revolving consumer loan – depends on the number of missed payments.
- Mortgage loan – considers the property's value compared to the loan balance, the amount of the housing property sub-account in Infonavit, unemployment insurance and the state where the loan was granted.
- Commercial state and municipal government loans – they consider actual financial and non-financial guarantees as well as personal guarantees.

Exposure to non-compliance

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

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

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

Acquired loan portfolios

This balance is represented by the acquisition cost of the various loan asset packages acquired by the Financial Group, which 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 Consolidated Income Statements provided it is not greater than the amount obtained by the interest method. The difference between the recorded amount and the amount collected reduces the outstanding portfolio balance, once the entire initial investment has been amortized. Any subsequent recovery will be recorded in the Consolidated Income Statements.

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

Premium receivables, net

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

On December 31, 2012, based on the internal policy approved by the CEO, the administration authorized excluding the cancellation process for certain policies with a premium over 45 days old which have not been collected totally or partially. These accounts are indeed collectible and negotiations with the insured are currently underway. On December 31, 2012, the premiums over 45 days old that have not been cancelled amounted to Ps. 255. The non-accrued net premium, fees and reinsurance should be subtracted from such amount to determine its net effect on earnings. This amount did not compute for the coverage of technical reserves.

Reinsurance

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

Securitizations involving transfer of ownership

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

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

The valuation of the benefits to be received from securitizations operations is recorded in the Consolidated Income Statements under "Other Income (Expenses)", as applicable.

Other accounts receivable and payable

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

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

Merchandise inventory

This is comprised mainly of corn, wheat and steel and is restated to the lower of replacement cost or market. Cost of sales, included in "Other Operating Income (Expenses)" in the Consolidated Income Statements is restated using the replacement cost at the time of the sale.

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

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

Foreclosed assets, net

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

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

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

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

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

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

Movable property reserves

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

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

II. Investments in securities must be valued in accordance with the provisions of the Commission's accounting Circular

B-2, using annual audited financial statements and monthly financial information of the issuer.

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

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

Real estate property reserves

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

The amount of the reserves to be created will be the result of applying the reserve percentage determined under the preceding table to the awarded value of the property based on the accounting criteria. Furthermore, when problems are identified regarding the realization of the value of the foreclosed property, the Financial Group records additional reserves based on management's best estimates. On December 31, 2012, there are no reserves in addition to those created by the percentage applied based on the accounting criteria that could indicate realization problems with the values of the foreclosed properties.

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

Property, furniture and equipment

Property, furniture and equipment are recorded at acquisition cost. The balances of acquisitions made until December 31, 2007 are 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 significant influence but not control, using the equity method based on the book values shown in the most recent financial statements of such entities.

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

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

The net effect of the aforementioned items is presented in the Consolidated Balance Sheets under the "Deferred taxes, net" line.

Intangible assets

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

Goodwill

The Financial Group records goodwill when the total fair value of the acquisition cost and the Minority Interest is greater than the fair value of the net assets of the acquired business, pursuant to NIF B-7 "Business acquisitions." As goodwill is considered an intangible asset with an indefinite life, it is subject to impairment tests at least annually according to NIF C-15 "Impairment in the value of long-lasting assets and their disposal." No indicators of impairment of goodwill have been identified as of December 31, 2012 and 2011.

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

Technical reserves

The CNSF stipulates that all technical reserves shall be certified on an annual basis by independent actuaries who confirm that the amount of the reserves recorded by the Financial Group on December 31, 2012 are reasonably acceptable based on their obligations, within the parameters established by the actuary, and abiding by the relevant criteria established by the competent authorities.

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

1. Current risk reserve:

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

To value these technical reserves, the following demographic suppositions were used:

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

The current risk reserve is valued as per the following:

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

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

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

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

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

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

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

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

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

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

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

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

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

2. Contractual obligations:

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

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

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

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

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

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

3. Catastrophic reserve:

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

Provisions

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

Employee retirement obligations

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

Defined benefit plan

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

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

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

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

Defined contribution plan

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

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

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

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.

During 2012, Ixe Banco, Casa de Bolsa Banorte Ixe, Ixe Fondos, Fincasa Hipotecaria, Ixe Automotriz, Banorte-Ixe Tarjetas and Ixe Fleet, transferred its employees to Banorte; transferred employees will receive the same benefits provided by Banorte to their employees, so from the date of transfer, Banorte is responsible for covering the concepts of obligation for pension plans, seniority premiums, indemnities and medical service to employees transferred.

The effect of the transfer of employees to Banorte was Ps. 74, this effect is part of the liability recognized by the Financial Group under the actuarial calculation at December 31, 2012.

Foreign currency conversion

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

Interest from outstanding subordinated debentures

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

Transfer of financial assets

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

Share-based payments

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

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

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

Memorandum accounts

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

<u>Contingent assets and liabilities (unaudited):</u>

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

<u>Assets in trust or mandate (unaudited):</u>

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

<u>Assets in custody or under management (unaudited):</u>

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

Loan commitments (unaudited):

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

Collateral received:

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

Collateral received and sold or given as a pledge:

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

Main subsidiaries' income recognition

Casa de Bolsa Banorte Ixe

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

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

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

Securities' intermediation results are recorded when performed.

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

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

Arrendadora y Factor Banorte and Ixe Automotriz

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

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

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

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

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

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

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

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

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

5 – CASH AND CASH EQUIVALENTS

As of December 31, 2012 and 2011, this line item was composed as follows:

	2012	2011
Cash	Ps. 15,190	Ps. 12,331
Banks	44,911	38,481
Other deposits and available funds	8,379	2,841
	Ps. 68,480	**Ps. 53,653**

"Banks" is represented by cash in Mexican pesos and US dollars converted at the exchange rate issued by Banco de México of Ps. 12.9658 and Ps. 13.9476 as of December 31, 2012 and 2011, respectively and is made up as follows:

	Mexican pesos		Denominated in US dollars		Total	
	2012	2011	2012	2011	2012	2011
Call money	Ps. 6,101	Ps. -	Ps. 8,946	Ps. 7,671	Ps. 15,047	Ps. 7,671
Deposits with foreign credit institutions	-	-	432	1,713	432	1,713
Domestic banks	517	434	-	-	517	434
Banco de México	28,598	28,591	317	72	28,915	28,663
	Ps. 35,216	**Ps. 29,025**	**Ps. 9,695**	**Ps. 9,456**	**Ps. 44,911**	**Ps. 38,481**

As of December 31, 2012 and 2011, the Financial Group had made monetary regulation deposits of Ps. 28,598 and Ps. 28,591, respectively.

As of December 31, 2012 and 2011, the total sum of restricted cash and cash equivalents is Ps 52,028 and Ps 39,655, respectively. This includes monetary regulation deposits, futures placed in the domestic and foreign market, call money and contracted transactions pending liquidation in 24 and 48 hours.

The interbank loans are documented and accrued at an average rate of return of 0.446% and 0.348% in USD and 0.20% and 0.18% in pesos, as of December 31, 2012 and 2011, respectively.

On December 31, 2012, "Other deposits and available funds" include Ps. 6,670 for funds due to be received in 24 and 48 hours, Ps. 49 in gold and silver coins, Ps. 59 immediately collectible checks and Ps. 6 in remittances. In 2011, it includes Ps. 2,495 for funds due to be received in 24 and 48 hours, Ps. 35 in gold and silver coins, Ps. 130 immediately collectible checks and Ps. 13 in remittances.

The exchange rates used for the conversion of gold and silver coins (Centenarios and Troy ounces, respectively) was Ps. 528.572 and Ps. 410.37, per unit, respectively, in 2012 and Ps. 525.202 and Ps. 413.96, per unit, respectively, in 2011.

6 – INVESTMENTS IN SECURITIES

a. Trading securities

As of December 31, 2012 and 2011, trading securities are as follows:

	2012				2011
	Acquisition cost	Accrued interest	Valuation increase (decrease)	Book value	Book value
CETES	Ps. 4,165	Ps. 11	Ps. 1	Ps. 4,177	Ps. 11,215
Bonds	63,730	378	29	64,137	4,612
Development Bonds	4,472	9	2	4,483	7,452
Savings Protection Bonds (BPAS)	20,896	131	(4)	21,023	57,288
UDIBONOS	1,164	1	(2)	1,163	150
Negotiable certificates	474	1	12	487	577
Bank securities	8,667	16	14	8,697	25,681
EUROBONDS	308	5	20	333	-
Securitization certificates	18,007	26	69	18,102	6,564
Treasury notes	1	3	-	4	-
Other securities	111	-	(2)	109	1,446
Shares	452	-	(43)	409	-
Investment funds	109	-	-	109	42
	Ps. 122,556	**Ps. 581**	**Ps. 96**	**Ps. 123,233**	**Ps. 115,027**

During 2012 and 2011, the Financial Group recognized under "Brokerage revenues" a loss and a profit of Ps. 1,360 and Ps. 517, respectively, for the fair value valuation of these instruments.

As of December 31, 2012 and 2011, there are Ps. 111,894 and Ps. 106,561, respectively, in restricted trading securities associated mainly with repurchase operations.

As of December 31, 2012, the maturities of the securities (expressed at their acquisition cost), are as follows:

	One year or less	More than one and up to 5 years	More than 5 and up to 10 years	More than 10 years	Total
CETES	Ps. 4,165	Ps. -	Ps. -	Ps. -	Ps. 4,165
Bonds	62,385	189	7	1,149	63,730
Development Bonds	739	3,634	99	-	4,472
Savings Protection Bonds (BPAS)	255	20,371	-	270	20,896
UDIBONOS	1,148	16	-	-	1,164
Negotiable certificates	474	-	-	-	474
Bank securities	5,182	3,434	51	-	8,667
EUROBONDS	-	11	25	272	308
Securitization certificates	12,670	4,973	363	1	18,007
Treasury notes	1	-	-	-	1
Other securities	111	-	-	-	111
Shares	-	-	-	452	452
Investment funds	109	-	-	-	109
	Ps. 87,239	**Ps. 32,628**	**Ps. 545**	**Ps. 2,144**	**Ps. 122,556**

b. Securities available for sale

As of December 31, 2012 and 2011, securities available for sale were as follows:

	2012				2011
	Acquisition cost	Accrued interest	Valuation increase (decrease)	Book value	Book value
US Government Bonds	Ps. 13,770	Ps. 34	Ps. 253	Ps. 14,057	Ps. 10,756
CETES	-	-	-	-	290
Bonds	7,102	17	13	7,132	6,808
Development Bonds	26,287	52	(34)	26,305	11,874
Savings Protection Bonds (BPAS)	35,338	493	(47)	35,784	6,002
Bank securities	1,841	3	(13)	1,831	9,496
Shares	-	-	-	-	318
Corporate bonds	1,151	8	154	1,313	1,278
EUROBONDS	8,863	207	1,146	10,216	3,434
Investment funds	8,477	-	41	8,518	-
CPO	-	-	-	-	21
Securitization certificates	9,340	28	(5)	9,363	3,094
Other securities	402	-	370	772	295
	Ps. 112,571	**Ps. 842**	**Ps. 1,878**	**Ps. 115,291**	**Ps. 53,666**

As of December 31, 2012 and 2011 there are Ps 78,024 and Ps 39,789, respectively, in restricted securities available for sale, mainly associated with securities repurchasing transactions.

As of December 31, 2012, 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. 13,643	Ps. 127	Ps. -	Ps. 13,770
CETES	-	-	-	-	-
Bonds	-	5,281	188	1,633	7,102
Development Bonds	13,641	8,750	3,896	-	26,287
Savings Protection Bonds (BPAS)	10,515	3,492	21,331	-	35,338
Bank securities	1,841	-	-	-	1,841
Corporate bonds	436	-	-	715	1,151
EUROBONDS	55	3,480	5,284	44	8,863
Investment funds	-	-	-	8,477	8,477
Securitization certificates	1,917	6,884	256	283	9,340
Other securities	-	-	-	402	402
	Ps. 28,405	**Ps. 41,530**	**Ps. 31,082**	**Ps. 11,554**	**Ps. 112,571**

c. Securities held to maturity

As of December 31, 2012 and 2011, securities held to maturity are as follows:

Medium and long-term debt instruments:

	2012			2011
	Acquisition cost	Accrued interest	Book value	Book value
Government bonds- support program for Special Federal Treasury Certificates	Ps. 828	Ps. -	Ps. 828	Ps. 793
Bonds	965	4	969	1
Development Bonds	1,300	5	1,305	19,200
CETES	1	-	1	9,983
Savings Protection Bonds (BPAS)	40,230	249	40,479	59,743
UDIBONOS	32,739	38	32,777	-
Bank securities	4,092	838	4,930	10,893
EUROBONDS	769	15	784	7,208
Securitization certificates	24,302	407	24,709	54,279
Other securities	68	-	68	48
	Ps. 105,294	**Ps. 1,556**	**Ps. 106,850**	**Ps. 162,148**

As of December 31, 2012 and 2011, there are Ps. 35,351 and Ps. 150,859, respectively, in restricted trading securities associated mainly with repurchasing operations.

As of December 31, 2012, 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. 828	Ps. 828
Bonds	336	573	-	56	965
Development Bonds	1,300	-	-	-	1,300
CETES	1	-	-	-	1
Savings Protection Bonds (BPAS)	20,071	20,159	-	-	40,230
UDIBONOS	91	101	-	32,547	32,739
Bank securities	765	-	566	2,761	4,092
EUROBONDS	-	596	143	30	769
Securitization certificates	1,524	7,042	2,350	13,386	24,302
Other securities	68	-	-	-	68
	Ps. 24,156	**Ps. 28,471**	**Ps. 3,059**	**Ps. 49,608**	**Ps. 105,294**

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

d. Collateral

The fair value of the collateral given in derivative transactions as of December 31, 2012 and 2011, is as follows:

		2012		
		Fair value in millions		
Type of collateral	**Instrument category**	**Pesos**	**USD**	**Euros**
Cash	-	Ps. 136	337	-
UMS	Held to maturity	-	-	-
PEMEX bonds	Held to maturity	-	25	-
PEMEX bonds	Available for sale	-	53	45
Bank bonds	Available for sale	-	-	-
Other	Available for sale	-	-	-
		Ps. 136	**415**	**45**

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

As of December 31, 2012 and 2011, the Financial Group had no instruments received as collateral.

As of December 2012 and 2011, interest income from securities was Ps. 14,125 and Ps. 12,551, respectively.

During 2012 and 2011, accrued interest income from impaired instruments was Ps. 2 and Ps. 2, respectively.

The amount recorded for the impairment of securities available for sale and securities held to maturity as of December 31, 2012 and 2011 was:

Concept	2012	2011
Securities available for sale	Ps. 24	Ps. 24
Securities held to maturity	261	125
	Ps. 285	**Ps. 149**

7 – CREDITOR BALANCES UNDER REPURCHASE AND RESALE AGREEMENTS

As of December 31, 2012 and 2011, the creditor balance in repurchase transactions consist of:

Acting as seller of securities

Instrument	2012	2011
CETES	Ps. 2,288	Ps. 16,848
Development Bonds	47,830	38,552
Bonds IPAB	5,786	-
Quarterly IPAB bonds	79,258	66,046
Semi-annual IPAB bonds	54,401	56,434
10-year bonds	224	1,257
20-year bonds	9,929	10,326
UDIBONOS	774	101
10-year UDIBONDS	100	20
Negotiable CEBUR	5,948	570
Government securities	**206,538**	**190,154**
Promissory Notes	572	6,243
CEDES	5,214	12,393
Bank bonds	-	228
CEBUR Bank	21,084	18,943
Bank securities	**26,870**	**37,807**
Private paper	6,563	6,563
Short-term CEBUR	4,060	9,097
Mortgage certificates	-	135
Private securities	**10,623**	**15,795**
	Ps. 244,031	**Ps. 243,756**

With the Financial Group acting as the vendor, accrued premiums were charged to the results of operations as of December 31, 2012 and 2011 for Ps. 15,499 and Ps. 11,184, respectively.

During 2012, the period of repurchase transactions carried out by the Financial Group in its capacity as vendor ranged from 1 to 91 days.

Acting as securities purchaser

	2012				2011			
Instrument	Repurchase agreement from debtors	Received, sold collateral in repurchase	Debit difference	Credit difference	Repurchase agreement from debtors	Received, sold collateral in repurchase	Debit difference	Credit difference
Development Bonds	Ps. 4,756	Ps. 4,756	Ps. -	Ps. -	Ps. 2,704	Ps. 2,703	Ps. 1	Ps. -
Bonds IPAB	9,446	9,446	-	-	-	-	-	-
Quarterly IPAB bonds	18,925	18,925	-	-	2,370	2,370	-	-
Semi-annual IPAB bonds	16,548	10,859	5,689	-	3,802	-	3,802	-
UDIBONOS	581	581	-	-	-	-	-	-
10-year bonds	194	194	-	-	-	-	-	-
20-year bonds	-	-	-	-	-	-	-	-
Government securities	**50,450**	**44,761**	**5,689**	**-**	**8,876**	**5,073**	**3,803**	**-**
CEDES	701	701	-	-	-	-	-	-
Bank bonds	70	70	-	-	49	49	-	-
Securitized bank certificates	5,270	5,275	-	5	5,713	5,713	-	-
Bank securities	**6,041**	**6,046**	**-**	**5**	**5,762**	**5,762**	**-**	**-**
Private paper	1,025	1,040	-	15	1,387	1,387	-	-
Short-term CEBUR	3,272	3,283	6	17	6,963	6,967	27	31
Private securities	**4,297**	**4,323**	**5**	**31**	**8,350**	**8,354**	**27**	**31**
	Ps. 60,788	**Ps. 55,130**	**Ps. 5,695**	**Ps. 37**	**Ps. 22,988**	**Ps. 19,189**	**Ps. 3,830**	**Ps. 31**

With the Financial Group acting as the purchaser, accrued premiums were charged to the results of operations as of December 31, 2012 and 2011 for Ps. 6,206 and Ps. 2,974, respectively.

During 2012, repurchase transactions carried out by the Financial Group in its capacity as purchaser ranged in term from 1 to 364 days.

By December 31, 2012, the amount of goods corresponding to the guarantees given and received in repurchasing transactions that involved the transfer of property totaled Ps. 863 and Ps. 3,137, respectively, and by December 31, 2011, the totals were Ps. 814 in guarantees given and Ps. 608 in guarantees received.

8 – 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, 2012, 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, 2012 and 2011, the Financial Group's derivatives positions held for trading purposes are as follows:

	2012		2011	
Asset position	**Nominal amount**	**Asset position**	**Nominal amount**	**Asset position**
Futures				
CETES-rate futures	Ps. -	Ps. -	Ps. 500	Ps. -
TIIE-rate futures	184,826	3	42,141	-
Forwards				
Foreign currency forwards	9,166	152	7,630	547
Options				
Foreign currency options	-	-	109	-
Interest rate options	67,417	599	62,797	1,060
Swaps				
Interest rate swaps	528,431	15,682	467,532	12,389
Exchange rate swaps	26,883	1,803	9,290	1,858
Total trading	**816,723**	**18,239**	**589,999**	**15,854**
Options				
Interest rate options	9,750	6	9,750	100
Swaps				
Interest rate swaps	34,611	-	39,112	61
Exchange rate swaps	10,141	21	10,625	462
Total hedging	**54,502**	**27**	**59,487**	**623**
Total position	**Ps. 871,225**	**Ps. 18,266**	**Ps. 649,486**	**Ps. 16,477**

	2012		2011	
Liability position	**Nominal amount**	**Liability position**	**Nominal amount**	**Liability position**
Futures				
CETES-rate futures	Ps. -	Ps. -	Ps. 500	Ps. -
TIIE-rate futures	184,826	5	42,141	-
Forwards				
Foreign currency forwards	9,242	137	8,149	464
Options				
Foreign currency options	14	-	254	1
Interest rate options	96,284	396	63,822	1,003
Swaps				
Interest rate swaps	528,451	15,599	458,809	12,587
Exchange rate swaps	20,573	1,640	9,179	1,954
Total trading	**839,390**	**17,777**	**582,854**	**16,009**
Swaps				
Interest rate swaps	34,756	2,642	39,976	2,418
Exchange rate swaps	2,547	1,819	738	2,887
Total hedging	**37,303**	**4,461**	**40,714**	**5,305**
Total position	**Ps. 876,693**	**Ps. 22,238**	**Ps. 623,568**	**Ps. 21,314**

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

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

The risk management policies and internal control procedures for managing risks inherent to derivatives are described in Note 35.

Transactions carried out for hedging purposes have maturities from 2013 to 2031 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, 2012 is USD 415,003 thousand and EUR 45,000 thousand, and as of December 31, 2011 it was USD 685,953 thousand and EUR 25,888 thousand. Futures transactions are made through recognized markets, and as of December 31, 2012 they represent 5% of the nominal amount of all the derivatives' operations contracts; the remaining 95% correspond to option and swap transactions in OTC markets.

As of December 31, 2012 and 2011, the collateral was comprised mainly of cash, CETES, ITS BPAS, PEMEX bonds, UMS bonds and bank bonds restricted under the categories of trading, held to maturity and securities available for sale. The restriction maturity date for this collateral is from 2013 to 2031. Their fair value is shown in Note 6 d).

As of December 31, 2012 and 2011, the Financial Group had no instruments received as collateral in derivatives transactions.

During 2012 and 2011, the net income associated with the valuation and realization of derivatives was Ps. 518 and Ps. 241, respectively.

The net amount of estimated gains or losses originated by transactions or events that are recorded in cumulative other comprehensive income to date in the financial statements and that are expected to be reclassified to earnings within the next 12 months totals Ps. 24.

As of December 31, 2012 and 2011, 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 flows hedges as follows:

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

Fair value assets hedging

The Financial Group has fair value hedges as follows:

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

As of December 31, 2012 there are 39 cash flow hedging transactions. Cash flow hedging effectiveness varies between 80% and 100%, which are well within the range established by the current accounting criteria (from 80% to 125%). Furthermore, there is no over hedging on any of the derivatives, so as of December 31, 2012, there are no ineffective portions that are recorded at the market value that the Financial Group has to record in earnings.

The following are the Financial Group's hedged cash flows as of December 31, 2012, 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
Forecast Funding	Ps. 309	Ps. 948	Ps. 3,410	Ps. 1,983
Liabilities denominated in UDIs	101	190	158	-
Assets denominated in USD	3	3	27	208
Liabilities denominated in USD	340	314	4,958	5,278
Assets denominated in Euros	38	363	150	984
	Ps. 791	**Ps. 1,818**	**Ps. 8,703**	**Ps. 8,453**

The fair value of the instruments designated as cash flow hedging, recognized in overall earnings in stockholders' equity on December 31, 2012 and 2011 totaled Ps. 2,493 and Ps. 2,537, respectively. Furthermore, Ps. 75 and Ps. 15, respectively, were reclassified from stockholders' equity to results.

The (losses) gains recognized in derivatives financial instruments' results designated for trading were Ps. 321 and (Ps. 309), on December 31, 2012 and 2011, respectively.

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

The following table shows the cash flows hedging valuation balance:

	Valuation of cash 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
Balance, December 31, 2011	(Ps. 2,903)	(Ps. 789)	Ps. 15
Balance, December 31, 2012	(Ps. 2,780)	(Ps. 123)	Ps. 75

9 – LOAN PORTFOLIO

As of December 31, 2012 and 2011, the loan portfolio by loan type is as follows:

	Performing Loan Portfolio		Past-due loan portfolio		Total	
	2012	2011	2012	2011	2012	2011
Commercial loans						
Denominated in domestic currency						
Commercial	Ps. 156,279	Ps.130,729	Ps. 5,620	Ps. 4,053	Ps. 161,899	Ps. 134,782
Rediscounted portfolio	5,603	5,346	-	-	5,603	5,346
Denominated in USD						
Commercial	23,501	32,204	518	631	24,019	32,835
Rediscounted portfolio	678	744	-	-	678	744
Total commercial loans	**186,061**	**169,023**	**6,138**	**4,684**	**192,199**	**173,707**
Loans to financial institutions	8,434	11,560	4	1	8,438	11,561
Consumer loans						
Credit card	17,624	11,465	934	903	18,558	12,368
Other consumer loans	28,412	22,781	533	383	28,945	23,164
Mortgage loans	72,608	64,567	812	967	73,420	65,534
Government loans	88,293	71,162	60	11	88,353	71,173
	215,371	**181,535**	**2,343**	**2,265**	**217,714**	**183,800**
Total loan portfolio	**Ps. 401,432**	**Ps. 350,558**	**Ps. 8,481**	**Ps. 6,949**	**Ps. 409,913**	**Ps. 357,507**

Restructured loans

The restructured loans on December 31, 2012 and 2011 that modified their terms and rates are shown below:

	2012		2011	
	Performing	Past-due	Performing	Past-due
Commercial loans	Ps. 4,066	Ps. 864	Ps. 15,935	Ps. 540
Consumer loans	32	16	50	1
Mortgage loans	37	48	30	51
	Ps. 4,135	**Ps. 928**	**Ps. 16,015**	**Ps. 592**

As of December 31, 2012, past-due loans showed the following periods of delinquency:

	From 1 to 180 days	From 181 to 365 days	From 366 days to 2 years	More than 2 years	Total
Commercial loans					
Business loans	Ps. 2,694	Ps. 931	Ps. 382	Ps. 2,195	Ps. 6,202
Consumer loans	1,225	235	5	2	1,467
Mortgage loans	374	374	7	57	812
	Ps. 4,293	**Ps. 1,540**	**Ps. 394**	**Ps. 2,254**	**Ps. 8,481**

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

	From 1 to 180 days	From 181 to 365 days	From 366 days to 2 years	More than 2 years	Total
Commercial loans					
Business loans	Ps. 1,196	Ps. 870	Ps. 2,018	Ps. 612	Ps. 4,696
Consumer loans	1,204	6	74	2	1,286
Mortgage loans	637	137	25	168	967
	Ps. 3,037	**Ps. 1,013**	**Ps. 2,117**	**Ps. 782**	**Ps. 6,949**

Past-due loan movements for the years ended on December 31, 2012 and 2011 are shown below:

	2012	2011
Balance at the beginning of the year	Ps. 6,949	Ps. 6,664
IXE's NPLs incorporation	-	603
Liquidations	(1,638)	(1,954)
Write-offs*	(3,212)	(4,025)
Renewals	(401)	(555)
Loan portfolio purchases	-	1
Discounts	(116)	(95)
Foreclosures	(639)	(360)
Loan portfolio sales	(872)	(470)
Transfers to performing loans	(2,573)	(4,662)
Transfers from performing loans	11,060	11,735
Fluctuation from foreign exchange rate	(77)	67
Year-end balance	**Ps. 8,481**	**Ps. 6,949**

*Loans with 100% allowance for loan loss.

As of December 31, 2012, the balance of deferred fees was Ps. 2,061, and the amount recorded in results was Ps. 1,064. Furthermore, the deferred balance of costs and expenses associated with initial loan originations was Ps. 885, and the amount recorded in results was Ps. 532. As of December 31, 2011, the balance of deferred fee was Ps. 1,949, and the amount recorded in results was Ps. 933. Furthermore, the deferred balance of costs and expenses associated with initial loan originations was Ps. 384, and the amount recorded in results was Ps. 213. The average term over which the deferred fee balance and the costs and expenses will be recorded is equivalent to the average term of the portfolio balance.

The collected fees and costs incurred are presented on a net basis in the line item of deferred loans and advanced collections within the Consolidated Balance Sheets as well as in interest income and interest expenses, respectively, in the Consolidated Income Statements.

The average terms of the portfolio's main segments are: a) commercial, 2.9 years; b) financial institutions, 3.0 years; c) mortgage, 18.1 years; d) government loans, 13.8 years; and e) consumer, 5.4 years.

During the periods ended on December 31, 2012 and 2011, the balance of fully reserved past-due loans that was written off was Ps. 3,212 and Ps. 4,025, respectively.

On December 31, 2012 and 2011, revenues from recoveries of previously written-off loan portfolios were Ps 1,100 and Ps 1,178, respectively.

Customer insurance policies that the Financial Group includes as part of the loan portfolio correspond to car insurance; the rest of the insurance policies are not recorded in the Consolidated Balance Sheets and are collected when the loan is amortized by the client. The amount of financed car insurance policies by December 31, 2012 and 2011 is Ps. 21 and Ps. 19, respectively.

The loans granted per economic sectors as of December 31, 2012 and 2011, are shown below:

	2012		2011	
	Amount	Concentration percentage	Amount	Concentration percentage
Private (companies and individuals)	Ps. 192,199	46.89%	Ps. 173,707	48.59%
Financial institutions	8,438	2.06%	11,561	3.23%
Credit card and consumer	47,503	11.59%	35,532	9.94%
Mortgage	73,420	17.91%	65,534	18.33%
Government loans	88,353	21.55%	71,173	19.91%
	Ps. 409,913	**100%**	**Ps. 357,507**	**100%**

Policies and Procedures for Granting Loans

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

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

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

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

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

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

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

	2012	2011
Distressed portfolio	Ps. 3,121	Ps. 2,792
Total rated portfolio	439,561	371,212
Distressed portfolio/total rated portfolio	0.71%	0.75%

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.

10 – LOANS RESTRUCTURED IN UDIS

As of December 31, 2012 and 2011 the Financial Group has no mortgage loans restructured in UDIS.

Early termination of mortgage loan borrower support programs

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

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

The total amount of Federal Government payment obligations for commercial loans as of December 31, 2012 is Ps. 84, which includes Ps. 82 associated with the conditioned discount portion from loans in Mexican pesos and UDIS; and Ps. 2 associated with the discount applied to those mentioned in number 3.1.2 of Circular 1430.

The obligations of the Federal Government on December 31, 2012 subject to the Agreement are described below:

	Payment date	Amount
Third amortization	June 1, 2013	Ps. 28
Fourth amortization	June 1, 2014	28
Fifth amortization	June 1, 2015	28
		Ps. 84

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

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

	2012
Initial balance	Ps. 19
Financial Group support	67
Discounts and write-offs	14
Reserves reclassification	(9)
Contribution to settle fiduciary liability	1
Final balance	**Ps. 92**

During 2012, Ps. 9 was recognized in earnings related to the support of *punto final*.

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

Ps. 13 was used to repurchase Special CETES; the remaining balance not repurchased by the Federal Government as of December 31, 2012 is Ps. 818 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.

11 – 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:

	2012				
		Required allowances for losses			
Risk category	**Loan portfolio**	**Commercial portfolio**	**Consumer portfolio**	**Mortgage portfolio**	**Total**
Exempted portfolio	Ps. 87	Ps. -	Ps. -	Ps. -	Ps. -
Risk A	73,350	0	26	168	194
Risk A1	178,598	846	0	0	846
Risk A2	97,155	913	0	0	913
Risk B	29,023	0	1,005	217	1,222
Risk B1	39,106	794	382	0	1,176
Risk B2	10,915	81	682	0	763
Risk B3	2,445	273	0	0	273
Risk C	3,105	0	914	186	1,100
Risk C1	391	105	0	0	105
Risk C2	714	320	0	0	320
Risk D	2,064	408	1,004	6	1,418
Risk E	2,689	2,491	184	18	2,693
Unclassified	(81)				
	Ps. 439,561	**Ps. 6,231**	**Ps. 4,197**	**Ps. 595**	**Ps. 11,023**
Less: recorded allowance					**11,734**
Reserve supplement*					**Ps. 710**

*The reserves supplement conforms to the general provisions applicable to Bank Institutions. To cover 100% of the past-due interest and for the effects of inquiries in the credit bureau, a total of Ps. 133 was recorded, and in 2012 they include the recognition of Ps. 577 in the loan portfolio quality impairment derived from unforeseen factors in the rating methodologies.

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

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

The sum of the rated loan portfolio includes Ps. 25,929 and Ps. 10,475 in loans granted to subsidiaries whose balance and reserves were eliminated in the consolidation process as of December 31, 2012 and 2011, respectively.

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

As of December 31, 2012 and 2011, the estimated allowance for loan losses is determined based on portfolio balances at those dates.

As of December 31, 2012 and 2011, the allowance for loan losses represents 138% and 143%, 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, 2012 and 2011.

<u>Modification of the consumer and mortgage loan rating methodology</u>

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

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

If the aforementioned effect had been recorded in the results of year, the affected items and amounts that the Financial Group would have recorded in the Consolidated Balance Sheet and Income Statement would be:

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

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

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

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

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

Movements in allowance for loan losses

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

	2012	2011
Balance at the beginning of the year	Ps. 9,944	Ps. 8,245
Increase charged to results	8,594	5,356
Discounts and write-offs	(5,287)	(4,901)
Valuation in foreign currencies and UDIS	(36)	63
Discount granted to mortgage debtors	(12)	(72)
Consolidation of Ixe Tarjetas	446	-
Loan acquisitions	(2,040)	(358)
Recognized against retained earnings from prior years	16	628
Acquisition of Ixe Grupo Financiero	-	972
Other	-	11
Intercompanies eliminated	109	-
Year-end balance	**Ps. 11,734**	**Ps. 9,944**

As of December 31, 2012, the net amount of preventive loan loss reserves charged to the Consolidated Income Statement totals Ps. 6,172 and are presented net of items recorded in Other income or expenses from the operation (Ps. 52) and due to the variation of the USD (Ps. 1) exchange rate and eliminations from intercompany operations Ps. 2,475; said amount affected the results for Ps. 8,594 credited directly to the estimate. As of December 31, 2011, the net amount of preventive loan loss reserves charged to the Consolidated Income Statement totals Ps. 5,438, and is presented net of (Ps. 84) paid to Other income or expenses, and due to the variation of the USD Ps. 2 exchange rate; such amounts are affected against results is comprised of Ps. 5,356 credited directly to the estimate.

12 – ACQUIRED COLLECTION RIGHTS

As of December 31, 2012 and 2011, the acquired collection rights are comprised as follows:

	2012	2011	Valuation Method
INB I	Ps. 430	Ps. 614	Cash Basis Method
Bancomer IV	183	258	Cash Basis Method
Banamex Hipotecario	193	231	Cash Basis Method
INB II	100	117	Cost Recovery Method
Bancomer III	82	98	Cash Basis Method
Serfin Hipotecario	70	96	Cash Basis Method
Bital I	47	80	Cash Basis Method
Goldman Sach's	33	68	Cash Basis Method
Banorte Mortgage	106	127	Interest method
Comerci	-	586	Cost Recovery Method
Fincasa II	68	322	Cost Recovery Method
Sólida Mortgage	242	310	Cost Recovery Method
Fincasa I	71	172	Cost Recovery Method
Grupo Binomio Constructor	54	115	Cost Recovery Method
Solución productiva	20	86	Cost Recovery Method
Serfin Commercial II	36	67	Cost Recovery Method
Confia I	44	56	Cost Recovery Method
Serfin Commercial I	38	54	Cost Recovery Method
Bital II	45	50	Cost Recovery Method
Banorte Sólida Commercial	22	32	Cost Recovery Method
INB III	143	-	Cash Basis Method
Naos	408	-	Cost Recovery Method
Ixe Automotriz (Tú eliges)	3	20	Cost Recovery Method
Ixe Automotriz	48	-	Cost Recovery Method
Bancomer V	623	-	Cost Recovery Method
	Ps. 3,109	**Ps. 3,559**	

As of December 31, 2011, the Financial Group recognized income from credit asset portfolios of Ps. 698 derived from applying the valuation methods (described in Note 4), together with the respective amortization of Ps. 482, the effects of which were recognized under the "Other Operating Income (Expenses)" heading in the Consolidated Income Statement. For the year ended December 31, 2011, the Financial Group recognized income of Ps. 685, together with the respective amortization of Ps. 547.

As of December 31, 2012 Ixe Soluciones, S.A. de C.V. (Ixe Soluciones) had amortized the balance of the collection rights by means of settlements, collections in cash and sales of rights for Ps. 46, Ps. 33 and Ps. 535, respectively. As of December 31, 2011 Ixe Soluciones, S.A. de C.V. had amortized the balance of the collection rights by means of settlements, collections in cash and sales of rights for Ps. 68, Ps. 16 and Ps. 86, respectively.

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

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

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

13 – PREMIUM RECEIVABLES, NET

The balance of premium receivables as of December 31, 2012 and 2011 is made up as follows:

	2012	2011
Liability	Ps. 84	Ps. 83
Maritime and transportation	36	65
Fire	117	67
Automobile	1,016	968
Various	862	1,056
Accidents and health	430	827
Life	167	153
Pensions	75	86
	2,787	**3,305**
Federal public administration agencies' indebtedness	350	137
	Ps. 3,137	**Ps. 3,442**

14 – ACCOUNTS RECEIVABLE FROM REINSURANCE

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

	2012	2011
Insurance and annuities	Ps. 666	Ps. 513
Reinsurers' participation for pending claims	1,249	1,289
Reinsurers' participation for current risk	791	776
Other participations	9	16
	Ps. 2,715	**Ps. 2,594**

15 – OTHER ACCOUNTS RECEIVABLE, NET

As of December 31, 2012 and 2011, the other accounts receivable balance is as follows:

	2012	2011
Loans to officers and employees	Ps. 1,999	Ps. 1,249
Debtors from liquidation settlements	4,433	3,222
Debtors from cash collateral	4,508	4,419
Real estate property portfolios	1,789	1,940
Fiduciary rights*	6,813	6,970
Sundry debtors in Mexican pesos	2,842	1,866
Sundry debtors in foreign currency	824	762
Other	198	112
	23,406	**20,540**
Allowance for doubtful accounts	(309)	(192)
	Ps. 23,097	**Ps. 20,348**

* In most cases, the Financial Group has the preferred capital of the trusts, which were constituted to build real estate developments. Moreover the Financial Group recognizes an income from the trust's return on equity based on fulfilling the construction project's progress and/or sale, and suspends recording such income when the progress is not as expected in the plan included in the trust's contract.

As of December 31, 2011 and 2010, real estate portfolios include Ps. 303 that correspond to the collection rights issued by the INVEX trust as preferred securities with accounts receivable surety granted by Vitro Plano and that is valued applying the interest method.

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

16 – FORECLOSED ASSETS, NET

As of December 31, 2012 and 2011, the foreclosed assets' balance is as follows:

	2012	2011
Moveable property	Ps. 705	Ps. 331
Real estate property	2,971	2,459
Goods pledged for sale	33	18
	3,709	**2,808**
Allowance for losses on foreclosed moveable assets	(106)	(38)
Allowance for losses on foreclosed real estate assets	(651)	(474)
Allowance for losses on assets pledged for sale	(13)	(12)
	(770)	**(524)**
	Ps. 2,939	**Ps. 2,284**

17 – PROPERTY, FURNITURE AND EQUIPMENT, NET

As of December 31, 2012 and 2011, the property, furniture and equipment balance is as follows:

	2012	2011
Furniture and equipment	Ps. 9,651	Ps. 8,904
Property intended for offices	6,238	6,010
Installation costs	4,041	3,638
	19,930	**18,552**
Less - Accumulated depreciation and amortization	(7,944)	(6,836)
	Ps. 11,986	**Ps. 11,716**

The depreciation recorded in the results of 2012 and 2011 was Ps. 1,061 and Ps. 1,112, respectively.

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

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

18 – PERMANENT STOCK INVESTMENTS

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

	Share %	2012	2011
Banorte Mutual funds	Various	Ps. 14	Ps. 14
Controladora PROSA, S.A. de C.V.	19.73%	47	57
Afore XXI-Banorte, S.A. de C.V.	50%	4,434	1,038
Transporte Aéreo Técnico Ejecutivo, S.A. de C.V.	45.33%	246	116
Concesionaria Internacional Anzaldúas, S.A. de C.V.	40%	79	82
Internacional de Inversiones, S.A.P.I. de C.V.	5.62%	90	95
Servicios Banorte Generali, S. A. de C.V.	33%	14	22
Commercial Banorte Generali, S.A. de C.V.	33%	6	12
Horizontes Banorte Generali, S.A. de C.V.	49%	-	65
Ixe Tarjetas (credit cards), S.A. de C.V.*	-	-	356
Sociedades de Inversión Ixe Fondos (Mutual Funds)	Various	126	116
Other	Various	114	67
		Ps. 5,170	**Ps. 2,040**

* As of 2012, Banorte acquired 99.99% of the subsidiary's equity stock; and as of April of that year it consolidates the company as explained in Note 2.

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

19 – 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. 978) and (Ps. 40) as of December 31, 2012 and 2011, respectively, as detailed below:

	2012			2011		
	Temporary Differences	Deferred Effect		Temporary Differences	Deferred Effect	
		ISR	PTU		ISR	PTU
Temporary Differences - Assets						
Allowance for loan losses	Ps. 2,303	Ps. 700	Ps. -	Ps. 669	Ps. 215	Ps. -
Tax loss carry forwards	2,952	885	-	1,845	554	-
Surplus preventive allowances for credit risks over the net tax limit	1,002	300	103	4,200	1,198	375
Excess of tax over book value of foreclosed and fixed assets	1,971	569	56	1,437	396	66
PTU	692	208	83	463	139	45
Fees collected in advance	953	288	31	364	110	31
Accounting provisions	646	197	61	2,352	706	96
Other assets	350	112	1	145	46	-
Total assets	**Ps. 10,869**	**Ps. 3,259**	**Ps. 335**	**Ps. 11,475**	**Ps. 3,364**	**Ps. 613**

	2012			2011		
	Temporary Differences	Deferred Effect		Temporary Differences	Deferred Effect	
		ISR	PTU		ISR	PTU
Temporary Differences - Liabilities						
Unrealized loss in securities available-for-sale	Ps. 252	Ps. 88	Ps. -	Ps. 247	Ps. 86	Ps. -
Unrealized capital gain from special allowance	-	-	-	177	54	-
Portfolios acquired	1,120	330	91	2,271	660	122
Capitalizable projects' expenses	1,514	445	107	1,109	328	110
Reversal of sales costs	-	-	-	-	-	-
Contribution to pension fund	3,239	908	270	2,772	778	270
Intangible assets	1,826	517	-	480	145	-
Deferred from the IXE purchase method	366	110	-	1,659	498	-
Other	5,574	1,674	34	3,040	902	64
Total deferred liabilities	**Ps. 13,891**	**Ps. 4,072**	**Ps. 502**	**Ps. 11,755**	**Ps. 3,451**	**Ps. 566**
Net accumulated asset	**(Ps. 3,022)**	**(Ps. 811)**	**(Ps. 167)**	**(Ps. 280)**	**(Ps. 87)**	**Ps. 47**
Deferred tax, net			**(Ps. 978)**			**(Ps. 40)**

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

Banorte USA's deferred tax assets and liabilities are determined using the liability method. According to this method, the net asset or liability of deferred taxes is determined based on the tax effects of temporary differences between the book and tax base of assets and liabilities. Derived from consolidating Banorte USA, a net amount of Ps 55 was added to deferred taxes determined at a rate of 35% as per the tax law of the USA.

20 – OTHER ASSETS

As of December 31, 2012 and 2011, other assets are as follows:

	2012	2011
Net asset forecast from labor obligations and savings fund	Ps. 3,664	Ps. 3,113
Other amortizable expenses	7,100	6,305
Accumulated amortization of other expenses	(489)	(534)
Goodwill	15,356	15,689
	Ps. 25,631	**Ps. 24,573**

As of December 31, 2012 and 2011, Goodwill is as follows:

	2012	2011
Ixe Grupo Financiero, S.A.B. de C.V.	Ps. 11,537	Ps. 9,856
INB Financial Corp.	2,816	3,029
Afore XXI, S.A. de C.V.*	-	2,504
Banorte-Ixe Tarjetas, S. A. de C. V., SOFOM, ER	727	-
Uniteller Financial Services	252	271
Generali México Compañía de Seguros, S. A.	23	25
Royal Sun Alliance Pensiones (México), S.A. de C.V.	1	4
	Ps. 15,356	**Ps. 15,689**

* The Permanent stock investments line item was restated as the Financial Group no longer controlled Afore XXI.

As mentioned in Note 4, goodwill is not amortized and is subject to annual impairment tests. No impairment to goodwill value was detected as of December 31, 2012 and 2011.

21 – 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 2012 and 2011 the Financial Group generated a liquidity requirement of USD 78 thousand and USD 328 million, respectively, and held investments in liquid assets of USD 379 thousand and USD 646 million, representing a surplus of USD 301 million and USD 319 million, respectively.

Core Deposits

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

	2012	2011
Demand deposits		
Non-interest Bearing Checking accounts:		
Cash deposits	Ps. 99,059	Ps. 86,400
Checking accounts in US dollars for individual residents in the Mexican border	909	734
Demand deposits accounts	7,558	6,341
Interest Bearing Checking accounts:		
Other bank checking deposit	43,885	45,292
Savings accounts	411	346
Checking accounts in US dollars for individual residents on the Mexican border	1,512	1,621
Demand deposits accounts	57,837	48,882
	211,171	**189,616**
Time deposits		
General public:		
Fixed-term deposits	36,189	25,503
Retail time deposits	71,367	66,071
Promissory note with interest payable at maturity PRLV primary market for individuals	76,779	68,855
PRLV primary market for business entities	2,321	1,892
Foreign residents deposits	23	28
Provision for interest	376	286
	187,055	**162,635**
Money market:		
Fixed-term deposits	-	297
Promissory notes	19,624	9,103
Provision for interest	1,909	1,689
	21,533	**11,089**
	208,588	**173,724**
Senior debt issued		
Bank bonds	4,490	6,870
Provision for interest	76	83
	4,566	**6,953**
	Ps. 424,325	**Ps. 370,293**

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:

	2012				2011			
Foreign exchange	**1Q**	**2Q**	**3Q**	**4Q**	**1Q**	**2Q**	**3Q**	**4Q**
Mexican pesos and UDIS	0.56%	0.56%	0.52%	0.52%	0.54%	0.54%	0.52%	0.57%
Foreign Currency	0.03%	0.03%	0.03%	0.03%	0.03%	0.03%	0.03%	0.03%
Ixe Banco								
Mexican pesos and UDIS	-	-	-	0.46%	-	-	-	1.22%
Foreign Currency	-	-	-	0.00%	-	-	-	0.03%
Banorte USA (INB)								
Demand deposits accounts	0.05%	0.04%	0.05%	0.05%	0.75%	0.57%	0.20%	0.18%
Money market	0.10%	0.09%	0.08%	0.07%	0.74%	0.67%	0.45%	0.40%

Time deposits:

	2012				2011			
Foreign exchange	**1Q**	**2Q**	**3Q**	**4Q**	**1Q**	**2Q**	**3Q**	**4Q**
General public								
Mexican pesos and UDIS	3.61%	3.62%	3.53%	3.58%	3.41%	3.52%	3.46%	3.49%
Foreign Currency	0.61%	0.61%	0.55%	0.61%	0.70%	0.71%	0.91%	0.70%
Money market	4.97%	4.82%	4.72%	4.79%	5.46%	5.61%	5.26%	5.08%
Ixe Banco								
Mexican pesos and UDIS	-	-	-	4.00%	-	-	-	4.09%
Foreign Currency	-	-	-	0.46%	-	-	-	2.72%
Banorte USA (INB)	0.41%	0.39%	0.38%	0.36%	2.32%	2.30%	2.11%	1.82%

As of December 31, 2012 and 2011, the terms set for these deposits are as follows:

	2012			
	From 1 to 179 days	From 6 to 12 months	More than 1 year	Total
General public				
Fixed-term deposits	Ps. 25,310	Ps. 4,768	Ps. 6,111	Ps. 36,189
Retail time deposits	71,034	333	-	71,367
Promissory note with interest payable at maturity PRLV primary market for individuals	76,066	639	74	76,779
PRLV primary market for business entities	2,046	36	239	2,321
Foreign residents deposits	16	2	5	23
Provision for interest	312	32	32	376
	Ps. 174,784	**Ps. 5,810**	**Ps. 6,461**	**Ps. 187,055**
Money market				
Fixed-term deposits	-	-	-	-
Promissory notes	-	-	19,624	19,624
Provision for interest	-	-	1,909	1,909
	-	**-**	**21,533**	**21,533**
Senior debt issued	**-**	**-**	**4,566**	**4,566**
	Ps. 174,784	**Ps. 5,810**	**Ps. 32,560**	**Ps. 213,154**

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

22 – INTERBANK AND OTHER LOANS

The loans received from other banks as of December 31, 2012 and 2011 are as follows:

	Mexican pesos		Denominated in USD		Total	
	2012	**2011**	**2012**	**2011**	**2012**	**2011**
Immediately due						
Domestic banks (Call money)	Ps. 295	Ps. 3,968	Ps. -	Ps. -	Ps. 295	Ps. 3,968
	295	**3,968**	**-**	**-**	**295**	**3,968**
Short-term						
Banco de México	7,000	3,000	-	-	7,000	3,000
Commercial banks	2,424	1,585	67	1,050	2,491	2,635
Development banks	12,333	12,626	2,189	2,508	14,522	15,134
Public trusts	3,336	4,052	208	191	3,544	4,243
Provision for interest	65	131	6	7	71	138
	25,158	**21,394**	**2,470**	**3,756**	**27,628**	**25,150**
Long-term						
Commercial banking	1,131	988	-	-	1,131	988
Development banking	2,224	2,312	522	184	2,746	2,496
Public trusts	3,893	2,673	212	169	4,105	2,842
Provision for interest	0	4	-	-	0	4
	7,248	**5,977**	**734**	**353**	**7,982**	**6,330**
	Ps. 32,701	**Ps. 31,339**	**Ps. 3,204**	**Ps. 4,109**	**Ps. 35,905**	**Ps. 35,448**

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

The average interest rates are shown below:

	2012				2011			
Foreign exchange	**1Q**	**2Q**	**3Q**	**4Q**	**1Q**	**2Q**	**3Q**	**4Q**
Call money								
Mexican pesos and UDIS	4.52%	4.45%	4.47%	4.45%	4.55%	4.52%	4.47%	4.45%
Other bank loans								
Mexican pesos and UDIS	4.89%	4.71%	4.59%	4.60%	5.54%	5.00%	4.93%	4.90%
Foreign Currency	1.80%	2.10%	2.05%	2.45%	1.55%	1.22%	1.60%	1.65%

Banorte USA liabilities accrue interest at an average rate of 0.67% and 2.86% as of December 2012 and 2011, respectively. Moreover, the loans obtained by Arrendadora y Factor Banorte, S.A. de C.V. accrue an average interest rate of 5.68% and 6.16% in Mexican pesos and 1.96% and 2.91% in U.S. dollars as of December 31, 2012 and 2011, respectively. Furthermore the interbank and other loans engaged by Ixe Banco are settled at annual rates between 4.13% and 4.21%.

23 – TECHNICAL RESERVES

The balance of the technical reserves as of December 31, 2012 and 2011 is made up as follows:

	2012	2011
Current risk:		
Life	Ps. 42,356	Ps. 34,390
Accidents and health	988	847
Damages	2,517	2,325
	45,861	**37,562**
Contractual obligations:		
Claims and expirations	2,037	2,152
Unreported claims	1,358	742
Dividends on policies	381	362
Insurance funds under management	11	12
Security premiums	230	96
	4,017	**3,364**
Contingency:		
Catastrophic risk	510	408
Contingencies	801	634
Special	533	438
	1,844	**1,480**
	Ps. 51,722	**Ps. 42,406**

24 – SUNDRY CREDITORS AND OTHER PAYABLES

As of December 31, 2012 and 2011, the balance of sundry creditors and other payables is as follows:

	2012	2011
Cashier and certified checks and other negotiable instruments	Ps. 2,610	Ps. 1,841
Provision for employee retirement obligations and saving fund	717	524
Provisions for other obligations	3,778	3,489
Other	7,923	6,286
	Ps. 15,028	**Ps. 12,140**

25 – EMPLOYEE RETIREMENT OBLIGATIONS

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

The amount of current and projected benefits as of December 31, 2012 and 2011, related to the defined benefit pension plan, seniority premiums and retiree medical coverage, determined by independent actuaries, is analyzed below:

	2012			
	Pension plan	**Seniority premiums**	**Medical services**	**Total**
Projected benefit obligation (PBO)	(Ps. 951)	(Ps. 231)	(Ps. 2,779)	(Ps. 3,961)
Fund market value	1,433	323	3,489	5,245
Funded status	**482**	**92**	**710**	**1,284**
Transition asset (obligation)	-	-	-	-
Unrecognized prior service cost	-	1	232	233
Unrecognized actuarial losses	462	14	1,215	1,691
Net projected asset	**Ps. 944**	**Ps. 107**	**Ps. 2,157**	**Ps. 3,208**

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

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, 2012, a separate fund amounting to Ps. 5,245, (Ps. 4,511 in 2011) 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, 2012 and 2011, the net periodic pension cost is as follows:

	2012	2011
Service cost	Ps. 114	Ps. 129
Interest cost	252	237
Expected return on plan assets	(383)	(342)
Amortizations of unrecognized items:		
Transition obligation	85	86
Cost of the advance reduction/liquidation of obligations	-	(20)
Variations in assumptions	68	36
Effect of personnel transfer	18	-
Net periodic pension cost	**Ps. 154**	**Ps. 126**

The rates used in the calculation of the projected benefit obligation and return on plan assets as of December 31, 2012 and 2011, are shown below:

Concept	2012 Nominal	2011 Nominal
Discount rate	7.25%	8.50%
Rate of wage increase	4.50%	4.50%
Long-term inflation rate	3.50%	3.50%
Expected long-term rate of return on plan assets	7.25%	8.50%

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

Concept	2012	2011
Defined and projected benefit obligations	(Ps. 264)	(Ps. 256)
Transition obligation	-	20
Net projected liability	**(Ps. 264)**	**(Ps. 236)**

For the years ended December 31, 2012 and 2011, the net periodic pension cost is as follows:

Concept	2012	2011
Service cost	Ps. 23	Ps. 48
Interest cost	15	18
Transition obligation	20	21
Variations in assumptions	29	133
Effect of personnel transfer	56	-
Net periodic pension cost	**Ps. 143**	**Ps. 220**

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

The labor obligations derived from the defined contribution pension plan do not require an actuarial valuation as established in NIF D-3, because the cost of this plan is equivalent to the Financial Group's contributions made to the plan's participants. This pension plan maintains a fund as of December 31, 2012 and 2011, equivalent to Ps. 1,499 and Ps. 1,404, respectively, which is recorded under "Other assets" and is equivalent to the recorded plan liability.

26 – SUBORDINATED DEBENTURES

As of December 31, 2012 and 2011, the subordinated debentures in circulation are as follows:

	2012	2011
Preferred subordinated nonconvertible debentures, Q BANORTE 12 maturing in March 2022, paying interest at the 28-day TIIE rate plus 1,5%, payable in 130 periods of 28 days each.	Ps. 3,200	Ps. -
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).	2,593	2,790
Preferred subordinated nonconvertible debentures, Q BANORTE 08-U maturing in February 2028, interest at a 4.95% annual rate.	2,179	2,098
Perpetual subordinated debentures at an annual rate of 9.75%, payable on a quarterly basis with a total or partial maturity option as of February 26, 2012.	1,556	1,674
Perpetual 10-year subordinated debentures at an annual rate of 9.75%, payable twice a year with a total or partial maturity option as of October 14, 2020.	1,556	1,588
Subordinated debentures, maturing in June 2034, denominated in US dollars, at a 3-months LIBOR interest rate plus 2.75%.	134	144
Preferred subordinated debentures maturing in April 2034, denominated in US dollars, at a 3-months LIBOR interest rate plus 2.72%.	134	144
Accrued interest.	153	155
	Ps. 19,455	**Ps. 16,543**

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. 4 and Ps. 17 in 2012 and 2011, respectively.

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

Pursuant to Article 73 Bis of the LIC, the loans granted by Banking Institutions to related parties may not exceed 50% of the basic part of its net capital.

For the years ended December 31, 2011 and 2010, the amount of the loans granted to related parties were as follows:

Institution granting the loan	2012	% of the limit	2011	% of the limit
Banorte	Ps. 11,536	50.3%	Ps. 12,732	59.8%
Ixe Banco	1,787	68.6%	1,732	81.8%
	Ps. 13,323		**Ps. 14,464**	

The loans granted by both institutions are under the 100% limit set forth by the LIC.

As of December 31, 2012 and 2011, the payable balance of Afore XXI-Banorte is Ps. 1 and Ps. 2, respectively.

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

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

In official letter 601-II-323110 dated November 5, 2003, the Commission established the accounting criteria to be applied to this transaction and issued a series of rulings whereby the Financial Group 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 ended 2011 and 2012:

	Mexican pesos			Foreign Currency			Total		
Type of portfolio	**Aug 02**	**Dec 11**	**Dec 12**	**Aug 02**	**Dec 11**	**Dec 12**	**Aug 02**	**Dec 11**	**Dec 12**
Performing loan portfolio									
Commercial	Ps. 5	Ps. -	Ps. -	Ps. 5	Ps. -	Ps. -	Ps. 10	Ps. -	Ps. -
Mortgage	54	15	13	-	-	-	54	15	13
Total	**59**	**15**	**13**	**5**	**-**	**-**	**64**	**15**	**13**
Past-due portfolio									
Commercial	405	322	300	293	117	109	698	439	409
Consumer	81	72	72	-	-	-	81	72	72
Mortgage	1,112	303	282	-	-	-	1,112	303	282
Total	**1,598**	**697**	**654**	**293**	**117**	**109**	**1,891**	**814**	**763**
Total portfolio	**Ps. 1,657**	**Ps. 712**	**Ps. 667**	**Ps. 298**	**Ps. 117**	**Ps. 109**	**Ps. 1,955**	**Ps. 829**	**Ps. 776**
Allowance for loan losses (1)									
Commercial	326	321	300	246	117	109	572	438	409
Consumer	77	72	72	-	-	-	77	72	72
Mortgage	669	309	288	-	-	-	669	309	288
Total allowance for loan loss	**Ps. 1,072**	**Ps. 702**	**Ps. 660**	**Ps. 246**	**Ps. 117**	**Ps. 109**	**Ps. 1,318**	**Ps. 819**	**Ps. 769**

(1) Allowances required based on the classification methodology applied in the Financial Group that maintained a 99.99% equity interest in Sólida during 2012 and 2011.

As of December 31, 2012 and 2011, the composition of the Financial Group's loan portfolio excluding its subsidiaries, including the loan portfolio sold to Sólida, is as follows:

	Mexican pesos		Foreign Currency		Total	
Type of portfolio	**Dec 12**	**Dec 11**	**Dec 12**	**Dec 11**	**Dec 12**	**Dec 11**
Commercial loans	Ps. 226,763	Ps. 192,102	Ps. 18,920	Ps. 16,426	Ps. 245,683	Ps. 208,528
Consumer loans	23,296	29,775	-	-	23,296	29,775
Mortgage loans	66,978	60,948	-	-	66,978	60,948
Performing loan portfolio	**317,037**	**282,825**	**18,920**	**16,426**	**335,957**	**299,251**
Commercial loans	3,931	3,922	417	335	4,348	4,257
Consumer loans	555	1,294	-	-	555	1,294
Mortgage loans	1,033	1,060	-	-	1,033	1,060
Past-due portfolio	**5,519**	**6,276**	**417**	**335**	**5,936**	**6,611**
Total portfolio	**322,556**	**289,101**	**19,337**	**16,761**	**341,893**	**305,862**
Allowance for loan losses	7,192	8,939	461	487	7,653	9,426
Net portfolio	**Ps. 315,364**	**Ps. 280,162**	**Ps. 18,876**	**Ps. 16,274**	**Ps. 334,240**	**Ps. 296,436**
Allowance for loan losses					**128.93%**	**142.58%**
% of past-due portfolio					**1.74%**	**2.16%**

28 – INFORMATION BY SEGMENT

The main operations and balances per concept and/or business segment in the Consolidated Balance Sheets and the Consolidated Income Statements are comprised as follows:

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

	2012	2011
Banking sector:		
Net income	Ps. 10,139	Ps. 7,260
Stockholders' equity	66,115	54,909
Total portfolio	395,910	341,897
Past-due portfolio	7,281	6,583
Allowance for loan losses	(10,557)	(9,446)
Total net assets	726,241	726,082
Brokerage sector:		
Net income	681	418
Stockholders' equity	2,785	2,591
Portfolio balance	667,873	578,762
Total net assets	103,344	23,528
Long term savings' sector		
Net income	2,169	1,157
Stockholders' equity	10,641	5,140
Total net assets	66,690	51,814
Other finance companies sector:		
Net income	(434)	708
Stockholders' equity	3,323	3,726
Total portfolio	23,478	22,115
Past-due portfolio	1,081	480
Allowance for loan losses	(943)	(545)
Total net assets	24,533	23,056

b. The intermediation results for the years ended December 31, 2012 and 2011 are as follows:

	2012	2011
Valuation results		
Trading securities	Ps. 1,360	Ps. 517
Decrease in securities	(156)	(95)
Derivatives financial instruments	643	(175)
Total valuation results	**1,847**	**247**
Trading results		
Trading securities	800	981
Securities available for sale	260	283
Securities held to maturity	15	6
Derivatives financial instruments	(161)	79
Total securities' trading results	**914**	**1,349**
Spot foreign currency	1,362	1,134
Foreign currency futures	-	(4)
Foreign currency valuation	29	38
Minted metals trading	7	7
Minted metals valuation	(7)	7
Total foreign currency trading results	**1,391**	**1,182**
Total trading results	**2,305**	**2,531**
Total intermediation results	**Ps. 4,152**	**Ps. 2,778**

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

	2012				
	Geographical location				
Economic sector	North	Central	West	South	Total
Agriculture	Ps. 3,646	Ps. 583	Ps. 961	Ps. 1,250	Ps. 6,440
Mining	390	147	17	14	568
Manufacturing	11,325	4,952	1,652	1,043	18,972
Construction	10,934	17,921	850	2,600	32,305
Public utilities	19	226	3	4	252
Commerce	14,698	12,944	4,012	6,636	38,290
Transportation	3,236	6,711	974	422	11,343
Financial services	19,953	3,809	1,272	2,383	27,417
Communal, social services	7,837	3,548	484	614	12,483
Public administration and services	41,047	24,364	7,810	11,311	84,532
INB	-	-	-	-	7,307
Credit card	-	-	-	-	907
Consumer	-	-	-	-	40,990
Mortgage	-	-	-	-	71,364
Other	-	-	-	-	564
Arrendadora y Factor Banorte	-	-	-	-	17,602
Ixe Banco:					
Commercial	-	-	-	-	22,717
Consumer	-	-	-	-	4,079
Mortgage	-	-	-	-	893
Fincasa Hipotecaria	-	-	-	-	2,261
Ixe Automotriz	-	-	-	-	62
Ixe Soluciones	-	-	-	-	84
Performing loan portfolio	**Ps. 113,085**	**Ps. 75,205**	**Ps. 18,035**	**Ps. 26,277**	**Ps. 401,432**

	2011				
	Geographical location				
Economic sector	North	Central	West	South	Total
Agriculture	Ps. 3,322	Ps. 613	Ps. 903	Ps. 1,005	Ps. 5,843
Mining	365	197	16	10	588
Manufacturing	9,915	4,686	1,611	917	17,129
Construction	9,618	14,194	658	2,229	26,699
Public utilities	20	89	5	-	114
Commerce	13,870	12,497	3,619	6,899	36,885
Transportation	2,804	6,397	1,081	346	10,628
Financial services	15,174	5,359	1,080	1,505	23,118
Communal, social services	8,120	2,628	470	539	11,757
Public administration and services	36,165	13,239	6,891	10,094	66,389
INB	-	-	-	-	8,181
Credit card	-	-	-	-	11,465
Consumer	-	-	-	-	18,528
Mortgage	-	-	-	-	63,143
Other	-	-	-	-	902
Arrendadora y Factor Banorte	-	-	-	-	15,117
Ixe Banco:					
Commercial	-	-	-	-	24,999
Consumer	-	-	-	-	4,049
Mortgage	-	-	-	-	997
Fincasa Hipotecaria	-	-	-	-	3,579
Ixe Automotriz	-	-	-	-	337
Ixe Soluciones	-	-	-	-	111
Performing loan portfolio	**Ps. 99,373**	**Ps. 59,899**	**Ps. 16,334**	**Ps. 23,544**	**Ps. 350,558**

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

	2012				
	Geographical location				
Economic sector	**North**	**Central**	**West**	**South**	**Total**
Agriculture	Ps. 324	Ps. 53	Ps. 55	Ps. 48	Ps. 480
Mining	1	0	-	0	1
Manufacturing	117	119	87	42	365
Construction	1,161	69	32	18	1,280
Commerce	472	186	123	228	1,009
Transportation	23	1,268	9	13	1,313
Financial services	33	6	0	11	50
Communal, social services	56	59	38	31	184
Public administration and services	-	-	-	-	-
INB	-	-	-	-	66
Credit card	-	-	-	-	68
Consumer	-	-	-	-	1,306
Mortgage	-	-	-	-	782
Arrendadora y Factor Banorte	-	-	-	-	154
Ixe Banco:					
Commercial	-	-	-	-	254
Consumer	-	-	-	-	97
Mortgage	-	-	-	-	26
Fincasa Hipotecaria	-	-	-	-	907
Ixe Automotriz	-	-	-	-	20
Ixe Soluciones	-	-	-	-	204
Other	-	-	-	-	(85)
Past-due loan portfolio	**Ps. 2,187**	**Ps. 1,760**	**Ps. 344**	**Ps. 391**	**Ps. 8,481**

	2011				
	Geographical location				
Economic sector	**North**	**Central**	**West**	**South**	**Total**
Agriculture	Ps. 309	Ps. 72	Ps. 55	Ps. 50	Ps. 486
Mining	3	-	1	1	5
Manufacturing	108	171	64	30	373
Construction	582	81	23	15	701
Commerce	361	136	137	152	786
Transportation	13	1,262	5	9	1,289
Financial services	17	3	2	7	29
Communal, social services	61	29	37	10	137
Public administration and services	-	-	13	-	13
INB	-	-	-	-	269
Credit card	-	-	-	-	903
Consumer	-	-	-	-	320
Mortgage	-	-	-	-	900
Arrendadora y Factor Banorte	-	-	-	-	79
Ixe Banco:					
Commercial	-	-	-	-	295
Consumer	-	-	-	-	13
Mortgage	-	-	-	-	65
Fincasa Hipotecaria	-	-	-	-	335
Ixe Automotriz	-	-	-	-	66
Ixe Soluciones	-	-	-	-	174
Fair value adjustment **	-	-	-	-	(289)
Past-due loan portfolio	**Ps. 1,454**	**Ps. 1,754**	**Ps. 337**	**Ps. 274**	**Ps. 6,949**

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

	2012								
	Geographical location								
Product	Monterrey	Mexico City	West	Northwest	Southeast	East	Treasury and other	Foreign	Total
Non-interest bearing checking accounts	Ps. 16,063	Ps. 26,621	Ps. 8,216	Ps. 11,372	Ps. 11,440	Ps. 6,817	Ps. 305	Ps. -	Ps. 80,834
Interest-bearing checking accounts	9,093	28,283	4,639	7,786	12,382	2,854	225	-	65,262
Savings accounts	-	1	-	-	-	1	-	-	2
Current account Ps. and pre-established	3,814	7,334	2,142	3,882	3,827	2,745	140	-	23,884
Non-interest bearing demand deposits, USD	1,105	1,443	437	1,605	296	347	-	5,718	10,951
Interest bearing demand deposits, USD	1,919	1,809	437	2,184	332	1,018	-	5,671	13,370
Savings accounts in USD	-	-	-	-	-	-	-	408	408
Retail time deposits	11,755	29,514	8,233	9,188	12,186	7,883	2,150	-	80,909
Time deposits, USD	2,678	4,165	1,303	1,591	733	1,154	17	10,149	21,790
Customers Money market	21,768	17,098	6,593	5,414	4,982	6,364	153	-	62,372
Financial intermediaries	-	-	-	-	-	-	20,894	3,890	24,784
Ixe Banco:									
Demand deposits	-	-	-	-	-	-	-	-	16,336
Time deposits	-	-	-	-	-	-	-	-	23,423
Total deposits	**Ps. 68,195**	**Ps. 116,268**	**Ps. 32,000**	**Ps. 43,022**	**Ps. 46,178**	**Ps. 29,183**	**Ps. 23,884**	**Ps. 25,836**	**Ps. 424,325**

	2012								
	Geographical location								
Product	Monterrey	Mexico City	West	Northwest	Southeast	East	Treasury and other	Foreign	Total
Non-interest bearing checking accounts	Ps. 13,590	Ps. 23,729	Ps. 7,767	Ps. 10,323	Ps. 10,198	Ps. 6,254	Ps. 165	Ps. -	Ps. 72,026
Interest-bearing checking accounts	8,050	27,542	5,249	7,063	11,889	2,630	193	-	62,616
Savings accounts	1	1	-	-	-	1	-	-	3
Current account Ps. and pre-established	3,414	6,346	1,866	3,569	3,326	2,425	145	-	21,091
Non-interest bearing demand deposits, USD	729	1,298	190	1,400	235	263	-	4,889	9,004
Interest bearing demand deposits, USD	1,705	1,468	265	2,090	242	953	(4)	4,618	11,337
Savings accounts in USD	-	-	-	-	-	-	-	343	343
Retail time deposits	9,716	26,063	7,612	8,272	11,057	7,053	2,001	-	71,774
Time deposits, USD	3,888	3,632	1,461	1,512	689	1,296	19	13,026	25,523
Customers Money market	16,145	12,153	5,344	4,365	3,335	4,668	422	-	46,432
Financial intermediaries	-	-	-	-	-	-	12,800	4,184	16,984
Ixe Banco:									
Demand deposit	-	-	-	-	-	-	-	-	13,203
Time deposits	-	-	-	-	-	-	-	-	19,954
Total deposits	**Ps. 57,238**	**Ps. 102,232**	**Ps. 29,754**	**Ps. 38,594**	**Ps. 40,971**	**Ps. 25,543**	**Ps. 15,741**	**Ps. 27,060**	**Ps. 370,290**

29 – TAX ENVIRONMENT

In 2012 and 2011 the Financial Group was subject to ISR and IETU.

ISR

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

Conciliation of the accounting and fiscal results

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

Employee Profit Sharing (PTU)

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

Business Flat Tax (IETU)

Revenues, as well as deductions and certain tax credits, are determined based on cash flows generated for each period. The rate is 17.5% for 2012 and 2011. The Asset Tax Law was eliminated upon enactment of LIETU; however, under certain circumstances, asset taxes paid in the ten years prior to the year in which ISR is paid, may be refunded, according to the terms of the law. As of December 31, 2012, 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.

30 – STOCKHOLDERS' EQUITY

At the Ordinary General Shareholders' Meeting held on April 27, 2012, it was agreed to transfer the profits of 2010 equal to Ps. 8,342 to earnings from prior years and increase the legal reserve by Ps. 175.

At the Ordinary General Stockholders' Meetings held on February 17, April 27 and October 11, 2012, it was agreed to decree cash dividends of Ps. 395, Ps. 419 and Ps. 426, respectively.

The Financial Group's shareholders' common stock as of December 31, 2012 and 2011 is comprised as follows:

	Number of shares with a nominal value of Ps. 3.50	
	2012	2011
	Paid-in Capital	Paid-in Capital
"O" Series	2,326,357,782	2,312,837,603

	Historical Amounts	
	2012	2011
	Paid-in Capital	Paid-in Capital
"O" Series	Ps. 8,116	Ps. 8,094
Restatement in Mexican pesos through December 2007	4,956	4,956
	Ps. 13,072	Ps. 13,050

Restrictions on profits

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

The Financial Group's net profit is subject to the requirement of transferring at least 5% of each year's net income to the legal reserve until the reserve equals 20% of capital stock at par value. The legal reserve may not be distributed to the stockholders during the life of the Financial Group, except in the form of a stock dividend. As of December 31, 2012, the legal reserve was Ps. 2,620 and represents 20% of paid-in capital.

Share-based payments

During 2012 and 2011, the Financial Group recorded Ps. 26 and Ps. 68, respectively in administration expenses as compensation for share-based payments against the contributed capital.

As of December 31, 2012 and 2011, the Financial Group has 4,643,780 and 8,053,128 shares, respectively, granted to its executives through various share-based payment plans. The share's average weighted price for all the plans during the year was Ps. 28.64.

During 2012, no shares were assigned. 3,830,977 shares were assigned in 2011. During 2012 and 2011, 5,290,237 and 1,592,821 shares were exercised, respectively.

Capitalization ratio (pertaining to Banorte and Ixe Banco, the Financial Group's main subsidiaries)

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

The information for December 31, 2012 sent to Banco de México to review is shown below.

- The capitalization ratio of Banorte as of December 31, 2012 was 14.75% of total risk (market, credit and operational), and 19.59% of credit risk, which in both cases exceeds the current regulatory requirements.
- The capitalization ratio of Ixe Banco as of December 31, 2012 was 15.52% of total risk (market, credit and operational), and 24.57% of credit risk, which in both cases exceeds the current regulatory requirements.
- The amount of net capital, divided by basic and complementary capital, is detailed below (these figures may differ from those in the basic financial statements):

Banorte

Net capital as of December 31, 2012	
Stockholders' equity	Ps. 60,939
Subordinated debentures and capitalization instruments	5,642
Deductions from investment in subordinated securities	(479)
Deduction from investments in shares of financial entities	(13,515)
Deduction from investments in shares of non-financial entities	(3,466)
Deduction of intangibles and deferred expenses or costs	(2,425)
Basic capital	**46,696**
Debentures and capitalization instruments	10,382
Allowance for loan losses	1,593
Deduction of investments in securitizations	(479)
Complementary capital	**11,496**
Net capital	**Ps. 58,192**

Characteristics of the subordinated debentures:

Concept	Issuance amount	Maturity	Basic capital proportion	Complementary capital proportion
Tier 1 capital debentures 2006	Ps. 2,632	13/10/2021	100%	0%
Tier 1 capital debentures 2008	Ps. 3,010	27/02/2018	100%	0%
Tier 2 capital debentures 2008	Ps. 2,215	15/02/2028	0%	100%
Tier 2 capital debentures 2008-2	Ps. 2,761	15/06/2018	0%	100%
Tier 2 capital debentures 2009	Ps. 2,200	18/03/2019	0%	100%
Tier 2 capital debentures 2012	Ps. 3,206	27/05/2022	0%	100%

Assets subject to risk are detailed below:

Assets subject to market risk

Concept	Positions weighted by risk	Capital requirement
Nominal interest rate securities' transactions in Mexican pesos	Ps. 36,320	Ps. 2,906
Floating rate securities' transactions in Mexican pesos	7,676	614
Real interest rate or UDI denominated securities' transactions in Mexican pesos	2,206	177
UDIS or inflation indexed (INPC) securities' transactions	4	-
Nominal interest rate foreign exchange denominated securities' transaction in Mexican pesos	5,177	414
Foreign exchange transactions	578	46
Total	**Ps. 51,961**	**Ps. 4,157**

Assets subject to credit risk

Concept	Risk weighted Assets	Capital requirement
Group III (weighted at 10%)	Ps. 375	Ps. 30
Group III (weighted at 20%)	7,770	622
Group III (weighted at 23%)	297	24
Group III (weighted at 50%)	6,455	516
Group IV (weighted at 20%)	4,027	322
Group V (weighted at 20%)	10,737	859
Group V (weighted at 50%)	11,249	900
Group V (weighted at 150%)	2,952	236
Group VI (weighted at 50%)	8,145	652
Group VI (weighted at 75%)	7,122	570
Group VI (weighted at 100%)	67,463	5,397
Group VII (weighted at 20%)	2,740	219
Group VII (weighted at 50%)	1,234	99
Group VII (weighted at 100%)	96,524	7,722
Group VII (weighted at 115%)	8,606	688
Group VII (weighted at 150%)	121	10
Group VIII (weighted at 125%)	2,455	196
Group IX (weighted at 100%)	35,728	2,858
Securitization (weighted at 20%)	284	23
Securitization (weighted at 50%)	3,853	308
Securitization (weighted at 100%)	45	4
Sum	**Ps. 278,182**	**Ps. 22,255**
For permanent shares, furniture and real property, and advance payments and deferred charges	18,825	1,506
Total	**Ps. 297,007**	**Ps. 23,761**

Assets subject to operational risk:

	Risk weighted Assets	Capital requirement
Total	**Ps. 45,561**	**Ps. 3,645**

Management

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

Ixe Banco

Net capital as of December 31, 2012	
Stockholders' equity	**Ps. 5,166**
Subordinated debentures and capitalization instruments	**742**
Deduction from investments in securitizations	(35)
Deduction from investments in shares of financial entities	(38)
Deduction of intangibles and deferred expenses or costs	(149)
Basic capital	**5,686**
Debentures and capitalization instruments	2,370
Allowance for loan losses	148
Deduction of investments in securitizations	(35)
Complementary capital	**2,483**
Net capital	**Ps. 8,169**

Characteristics of the subordinated debentures:

Concept	Issuance amount	Maturity	Basic capital proportion	Complementary capital proportion
Tier 1 capital debentures 2007	Ps. 1,556	Perpetual	48%	52%
Tier 1 capital debentures 2010	Ps. 1,556	2020	0%	100%

Assets subject to risk are detailed below:

Assets subject to market risk

Concept	Positions weighted by risk	Capital requirement
Nominal interest rate securities' transactions in Mexican pesos	Ps. 7,551	Ps. 604
Floating rate securities' transactions in Mexican pesos	3,572	286
Real interest rate or UDI denominated securities' transactions in Mexican pesos	199	16
UDIS or inflation denominated (INPC) securities' transactions	5	-
Nominal interest rate foreign exchange denominated securities' transaction in Mexican pesos	685	55
Foreign exchange transactions	650	39
Transactions involving shares	1,300	104
Total	**Ps. 13,962**	**Ps. 1,117**

Assets subject to credit risk

Concept	Positions weighted by risk	Capital requirement
Group II (weighted at 20%)	Ps. 20	Ps. 2
Group III (weighted at 10%)	14	1
Group III (weighted at 20%)	3,518	281
Group III (weighted at 50%)	554	44
Group IV (weighted at 20%)	464	37
Group V (weighted at 50%)	446	36
Group VI (weighted at 50%)	311	25
Group VI (weighted at 75%)	131	10
Group VI (weighted at 100%)	3,966	317
Group VI (weighted at 125%)	67	5
Group VII (weighted at 20%)	1,521	122
Group VII (weighted at 50%)	99	8
Group VII (weighted at 100%)	13,738	1,099
Group VII (weighted at 115%)	1,394	112
Group VII (weighted at 150%)	237	19
Group IX (weighted at 100%)	5,237	419
Group IX (weighted at 125%)	67	6
Sum	**Ps. 31,784**	**Ps. 2,543**
For permanent shares, furniture and real property, and advance payments and deferred charges	1,462	117
Total	**Ps. 33,246**	**Ps. 2,660**

Assets subject to operational risk:

Concept	Positions weighted by risk	Capital requirement
Total	**Ps. 5,416**	**Ps. 433**

31 – FOREIGN CURRENCY POSITION

As of December 31, 2012 and 2011, 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. 12.9658 and Ps. 13.9476 per USD 1.00, respectively, as shown below:

	Thousands of US dollars	
	2012	2011
Assets	7,114,673	6,889,507
Liabilities	6,600,029	6,551,328
Net asset position in US dollars	**514,644**	**338,179**
Net asset position in Mexican pesos	**Ps. 6,673**	**Ps. 4,717**

32 – POSITION IN UDIS

As of December 31, 2012 and 2011, the Financial Group holds certain assets and liabilities denominated in UDIS, converted to Mexican pesos based on the current conversion factor of Ps. 4.874624 and Ps. 4.691316, per UDI, respectively, as shown below:

	Thousands of UDIS	
	2012	2011
Assets	520,514	313,543
Liabilities	459,606	458,649
Net asset (liability) position in UDIS	**60,908**	**(145,106)**
Net asset (liability) position in Mexican pesos	**Ps. 297**	**(Ps. 681)**

33 – 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, 2012 and 2011 are shown below:

	2012			2011
	Net Income	Weighted share average	Earnings per share	Earnings per share
Net income per share	Ps. 10,888	2,326,357,782	Ps. 4.6802	Ps. 3.7868

34 – RISK MANAGEMENT (unaudited)

Authorized bodies

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

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

The CPR is composed of regular members of the Board of Directors, the CEO of the Financial Group, the Managing Directors of the Financial Group's entities, the Managing Director of Comprehensive Risk Management and the Managing Director of Internal Audits, who have voice but no vote.

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

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

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

2. Approve and review at least once a year:

- The specific limits for discretionary risks, as well as tolerance levels for nondiscretionary risks.
- The methodology and procedures to identify, measure, oversee, limit, control, report and disclose the different kinds of risks to which the Financial Group is exposed.
- The models, parameters and scenarios used to perform the valuation, measurement and control of risks proposed by the Comprehensive Risk Management Unit.

3. Approve:

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

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

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

6. Inform the Board of the corrective measures implemented.

35 – COMPREHENSIVE RISK MANAGEMENT UNIT (UAIR) (unaudited)

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

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

The DGAR focuses Comprehensive Risk Management efforts through six different departments:

- Operating and Credit Risk Management;
- Market Risk Management and Liquidity;
- 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 the impairment of credits and potential credit losses due to nonpayment by a borrower or counterparty.

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

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

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

Credit risk

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

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

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

Individual credit risk

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

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

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

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

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

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

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

The CIR Banorte and the individual rating of the Ixe loans are in line with the "General Regulations Applicable to the Classification Methodology for the Loan Portfolio of Credit Institutions" issued by the Commission on December 2, 2005. The

CIR Banorte has been certified by the Commission and by an international external auditor since 2001.

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

Portfolio credit risk

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

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

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

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

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

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

As of December 31, 2012, the total portfolio of Banorte is Ps 358,313. The expected loss represents 1.3% and the unexpected loss represents 2.9% of the total operating portfolio. The average expected loss was 1.3% for the period between October and December 2012.

The credit exposure of the investments made by Casa de Bolsa Banorte-Ixe, S.A. de C.V. (Casa de Bolsa Banorte) was Ps. 100,036 and the expected loss represents 0.01% of such exposure. The average expected loss was 0.01% for the period between October and December 2012.

The total leasing and factoring operating portfolio of Arrendadora y Factor, including pure leasing, was Ps. 19,607. The expected loss represents 0.7% and the unexpected loss represents 2.8% of the total operating portfolio. The average expected loss was 0.7% for the period between October and December 2012.

As of December 31, 2012, the total portfolio of Ixe Banco was Ps 29,129. The expected loss represents 2.4% and the unexpected loss represents 0.3% of the total operating portfolio. The average expected loss was 2.5% for the period between October and December 2012.

The total car leasing operating portfolio of Ixe Automotriz, S.A. de C.V. (Ixe Automotriz), including pure leasing, was Ps. 701. The expected loss represents 0.7% and the unexpected loss represents 0.3% of the total operating portfolio. The average expected loss was 2.0% for the period between October and December 2012.

The total operating portfolio of Fincasa Hipotecaria, S.A. de C.V. was Ps. 3,168. The expected loss represents 21.0% and the unexpected loss represents 28.0% of the total operating portfolio. The average expected loss was 11.4% for the period between October and December 2012.

The total operating portfolio of Ixe Soluciones was Ps. 288. The expected loss represents 81.3% and the unexpected loss represents 58.8% of the total operating portfolio. The average expected loss was 62.5% for the period between October and December 2012.

The total operating portfolio of Banorte-Ixe Tarjetas was Ps. 17,481. The expected loss represents 10.3% and the unexpected loss represents 10.8% of the total operating portfolio. The average expected loss was 10.6% for the period between October and December 2012.

Credit risk of financial instruments

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

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

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

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

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

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

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

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

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

As of December 31, 2012, the credit risk exposure of the investments in securities was Ps 125,985, of which 99.6% has a rating greater than or equal to A-(mex) on the local scale. This places them in investment grade, the three main issuers other than the Federal Government, Semi-Private agencies and Domestic Financial Institutions represent 15% of the basic capital as of September 2012. Additionally, the investment exposure with the same issuer other than the Federal Government that represents a concentration greater than or equal to 5% of the Net Capital as of September 2011 has a rating of at least AA(mex) as is comprised of (term in weighted average, amount in million pesos and interest rate): exchange listed debt certificates and Pemex bonds with a 5-year 2-month maturity for Ps. 11,083 at 3.5%; exchange listed debt certificates and certificates of deposit of Banco Inbursa with a maturity of 1 year and 2 months for Ps. 5,696 at 4.9%; exchange listed State and Municipal government loan securitization certificates with a 24-year 5-month maturity for Ps. 3,466 at 6.1%; and exchange listed debt certificates and certificates of deposit of Banco Santander with a 2-year 2-month maturity for Ps. 2,990 at 5.0%.

For derivatives, the exposure is (Ps. 3,924), of which 98.9% is rated at least A-(mex) on the local scale, which places them at investment grade; the three main counterparties other than the Federal Government, Semi-Private agencies and Domestic Financial Institutions represent 3% of the basic capital as of September 2012.

Regarding Casa de Bolsa Banorte-Ixe, the exposure to credit risk of the investments in securities was Ps. 100,034, of which 100.0% 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 2012. Additionally, the exposure of investments to the same issuer other than the Federal Government that represents a concentration greater than or equal to 5% of the Net Capital as of September 2012 has a rating of at least A-(mex) and are comprised of (term in weighted average, amount in pesos and rate): exchange listed debt certificates of Banco Inbursa with a maturity of 1 year and 10 months for Ps. 1,439 at 5.0%; exchange listed debt certificates of Scotiabank Inverlat with a 2-year 10-month maturity for Ps. 937 at 5.1%; 3-month certificates of deposit of Banco del Bajio for Ps. 499 at 5.0%; Deutsche Bank bonds maturing in 10 years and 7 months for Ps. 369 at 10.0%; exchange listed debt certificates of Pemex with a 2-year 4-month maturity for Ps. 312 at 4.9%; exchange listed debt certificates of Banco Interacciones with a maturity of 1 year and 2 months for Ps. 192 at 5.9%; a 1-month Banco Azteca promissory note for Ps. 184 at 4.6%; and exchange listed debt certificates of CFE with a 7-year 8-month maturity for Ps. 151 at 5.0%. There are no operations for derivatives financial instruments.

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

As of December 31, 2012, the risk of exposure in investment in securities of Ixe Banco is Ps. 18,776. 8.4% of the total is in instruments with a government or quasi-government counterparty; 77.4% with banking counterparties and 14.2% is private investors.

The credit risk exposure for derivatives financial instruments at the close of the fourth quarter of 2012 is Ps. (109). The total is distributed as follows: 78.4% from banks, 21.0% from private investors and 0.6% from quasi-government entities.

For Ixe Automotriz, the exposure risk for investments in securities was Ps. 52, all of which is in instruments with banks. There are no derivatives financial instruments.

There are no investments in securities exposure for Fincasa Hipotecaria nor derivatives financial instruments.

For Ixe Soluciones, the risk exposure of investments in securities is Ps. 1, all of which is in instruments with banks. The Institutions has no position in derivatives financial instruments.

The risk exposure for investments in securities for Banorte-Ixe is Ps. 340, all of which are in bank instruments. There are no derivatives financial instruments.

Risk Diversification

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

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

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

Basic capital as of September 30, 2012	**Ps. 45,823**
I. Financings whose individual amounts represent more than 10% of basic capital:	
Credit transactions	
Number	4
Overall amount	21,634
% in relation to basic capital	47%
Money market transactions	
Number	-
Overall amount	-
% in relation to basic capital	0%
Overnight transactions	
Number	-
Overall amount	-
% in relation to basic capital	0%
II. Maximum amount of financing with the three largest debtors and common risk groups	**Ps. 31,603**

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

Stockholders' equity as of September 30, 2012	**Ps. 2,854**
I. Financings whose individual amounts represent more than 10% of stockholders' equity:	
Credit transactions	
Number	9
Overall amount	5,446
% in relation to basic capital	191%
II. Maximum amount of financing with the three largest debtors and common risk groups	**Ps. 4,363**

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

Basic capital as of September 30, 2012	**Ps. 5,209**
I. Financings whose individual amounts represent more than 10% of basic capital (group level):	
Credit transactions	
Number	11
Overall amount	8,341
% in relation to basic capital	160%
Money market transactions	
Number	13
Overall amount	15,891
% in relation to basic capital	305%
Overnight transactions	
Number	0
Overall amount	0
% in relation to basic capital	0%
II. Maximum amount of financing with the three largest debtors and common risk groups	**Ps. 3,800**

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

Stockholders' equity as of September 30, 2012	**Ps. 312**
I. Financings whose individual amounts represent more than 10% of stockholders' equity (group level):	
Credit transactions	
Number	1
Overall amount	76
% in relation to stockholders' equity	24%
Money market transactions	
Number	0
Overall amount	0
% in relation to stockholders' equity	0%
Overnight transactions	
Number	0
Overall amount	0
% in relation to stockholders' equity	0%
II. Maximum amount of financing with the three largest debtors and common risk groups	**Ps. 132**

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

Stockholders' equity as of September 30, 2012	**Ps. 630**
I. Financings whose individual amounts represent more than 10% of stockholders' equity (group level):	
Credit transactions	
Number	18
Overall amount	2,045
% in relation to stockholders' equity	324%
Money market transactions	
Number	0
Overall amount	0
% in relation to stockholders' equity	0%
Overnight transactions	
Number	0
Overall amount	0
% in relation to stockholders' equity	0%
II. Maximum amount of financing with the three largest debtors and common risk groups	**Ps. 537**

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

Stockholders' equity as of September 30, 2012	**Ps. 190**
I. Financing whose individual amount represents more than 10% of stockholders' equity (group level):	
Credit transactions	
Number	12
Overall amount	902
% in relation to stockholders' equity	473%
Money market transactions	
Number	0
Overall amount	0
% in relation to stockholders' equity	0%
Overnight transactions	
Number	0
Overall amount	0
% in relation to stockholders' equity	0%
II. Maximum amount of financing with the three largest debtors and common risk groups	**Ps. 353**

In compliance with the risk diversification rules for asset and liability transactions, the following information regarding Banorte-Ixe Tarjetas is provided below (millions of pesos):

Stockholders' equity as of September 30, 2012	Ps. 2,540
I. Financing whose individual amount represents more than 10% of stockholders' equity (group level):	
Credit transactions	
Number	0
Overall amount	0
% in relation to stockholders' equity	0%
Money market transactions	
Number	0
Overall amount	0
% in relation to stockholders' equity	0%
Overnight transactions	
Number	0
Overall amount	0
% in relation to stockholders' equity	0%
II. Maximum amount of financing with the three largest debtors and common risk groups	**Ps. 4**

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 those portfolios.

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

The average VaR for the portfolio of financial instruments was Ps. 3,288 for the last quarter in 2012.

	4Q11	1Q12	2Q12	3Q12	4Q12
VaR Banorte*	Ps. 2,392	Ps. 2,399	Ps. 2,444	Ps. 2,685	Ps. 3,288
Banorte net capital***	50,369	52,087	55,519	56,625	58,192
VaR / net capital Banorte	4.75%	4.61%	4.40%	4.74%	5.65%

* 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 2012:

Risk factor	VaR
Domestic interest rate	Ps. 3,491
Foreign interest rate	376
Exchange rate	418
Total VaR	Ps. 3,288

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

Operations with derivatives products

The Financial Group's individual VaR on a one-day time horizon for each type of trading and hedging derivatives for the fourth quarter of 2012 was:

Trading derivatives	4Q12	4Q11
Futures		
MEXDER rate futures	Ps. 8	Ps. 2
Exchange rate derivatives		
Forwards	49	1
Interest rate options		
TIIE	11	3
LIBOR	-	1
Interest rate swaps (IRS) and exchange rate		
TIIE swaps	51	12
LIBOR swaps	36	3
Cross currency exchange rate swaps	176	32
Total trading derivatives	**Ps. 331**	**Ps. 54**

Hedging derivatives	4Q12	4Q11
Rate swaps and exchange rates		
Cross currency exchange rate swaps for hedging bonds in USD	Ps. 211	Ps. 275
TIIE swaps for hedging obligations in Mexican pesos	8	18
TIIE swaps for hedging promissory notes in Mexican pesos	190	189
Interest rate options for hedging fixed rate portfolios	-	13
Total hedging derivatives	**Ps. 409**	**Ps. 495**

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. 51 million. This means that under normal conditions, 99 days out of every 100, the maximum potential loss is Ps. 51 million in one day.

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

Investment in securities

The Financial Group's individual VaR on a one-day time horizon for each type of trading securities for the fourth quarter of 2012 was:

Trading Securities	4Q12	4Q11
Floating rate government bonds	Ps. 17	Ps. 35
Fixed rate government bonds	45	28
Securitization certificates	26	47
CEDES	2	7
Actual rate bonds	1	-
US treasury bonds	3	-
PEMEX Eurobonds	137	8
UMS	58	-
Bank Eurobonds	24	21
Private company Eurobonds	10	8
Total	**Ps. 323**	**Ps. 154**

Securities at maturity	4Q12	4Q11
Floating rate government bonds	Ps. 15	Ps. -
Securitization certificates	24	37
CEDES	4	9
PEMEX bonds	-	115
UMS	-	54
Zero coupon bank bonds	5	2
Private company Eurobonds	-	-
Total	**Ps. 48**	**Ps. 217**

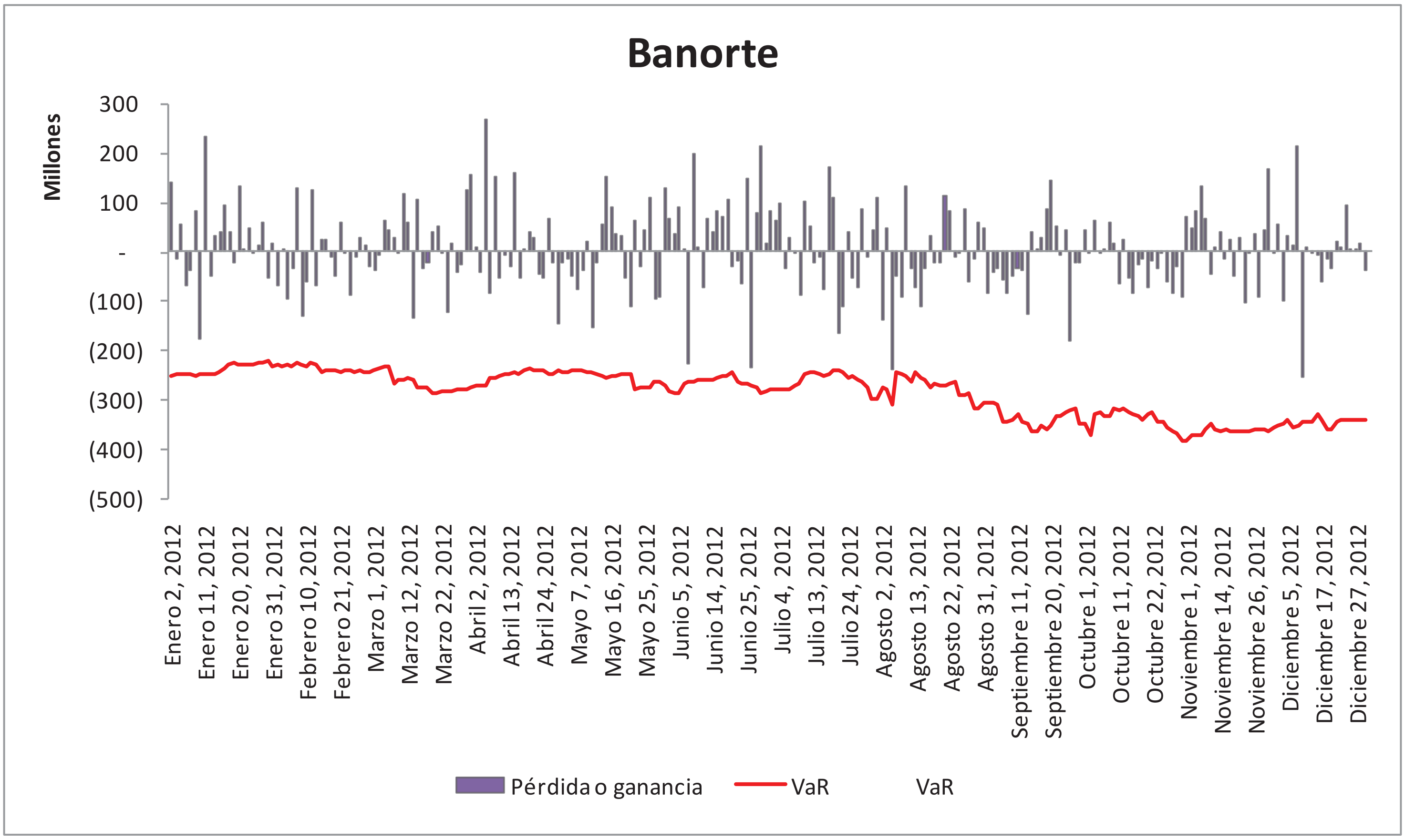
To calculate the VaR for each type of securities listed, the non-parametric historic simulation method is applied to a 99%% level of confidence and a one-day horizon. For instance, the Value at Risk for trading UMS is Ps 58. This means that under normal conditions, 99 days out of every 100, the maximum potential loss is Ps. 58 in one day.

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

***Backtesting* analysis**

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

The Backtesting results for the Financial Group as of December 2012 are as follows:



During 2012 there were no surplus events of the forecast VaR vs. the Actual VaR for the Banorte portfolio.

Sensitivity analysis and tests under extreme conditions

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

Sensitivity for derivatives' transactions

Sensitivity analysis on derivatives transactions is carried out as follows:

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

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

Trading derivatives	+100 bp domestic rates	+100 bp foreign rates	+5% exchange rate
Futures			
MEXDER futures	(Ps. 65)	Ps. -	Ps. -
Exchange rate derivatives			
Options	-	-	(1)
Forwards	-	-	28
Interest rate options			
TIIE	64	-	-
LIBOR	-	2	-
Interest rate swaps (IRS) and exchange rate			
TIIE Swaps	(96)	-	-
LIBOR Swaps	-	126	(7)
Cross exchange rate Swaps	(65)	23	(375)
Total trading derivatives	**(Ps. 162)**	**Ps. 151**	**(Ps. 255)**

Hedging derivatives	+100 bp domestic rates	+100 bp foreign rates	+5% exchange rate
Rate swaps and exchange rate			
Cross currency exchange rate swaps for hedging bonds in USD	(Ps. 256)	Ps. 343	(Ps. 459)
TIIE swaps for hedging obligations in Mexican pesos	64	-	-
TIIE swaps for hedging promissory note in Mexican pesos	820	-	-
TIIE caps for fixed rate loan hedging	-	-	-
Total hedging derivatives	**Ps. 627**	**Ps. 343**	**(Ps. 459)**

In the event of any of above scenarios, the trading securities losses will directly impact the Financial Group's Consolidated Income Statements and capital hedging derivatives.

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

Sensitivity for securities' trading

Sensitivity analysis on derivatives transactions is carried out as follows:

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

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

Trading securities	+100 bp domestic rates	+100 bp foreign rates	+5% exchange rate	+5 bp rate spreads	+50 bp sovereign risk
Floating rate government bonds	(Ps. 87)	Ps. -	Ps. -	(Ps. 73)	Ps. -
Fixed rate government bonds	(276)	-	-	-	-
Exchange listed debt certificates	(29)	-	-	-	-
Actual rate bonds	(1)	-	-	-	-
CEDES	(3)	-	-	-	-
US treasury bonds	-	(11)	7	-	-
PEMEX Eurobonds	-	(348)	287	-	(148)
UMS	-	(90)	148	-	(46)
Bank bonds in USD	(11)	(47)	49	-	-
Total	**(Ps. 407)**	**(Ps. 496)**	**Ps. 491**	**(Ps. 73)**	**(Ps. 194)**

Securities at maturity	+100 bp domestic rates	+100 bp foreign rates	+5% exchange rate	+5 bp rate spreads	+50 bp sovereign risk
Floating rate government bonds	(Ps. 71)	Ps. -	Ps. -	(Ps. 18)	Ps. -
Exchange listed debt certificates	(12)	-	-	-	-
Zero coupon bank bonds	(14)	-	-	-	-
Total	**(Ps. 97)**	**Ps. -**	**Ps. -**	**(Ps. 18)**	**Ps. -**

In the event of any of above scenarios, the trading securities losses will directly impact the Financial Group's Consolidated Income Statements and capital hedging derivatives.

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

The Brokerage House applies the nonparametric historical simulation method to calculate the Value at Risk (VaR), considering for such purpose a 99% 2-tailed confidence level, using (more / less) 500 immediate historical scenarios, multiplying the result by a security factor that ensures that unforeseen volatiles are considered in the main risk factors that affect those portfolios and is established depending on the behavior of the main risk factors.

The methodology is applied to all the portfolios of financial instruments on and off the Brokerage House's balance sheet, including money market and treasury transactions, capital, foreign-exchange and derivatives, whose value is exposed to variations due to changes in the risk factors affecting their market valuation (domestic and foreign interest rates, exchange rates and indexes, among others).

The portfolio's average VaR for the close of the October-December 2012 quarter is Ps. 207:

	4Q11	1Q12	2Q12	3Q12	4Q12
VaR Casa de Bolsa*	28	24	199	248	207
Overall capital***	1,396	1,730	1,674	1,925	2,250
VaR / Overall capital Banorte	2.02%	1.37%	11.88%	12.87%	9.21%

* Quarterly Average
*** Overall capital at the close of the relevant quarter

Also, the average of the VaR per risk factor for the Brokerage House's portfolio of securities behaved as follows during the fourth quarter of 2012:

Risk factor	VaR
Domestic interest rate	226
Capital	24
Total VaR	207

The VaR for each of the Brokerage House's risk factors presented is determined by simulating 500 historical scenarios of the variables comprising each of such factors, keeping constant the variables that affect the other risk factors shown. Also, the consolidated VaR considers the correlations of all the risk factors influencing the valuation of the portfolios, which is why the arithmetical sum of the VaR per Risk Factor does not match.

Operations with derivative products
At the close of December 2012 there were no transactions with derivative products.

Investment in securities

The Brokerage House's individual VaR on a one-day time horizon for each type of securities for the fourth quarter of 2012 was:

Trading Securities	4Q12	4Q11
Floating rate government bonds	Ps. 38	Ps. -
Exchange listed debt certificates	5	-
Capital	5	-
Total	**Ps. 48**	**Ps. -**

Securities at maturity	4Q12	4Q11
Floating rate government bonds	Ps. 1	Ps. -
Exchange listed debt certificates	1	-
Total	**Ps. 2**	**Ps. -**

To calculate the VaR for each type of securities listed, the non-parametric historic simulation method is applied to a 99%% level of confidence and a one-day horizon. For instance, the Value at Risk for Variable Rate Government Bonds is Ps. 38. This means that under normal conditions, 99 days out of every 100, the maximum potential loss is Ps. 38 in one day.

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 are as follows:

Brokerage House	Obs.	Events
IPC Futures	250	-
Money Desk	250	-
Casa Bolsa Banorte	250	-

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 Brokerage House might suffer extraordinary losses from the valuation of the financial instruments in which it holds positions.

Sensitivity for derivatives' products

To date there are not transactions with derivatives products.

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

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

The average VaR for the portfolio of financial instruments was Ps. 9 for the last quarter in 2012.

	4Q10	1Q11	2Q11	3Q11	4Q11
VaR Ixe Banco*	Ps. 13	Ps. 12	Ps. 9	Ps. 11	Ps. 9
Ixe Banco net capital***	7,617	7,401	8,195	7,750	8,169
Ixe Banco VaR/net capital	0.17%	0.16%	0.11%	0.14%	0.11%

* Quarterly Average.

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

The one day time horizon VaR per Business Unit prior to the fourth quarter of 2012 is as follows:

	Total 4th Quarter 2012	
Ixe Banco	**Average**	**Closing**
Value at Risk 95% 1 day		
Money market	8.30	19.85
Capital market	4.43	4.75
Foreign exchange market	0.13	0.03
Derivatives market	0.26	0.19
	13.12	24.82
TOTAL	9.11	18.86
Diversification effect	(4.01)	(5.96)
Treasury	8.61	9.81
Net capital	-	8,169
VaR / Net Capital	**0.11%**	**0.23%**

***Backtesting* analysis**

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

During 2012 there were 7 excess events due mainly to the volatility shown.

Sensitivity analysis and tests under extreme conditions

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

Sensitivity for operations with securities and derivatives financial instruments

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

- Estimate gain or loss of the securities valuation in the event of:
  - A parallel change of +100 basis points of domestic interest rates
  - A parallel change of +100 basis points of foreign interest rates
  - A 5% devaluation in the MXP/USD and MXP/EUR exchange rate.
  - A change of +5 basis points in the spreads of government bonds
  - A change of -5% in the IPC (Consumer Price Index)
  - A change of +5 basis points in the spreads of government bonds
  - As a stress analysis, the combination of: +10% domestic interest rates +3.5% foreign interest rates; fixed foreign exchange rate at 15.50 pesos per dollar; and +20 basis points rate spread.

The results may be gains or losses depending on the nature of the instrument. Such position contemplate the Bank operations.

	TIIE+100PB	LIBOR +100PB	TC+5%	ST GUBER+5PB	IPC-5%	ST PRIV/ BNC+5PB	TOTAL	TIIE 10%LIBOR 3.5% TC 15.50 ST 20 PB
Money market	(63.87)	0.15	0.01	(39.33)	-	(23.97)	(127.01)	(582.67)
Derivatives financial instruments	(2.96)	-	-	-	-	-	(2.96)	(15.29)
Capital	-	-	-	-	(14)	-	(14)	-
Foreign exchange	-	-	0.18	-	-	-	0.18	1.07
Treasury	(0.44)	(15.34)	17.27	(0.07)	(491.33)	(5.46)	(495.37)	30.73
TOTAL	**(67.26)**	**(15.20)**	**17.46**	**(39.40)**	**(505.33)**	**(29.43)**	**(639.17)**	**(566.16)**

In the event of any of above scenarios, the losses of the trading securities will directly impact the Consolidated Income Statements.

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

The average VaR for Fincasa Hipotecaria loans for the fourth quarter of 2012 was Ps. 1, which represents -0.41% of the net capital as of December 2012.

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

	Total 4th Quarter 2012	
Fincasa Hipotecaria	**Average**	**Closing**
VaR Balance	**1.21**	**1.10**
Net capital	Ps. -	(Ps. 239)
VaR / Net Capital	**(0.51%)**	**(0.46%)**

The average VaR for Ixe Automotriz loans for the fourth quarter of 2012 was Ps. 0.62, which represents +0.21% of the net capital as of December 2012.

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

	Total 4th Quarter 2012	
Ixe Automotriz	**Average**	**Closing**
VaR Balance	**0.62**	**0.46**
Net capital	Ps. -	Ps. 298
VaR / Net Capital	**0.21%**	**0.16%**

The average VaR for Ixe Soluciones loans for the fourth quarter of 2012 was Ps. 0.97, which represents -0.21% of the net capital as of December 2012.

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

	Total 4th Quarter 2012	
Ixe Soluciones	**Average**	**Closing**
VaR Balance	**0.97**	**0.85**
Net capital	Ps. -	(Ps. 462)
VaR / Net Capital	**(0.21%)**	**(0.18%)**

The average VaR for Ixe Tarjetas loans for the fourth quarter of 2012 was Ps. 3, which represents 0.12% of the net capital as of December 2012.

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

	Total 4th Quarter 2012	
Ixe Tarjetas	**Average**	**Closing**
VaR Balance	**2.77**	**2.56**
Net capital	Ps. -	Ps. 2,341
VaR / Net Capital	**0.12%**	**0.11%**

Liquidity and balance sheet risk

In order to provide a measurement of liquidity risk in the Financial Group and provide follow-up consistently, the Financial Group relies on the use of financial ratios, which include the Liquidity Ratio (Current Assets/Liquid Liabilities). Liquid assets include cash and cash equivalents, trading securities and securities available for sale. By the same token, liquid liabilities include immediate demand deposits, immediate demand interbank loans and short-term loans. The liquidity ratio at the end of the fourth quarter of 2012 was 77.3%, while the average during the quarter was 87.3%, as shown below:

	End of quarter				
	4Q11	1Q12	2Q12	3Q12	4Q12
Liquid assets	164,484	151,000	142,019	141,625	150,115
Liquid liabilities	180,088	184,152	180,479	186,680	194,289
Liquidity ratio	91.3%	82.0%	78.7%	75.9%	77.3%

	Average				
	4Q11	1Q12	2Q12	3Q12	4Q12
Liquid assets	157,210	171,629	136,390	150,655	164,011
Liquid liabilities	165,791	171,353	171,667	179,802	187,977
Liquidity ratio	94.8%	100.2%	79.5%	83.8%	87.3%

Average calculation considering the Liquidity Ratio’s weekly estimates.

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

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

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

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

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

Net position			Thousands of pesos
Gap	**Asset position**	**Liability position**	**Net**
1 month	Ps. 673,572	(Ps. 798,593)	(Ps. 125,021)
3 months	918,247	(1,052,351)	(134,104)
6 months	1,278,368	(1,282,167)	(3,799)
1 year	2,929,767	(2,893,434)	36,333
2 years	15,643,601	(15,912,307)	(268,706)
3 years	5,969,008	(6,111,944)	(142,936)
4 years	4,013,421	(3,976,924)	36,497
5 years	12,689,234	(13,247,967)	(558,733)
7 years	6,239,653	(6,846,692)	(607,039)
10 years	7,974,593	(7,827,713)	146,880
15 years	1,058,222	(997,721)	60,501
20 years	78,542	(73,317)	5,225
> 20 years	82,552	(87,374)	(4,822)
Total	**Ps. 59,548,780**	**(Ps. 61,108,504)**	**(Ps. 1,559,724)**

Liquidity Risk: Ixe

In order to provide a measurement of liquidity risk and provide follow-up consistently, the Financial Group relies on the use of financial ratios, which include the Liquidity Ratio (Current Assets/Liquid Liabilities). Liquid assets include cash, government and bank trading securities, and monetary regulation deposits. The ratio at the end of 4Q11 for Ixe Banco was 217.95%. Additionally, the liquidity ratio (liquid assets / deposits) as of December 2012 was 44.63%.

Ixe Banco	4Q11	1Q12	2Q12	3Q12	4Q12
Gap accumulated over 1 month (MXP + UDIS)	Ps. 548	Ps. 4,726	Ps. 146	(Ps. 7,681)	(Ps. 46,545)
Liquid assets	8,052	10,638	6,947	9,107	17,804
Net capital	7,617	7,401	8,195	7,750	8,169
Liquidity vs. net capital	**105.71%**	**143.74%**	**84.77%**	**117.51%**	**217.95%**
Liquidity ratio	**25.40%**	**34.11%**	**21.15%**	**19.86%**	**44.63%**

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

Net position (thousands of pesos)

Gap	Asset position	Liability position	Net
1 month	Ps. 953,796	(Ps. 977,822)	(Ps. 24,026)
3 months	1,783,660	(1,789,806)	(6,146)
6 months	2,717,980	(2,727,735)	(9,755)
1 year	4,928,962	(4,948,396)	(19,434)
2 years	9,220,781	(9,273,680)	(52,899)
3 years	7,824,547	(7,856,198)	(31,651)
4 years	6,412,337	(6,434,880)	(22,543)
5 years	5,482,336	(5,494,333)	(11,997)
7 years	8,363,815	(8,378,190)	(14,374)
10 years	4,463,185	(4,471,596)	(8,411)
15 years	90,061	(90,861)	(799)
20 years	9,786	(8,220)	1,565
> 20 years	0	0	0
Total	**Ps. 52,251,246**	**(Ps. 52,451,717)**	**(Ps. 200,471)**

The liquidity ratio at the end of 4Q12 for the Brokerage House was 64.80%.

Ixe Casa de Bolsa	4Q11	1Q12	2Q12	3Q12	4Q12
Gap accumulated over 1 month (MXP + UDIS)	Ps. 2.56	Ps. 784	Ps. 400	Ps. 785	Ps. 1,362
Liquid assets	400	525	1,357	1,316	1,458
Overall capital	578	1,674	1,825	1,925	2,250
Liquidity vs. net capital	**69.17%**	**31.38%**	**74.35%**	**68.33%**	**64.80%**

The liquidity ratio vs. net capital for Fincasa Hipotecaria as of December 31, 2012 was (16.15%).

Fincasa Hipotecaria	USE - December 2012
Gap accumulated over 1 month (MXP + UDIS)	Ps. 219.33
Gap accumulated over 3 month (MXP + UDIS)	284.87
Liquid assets	47.21
Net capital	(239.24)
Basic capital	(239.24)
Liquidity vs. net capital	**(19.73%)**
Liquidity vs. net capital	**(19.73%)**

The liquidity ratio vs. net capital for Ixe Automotriz as of December 31, 2012 was 19.26%.

Ixe Automotriz	USE - December 2012
Gap accumulated over 1 month (MXP + UDIS)	(Ps. 297.65)
Gap accumulated over 3 month (MXP + UDIS)	(278.66)
Liquid assets	57.29
Net capital	297.50
Basic capital	296.98
Liquidity vs. net capital	**19.26%**
Liquidity vs. net capital	**19.29%**

The liquidity ratio vs. net capital for Ixe Soluciones as of December 31, 2012 was (0.38%).

Ixe Soluciones	USE - December 2012
Gap accumulated over 1 month (MXP + UDIS)	(Ps. 17.13)
Gap accumulated over 3 month (MXP + UDIS)	(17.13)
Liquid assets	1.98
Net capital	(527.06)
Basic capital	(530.27)
Liquidity vs. net capital	**(0.38%)**
Liquidity vs. net capital	**(0.37%)**

The liquidity ratio vs. net capital for Ixe Tarjetas as of December 31, 2012 was 14.56%.

Ixe Tarjetas	USO – Diciembre 2012
Gap accumulated over 1 month (MXP + UDIS)	$4,245.78
Gap accumulated over 3 month (MXP + UDIS)	(77.23)
Liquid assets	340.88
Net capital	2,340.65
Basic capital	2,328.31
Liquidity vs. net capital	**14.56%**
Liquidity vs. net capital	**14.64%**

OPERATIONAL RISK

The Financial Group established a formal operational risk department denominated "Operational Risk Management Department" as part of its Risk Management Strategy.

The Financial Group defines operational risk as the potential loss due to failures or deficiencies in internal controls because of operations processing and storing or in data transfer, and adverse administrative and judicial rulings, frauds or theft (this definition includes technological and legal risk).

Operational Risk Management's objectives are: a) to enable and support the organization to reach its institutional objectives through operational risk prevention and management; b) to ensure that the existing operational risks and the required controls are duly identified, evaluated and aligned with the organization's risk strategy; and c) to ensure that operational risks are duly quantified in order to assign the proper capital for operational risk.

Operational risk management's cornerstones

I. Policies, objectives and guidelines

The Financial Group has documented the operational risk policies, objectives, guidelines, methodologies and responsible areas.

The Operational Risk Department works closely with the Controllership Department to promote effective Internal Control that defines the proper procedures and controls the mitigation of Operational Risk. The Internal Audit Department follows up on compliance.

The Comptroller, as part of the Internal Control System, performs the following risk-mitigating activities: a) internal control validation; b) institutional regulations' management and control; c) monitoring of operating process' internal control by means of control indicator reports submitted by the process controllers in the various areas; d) money-laundering prevention process management; e) regulatory provisions controls and follow-up; and f) analysis and assessment of operating processes and projects with the participation of the directors in each process in order to ensure proper internal control.

II. Quantitative and qualitative measuring tools

Operating Losses Database

To record operational loss events, a system is in place that enables the central information supplier areas to directly record such events online, which are classified by type of event in accordance with the following categories (in line with the Basle II Agreement proposals):

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 have defined objectives, which are achieved through different plans, programs and projects. Compliance with such objectives may be adversely affected due to operating risks, for which reason a methodology must be in place to manage them within the organization. Consequently, operational risk management is now an institutional policy defined and supported by senior management.

To perform operational risk management, each of the operating risks involved in the processes must be identified in order to analyze them. In this regard, the risks identified by the Comptroller are recorded in a risk matrix and processed to eliminate or mitigate them (trying to reduce their severity or frequency) and to define the tolerance levels, as applicable.

III. Calculating capital requirement

Pursuant to the Operational Risk Capitalization Rules, the Financial Group has adopted a Basic Model, which is calculated and reported periodically to the authorities.

IV. Information and reporting

The information generated by the databases and the Management Model is processed regularly in order to report the main operating events detected, trends, identified risks (risk matrix) and the mitigating strategies to the Risk Policy Committee and the Board of Directors. The status of the principal initiatives for operational risk mitigation implemented by the different areas of the organization is also reported.

Technological risk

It is defined as the potential loss due to damage, interruption, alteration or failures in the use of or dependence on hardware, software, IT systems, applications, networks and any other data distribution channel for rendering services to customers. Technology risk forms an inherent part of operational risk, for which reason its management is performed throughout the entire organization.

To address operational risk associated with data integrity, the "Integrity Committee" was created. Its objectives include aligning data security and control efforts to a preventive approach, defining new strategies, policies, processes or procedures and solving data security issues that affect or may affect the Financial Group's assets.

The Financial Group performs the functions for technological risk management set forth by the Commission under the guidelines established by the institutional regulations and the Integrity Committee.

To address the operational risk caused by high impact external events, the Financial Group has a Business Continuity Plan (BCP) and Disaster Recovery Plan (DRP) based on a same-time data replication system at an alternate computer site. This guarantees the back-up and recovery of critical applications in the event of an operational contingency.

Legal risk

Legal risk is defined as the potential loss due to noncompliance with applicable legal and administrative provisions, adverse administrative and judicial rulings, and imposed penalties.

The legal risk must be measured as an inherent part of operational 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.

36 – MEMORANDUM ACCOUNTS

	2012	2011
Operations on behalf of third parties		
Banks customers (current accounts)	Ps. 20	Ps. 70
Settlement of customer transactions	14	76
Customer securities received in custody	569,079	497,608
Customer repurchase agreements	99,517	58,841
Collateral pledged on account of clients	89,673	5,981
Managed trusts	435	4,181
Investment banking transactions on account of third parties (net)	58,698	75,989
	Ps. 817,436	**Ps. 642,746**
Proprietary transactions		
Contingent assets and liabilities (unaudited)	Ps. 255	Ps. 255
Assets in trust or under mandate (not audited)	342,466	248,561
Managed assets in custody (unaudited)	405,835	377,098
Credit commitments (unaudited)	38,209	30,562
Collateral received	113,138	124,475
Collateral received and sold or given as a pledge	158,103	66,970
Deposits of assets	2,860	3,107
Interest accrued but not charged of past due loans	320	327
	Ps. 1,061,186	**Ps. 851,355**

37 – COMMITMENTS

As of December 31, 2012 and 2011, the Financial Group had the following contingent obligations and commitments:

- Other contingent obligations and opening of credits totaling Ps. 38,464 (Ps. 30,817 in 2011), which are recorded in memorandum accounts.

- Certain operating equipment is leased. Total property lease payments for the years ended December 31, 2012 and 2011, were Ps. 179 and Ps. 202, respectively.

38 – CONTINGENCIES

As of December 31, 2012, there are lawsuits filed against the Financial Group in civil and business court cases; however, the Financial Group's attorneys consider that the claims filed are unsubstantiated and, in the event of an adverse ruling, they would not significantly impact the Financial Group's consolidated financial position. As of December 31, 2012, the Financial Group has recorded a reserve for contentious matters of Ps. 204 (Ps. 150 in 2011).

39 – PREVENTIVE MECHANISM FOR SAVINGS' PROTECTION

The objective of the Institute for the Protection of Bank Savings (IPAB) is to protect the deposits of small customers and thereby contribute to maintaining the financial system's stability and the proper functioning of the payments systems.

According to the Law of Bank Savings Protection (LPAB), the IPAB manages a bank savings protection system that guarantees the payment of bank deposits or loans or credits to Full Service Banking Institution up to an amount equivalent to 400 thousand UDIS per individual or business entity, regardless of the number or type of such obligations in the customer's favor and charged to a single bank.

On July 30, 2007, general rules were issued for addressing joint accounts or those in which there is more than one account holder, referred to in art.14 of the LPAB, as well as the rules banks must observe for classifying information relative to transactions associated with guaranteed obligations.

The IPAB plays a major role in the implementation of the LPAB resolutions methods and the Law of Credit Institutions (LIC) as timely and adequate mechanisms for salvaging and liquidating Full Service Banking Institutions in financial trouble that may affect their solvency. The purpose is to provide maximum protection to the public while minimizing the negative impact that salvaging an institution may have on others in the banking system.

During 2012 and 2011, the amount of contributions to the IPAB payable by Banorte and Ixe Banco for fees amounted to Ps. 1,574 and Ps. 1,284, respectively.

40 – NEW ACCOUNTING GUIDELINES

In December 2012, the CINIF decreed a series of Regulations that will take effect on January 1, 2013. The regulations and their main changes are listed below:

The Financial Group is in the process of determining the impact that these criteria and standards may have on its financial information.

NIF B-8, Consolidated financial statements. The principal changes of this regulations are:

Modification to the definition of majority interest

The existence of one entity's majority interest over another is the basis for requiring that the latter's financial information be consolidated with the former's. Therefore, according to this new definition, it's possible to have to consolidate some entities that were not previously considered as the controlled entity and, conversely no longer consolidate information from entities currently being consolidated.

The repealed NIF B-8 defined majority interest as: the power to decide over the financial and operational policies of an entity with the purpose of benefitting from its activities. The new NIF B-8, on the other hand, states that one entity has a majority interest in another when it has power over the latter to direct its relevant activities, when it is exposed or is entitled to variable gains as a result of such interest, and has the capacity to affect said gains.

Whereas the repealed NIF established that the power rested essentially on the holding of shares with voting rights, the new NIF states that there may also be other contractual agreements that grant such power, or other factors such as the degree of involvement with the controlled entity that could indicate the existence of power. Therefore, professional judgment is required for each situation in order to determine the existence of control.

Protection rights

The concept of protection rights is introduced. It refers to those rights that exist to protect the minority interest investor's share without granting it power. It is important to identify these rights when conducting the analysis to determine the existence of power.

Principal and agent

This NIF also incorporates the principal and the agent. The principal is an investor with the right to make decisions about the entity in which it holds shares. The agent is an individual or entity that makes decisions on behalf of and to the benefit of the principal, and consequently, has no power of its own. The difference between the principal and the agent is important in the process of identifying the existence of power.

Elimination of the term –specific purpose entity (EPE)-

This term was eliminated because an entity's objective and business purpose has no bearing on whether or not it can be considered as a subsidiary.

Introduction of the term –structured entity-

A structured entity is the entity that has been designed so that the voting or similar rights are not a determining factor to decide who controls it.

NIF C-21, Agreements with joint control and NIF C-7, Associated investments, joint businesses and other permanent investments. The principal changes of these regulations are:

Classification of the joint control agreements

According to this NIF, a joint control agreement is a covenant that regulates activities over which two or more parties hold joint control. Furthermore, it mentions two types of joint control agreements: 1) joint operation – when the involved parties have direct rights over the assets and liability obligations associated with the agreement; and 2) joint business – when the parties have the right only to their share in the net assets' value (i.e. stockholders' equity). Finally, it points out that the joint operations may or may not be structured through a vehicle, whereas the joint businesses always have a vehicle.

NIC 31, on the other hand, established that if there was a vehicle, the joint control agreement should be classified as a joint business, and in the absence of a vehicle, the agreement is classified as a joint operation. As a result of this change, an agreement classified as a joint business based on NIC 31 could be deemed a joint operation according to NIF C-21. The NIF establishes the accounting recognition to make the transition.

Accounting recognition for joint businesses

The NIF establishes that a shareholder in a joint business should record its participation as a permanent investment and should valuate it based on the equity method. NIC 31 established that they could be recognized, at the entity's discretion, as a permanent investment valuated based on the equity method or by proportional consolidation. The transitory paragraphs indicate the accounting recognition to follow in order to change proportional consolidation to the equity method.

41 – SUBSEQUENT EVENTS

a. Acquisition of Afore Bancomer through Afore XXI Banorte

As mentioned in Note 2, the Financial Group reached an agreement last November 27 with Grupo BBVA by which Afore XXI Banorte, a subsidiary of Banorte, would acquire Afore Bancomer.

On January 9, 2013, Afore Bancomer was acquired for USD 1,735 million, of which USD 1,600 million corresponds to the price paid by Afore XXI Banorte and USD 135 million corresponds to Afore Bancomer's surplus capital. The transaction was approved on November 30, 2012 by the National Commission of the Retirement Fund System, and on December 18 by the Federal Commission for Economic Competence.

Of the price paid by Afore XXI Banorte, Banorte put up 50% of the amount and the Mexican Institute of Social Security (IMSS) put up the other 50%. The amount given by Banorte to Afore XXI Banorte to pay Grupo BBVA was Ps. 10,252, not including payment for Afore Bancomer's surplus capital, using liquid funds that Banorte had available. During 2013, the Financial Group will implement several capital regenerating mechanisms to offset this acquisition in the short term on Banorte's capitalization ratio.

Thus, as of January 2013, Afore Bancomer's operations will be incorporated to Afore XXI Banorte, which retains its company name and operations. This transaction makes Afore XXI Banorte the leading retirement fund administrator in Mexico.

b. Modifications in the ICAP as a result of the Basel III Agreement:

On November 28, 2012, the Commission published the general provisions that establish changes in the procedure to calculate the minimum capitalization ratio (ICAP) applicable to Banking Institutions. Net capital will be progressively recognized in order to comply with the minimum assumptions (budgets) set forth by the Basel III Agreement.

The objective of the regulatory change is to strengthen banking institutions' net capital consistently with the latest international consensus in the area, as per the guidelines established by the Capital Agreement issued by the Basel Banking Supervision Committee. One of this committee's objectives is to get banking institutions around the world to raise their capability to face financial or economic problems by integrating more and better quality capital. The changes in the Bank Circular will become effective as of January 1, 2013. With the information as of December 2012, Banorte's ICAP will be at 15.17%, 40 basis points higher than that calculated with the Basel II rules. The Ixe Banco ICAP will be 14.56%, 96 basis points lower than that calculated with the same rules.

c. Measures to strengthen the ICAP Banorte

Derived from the payment made to purchase Afore Bancomer as mentioned in item a) of this note, the capitalization ratio pro-forma of Banorte required under Basel III decreased to approximately 13.3% (projected at the end of January 2013). Banorte continues to meet capitalization levels according to the rules established by the Commission, however, it is the practice of Banorte to maintain capitalization levels sufficiently enough to support its growth, so the bank implemented some steps to strengthen its capital ratio.

As part of the measures mentioned, in the Extraordinary General Shareholders' Meeting held on February 14, 2013, it was agreed to authorize a capital increase of Banorte by an amount of Ps. 10,200. Such increase shall be subscribed by Financial Group with funds obtained through a syndicated loan with other financial institutions.

The credit period is one year, the unpaid balance will bear interest at LIBOR to 3 months plus 0.80%, the resources for the payment of this loan will come from the payment of dividends from subsidiaries of the Financial Group, and if corporate event occurs that provide additional resources, those will be effective for pre-payments. The credit does not have any guarantee granted by the Financial Group or any of its subsidiaries.

As part of this operation, the Financial Group hired a derivative financial instrument to cover fluctuations in the interest rate and the USD exchange rate of interest and principal. With this, the interest rate for financing is equivalent to -0.02% TIIE.

Additionally, during the month of February Afore XXI Banorte declared a dividend payment of Ps. 950 and a decrease in capital of Ps. 2,000; with this Banorte had a favorable impact of Ps. 1,475, to strengthen its capital ratios.

As a result of the capital regeneration initiatives described above, the ICAP of Banorte with preliminary data at the end of January 2013 stood at approximately 16.3%.