Annual Report 2011

GRUPO FINANCIERO BANORTE, S. A. B. DE C. V.
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This Annual Report was prepared in accordance with regulations applicable to companies issuing securities as well as other participants in the market with information for the fiscal year ending December 31st, 2011.

The 2,312,837,603 "O" series shares of Grupo Financiero Banorte, S.A.B. de C.V. in circulation as of December 31st, 2011 were traded in the Bolsa Mexicana de Valores (Mexican Stock Exchange) under the symbol "GFNORTEO" and are registered in the National Registry of Securities ("RNV").

The second to last paragraph of Article 86 of the Stock Market Law states that:
Issuing companies with registered securities, must display in the prospectus, supplement or informative brochure, a legend that explicitly states that such registration does not imply a certification of the attractiveness of those securities, solvency of the issuer or the accuracy or truthfulness of the information contained in the prospectus, nor does it authenticate acts that, if the case, have been conducted in breach of these laws.

This report is available on the Internet at www.banorte.com/ri. Select "Annual Reports", in the Financial Information section, and then the document entitled "Circular Unica CNBV 2011 Annual Report".

Monterrey, N. L. April 30th, 2012.

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1. GENERAL INFORMATION

a) GLOSSARY OF TERMS AND DEFINITIONS

Unless the context suggests otherwise, for purposes of this Annual Report, the following terms have the meanings ascribed to them below and can be used interchangeably in singular or plural.

TERM	DEFINITION
ADE:	Acuerdo de Apoyo Inmediato a Deudores (Agreement for Immediate Debtor Support)
ADR's:	American Depositary Receipts
Bancen:	Banco del Centro, S. A.
Bancrecer:	Bancrecer, S. A.
Banorte:	Banco Mercantil del Norte, S. A., Institución de Banca Múltiple, Grupo Financiero Banorte
Banorte USA:	Banorte USA Corp., subsidiary of Banco Mercantil del Norte, S. A.
Banxico:	Bank of Mexico (Mexican Central Bank)
BMV	Bolsa Mexicana de Valores, S. A. de C. V. (Mexican Stock Exchange)
CAPS:	Comité de Auditoría y Prácticas Societarias.(Audit & Corporate Practices' Committe)
CC:	Credit letters
CEBUR:	Certificado Bursátil (Stock Certificate)
CEDES:	Certificados de Depósito a Plazo Fijo (Fixed term Certificate of Deposit)
COFECO:	Comisión Federal de Competencia Económica (Federal Commission of Economic Competition)
Cetes:	Mexican Federal Treasury Certificates
CNBV:	Comisión Nacional Bancaria y de Valores (National Banking and Securities Commission)
CPO´s:	Certificados de Participación Ordinarios (Ordinary Participation Certificates)
D:	Director
DE:	Director Ejecutivo (Executive Director)
DMD:	Deputy Managing Director
Emisnet:	Electronic Communications System with Securities Issuers
EUA:	United States of America
FINAPE:	Agricultural and Fishing Sector Financing Agreement
FOBAPROA:	Fondo Bancario de Protección al Ahorro (Deposit Insurance Fund)
FOPYME:	Financial and Promotional Support Agreement for Micro, Small and Medium Businesses
Forward:	Non-standardized private contract to buy or sell a specific asset at a certain price level whose liquidation will be carried out at a future date.
Generali:	Assicurazioni Generali, company of Italian origin
GFNorte, the Company, the Issuer:	Grupo Financiero Banorte, S. A. B. de C. V.
Holding:	Holding company
ICV:	Past due loan ratio
IFC:	International Finance Corporation
IMPAC:	Ley del Impuesto al Activo (Asset Tax Law).
INB:	Inter National Bank, INB Financial Corp.
Indeval:	Institute for Deposit of Securities
IPAB:	Instituto para la Protección al Ahorro Bancario (Institute for the Protection of Bank Savings)

TERM	DEFINITION
ISR:	Income Tax
Ixe Banco	Ixe Banco, S. A.
Ixe GF	Ixe Grupo Financiero, S.A.B. de C.V.
LIC:	Credit Institutions Law
LMV	Ley del Mercado de Valores (Securities' Market Law)
LRAF	Ley para Regular las Agrupaciones Financieras (Law to Regulate Financial Groups)
MD:	Managing Director
M.E.:	Moneda extranjera (Foreign currency)
MF:	Margin Financiero (Net Interest Income)
MIN:	Margen de interés neto (Net Interest Margin)
M. N.:	Moneda nacional (Local currency, Mexican pesos)
Motran:	Motran Services Incorporated (remittance company based en Los Angeles, California)
Nafin:	Nacional Financiera
OTC:	Over the Counter
pp:	Percentage points
POS:	Point of Sale Terminal
PRLV:	Pagarés Bancarios con Rendimiento Liquidable al Vencimiento (Bank notes with yield settlement at maturity)
Pronegocio:	Créditos Pronegocio, S.A. de C.V., Sociedad Financiera de Objeto Limitado, Grupo Financiero Banorte
PTU:	Employee Profit Sharing Agreement
PyMES:	Small and Medium Sized Businesses
REPOMO:	Resultado de posición monetaria (Result of monetary position)
ROA:	Return on Average Assets
ROE:	Return on Average Equity
SAT:	Servicio de Administración Tributaria (Tax Administration Service)
SCI:	Sistema de Control Interno (Internal Control System)
SD:	Deputy Director
Bank Sector, banking subsidiaries:	Banorte and subsidiaries and Ixe Banco, S.A.
SHCP:	Secretaría de Hacienda y Crédito Público (Ministry of Finance and Public Credit)
SIEFORE:	Sociedad de Inversión Especializada de Fondos para el Retiro (Specialized Retirement Savings Fund)
SOFOL:	Sociedad Financiera de Objeto Limitado (Restricted Non Banking Financial Institution)
SOFOM:	Sociedad Financiera de Objeto Múltiple (Multi-purpose Non Banking Financial Institution)
Sólida:	Sólida Administradora de Portafolios, S. A. de C. V. (Recovery Banking Unit)
Swap:	Private contract establishing the bilateral obligation to exchange one stream of cash flow for another for a set period of time on pre-established dates. Swaps can be used to hedge certain risks such as interest rate risk, or to speculate on changes in the expected direction of underlying prices.
Tier 1:	Basic capital
Tier 2:	Complementary capital
TIIE:	Tasa de Interés Interbancaria de Equilibrio (Inter-bank Equilibrium Interest Rate)
UMS:	Bonos Soberanos Mexicanos.(Sovereign Bonds)
UDIS:	Units of investment indexed to inflation
UniTeller:	UniTeller Holdings, Inc. (remittance company based in New Jersey).
USD:	US dollars
VaR:	Valor en Riesgo (Value at Risk)

b) EXECUTIVE SUMMARY

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

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

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

- ✓ *In April 2011, the merger with IXE GF became effective, therefore for the year of 2011, 9 months of integrated results are included. Following that 2010 and 2009 figures are not entirely comparable.*
- ✓ *The arithmetic operations were carried out in pesos and in the following tables are presented in million pesos. As a result, it seems that some totals have minimal errors, which is not the case as it is matter of rounding off figures.*

SELECTED FINANCIAL INFORMATION

	2011	***2010***	***2009***
Net Income Grupo Financiero Banorte (GFNorte) (*)	$8,517	$6,705	$5,854
Total Assets GFNorte (*)	$829,277	$590,230	$567,138
Total Liabilities GFNorte (*)	$752,195	$540,003	$522,164
Stockholders' equity GFNorte (*)	$77,082	$50,227	$44,974
Stockholders' equity GFNorte excluding minority interest (*)	$70,849	$46,117	$41,366
INFORMATION PER SHARE			
Net income per share (pesos)	$3.79	$3.32	$2.90
Dividend approved per share (pesos) (1)	$0.52	$0.52	$0.52
Book value per share (pesos) (excluding minority interest)	$30.45	$22.85	$20.50
Shares outstanding (millions)	2,312.8	2,018.3	2,017.8
INFRASTRUCTURE AND EMPLOYEES			
Bank branches (2)	1,285	1,134	1,088
ATMs (automated teller machines)	6,367	5,004	4,478
Full-time employees	24,015	19,747	19,311
Full-time employees and professional services	24,027	19,759	19,327

	2011	2010	2009
PROFITABILITY RATIOS			
NIM before REPOMO	4.1%	4.2%	4.3%
NIM adjusted for credit risks	3.3%	2.9%	2.8%
Return on Assets (ROA)	1.1%	1.2%	1.0%
Return on Equity (ROE)	14.1%	15.5%	14.9%
OPERATIONS			
Efficiency Ratio (3)	55.7%	51.4%	51.2%
Operating Efficiency Ratio (4)	3.2%	3.0%	3.0%
Liquidity Ratio	101.8%	84.0%	63.2%
ASSET QUALITY INDICATORS			
Past due loan ratio	1.9%	2.5%	2.5%
PDL Reserve coverage	143.1%	123.7%	122.4%
CAPITALIZATION RATIO (BANKING SECTOR)	**12.9%**	**16.1%**	**16.8%**

(*) Million Pesos.

(1) Dividends approved by the Shareholders' Assemblies in 2010 and 2011 were: a total dividend of Ps.0.52 per share in 2010, to be paid in three installments (Ps 0.17 in October 2010, Ps 0.17 in February 2011 and Ps 0.18 in May 2011). The total dividend of Ps 0.52 per share decreed in 2011 was also to be paid in three installments (Ps 0.17 in October 2011, Ps 0.17 in February 2012 and Ps 0.18 in May 2012).

(2) Includes bank modules and excludes agencies abroad.

(3) Non Interest Expense / (Total Operating Income – Margin + Loan Loss Provisions)

Due to the reclassification of the item "Non Operating Income (Expenses), net" under Non Interest Income applied in January 2011, the Ratio published in the 2010's Annual Report (sent to the authority in February and June 2011) has been modified in this document.

(4) Non Interest Expense/ Average Total Assets.

Grupo Financiero Banorte's Results

In 2011 GFNorte reported profits of Ps 8.52 billion, 27% higher than in 2010. The contribution of accumulated profits for 2011 by sector is as follows:

Net Income for the Banking Sector totaled Ps 6.54 billion (77% of GFNorte's profits) representing a 21% growth vs. 2010.

The Brokerage Sector comprised of Casa de Bolsa Banorte, Ixe Casa de Bolsa and Ixe Fondos, generated accumulated profits of Ps 418 million in 2011, 4% higher than in 2010.

The contribution to GFNorte's profits from the Long Term Savings Sector (includes Insurance and Annuities companies, and for the first time Afore XXI Banorte) was Ps 573 million according to its participation in these businesses, representing a 29% increase vs. 2010.

Other Finance companies, which include Arrendadora and Factor Banorte, as well as Warehousing, Ixe Automotriz and Fincasa Hipotecaria (Ixe's Mortgage and Home Developer Financing Unit), totaled Ps 708 million in 2011, 42% higher compared to 2010.

Net Income by Segment	2011	2010	2009
Banking Sector [1]	$6,544	$5,387	$4,786
Brokerage	$418	$403	$203
Long Term Savings [2]	$573	$444	$380
Afore	209	208	141
Aseguradora (Insurance).	339	230	224
Pensiones (Annuities)	25	6	16
Finance Companies	$708	$500	$425
Arrendadora y Factor (Leasing and Factoring) [3]	616	443	403
Almacenadora (Warehouse)	40	57	22
Ixe Automotriz (Car)	30	-	-
Fincasa Hipotecaria (Mortgage)	22	-	-
Other Companies	($62)	$-	$15
Ixe Soluciones	(64)	-	-
Ixe Servicios	2	-	-
Pronegocio [4]	-	-	15
Holding	$336	($29)	$45
GFNORTE	***$8,517***	***$6,705***	***$5,854***

Million Pesos

(1) Since 4Q09, the 92.72% stake in Banco Mercantil del Norte is considered.
(2) Earnings according to the percentage of GFNorte's participation in each company.
(3) Since February 2008, the leasing and factoring companies merged.
(4) As of August 31st, 2009 it merged with Banco Mercantil del Norte.

<u>Comparative analysis: Summary of the years ended December 31st, 2011 and 2010.</u>

Net Interest Income

In 2011, Net Interest Income increased by 24% YoY from Ps 22.73 to Ps 28.24 billion as a result of greater loan volumes, a stable funding cost, as well as the extraordinary impacts of integrating the results of the Insurance and Annuities' companies and of Ixe Grupo Financiero. Average NIM, including the results of the Insurance and Annuities' companies, was 4.1% in 2011, declining (0.1 pp) compared to 2010, as a result of the 26% increase in productive assets (due to the merger with Ixe) which offset the increase in Net Interest Income.

Provisions

Provisions charged to results in 2011 were Ps 5.44 billion, a (21%) YoY decline as a result of lower requirements in the Corporate portfolio (Ps 1.25 million in provisions were created for the Gamma de Servicios loan at closing of 2010, subsidiary of Mexicana), as well as fewer provisions for the Credit Card, Mortgage and Commercial portfolios. Average NIM adjusted for Credit Risks was 3.3% in 2011, an increase of 0.4 pp YoY compared to 2010. The improvement in this ratio was a result of growth in Net Interest Income and an important reduction in Loan Loss Provisions derived from an improvement in the quality of the portfolio.

Non Interest Income

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

Non Interest Expense

In 2011, Non Interest Expense was Ps 23.41 billion, 32% higher YoY vs. 2010 mainly due to the merger with Ixe. The Efficiency Ratio was 55.7% in 2011, 4.3 pp higher than in 2010.

Loan Portfolio

	2011	2010	2009
Performing Loans	**350,265**	**263,096**	**238,288**
Recovery Bank	292	454	666
Total Performing Loans	**$350,558**	**$263,550**	**$238,954**
Past Due Loans	6,949	6,664	6,154
% PDL Ratio	**1.9%**	**2.5%**	**2.5%**

Million Pesos.

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

Past Due Loans

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

Deposits

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

Million Pesos.

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

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

Monthly stock performance for the last 6 months:

Date	Maximum	Minimum	Closing	Volume of Shares (Daily Average)	Total Volume
31/10/2011	47.79	39.31	45.51	5,965,776	125,281,300
30/11/2011	48.49	42.01	46.94	5,130,485	102,609,700
31/12/2011	48.08	40.48	42.32	5,056,610	106,188,800
31/01/2012	53.34	52.29	51.94	7,020,688	154,455,143
29/02/2012	54.88	50.06	52.54	5,073,575	101,471,503
31/03/2012	58.20	52.59	56.98	4,584,076	96,265,591

Source: Bloomberg.

In Section 2. "THE COMPANY" in part a) Development and History of the Issuer of this Annual Report are the Material Events of 2011, as well as those which happened during the first quarter of 2012.

C) RISK FACTORS

The risks and uncertainties described below are not the only ones the Company faces. GFNorte's operations may also face unknown risks or risks that we currently consider immaterial. If any of the risks described below occur, they could adversely and significantly affect activities, results of operations, projections and the financial situation of the Company. Unless otherwise indicated, or if the context so requires, the terms "GFNorte", "us" and "our" refer to Grupo Financiero Banorte, S.A.B. de C.V. and its subsidiaries.

Risks Relating to Our Business

Our results of operations have been, and may continue to be, adversely affected by U.S. and international financial market and economic conditions.

In recent years, the global economy underwent and continues to suffer a period of crisis and unprecedented volatility and was adversely affected by a significant lack of liquidity, loss of confidence in the financial sector, disruptions in the credit markets, reduced business activity, rising unemployment, decline in interest rates and erosion of consumer confidence. The global economic crisis and the U.S. economic slowdown in particular had a negative impact on the Mexican economy and have adversely affected our business. The future economic environment may continue to be less favorable than that of recent years. There is no assurance when such conditions will improve. In particular, we may face, among others, the following risks related to the economic downturn:

- We potentially face increased regulation of our industry. Compliance with such regulation may increase our costs and limit our ability to pursue business opportunities.
- The process our subsidiaries use to estimate losses inherent in their credit exposure requires complex judgments, including forecasts of economic conditions and how these economic conditions might impair the ability of borrowers to repay their loans. The degree of uncertainty concerning economic conditions may adversely affect the accuracy of our subsidiaries' estimates, which may, in turn, impact the reliability of the process.
- The value of the portfolio of investment securities that Banorte and our other subsidiaries hold may be adversely affected.
- A worsening of the foregoing conditions may delay the recovery of the financial industry and impact our financial condition.

Our financial results are constantly exposed to market risk. We are subject to fluctuations in interest rates and other market risks, which may materially and adversely affect our financial position and results of operations.

Market risk refers to the probability of variations in our financial margin, or in the market value of our assets and liabilities and securities positions held by our subsidiaries, due to interest rate and equity market volatility. Changes in interest rates and equity values affect the following areas, among others, of our business:

- financial margins;
- the volume of loans originated by Banorte and Ixe Banco;
- the market value of our financial assets; and
- gains from sales of loans and securities by our subsidiaries.

A significant portion of our assets, including Banorte's loans, are long-term assets, and some were originated with fixed nominal interest rates. In contrast, most of Banorte's borrowings are short-term. Increases in short-term interest rates could reduce Banorte's financial margin, which comprises the majority of our revenue. When interest rates rise, we must pay higher interest on our borrowings while interest earned on our assets does not rise as quickly, which causes profits to decrease. Interest rate increases could result in decreases in our financial margin, which would adversely affect our financial condition and results of operations.

In addition, increases in interest rates may reduce the volume of loans Banorte and Ixe Banco originate. Sustained high interest rates have historically discouraged demand from customers and have resulted in increased delinquencies in outstanding loans and deterioration in the quality of assets.

Increases in interest rates may also reduce the value of our financial assets. Banorte and some of our other subsidiaries hold a substantial portfolio of loans and debt securities that have both fixed and adjustable interest rates. The market value of a security with a fixed interest rate generally decreases when prevailing interest rates rise, which may have an adverse effect on Banorte or our other subsidiaries' earnings and financial position. In addition, Banorte and other of our subsidiaries may incur costs (which, in turn, will impact its results) as it implements strategies to reduce future interest rate exposure. The market value of an obligation with an adjustable interest rate can be adversely affected when interest rates increase, due to a lag in the implementation of repricing terms.

Increases in interest rates may reduce gains or require us to record losses on sales of the loans or securities. In recent years, interest rates in Mexico have been low by historical standards; however, there can be no assurance that such low rates will continue in the future.

Our loan and investment portfolios are subject to prepayment risk, which could negatively affect our financial margin.

Banorte's and our subsidiaries' loan and investment portfolios are subject to prepayment risk, which results from the ability of a borrower or issuer to pay a debt obligation prior to maturity. Generally, in a declining interest rate scenario, prepayment activity increases, reducing the weighted average lives of our interest-earning assets and its expected results. If prepayment activity were to increase, we would also be required to amortize net premiums into income over a shorter period of time, thereby reducing the corresponding asset yield and financial margin. Prepayment risk also might have a significant adverse impact on credit card and INB's collateralized mortgage obligations, since prepayments could shorten the weighted average life of these portfolios.

Banorte and Ixe Banco may be required to make significant contributions to IPAB.

Under Mexican law, banks are required to make monthly contributions to the IPAB to support their operations that are equal to one-twelfth of 0.4% (the annual rate) multiplied by the average of certain liabilities minus the average of certain assets. In the event that IPAB's reserves are insufficient to manage the bank savings protection system and provide the necessary financial support granted to troubled banking institutions, IPAB maintains the right to require extraordinary contributions to participants in the system. Any such requirement could adversely affect our business, financial condition or results of operations.

We engage in transactions with our subsidiaries or affiliates that others may not consider to be on an arm's-length basis.

We have celebrated and will continue to celebrate various operations between our subsidiaries, affiliates, our main shareholder and various societies which directly or indirectly, are owned or controlled by our principal shareholder.

Banorte has entered into certain service agreements with its affiliates to allow them to offer their products and services within Banorte's branch network in consideration for certain fees. In addition, we and our subsidiaries and affiliates have entered into a number of agreements providing for the sharing of revenues or expenses in connection with the performance of certain activities, including loan recovery. Mexican law applicable to public companies and financial groups and institutions and our by-laws provide for several procedures designed to ensure that the transactions entered into with or among our financial subsidiaries do not deviate materially from prevailing market conditions for those types of transactions, including the approval by our Board of Directors. We are likely to continue to engage in transactions with our subsidiaries and affiliates, and our subsidiaries and affiliates are likely to continue to engage in transactions among themselves, and no assurance can be given that the terms that we or our subsidiaries consider to be “substantially on market conditions” will be considered as such by third parties. In addition, future conflicts of interest between us and any of our subsidiaries or affiliates, and among our subsidiaries and affiliates, may arise, and such conflicts are not required to be and may not be resolved in our favor.

Although we intend to continue to conduct operations with related parties under market conditions, and in accordance with the terms permitted by the regulations that apply to us, such operations could be affected by conflicts of interest between us and such related parties. Consequently, we cannot ensure that operations that we celebrate in the future with any of our subsidiaries or affiliates or related parties will not have an adverse effect on our financial position.

The possibility of not implementing correctly the risk management system could materially and adversely affect our business operations and prospects.

As a holding of two Credit Institutions, one of the principal types of risks inherent in GFNorte’s business is credit risk. GFNorte and its banking subsidiaries may not be able to improve its credit risk management system so that it can function effectively. For example, an important part of Banorte and Ixe Banco’s credit risk management system is to employ an internal credit rating system to assess the particular risk profile of a customer. As this process involves detailed analyses of the customer or credit risk, taking into account both quantitative and qualitative factors, it is subject to human error. In exercising their judgment, our subsidiaries’ employees may not always be able to assign an accurate credit rating to a customer or credit risk, which may result in Banorte and Ixe Banco’s exposure to higher credit risks than indicated by its risk rating system. In addition, GFNorte’s banking subsidiaries have been trying to refine its credit policies and guidelines to address potential risks associated with particular industries or types of customers, such as affiliated entities and group customers. However, these subsidiaries may not be able to timely detect these risks before they occur, or due to limited resources or tools available to it, its employees may not be able to effectively implement them, which may increase its credit risk. As a result, failure to effectively implement, consistently follow or continuously refine Banorte and Ixe Banco’s credit risk management system may result in a higher risk exposure for these subsidiaries, which could materially and adversely affect our results of operations and financial position.

It is important to mention that on October 27th, 2011, the CNBV published a compilation of all the modifications to the General Regulations applicable to Credit Institutions in the Diario Oficial de la Federación (Official Gazzette). In these regulations, you may find all the legislation related to this subject, in the second heading "Prudential Regulations" - Chapter V - "Rating of Loan Portfolio"; to which Banorte and Ixe Banco adhere.

If GFNorte is unable to effectively control the level of non-performing or low credit quality loans in its current loan portfolio and in new loans it extends in the future, or if its loan loss reserves are insufficient to cover actual loan losses, our financial position and results of operations may be materially and adversely affected.

Non-performing or low credit quality loans can negatively impact the results of operations. We cannot assure you that Banorte and Ixe Banco will be able to effectively control and reduce the level of the impaired loans in its loan portfolio. In particular, the amount of its reported non-performing loans may increase in the future as a result of growth in its loan portfolio or factors beyond its control, such as the impact of the global financial crisis and macroeconomic trends and political events affecting Mexico or events affecting given industries.

In addition, Banorte and Ixe Banco’s current loan loss reserves may not be adequate to cover an increase in the amount of non-performing loans or any future deterioration in the overall credit quality of its loan portfolio. As a result, if Banorte and Ixe Banco’s loan portfolio deteriorates it may be required to increase its loan loss reserves, which may adversely affect our financial position and results of operations. Moreover, there is no precise method for predicting loan and credit losses, and we cannot assure you that Banorte and Ixe Banco’s loan loss reserves are or will be sufficient to cover actual losses. If Banorte and Ixe Banco are unable to control or reduce the level of its non-performing or poor credit quality loans, our financial position and results of operations could be materially and adversely affected.

In crisis situations, Banorte and Ixe Banco have experienced asset quality problems, including with respect to collateral, and have reported relatively large loan loss provisions.

The asset quality of Banorte's loan portfolio, including with respect to collateral, and the loan portfolios of other Mexican banks have been negatively affected by the unfavorable financial and economic conditions prevailing in Mexico following the global financial crisis that commenced in September 2008. Mexican regulatory authorities and the banking system responded to this situation in several ways, including making revisions to Mexican Banking GAAP, including allowing for the reclassification of certain "available for sale securities" to "held to maturity securities" and broadening the class of securities available for repurchase. Other regulatory responses have included imposing more stringent loan loss reserve requirements and capitalization standards, as well as adopting a number of programs designed to provide relief to Mexican borrowers in connection with the granting and restructuring of outstanding loans. Such reserve requirements could have a direct adverse impact on our financial results, which could affect our ability to pay dividends to our shareholders. Unfavorable financial and economic conditions that took place in Mexico and these regulatory initiatives taken to deal with adversity, have caused the Mexican banking sector to experience asset quality problems and to record large loan loss provisions, although the negative impact caused by the crisis has decreased as a result of recent improvement in the economic environment. However, recoveries of these past due loans, as a percentage of the past-due portfolio, will tend to decrease with time as a result of the maturing of the PDL portfolio, as well as the decline in the value of assets that guarantee these loans.

In Mexico, foreclosure procedures may be subject to delays and administrative requirements that may result in lower levels of recovery on collateral compared to its value. In addition, other factors such as defects in the perfection of Banorte and Ixe Banco's security interests, fraudulent transfers by borrowers or a reduction in the value or liquidity of the collateral may impair its ability to recover on its collateral. Accordingly, there can be no assurance that Banorte and Ixe Banco will be able to realize the full value of their collateral. As a result, lower recovery rates, asset quality deterioration, decreased value of collateral and lower levels of recovery on collateral compared to its value could have a material and adverse effect on our business, financial condition and results of operations.

Some of Banorte's loans to Mexican states and municipalities may be restructured.

The Mexican government and commercial banks, including Banorte, have from time to time agreed to modify the terms of Governmental Loans. Such modifications have included extensions in maturity of up to 12 years, reductions in interest rates and prepayment options. There can be no assurance that other Governmental Loans or even these same loans will not be similarly restructured in the future in a way that would be materially adverse to Banorte and any of our subsidiaries.

The short-term nature of Banorte and Ixe Banco's funding sources may pose a liquidity risk.

Many Mexican banks have suffered severe liquidity problems in the past, particularly in connection with refinancing short-term dollar liabilities in the international capital markets. No assurance can be given that liquidity problems will not affect the Mexican banking system again or that liquidity constraints will not affect Banorte and Ixe Banco in the future. While we expect Banorte and Ixe Banco to be able to pay or refinance their projected liabilities, no assurance can be given that it will be able to repay such liabilities or refinance such liabilities under favorable terms.

We anticipate that customers in Mexico will continue in the near future to demand short-term deposits (particularly demand deposits and short-term time deposits) and loans, and that GFNorte will maintain its reliance on the use of deposits as a source of funding. The short-term nature of this funding source could cause liquidity problems for GFNorte in the future if deposits are not made in the volumes it expects or are not renewed. In the past, a substantial portion of such customer deposits have been rolled over upon maturity or maintained with Banorte (in the case of deposits payable on demand) and, as a result, such deposits have over time been a stable source of funding. No assurance can be given, however, that customers will continue to roll over or maintain their deposits with Banorte and Ixe Banco. If a substantial number of GFNorte's customers fail to roll over their deposits upon maturity or withdraw their deposits from GFNorte, its liquidity position could be adversely affected, and it may be required to seek funding from more expensive sources, affecting our financial condition and results of operations.

The volatility in Peso exchange rates and interest rates in Mexico may adversely affect our business.

We are exposed to currency risk any time we hold an open position in a currency other than Pesos and to interest rate risk when we have an interest rate repricing gap or carry interest-earning securities having fixed real or nominal interest rates. Peso exchange rates and interest rates in Mexico have been subject to significant fluctuations in recent years. Because of the historical volatility in Peso exchange rates and interest rates in Mexico, the risks associated with such positions may be greater than in certain other countries. Exchange rates and interest rates have experienced considerable volatility, such as the problems currently faced by European countries and financial institutions. Although we follow various risk management procedures in connection with our trading and treasury activities, there can be no assurance that we will not experience losses with respect to these positions in the future, any of which could have a material adverse effect on our results of operations and financial position.

In recent years, interest rates in Mexico have been low by historical standards; however, there can be no assurance that such low rates will continue in the future. A sustained increase in interest rates will also raise our funding costs and may reduce Banorte and Ixe Bancos's loan demand, especially among consumers. Rising interest rates may therefore require us to re-balance our asset portfolio and our liabilities in order to minimize the risk of potential mismatches and maintain our profitability. In addition, rising interest rate levels may adversely affect the Mexican economy and the financial position and repayment ability of GFNorte's corporate and retail borrowers, including holders of its credit cards, which in turn may lead to a deterioration in its asset quality.

Also, volatility in exchange and interest rates could affect the ability of GFNorte's clients to repay their loans, which could result in an increase in GFNorte's non-performing loan portfolio, and therefore materially and adversely affect our business, financial condition and results of operations.

Our subsidiaries are subject to market and operational risks associated with derivative transactions, as well as structuring risks and the risk that documentation will not incorporate accurately the terms and conditions of derivative transactions.

Banorte enters into derivative transactions primarily for hedging purposes and, to a lesser extent, on behalf of its customers. Banorte is subject to market and operational risks associated with these transactions, including basis risk (the risk of loss associated with variations in the spread between the asset yield and the funding and/or hedge cost) and credit or default risk (the risk of insolvency or other inability of the counterparty to a particular transaction to perform its obligations thereunder).

Mexican courts have limited experience in dealing with issues related to derivative transactions. Given that for certain of Banorte's derivative transactions the derivative market is not yet as developed in Mexico as in other jurisdictions, there are added structuring risks and the risk that Banorte's documentation will not incorporate accurately the terms and conditions of such derivative transactions. The execution and performance of these types of transactions depends on Banorte's ability to develop adequate control and administration systems, and hire and retain qualified personnel. Moreover, Banorte's ability to adequately monitor, analyze and report these derivative transactions depends, to a great extent, on its information technology systems. These factors may further increase the risks associated with these transactions. As a result, this could materially and adversely affect our results of operations and financial position.

In addition, Ixe Casa de Bolsa deals on a regular basis in the Mexican derivatives market through interest rate futures contracts, mainly derivatives linked to Mexican financial indexes, for trading purposes, arbitrage opportunities and to reduce market risks inherent in various portfolios. A significant change in any of these financial indexes could result in losses in these investments. Afore XXI, through its Siefores, also carries out derivatives transactions (interest rate and foreign exchange futures and forwards, interest rate swaps, equities futures and forwards) on behalf of third parties.

We may need additional capital in the future, and may not be able to obtain such capital on acceptable terms, or at all.

In order for us to grow, remain competitive, enter into new businesses, or meet regulatory capital adequacy requirements, we may require new capital in the future. Moreover, we may need to raise additional capital in the event of large losses in connection with any of our activities that result in a reduction of our stockholders' equity. Our ability to obtain additional capital in the future is subject to a variety of uncertainties, including:

- our future financial position, results of operations and cash flows;
- any necessary government regulatory or corporate approvals;
- general market conditions for capital-raising activities by commercial banks and other financial institutions; and
- economic, political and other conditions in Mexico and elsewhere.

We may not be able to obtain additional capital in a timely manner or on acceptable terms or at all.

Reductions in our credit ratings or those of any of our subsidiaries would increase our cost of borrowing and negatively impact our ability to raise new funds, attract deposits or renew maturing debt.

Our credit ratings are an important component of our liquidity profile. Among other factors, our credit ratings are based on the financial strength, credit quality and level of concentration in Banorte and Ixe Banco's loan portfolio, the level and volatility of our earnings, Banorte and Ixe Banco's capital adequacy and leverage, the liquidity of our balance sheet, the availability of a significant base of core retail and commercial deposits for Banorte and Ixe Banco, and GFNorte's ability to access a broad array of wholesale funding sources. Our lenders and counterparties in derivative transactions (and those of our subsidiaries) are sensitive to the risk of a ratings downgrade. Changes in our credit ratings or those of any of our subsidiaries would increase the cost of raising funds in the capital markets or of borrowing funds. In addition, our ability to renew maturing debt may be more difficult and expensive.

Banorte and Ixe Banco's ability to compete successfully in the marketplace for deposits depends on various factors, including its financial stability as reflected by their credit ratings. A downgrade in their credit ratings may adversely affect perception of GFNorte's or any of its subsidiaries financial stability and its ability to raise deposits, which could materially affect our business, financial conditions and results of operations.

Significant competition from other financial groups in providing financial services may adversely affect our financial performance and market share.

We face strong competition in all aspects of our business, including our banking business. The competition comes principally from Mexican and foreign banks, mortgage banking companies, consumer finance companies, insurance companies and other institutional lenders and purchasers of loans. We anticipate that we will encounter greater competition as we continue expanding our operations in Mexico. A number of institutions with which we compete have significantly greater assets and capital, name recognition and other resources. In addition, certain of our competitors, such as the Sociedades Financieras de Objeto Limitado ("Sofoles") and Sociedades Financieras de Objeto Múltiple ("Sofomes"), are not financial institutions and, if not part of a financial group, are not subject to the extensive Mexican banking regulations to which Banorte and Ixe Banco are subject, including maintaining certain levels of capital and reserves for loan losses. As a result, certain of our competitors may have advantages in conducting certain businesses and providing loans and other financial services.

Competition is also likely to increase as a result of the entrance of new participants into the financial services sector. The Mexican financial authorities have recently granted a number of banking licenses for the establishment and operation of several new financial institutions. The CNBV and the SHCP (as applicable) are likely to continue granting banking licenses to new participants.

In addition, legal and regulatory reforms in the Mexican banking industry have also increased competition among banks and among other financial institutions. On February 1, 2008, several amendments to the Mexican Banking Law were enacted, which among other things allowed for the incorporation of limited purpose banks (bancos de nicho), which can only engage in those activities expressly authorized by the CNBV and set forth in their by-laws, and are subject to lesser regulatory requirements (including a lower capital requirement) depending on such authorized activities. Therefore, Banorte and Ixe Banco could experience higher competition in certain sectors of its business should the CNBV grant many limited-purpose banking licenses. We believe that the Mexican government's commitments to adopt accelerated regulatory reforms in, and the liberalization of, the Mexican financial industry have resulted in increased competition among financial institutions in Mexico. As the reform of the financial sector continues, foreign financial institutions, many with greater resources than us, have entered and may continue to enter the Mexican market either by themselves or in partnership with existing Mexican financial institutions and compete with us. There can be no assurance that we will be able to compete successfully with such domestic or foreign financial institutions or that increased competition will not have a material adverse effect on our financial position or operating results.

As a result of GFNorte's entrance into the U.S. banking sector through its acquisition of INB and UniTeller in 2006 and Motran in 2007, GFNorte has faced strong competition from U.S.-based financial groups, commercial banks and other financial institutions. In particular, GFNorte's operations in the U.S. face competition from Wells Fargo & Company, Bank of America Corporation, J.P. Morgan Chase & Company and Banco Bilbao Vizcaya Argentaria, each of which has a significant presence in the regions covered by INB, UniTeller and Motran, Banorte's remittances companies. There are also regional and local banks that compete significantly with Banorte USA at these locations.

The increased competition in the banking sector or a more aggressive strategy by GFNorte's competitors, could force GFNorte to reduce certain active rates or pay higher interest rates to depositors and other performing loans, in order to avoid losing customers to other banks that offer more attractive rates, which would increase lending costs and could affect the Net Interest Income and consequently results.

Our growth strategy is in part dependent on our ability to acquire other financial institutions; we may not be successful in implementing that strategy and, if we acquire other financial institutions, we may not be successful in integrating the operations of those financial institutions, which could disrupt our operations and adversely affect our financial position.

Our ability to grow by acquisition is dependent upon, and may be limited by, the availability of suitable acquisition candidates, our ability to negotiate acceptable acquisition terms and our assessment of the characteristics of potential acquisition targets such as:

- financial condition and results of operations;
- attractiveness of products and services;
- suitability of distribution channels;
- management ability; and
- the degree to which the acquired operations can be integrated with our operations.

Furthermore, the completion of these acquisitions is subject to a number of risks, including the following:

- access to capital and financing sources;
- restrictions contained in our debt instruments; and
- the uncertainty of the legal environment relating to mergers and acquisitions.

Growth through acquisitions involves risks that could have a material and adverse effect on our results of operations, including (i) difficulties in integrating the operations, (ii) undisclosed liabilities and other hidden asset quality problems, (iii) failure of the acquired entities to achieve expected results, (iv) non-qualified personnel of the acquired companies, (v) diversion of management attention from the operation of the existing businesses, (vi) possible inability to achieve expected synergies and/or economies of scale, and (vii) the potential loss of key personnel and customers of acquired companies. We cannot assure you that we will be able to identify suitable acquisition candidates, complete the acquisitions on satisfactory terms or, if any such acquisitions are consummated, satisfactorily integrate the acquired businesses.

We acquired Bancentro in 1996, Banpaís in 1997, Bancrecer in December 2001, INB and UniTeller in 2006, and Motran in 2007. The integration of the banking operations of these merged entities faced difficulties and problems that affected our performance by diverting our management's attention and human resources.

On April 15, 2011 we finalized our merger with Ixe GF and later that same year with Afore XXI. The integration of the two companies has incurred and could continue to incur in severance payments, divestitures or additional contingent liabilities or write-offs. We cannot predict whether these events will continue or, if they do, whether they would have a material and adverse effect on our results of operation or business. In addition, any other merger, acquisition or other business combination involving us, is likely to entail risks such as the ones mentioned above.

In addition to the markets in which we operate, we also intend to expand our business into other geographic markets, such as certain regions of the United States. Due to factors such as the changing regulatory environment, as well as intense competition, we cannot guarantee that we will be successful in expanding into new markets.

If we are unable to implement and manage our growth strategy, our financial results, operations and business could be materially and adversely affected.

Banorte and Ixe Banco's increasing focus on individuals and SMEs could lead to higher levels of non-performing loans and subsequent charge-offs.

As part of Banorte's business strategy, it seeks to increase lending and other services to individuals and to SMEs. Individuals and SMEs are, however, more likely to be adversely affected by downturns in the Mexican economy than large corporations and high-income individuals. Consequently, Banorte may experience higher levels of non-performing loans, which could result in higher provisions for loan losses. As a result of the global financial crisis and the deterioration of the Mexican economy, from 2007 to 2008 the amount of Banorte's non-performing loans in respect of credit cards increased 158.2% and for commercial loans 82.1%. There can be no assurance that the levels of non-performing loans and subsequent charge-offs will not be materially higher in the future and affect our financial condition and results of operations.

Mexican governmental regulations may adversely affect our operating results and financial position.

We are subject to extensive regulation by Mexican governmental authorities regarding our organization, operations, capitalization, corporate governance, transactions with related parties and other matters. These laws and regulations impose numerous requirements on us and our subsidiaries, including the maintenance of minimum risk-based capital levels and loan loss reserves, regulation of our business practices, diversification of our investments, maintenance of liquidity ratios, regulation of loan granting policies and interest rates charged, and application of required accounting regulations. Many of the applicable laws and regulations have been subject to extensive changes in recent years, some of which have had a material effect on Banorte's and our subsidiaries' financial position and results of operations. For example, several laws were enacted during 2008 and 2009 by the Mexican Congress requiring the elimination of certain fees for credit cards, deposit accounts, and the use of ATMs, as well as granting Banco de México the authority to approve, reject or limit account management and general fees that banks, including Banorte and Ixe Banco, charge to their customers and also granting the ability to impose penalties if in its judgment banking institutions are limiting competition among themselves. Moreover, Mexican financial regulatory authorities possess significant powers to enforce applicable regulatory requirements in the event of Banorte's or our subsidiaries' failure to comply with such regulatory requirements, including imposing fines, requiring that new capital be contributed, prohibiting the payment of dividends to shareholders or the payment of bonuses to employees, imposing sanctions or revoking our licenses and permits to operate our businesses. In the event that Banorte or our subsidiaries encounter significant financial problems or become insolvent or in danger of becoming insolvent, Mexican financial regulatory authorities have the power to take over our or their management and operations.

Given the current environment of frequent changes to laws and regulations affecting the financial services sector, there may be future changes in the regulatory system or in the enforcement of the laws and regulations that could adversely affect us and our subsidiaries.

In particular, on July 26, 2010, the Group of Governors and Heads of Supervision, the oversight body of the Basel Committee on Banking Supervision (the "Basel Committee"), reached broad agreement on the overall design of a capital and liquidity reform package for internationally active banking organizations around the world, known as Basel III, which includes, among other things, the definition of capital, the treatment of counterparty credit risk, the leverage ratio and the global liquidity standard. On September 12, 2010, the Basel Committee announced a substantial strengthening of existing capital requirements in connection with Basel III. The full text of the Basel III rules and the results of a quantitative impact study to determine the effects of the reforms on banking organizations were published on December 16, 2010.

The implementation of Basel III in Mexico will probably begin in 2013, and it is expected to impose higher minimum capital requirements on banking institutions, as well as a capital conservation buffer that can be used by banks to absorb losses during periods of financial and economic stress. We cannot predict the extent to which any of the Basel framework will be implemented under Mexican law, nor can we foresee how any such regulation might impact our business, financial condition or results of operations. However, it is possible that higher capital requirements in the future as a result of such regulation could cause our Capital Ratios to be insufficient for regulatory purposes and could lead us to engage in capital conservation measures or may require us to raise more equity, which may lead to dilution of earnings and lower return on equity.

Future Mexican government restrictions on interest rates, banking fees or reserves could negatively affect GFNorte's profitability.

In Mexico, the Financial Services Users Protection and Defense Act (Ley Federal de Protección y Defensa al Usuario de Servicios Financieros) currently does not impose any limit on the interest rate or banking fees, subject to certain exceptions, that a bank may charge. However, the possibility that such limits may be imposed has been and continues to be debated by the Mexican Congress and Mexican regulators. In the future, the Mexican government could impose limitations or additional informational requirements regarding such rates of interest or fees. A portion of our revenues and operating cash flow is generated by Banorte and Ixe Banco's consumer credit services and any such limitations or additional informational requirements could materially and adversely affect our results of operations and financial position. In addition, if Mexican governmental authorities require Mexican banks and other financial institutions to increase their reserve requirements for loan losses or change the manner in which such loan reserves are calculated or change capitalization requirements, it may adversely affect our results of operations and financial position.

Our success depends, in part, on our retention of certain key personnel, our ability to hire additional key personnel, and the maintenance of good labor relations.

We depend on our executive officers and key employees. In particular, our senior management has significant experience in the banking, financial services and pension fund management businesses, and the loss of any of our executive officers, key employees or senior managers could negatively affect our ability to execute our business strategy.

Our future success also depends on our continuing ability to identify, hire, train and retain other qualified sales, marketing and managerial personnel.

Competition for such qualified personnel is intense and we may be unable to attract, integrate or retain qualified personnel at levels of experience or compensation that are necessary to sustain or expand our operations. Our businesses could be materially and adversely affected if we cannot attract and maintain these necessary personnel.

Our businesses rely heavily on data collection, processing and storage systems, the failure of which could materially and adversely affect the effectiveness of our risk management and internal control systems as well as our financial position and results of operations.

All of our principal businesses are highly dependent on the ability to timely collect and process a large amount of financial and other information across numerous and diverse markets and products at our various locations or branches, at a time when transaction processes have become increasingly complex, with increasing volume. The proper functioning of financial control, accounting or other data collection and processing systems is critical to our businesses and to our ability to compete effectively. A partial or complete failure of any of these primary systems could materially and adversely affect our decision-making process and our risk management and internal control systems, as well as our timely response to changing market conditions. If we cannot maintain an effective data collection and management system, our business operations, financial position and results of operations could be materially and adversely affected.

Furthermore, we are dependent on information systems to operate our website, process transactions, respond to customer inquiries on a timely basis and maintain cost-efficient operations. We may experience operational problems with our information systems as a result of system failures, viruses, computer "hackers" or other causes. Any material disruption or slowdown of our systems could cause information, including data related to customer requests, to be lost or to be delivered to our clients with delays or errors, which could reduce demand for our services and products and could materially and adversely affect our financial position and results of operations.

Any failure to effectively improve or upgrade our information technology infrastructure and management information systems in a timely manner could adversely affect our competitiveness, financial position and results of operations.

Our ability to remain competitive will depend in part on our ability to upgrade our information technology infrastructure on a timely and cost-effective basis. We must continually make significant investments and improvements in our information technology infrastructure in order to remain competitive. In particular, as GFNorte or any of its subsidiaries continues to open new locations or branches in the Mexico City metropolitan area and in other cities throughout Mexico, we need to improve our information technology infrastructure, including maintaining and upgrading our software and hardware systems and back-office operations.

In addition, we may experience difficulties in upgrading, developing and expanding our information technology systems quickly enough to accommodate our growing customer base. Any failure to effectively improve or upgrade our information technology infrastructure and management information systems in a timely manner could materially and adversely affect our competitiveness, financial position and results of operations.

Our subsidiaries may not be able to detect money laundering and other illegal or improper activities fully or on a timely basis, which could expose them to additional liability and harm their business.

We and our subsidiaries are required to comply with applicable anti-money laundering, anti-terrorism laws and other regulations in Mexico. These laws and regulations require our subsidiaries, among other things, to adopt and enforce “know your customer” policies and procedures and to report suspicious and large transactions to the applicable regulatory authorities. Recent rules have been adopted in Mexico restricting the ability of Mexican banks to receive currencies in physical form, in exchange for foreign exchange and other similar transactions. While our subsidiaries have adopted policies and procedures aimed at detecting and preventing the use of our banking network for money laundering activities and by terrorists and terrorist-related organizations and individuals generally, such policies and procedures have in some cases only been adopted and may not completely eliminate instances where we or our subsidiaries may be used by other parties to engage in money laundering and other illegal or improper activities. To the extent our subsidiaries may fail to fully comply with applicable laws and regulations, the relevant government agencies to which they report have the power and authority to impose fines and other penalties on them. In addition, our business and reputation could suffer if customers use us or our subsidiaries for money laundering or illegal or improper purposes.

We are a holding company and depend upon dividends and other funds from subsidiaries to fund our operations and, to the extent we decide to do so, pay dividends.

We are a holding company and our operations are conducted through our subsidiaries. As a result, our ability to fund our operations and, to the extent we decide to do so, pay dividends primarily depends on the ability of our subsidiaries to generate earnings and to pay dividends to us. Our subsidiaries which include Banorte, Ixe Casa de Bolsa, Arrendadora y Factor Banorte, Almacenadora Banorte, Ixe Banco, Ixe Automotriz, Ixe Soluciones and Fincasa Hipotecaria among others, see Note 3 - Bases for Presenting Audited Financial Statements (Section 8.c) "Annexes"), are companies other than GFNorte. Payment of dividends, distributions and advances by our subsidiaries will be contingent upon our subsidiaries’ earnings and business considerations and is limited by legal, restrictions applicable to the distribution of profits, including that our subsidiaries have profits, do not have losses to absorb and those related to employee profit sharing (PTU). Our banking subsidiaries Banorte and Ixe Banco may be restricted from paying dividends to us if they do not meet its required regulatory Capital Ratios or do not have sufficient retained earnings. Also, the distribution of our subsidiaries’ profits is subject to the revenue actually generated by such subsidiaries and their financial situation and business. In the event of liquidation or reorganization of any of the subsidiaries, we will be effectively subordinated to the claims of our subsidiaries’ creditors, including trade creditors.

Under the Mexican Statutory Responsibility Agreement, we are responsible secondarily and without limitation for performance of the obligations incurred by our subsidiaries.

Under the Mexican Statutory Responsibility Agreement (Convenio Único de Responsabilidades) that we entered into with our financial subsidiaries, pursuant to the Mexican Financial Groups Law, we are responsible secondarily and without limitation for performance of the obligations incurred by our subsidiaries as a result of the authorized activities of such subsidiaries, and we are fully responsible for certain losses of our subsidiaries, up to the total amount of our assets. For such purposes, a subsidiary is deemed to have losses if (i) its stockholders' equity represents an amount that is less than the amount the subsidiary is required to have as minimum paid-in capital under applicable law, (ii) its capital and reserves are less than the subsidiary is required to have under applicable law, or (iii) in the judgment of the regulatory commission supervising the subsidiary's activities, the subsidiary is insolvent and cannot fulfill its obligations.

Furthermore, if Banorte and Ixe Banco are deemed to have losses, we will not be allowed to pay any dividends or transfer any monetary benefit to our shareholders as of the date on which IPAB determines Banorte and Ixe Banco's losses up to the date on which we pay their losses. Also, we would be required, among other things, to guarantee to IPAB the payment of such losses. Pursuant to the Mexican Financial Groups Law, our shares or the shares of our subsidiaries could be posted as collateral to guarantee the payment of Banorte and Ixe Banco's losses in favor of IPAB. Pursuant to Article 28 Bis of the Mexican Financial Groups Law, our shareholders, by virtue of their holding of our shares, accept that their shares could be posted as a guarantee in favor of IPAB, and that such shares will be transferred to IPAB if we are unable to pay for any amounts due to IPAB as a result of Banorte and Ixe Banco's losses.

We cannot assure that in the future, Banorte or any other of our subsidiaries will not be deemed to have losses, and if so, that we will have sufficient assets to cover such losses.

Possible losses in Financial Derivatives Operations.

Banorte and Ixe Banco have Banxico's authorization to celebrate derivative financial transactions. In the ordinary course of its business, this type of operation is conducted with different types of counterparts for various purposes. As a result of the problems faced by some global financial institutions, deterioration in the financial situation of Banorte and Ixe Banco counterparties could exist, which could lead to the protection in derivative financial transactions. The latter could have an adverse effect on the results of Banorte and Ixe Banco and therefore affect its capacity to make payment in relation to these instruments.

Resolutions issued against GFNorte and/or any of its subsidiaries as a result of legal, administrative or arbitral proceedings may affect its financial situation.

GFNorte and any of its subsidiaries may be subject to legal, administrative or arbitral proceedings as a result of asset or liability operations or services, including those that may arise as a result of labor relations with employees. The beginning of a substantial number of these procedures or processes for relevant amounts could, in the event that they are resolved in a manner adverse to GFNorte and any of its subsidiaries, affect its financial position and operating results.

Foreseen risks in the notes of financial statements.

GFNorte is subject to a number of risks including market, credit, liquidity, operational, technological and legal risk. Notes to GFNorte's consolidated financial statements which are included as an annex to this Annual Report contain a description of these risks. Any updates of these risks could adversely affect the business, financial position or operating results of GFNorte.

Withdrawal of the authorization

In accordance with the LIC, some of the assumptions under which the CNBV may revoke the authorization granted to Banorte and Ixe Banco to operate as full service banks are if they: (i) do not comply with the corrective measures which were, if the case, imposed by the CNBV; (ii) do not meet the capitalization requirements established in accordance with the applicable legal provisions; (iii) in certain cases, fail to pay their debts or do not comply with obligations arising from compensation processes or those with their depositors; and (iv) repeat prohibited and sanctioned transactions in accordance with the LIC (see Section 2. b) v. "The Company – Applicable Legislature and Tax Situation"). In the event that the authorization of Banorte or Ixe Banco to operate as an institution of multiple banking is revoked, our business, financial condition and operating results would be adversely affected.

Risks Relating to Mexico

Economic and political developments in Mexico could affect Mexican economic policy and our business, financial condition and results of operations.

Most of our operations and assets are located in Mexico. As a result, our business, financial condition and results of operations may be affected by the general condition of the Mexican economy, the devaluation of the Peso as compared to the U.S. dollar, price instability, inflation, changes in oil prices, interest rates, regulation, taxation, social instability and other political, social and economic developments in or affecting Mexico over which we have no control.

The Mexican government has exercised, and continues to exercise, significant influence over the Mexican economy. Mexican government actions concerning the economy and regulation of certain industries, including the banking sector, could have a significant effect on Mexican private sector entities in general, and us and our subsidiaries in particular, and on market conditions, prices and returns on Mexican securities, including our securities.

The Federal Goverment may implement significant changes in laws, public policies and/or regulations that could affect Mexico's political and economic situation, which could adversely affect our business. Furthermore, following Felipe Calderón's election in 2006, the Mexican Congress became politically divided, as the Partido Acción Nacional ("PAN") does not have the majority of seats. Elections for the Mexican Senate and House of Representatives and for the governorship of certain states of Mexico took place on July 5, 2009, giving the Partido Revolucionario Institutional ("PRI") a relative majority in the legislature. The lack of alignment between the legislature and the President has limited the capacity and prevented the timely implementation of political and economic reforms, which in turn could have a material adverse effect on Mexican economic policy, on our businesses and the prices of and returns on Mexican securities. It is possible, although not probable, that political uncertainty may adversely affect Mexico's economic situation. This situation could continue or deteriorate in the coming years, especially if the main political forces do not reach agreements after the 2012 federal elections.

President Calderón's administration, whose term ends in 2012, has implemented a series of measures intended to alleviate the effects of the global financial crisis in the Mexican economy, including countercyclical fiscal and monetary policies.

In recent years, there has been an increasing amount of social instability in Mexico in the form of violent crime carried out by organized cartels and others involved in drug trafficking, which has particularly affected the areas of northern Mexico that border the U.S. The continuation or escalation of such crime could have negative consequences for the Mexican economy or destabilize its political system, which could adversely affect our business.

We cannot provide any assurance that future economic or political developments in Mexico, over which we have no control, will not have an unfavorable impact on our financial position or operating results.

Adverse economic conditions in Mexico may adversely affect our financial position and results of operation.

Most of our operations are dependent upon the performance of the Mexican economy, mainly on matters such as the Peso-dollar exchange rate, price volatility and inflation, interest rates, regulation, taxation, social instability and other political, social and economic developments in or affecting Mexico, over which we have no control. In the past, Mexico has experienced both prolonged periods of weak economic conditions and deteriorations in economic conditions that have had a negative impact on us. We cannot assume that such conditions will not return or that such conditions will not have a material adverse effect on us.

Mexico experienced a period of slow growth from 2001 through 2003, and an important fall of the GDP in 2009, primarily as a result of the slowdown in the U.S. economy.

Mexico also has, and is expected to continue to have, high real and nominal interest rates relative to the U.S. The interest rates on 28-day Mexican government treasury securities Certificados de la Tesorería de la Federación ("CETES") averaged approximately 7.7%, 5.4% and 4.5% for 2008, 2009 and 2010, respectively. Therefore there might be much uncertainty in our funding cost if in the future we incur Peso denominated debt.

A recession could affect our operations to the extent that we are unable to reduce our costs and expenses in response to falling demand. Similarly, our subsidiaries' loan portfolio could deteriorate as a result of higher delinquency rates. These factors could result in a decrease in our subsidiaries' loan portfolio and its revenues and net income.

Depreciation or fluctuation of the Peso relative to the U.S. dollar and other currencies can adversely affect our results of operations and financial condition.

Severe devaluation or depreciation of the Peso may limit our ability to transfer Pesos or to convert Pesos into U.S. dollars and other currencies and may have an adverse effect on our financial condition, results of operations and cash flows in the future by, for example, increasing in Peso terms the amount of our foreign currency-denominated liabilities and the rate of default among Banorte or any of our subsidiaries' borrowers.

In 2008 and 2009, as a result of the negative economic conditions in the United States and in other parts of the world, local and international markets experienced high volatility, which contributed to the depreciation of the Peso. The Mexican government implemented a series of measures to limit the volatility of the Peso, which have been effective to stabilize the local financial markets at the moment. However, we cannot assure you that such measures will be effective in the event of new FX volatility periods.

Severe devaluation or depreciation of the Peso may also result in government intervention, as has occurred in other countries, or disruption of international foreign exchange markets. While the Mexican government does not currently restrict the right or ability of Mexican or foreign persons or entities to convert Pesos into U.S. dollars or to transfer other currencies outside of Mexico, the Mexican government could enact restrictive exchange control policies in the future. There are no current restrictions to convert Pesos into U.S. dollars. The exchange rate is determined only by supply and demand as a result of a floating regime. Devaluation or depreciation of the Peso against the U.S. dollar may also adversely affect our business, financial condition and results of operations.

We face risks related to health epidemics and other outbreaks.

Our business could be adversely affected by the effects of avian flu, severe acute respiratory syndrome ("SARS"), A/H1N1 flu or another epidemic or outbreak. In April 2009, an outbreak of A/H1N1 flu occurred in Mexico and the U.S. and there were cases in Europe, China and elsewhere in Asia. Any prolonged occurrence or recurrence of avian flu, SARS, A/H1N1 flu or other adverse public health developments in Mexico may have a material adverse effect on the economy, as well as to our business operations and asset quality. Our operations may be impacted by a number of health-related factors, including, among other things, quarantines or closures of our facilities, which could disrupt our operations, and a general slowdown in the Mexican economy. Any of the foregoing events or other unforeseen consequences of public health problems could adversely affect our business, results of operations, prospects and financial condition.

Developments in other countries may adversely affect us and the prices of our securities.

Economic and market conditions in other countries may, to varying degrees, affect the market value of securities of Mexican companies. Although economic conditions in other countries may differ significantly from economic conditions in Mexico, investors' reactions to developments in other countries may have an adverse effect on the market value of securities of Mexican companies. For example during 2007 and 2008, prices of both Mexican debt and equity securities decreased substantially as a result of the global financial crisis. The Dow Jones

Industrial Average index fell by 35% from its average level in July 2007 to its January 2009 average level, while Mexico's stock exchange index (IPC) fell by 39% in the same period, affecting also the value of our equity securities.

In addition, in recent years economic conditions in Mexico have become increasingly correlated to economic conditions in the U.S. as a result of the North American Free Trade Agreement ("NAFTA") and increased economic activity between the two countries, which was highlighted during the recent economic crisis affecting the United States. The Mexican economy continues to be heavily influenced by the U.S. economy and, therefore, the termination of NAFTA or other related events, further deterioration in economic conditions in, or delays in recovery of the U.S. economy may hinder any recovery in Mexico. We cannot assure you that the events in other emerging market countries, in the United States or elsewhere will not adversely affect our business, financial position or results of operations.

The Mexican tax reforms of 2009 had an adverse effect on our customers, which adversely affected our business.

During November 2009, the Mexican Congress approved a general tax reform, effective as of January 1, 2010. The general tax reform included changes to the tax consolidation regime that will require the deconsolidation of tax returns prepared for prior periods. Specifically, the tax reform requires taxes to be paid on items in past years that were eliminated in consolidation or that reduced consolidated taxable income. In addition, the general tax reform increased the highest income tax rate from 28% to 30% for the years 2010 through 2012, which will be reduced to 29% in 2013 and 28% in 2014, and increased the value added tax rate from 15% to 16%. This tax reform adversely affected the financial position of our customers, which affected our business.

Risks Relating to the Securities Markets and Ownership of Common Shares

The market price of our common shares may fluctuate significantly

The market price and liquidity of the market for our common shares may be significantly affected by numerous factors, some of which are beyond our control and may not be directly related to our operating performance. These factors include, among others:

- significant volatility in the market price and trading volume of securities of companies in our sectors or those of our subsidiaries, which are not necessarily related to the operating performance of these companies;
- the performance of the Mexican economy and the sectors in which we participate;
- changes in earnings or variations in operating results;
- operating performance of companies comparable to us or our subsidiaries, as well as the listing of their shares in the BMV;
- new laws or regulations or new interpretations of laws and regulations, including tax guidelines or others applicable to our business or that of our subsidiaries; and
- general economic trends in the Mexican, US or global economies or financial markets, including those resulting from wars, incidents or terrorism or violence or responses to such events; and political conditions or events.

Future sales of common shares may result in a decrease of the market price of our common shares.

In the future, we could issue new shares representing our equity to obtain resources to develop our activities, as well as for other general corporate purposes. Such issuances or documents in which the intention of issuing new shares is publicly announced, could result in a reduction in the price of our common shares or create volatility in the market price of our common shares.

Future sales of our common shares by our principal shareholder group may result in a decrease of the trading price of our common shares.

Roberto González Barrera and related family interests, who in practice exercise effective control over our company, directly or indirectly hold approximately 14.7% of our outstanding shares. Actions taken by these shareholders with respect to the disposition of all or a portion of the common shares they own, or the perception that such actions might occur, may impact the price of our shares in the BMV. In addition, Mr González Barrera must currently give in guarantee approximately 19.4 million shares representing the capital stock of GFNorte to ensure various existing loans. According to the respective contracts, the outstanding balance of these credits must be secured in accordance with certain levels based on the market value of our shares (loan to value). In accordance with such contracts, Mr. González Barrera, must give in guarantee additional shares if the market value of our stock price decreases. In addition, if Mr. González Barrera does not comply with the obligation to increase the number of shares given in guarantee, creditors might accelerate the respective loans. If creditors accelerate any of these loans in the case of a default, creditors could exercise their rights with regards to the shares given in guarantee, and initiate procedure to dispose of such shares in the market, which could result in a drop in the price of our shares.

Future capital increases could result in the dilution of an investment in our common shares.

Future capital increases could result in the dilution of our shareholders' shares, if shareholders do not, or are not able to, exercise their preemptive rights in subscribing to any such issuance.

The interests of our principal shareholder group may conflict with those of the remainder of our shareholders.

Roberto González Barrera and related family interests, directly or indirectly, hold 14.7% of our outstanding common shares. As no other shareholder or group of shareholders holds more than 30% of our outstanding common shares, such group of shareholders in practice exercises effective control over the Company.

Such group of shareholders has the power to, among other things, substantially control or significantly influence the outcome of most actions requiring shareholder approval or participation, including election of the Board of Directors, corporate reorganizations, dispositions and the timing and payment of any future dividends. Such group of shareholders may have an interest in pursuing acquisitions, dispositions, financings or similar transactions that could conflict with the interests of the remainder of our shareholders, influencing the price of our shares on the market. Also, these shareholders can hold agreements for purposes of exercising control of the financial group, making it impossible for other investors to take control of the Financial Group.

We often engage in a variety of transactions with companies owned by our principal shareholder group which may cause conflicts of interest.

We have engaged and will continue to engage in a variety of transactions with our principal shareholder group and a number of entities directly or indirectly owned or controlled by our principal shareholder group. Such transactions could result in conflicts of interest with our other shareholders.

There can be no assurance that we will be able to pay or maintain cash dividends, and our dividend policies are subject to change.

The Ordinary General Shareholders' Meeting held on October 17th, 2011 approved to modify our Dividend Policy, in order to align the dividend payments to the Financial Groups' business performance. As a result, since 2011 the dividend payments are as follows:

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

Payment of dividends is subject to any legal impediment, market conditions and GFNorte's own financial situation and that of its subsidiaries. There are several factors that can affect the availability and frequency of cash dividends' payments to our shareholders. The amount of cash available for dividends, if any, will be affected by many factors, including our future operating results, financial condition and capital requirements, legal restrictions, including capital adequacy requirements, and contractual restrictions in our current and future debt instruments, and those of our subsidiaries, as well as our ability to obtain funds from our subsidiaries, and many other variables. Cash currently available for dividend payments may vary significantly from estimates. We can give no assurance that we will be able to pay or maintain dividends or that dividends will increase over time. Our actual results may differ significantly from the assumptions used by our Board of Directors in recommending dividends to shareholders or in adjusting our dividend policy. Also, there can be no assurance that our Board of Directors will recommend the payment of dividends to our shareholders or that, if recommended, our shareholders will approve such dividends.

Certain provisions of our by-laws and applicable law may delay or limit a change of control of GFNorte.

Pursuant to the Mexican Financial Groups Law, no person or entity, or group thereof, may, directly or indirectly, in one or more transactions, acquire more than 2% of our shares without informing the SHCP, acquire 5% or more of our shares, except with the prior authorization of the SHCP, or acquire 30% or more of our shares, except with the prior authorization of both the SHCP and the CNBV, (undertaking a public tender offer), as long as they meet certain additional requirements, including undertaking the public tender offering. Also, under the Mexican Financial Groups Law, foreign entities with governmental authority and Mexican financial entities, including those that form part of a financial group, cannot purchase our shares unless such entities are institutional investors as defined in the Mexican Financial Groups Law. Additionally, our by-laws provide that any person or entity, or group thereof, that plans to acquire more than 5% of our shares, requires the prior authorization of our Board of Directors, and to acquire more than 30% of our shares, a public tender offering must be made for 100% of the shares, and in the case of acquiring 50% or less of our shares, it also requires the prior authorization of our Board of Directors. Such provisions may delay or limit a change of control of GFNorte or a change in our administration, which could also, affect our minority shareholders and the stock price. The existence of such provisions may limit the price that investors would be willing to pay for the shares in the future.

The Securities' Markets Law obliges any individual or group of people who want to acquire control of GFNorte to hold a public tender offering with respect to all our shares in circulation and pay the same amount to all shareholders who sell.

Due to the low level of liquidity and the high level of volatility in the Mexican stock market, the market price and operating volumes of GFNorte's shares may experience excessive fluctuations.

GFNorte shares are traded in the BMV. Even though the BMV is one of Latin America's largest stock exchanges in terms of market capitalization value, it remains relatively small, unconvertible and volatile compared to other foreign securities markets mainly in Europe and the U.S. Although the public participates in trading through the BMV, a significant part of such operations are carried out on behalf of institutional investors. These market characteristics could limit the possibility of our shareholders to sell their shares and could adversely affect the market price of the same. The volume of securities issued by constituted companies or those that operate in emerging markets tends to be less than the volume of securities' operations issued by incorporated companies or those that operate in more developed countries.

D) OTHER SECURITIES

Banorte (GFNorte's main subsidiary) has the following registered and existing financial instruments:

<u>Subordinated Non-preferred, Non-convertible Obligations maturing in 2021:</u>

Subordinated non-preferred non-convertible obligations denominated in dollars, listed in the Luxembourg Stock

Exchange for an amount of up to $200 million US dollars, for a period of 15 years (maturing in October 2021), interest payment is bi-annually at a fixed rate of 6.862%, and amortization of the capital will be at the end of 15 years, with a prepayment option as of the tenth year.
Place and payment method: both the principal and interest will be paid in a single exhibition in New York City, N. Y., USA. through the Bank of New York.
In the event of liquidation or bankruptcy, payment of obligations shall be made pro rata after covering all debts of the institution, but prior to distributing the remaining capital to shareholders.
The rating given to the instrument by Moody´s Investors Service, Inc. is Baa2.

Senior Notes with a rate of 4.375% and maturing in 2015:

Non-convertible Senior Notes, denominated in US dollars, listed in the Luxembourg Stock Exchange for an amount of up to USD $300 million, for a term of 5 years (maturing in July 2015), interest payment is bi-annual at a fixed rate of 4.375% and amortization of capital will be at the end of 5 years.
Place and payment method: both the principal and interest will be paid in a single exhibition in New York City, N. Y., USA through the Bank of New York.
In the event of liquidation or bankruptcy, payment of the Senior Notes shall be made pro rata after covering all debts of the institution, but prior to distributing the remaining capital to shareholders.
The rating given to this instrument by Moody´s Investors Service, Inc. is A3; and BBB- by S&P.

Subordinated Obligations Q Banorte 08:

Subordinated non-preferred non-convertible obligations of Banorte for the amount of Ps 3 billion, issued on March 11, 2008 for a term of 10 years and maturing on February 27, 2018.
Interest is payable every 28 days. The interest rate is TIIE plus 0.60%.
Place and payment method: both the principal and interest will be paid in a single exhibition in Mexico City, D.F. through Indeval where the respective securities are deposited.
In the event of liquidation or bankruptcy, payment of obligations shall be made pro rata after covering all debts of the institution, but prior to distributing remaining capital to shareholders.
The Issuer reserves the right to make prepayment of the obligation.
Common representative of bondholders: Banco Invex, S.A., Multiple Banking Institution, Invex Grupo Financiero, Trustee.
This instrument was rated Aaa.mx- by Moody´s Mexico: the most credit worthy and with the least probability of loss with respect to other national emissions.
Taxation of the instrument is in adherence to provisions of Article 160 and other applicable laws of the existing income tax for individuals and corporations in Mexico, and in adherence to the provisions of Article 195 and other applicable laws of the ISR for foreign individuals and corporations.

Subordinated Obligations Q Banorte 08-2:

Subordinated preferred non-convertible obligations of Banorte, for the amount of Ps 2.750 billion, issued on June 27, 2008 for a term of 10 years, maturing on June 15, 2018. Interest is payable every 28 days.
The interest rate is TIIE plus 0.77%.
Place and payment method: both the principal and interest will be paid in a single exhibition in Mexico City, D.F. through Indeval where the respective securities are deposited.
In the event of liquidation or bankruptcy, payment of these obligations shall be made pro rata after covering all debts of the institution, but prior to distributing any equity to shareholders.
The Issuer reserves the right to prepay the obligation.
Common representative of bondholders: Banco Invex, S. A., Institución de Banca Múltiple, Invex Grupo Financiero, Trustee.
The rating given to this instrument by Moody´s Mexico is Aaa.mx-: the most credit worthy and with the least probability of loss with respect to other national emissions.
Taxation of the instrument is in adherence to provisions of Article 160 and other applicable laws of the existing income tax for individuals and corporations in Mexico, and in adherence to the provisions of Article 195 and other applicable laws of the ISR for foreign individuals and corporations.

Subordinated Obligations Q Banorte 08U:

Subordinated preferred non-convertible obligations of Banorte, for the amount of 494.5 million UDIS, issued on March 11, 2008 for a term of 20 years and maturing on February 15, 2028. The placed amount was 447.1 million UDIS.
Interest is payable every 182 days. The interest rate is real annual and fixed at 4.95%.
Place and payment method: both the principal and interest will be paid in a single exhibition in Mexico City, D.F. through Indeval where the respective securities are deposited.
In the event of liquidation or bankruptcy, payment of the obligations shall be made pro rata after covering all debts of the institution, but prior to distributing equity to shareholders.
The Issuer reserves the right to make prepayment of the obligation. Common representative of bondholders: Banco Invex, S. A., Institución de Banca Múltiple, Invex Grupo Financiero, Trustee.
This instrument was rated by Moody's Mexico as Aaa.mx the most credit worthy and with the least probability of loss with respect to other national emissions.
Taxation of the instrument is in adherence to provisions of Article 160 and other applicable laws of the existing income tax for individuals and corporations in Mexico, and in adherence to the provisions of Article 195 and other applicable laws of the ISR for foreign individuals and corporations.

Subordinated Obligations Q Banorte 09:

Subordinated preferred non-convertible obligations of Banorte, for the amount of Ps 2.2 billion, issued on March 30, 2009 for a period of 10 years maturing on March 18, 2019.
Interest is payable every 28 days.
The rate of interest is TIIE plus 2.00%.
Place and payment method: both the principal and interest will be paid in a single exhibition in Mexico City, D.F. through Indeval where the respective securities are deposited.
In the event of liquidation or bankruptcy, payment of the obligations shall be made pro rata after covering all debts of the institution, but prior to distributing equity to shareholders.
The Issuer reserves the right to make prepayment of the obligation. Common representative of bondholders: Banco Invex, S. A., Institución de Banca Múltiple, Invex Grupo Financiero, Trustee.
This instrument was rated by Moody's Mexico as Aaa.mx-: the most credit worthy and with the least probability of loss with respect to other national emissions.
This instrument was rated by Fitch Mexico as AA (mex)-: very high credit quality and implies a very strong credit quality with respect to other issuers or emissions in the country.
Taxation of the instrument is in adherence to provisions of Article 160 and other applicable laws of the existing income tax for individuals and corporations in Mexico, and in adherence to the provisions of Article 195 and other applicable laws of the ISR for foreign individuals and corporations.

Generic entries: In addition to the securities described above, there are generic entries for Promissory notes Settled upon Maturity, Bank Acceptances and Certificates of Deposit. The main generic entries are:

- Bank Certificates of Deposit for cash: Banorte issuance 1100 1 for 5,000,000 certificates with a face value of Ps 100 each, an issuance value Ps 500 million issued on August 9, 2011, maturing January 24, 2012, with a variable coupon rate of TIIE 28 less a surcharge of 0.15%.

- Bank Certificates of Deposit for cash: issuance Banorte 11001D for 450,000 certificates with a face value of $100 US dollars each, the issuance value USD $45 million issued on August 5, 2011, maturing on August 19, 2011, with a fixed annual rate of 0.65%.

- Bank Certificates of Deposit for cash: issuance Banorte 11002D for 50,000 certificates with a face value of USD $ 100 each, the issuance value of $5 million US dollars issued on August 5, 2011, and maturing on September 2, 2011, at a fixed annual rate of 0.80%.

Other subsidiaries of GFNorte have the following registered and existing financial instruments:

Subordinated perpetual non-preferred Obligations of Ixe Banco paying 9.75% annually.

Perpetual subordinated obligations non-preferred, non-cumulative, callable, at 9.75% annually, payable on a quarterly basis and with partial or total call option, as from February 26, 2012. Amount issued: $120 million US dollars.

Subordinated non-preferred non-accumulative Obligations of Ixe Banco for 10 years paying 9.25% annually.

Subordinated non-preferred, non-cumulative obligations maturing in 10 years with 9.25% annual interes, payable semi-annually and with partial or total call option, from October 14, 2020. Amount issued: $120 million US dollars.

Subordinated Obligations maturing in June 2034 of INB.

Denominated in USD with a 3 month LIBOR rate plus 2.75% for the amount of Ps 144 million.

Subordinated Preferred Obligations maturing in April 2034 of INB.

Denominated in USD with a 3 month LIBOR rate plus 2.72% for the amount of Ps144 million.

GFNorte has fulfilled its obligations in reporting material events through the Emisnet system of the stock exchange (BMV), as well as with the financial and legal information that it is obligated to present periodically in accordance with the law.

e) SIGNIFICANT CHANGES TO REGISTERED SECURITIES' RIGHTS

Subordinated Debentures

No significant change to report.

f) DESTINATION OF FUNDS

The funds resulting from the Banorte 09 Issuance were intended to strengthen the capital of the Company (in its complementary part) and for operations permitted under the LIC and other applicable provisions, and funding of possible prepayments of securities issued abroad.

The funds raised through the Senior Notes issuance at a rate of 4.375% maturing in 2015 were applied for general corporate purposes.

g) PUBLIC DOCUMENTS

The Investor Relations and Corporate Development Department, in charge of David Ricardo Suarez Cortazar, is the area responsible for attending analysts and investors. It is located at:

Av. Prolongacion Reforma 1230, 4th Floor
Col. Cruz Manca Santa Fe, Delegacion Cuajimalpa, Mexico, D. F., 05300
Telephone: (5255) 5268 1680
E-mail: david.suarez@banorte.com or investor@banorte.com

This Annual report is available for the general public in our web page: www.banorte.com/ri selecting "Annual Reports" in the Financial Information Section and finally in the document named "Circular Única CNBV 2011 Annual Report".

2. THE COMPANY

a) DEVELOPMENT AND HISTORY OF THE COMPANY

GFNorte operates under the commercial name of "Banorte" and was constituted on July 21st, 1992 in Mexico City for an indefinite period of time.

The main offices are located in:

<u>MEXICO CITY, D. F.</u>
Ave. Prolongacion Reforma 1230, Col. Cruz Manca Santa Fe, Delegación Cuajimalpa
C. P. 05300, Mexico, D. F. (0155) 1103-4000

<u>MONTERREY, N. L.</u>
Ave. Revolucion 3000, Col. Primavera
C. P. 64830 Monterrey, N. L., Mexico (0181) 8319-6500

<u>GFNorte's most important historical events</u>

GFNorte's origins dateback to the founding of Banco Mercantil de Monterrey in 1899 and the Banco Regional del Norte in 1947, both with headquarters in Monterrey, Nuevo Leon, Mexico. These banks merged in January 1986 under the name of Banco Mercantil del Norte, Sociedad Nacional de Crédito. In May 1987 the bank began the private placement of its equity participation certificates, which marked the beginning of its privatization and also of its expansion; as of 1990, leasing services were offered and a year later factoring and warehousing services were also available.

In 1993 "Afin Casa de Bolsa" was incorporated which today is the "Casa de Bolsa Banorte", completing the current Grupo Financiero Banorte. In 1997 GFNorte acquired Bancen and Banpaís, strengthening its position and achieving its objective of becoming an institution with nationwide presence. All the necessary corporate acts were successfully conducted for the accounting and fiscal merger of Banpaís with Banorte and as of March 1st, 2000 the latter subsists.

On September 30th, 1997 a joint-investment contract with Assicurazioni Generali S.P.A. was signed, entitling the Italian institution to 49% of Afore Banorte, Seguros Banorte and Pensiones Banorte, officially integrating this partner into the Long Term Savings division. Later on, Banorte acquired Bancrecer and on January 8th, 2002 took over its management, initiating the integration process. SHCP authorized the merger, changing the name of the merged entity to "Banco Mercantil del Norte, S. A., Institución de Banca Múltiple, Grupo Financiero Banorte".

On August 28th, 2006 Bancen also merged with Banorte through a resolution of their respective Extraordinary General Shareholders' Meetings held on August 16th and 17th, 2006, thereby concluding the last phase of integration of this bank. As part of a development strategy in the US, on November 16th, 2006 GFNorte acquired 70% of INB shares. INB had 14 branches when it was acquired and its headquarters were located in McAllen, Texas. On January 18th, 2007 the purchase of 100% of Uniteller, a New Jersey based remittance company was formalized; and in the following December 100% of Motran Services, Inc., another remittance company based in L.A., California was acquired -strengthening Banorte's presence in the remittance sector.

On March 30th, 2007, the Bonding Company was divested from Grupo Financiero and as of January 31st, 2008 the factoring and leasing companies were merged. Finally, on April 1st, the remaining 30% of INB Financial Corp. shares were purchased. On August 31st, 2009 Pronegocio and Banorte merged in order to improve efficiency. Pronegocio began operations as a subsidiary of GFNorte in February 2005 with the objective of attending the unbanked population.

On November 12th, 2009 International Financial Corporation (IFC) invested US $150 million dollars in Banco Mercantil del Norte, which represented 4.48% of Banorte's capital. On November 17th, 2010 Grupo Financiero Banorte and IXE Grupo Financiero reached a binding merger agreement through an exchange of shares. In the first quarter of 2011, authorizations to carry out the merger were obtained from the CNBV, the Shareholders'

Meetings, SHCP and COFECO. The merger came into effect on April 15th, 2011 after registering the authorization and merger agreement in the Public Registry of Commerce in Monterrey, Nuevo León.

On August 16th, 2011 GFNorte and the Mexican Social Security Institute ("IMSS") reached the agreement in order to merge their respective pension fund retirement companies (Afores). On January 16th, 2012, the merger of Afore Banorte and Afore XXI, and their respective Siefores (Retirement Savings Funds) became effective after receiving the respective authorizations from their Shareholders' Assemblies, the SHCP and the Mexican National Commission for the Retirement Savings System (CONSAR). As a result, Afore XXI Banorte was established, becoming the largest in the financial system in terms of number of accounts and one of the largest in terms of managed funds.

Material events in 2011 and 1Q12

Recent Events. First Quarter 2012.

Extraordinary and Ordinary General Shareholders'' Meetings

The Shareholders' Meetings held last February 17th, approved the following resolutions:

1. To modify the Corporate By-laws and subscribe a new Agreement of Shared Responsibilities in order to reflect the merger of Banorte and Ixe's broker dealers.
2. To distribute the second payment of the dividend authorized last October, which was paid on February 29, for an amount of Ps. $0.17 per share.
3. To modify the Regional Boards' functions as follows:
   - ✓ The number of members in each Regional Board will be determined by the Chairman of the Board of Directors.
   - ✓ Members of the Regional Boards will be elected and, if the case, removed by the Chairman of the Board of Directors and will remain in functions for 2 years, with the possibility of being reelected for any number of times.
   - ✓ The Regional Boards will meet 3 times a year or when convened by the Chairman of the Board of Directors.

Irrevocable Trust of Administration and Payment.

During the exchange of shares done in April 2011 in relation to the merger with Ixe, a total of 7,590,133 shares were deposited in a trust to cover any contingencies identified during the due diligence process, if they materialized. The trust established that if: i) a contingency materialized, the trust would proceed to sell, through the BMV, the number of shares that may be necessary to cover the contingency, or ii) if no contingencies occurred, all or any remaining shares would be delivered to the former Ixe's shareholders at the end of the term provided in the Trust (April 15, 2012). During the quarter, shares equivalent to Ps. $310 million were sold, providing GFNorte with the resources to cover contingencies materialized in some of Ixe's assets that required capital increases for Fincasa Hipotecaria. Other expenses paid by the Trust were covered by previous sales of shares. As a result, the 7,590,133 shares delivered to the trust by GFNorte have been sold entirely, and the trust will be extinguished.

Funding Certification by the CNBV.

During the quarter the Mexican Banking and Securities Commission (CNBV) approved the model of stability of funding for Banco Mercantil del Norte, which proved that there is greater stability in the bank's deposits. This allowed the bank to assign its deposits into higher bands, thus reducing the risk weighting in some assets and releasing 40 basis points of TIER 1 capital.

Credit Ratings

During the quarter, Fitch ratified its viability ratings of Grupo Financiero Banorte and Banco Mercantil del Norte at "BBB" and "BB" for Ixe Banco. It also ratified the long and short term Issuer Default Ratings, for the Group, Banorte and Ixe at "BBB" and "F2". The national scale ratings of both banks and some subsidiaries of the Group were ratified at "AA + (mex)" and "F1 + (mex)". The outlook is "stable" in all cases.

Creation of "Banorte-Ixe Tarjetas, S.A. de C.V. SOFOM E.R."

Since April 2012 the company "Banorte-Ixe Tarjetas" was established, which integrates Banorte and Ixe's

Credit Card businesses. The creation of this new company and the consolidation of both businesses will have no impact on the operation, use and service to our customers, but rather will optimize the business platform and achieve greater profitability.

The Banker: Brand Value.
In February, the Banker magazine published its ranking for the 500 most valuable banking brands in the world. Banorte was ranked at number 180 during 2012, with a brand value of US$ 608 million and a rating of A +.

Great Place To Work: "Companies with over 5000 employees".
The Great Place to Work recognized Banorte in its rankings as number 6 in the Best "Companies with over 5000 employees" to work in Mexico, moving up four spaces in relation to the rankings of 2010. Banorte was the second best ranked bank in Mexico.

Changes in Organizational Structure.
In April, Alejandro Vazquez Salido was appointed Managing Director of Communications and Institutional Relations, reporting to the CEO. Mr. Vazquez has a professional background of 20 years in the public sector, joining the Financial Group in August 2010 as Deputy Managing Director of Federal Government Banking and from November 2011 he served as Deputy Managing Director of Government Relations.

In January, Samuel J. Munafo was appointed Managing Director of Inter National Bank, reporting to GFNorte's CEO. Mr. Munafo has a long professional background of over 39 years in the financial sector, during which he has held important management positions in various prestigious international institutions.

Events Related to Corporate Governance

During the first four months of 2012 and during 2011, several General Shareholders' Meetings were held, where among other proposed items in the agenda were, and in all cases approved: the allocation and renewal of the members of Board of Directors, changes in the dividend policy, the decree of dividend payments and the establishment of various corporate governance bodies.

Current Board of Directors.
At the Annual Ordinary General and the Ordinary General Shareholders Meetings held on April 29th and July 21st, 2011, it was approved that the Board of Directors is comprised of 15 members , and if the case, by their respective alternates, ensuring that at least 50% of the Members are independent in accordance to international best practices. The Board Members may be appointed for defined periods of 3 years, with the possibility of reelection, seeking a generational balance. The Proprietary and Alternate members may be consulted in Section 4. c) "Administration - Managers and Shareholders" of this Annual Report.

Changes to the Dividend Policy and Increase the maximum amount of resources for share repurchases. These items were approved at the Ordinary General Shareholders' Meeting held on October 17th, 2011.

Dividend Policy. In order to align the dividend payments to the Financial Groups' business performance, it was approved to modify the dividend policy so that the payments are as follows:

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

Increase the maximum amount of resources for share repurchases.
In order to have a repurchase fund that represents a greater percentage of the Group's market capitalization, an increase is proposed to the maximum amount of financial resources that may be applied for share repurchases during 2011. The proposal is to allocate the amount of Ps. $1,850'000,000.00 (One thousand, Eight Hundred Fifty Million Pesos 00/100), charged against equity, subject to the Treasury's Policy for Shares' Acquisition and

Sale.

Corporate Governance Bodies. In order to support the Board of Directors and its Chairman, the following organs were created:

Advisory Board and Regional Boards.
During the Ordinary General Shareholders' Meeting held on July 21st, 2011, it was approved to constitute an Advisory Board and five Regional Boards. The Advisory Board will serve as a consultative and advisory body to GFNorte's Board of Directors, through its Chairman, on issues related to the development of the Company, new business opportunities or issues that the Board of Directors' Chairman submits to their consideration. The Five Regional Boards (Northwest, Monterrey, Jalisco, Mexico City Metropolitan area and Merida) will provide opinions and advisory to the Board of Directors on the trends and opportunities of the region, and will function as links within the region's business community. The objectives and faculties of both bodies may be consulted in section 4. c) "Management - Directors and Shareholders" of this Annual Report.

Designation Committee.
During the Extraordinary General Shareholders' Meeting held on October 17th, 2011, it was approved to constitute this Committee. The objectives and operating rules of this Committee may be consulted in section 4. c) "Management - Directors and Shareholders" of this Annual Report.

Decreed Dividends.

Meetings' Date (decreed dividend)	Amount of Decreed Dividend (pesos per share)	Date of Payment	Comments
February 18th, 2011	$0.17	This dividend was paid on February 28th, 2011	Second of three payments to cover the amount of Ps. $ 0.52 per share, approved by the Group's Board of Directors in October 2010.
April 29th, 2011	$0.18	This dividend was paid on May 10th, 2011.	Corresponds to the third and last payment to cover a total amount of Ps. $ 0.52 per share, which was approved by the Shareholders' Assembly in October 2010.
October 17th, 2011	$0.17	Dividend that was paid on October 24th, 2011.	The decreed dividend corresponds to the first of three payments that will be made for a total amount of Ps $ 0.52 per share, which was approved by the Group's Board of Directors on July 25th, 2011.
February 17th, 2012	$0.17	This dividend was paid on February 29th, 2012.	Corresponds second of three payments to cover the amount of Ps. $ 0.52 per share, approved by the Group's Board of Directors in October 2011.
April 27th, 2012	$0.18	The dividend was covered on May 11th, 2012.	Corresponds to the third and last payment to cover a total amount of Ps. $ 0.52 per share, which was approved by the Shareholders' Assembly in October 2011.

Material events related to Corporate Structure, Finance and Business, as well as to Government Regulations.

- **Sale of Gruma's Stock in GFNorte.**

On February 14th, GFNorte announced the sale of 161,405,905 shares, excluding the over-allotment option, at a price of Ps $ 52.00 per common share through an international offering and a public offering in Mexico by the selling shareholder GRUMA. GFNORTE also informed that the Mexican and International underwriters decided to exercise the over-allotment option fully on February 11th, 2011, as a result of this, all of the shares included in the Global Offering were settled on February 15th, 2011. Consequently, the total proceeds from the Offering of 177,546,496 shares were delivered to the selling shareholder GRUMA. Following the offering and the exercise of the over-allotment option by the initial purchasers and the Mexican underwriters, GRUMA no longer owns any of GFNorte's share capital. The offering in Mexico was carried out through the BMV, while the international offering was carried out in the United States under Rule 144A of the U.S. Securities Act of 1933 and outside the United States under Regulation S of the same Securities Act and in accordance to applicable legislation in jurisdictions where the international offering was carried out. The common shares offered in the international Offering were not registered under the Securities Act of 1933, and were not offered or sold in the United States without registration or an applicable exemption from registration requirements.

- **Merger between Grupo Financiero Banorte and Ixe Grupo Financiero.**

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

i. Increased the variable portion of its capital stock by Ps 1.078 billion, by issuing 308,010,234 Series "O" common shares with a nominal value of Ps 3.50 each, considering an exchange ratio of 0.3889943074.

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

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

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

GFNORTE's capital stock, as of that date, is composed as follows:

	No. of previous shares	No. of shares issued	No. of actual shares
Fixed	252,157,233		252,157,233
Variable	1,766,190,315	308,010,234	2,074,200,549
Total Capital Stock	2,018,347,548		2,326,357,782

- **Progress in the Merger between Banorte & Ixe.**

i) Merger between Casa de Bolsa Banorte and Ixe Casa de Bolsa.
In relation to the merger that took effect last April 15, 2011 between GFNorte and IXE GF; on January 2nd 2012 all the necessary authorizations were carried out in order to merge Casa de Bolsa Banorte and Ixe Casa de Bolsa as of January 1st, 2012. According to these authorizations, Ixe Casa de Bolsa was the merging entity, while Casa de Bolsa Banorte was the merged entity, by virtue of which the first one subsisted, while the second was absorbed. Casa de Bolsa Banorte Ixe was created through this merger, ranking as the fourth largest in Mexico, with Assets under Management of over Ps. $ 450 billion and with over 32,000 customers.
ii) Merger of Mutual Funds.
On November 1st, 2012 the consolidation of the mutual funds managed by Ixe Fondos (Ixe's mutual funds) and Operadora de Fondos Banorte (Banorte's mutual funds) took place with the prior authorization by the CNBV. The transaction was done through the purchase by Ixe Fondos of the series "A" shares corresponding to the 19 mutual funds that were managed by Operadora Banorte. As a result, Ixe Fondos currently manages 43 funds with assets of approximately $83 billion pesos.

iii) Acquisition of a 50% stake in Ixe Tarjetas (credit cards).
As part of the integration strategy of the credit card business, on January 1st 2012, Banorte acquired the 50% stake of Ixe Tarjetas owned by JP Morgan Chase. Ixe Tarjetas was an associated company of Ixe banco (bank), a product of a joint investment with JP Morgan Chase.

- **Merger between Afore XXI and Afore Banorte.**

On January 16th, 2012, the merger between Afore Banorte and Afore XXI, as well as their respective Siefores (Retirement Savings Funds) became effective after registering the documents that formalized the Merger Agreement in the Public Registry of Commerce in Monterrey, Nuevo Leon as well in the Distrito Federal (Mexico City).

In order to carry out the merger, the following Shareholder meetings were held on December 23th 2011: (i) Afore Banorte's Extraordinary General Shareholders' Meeting in which it was agreed that Afore Banorte would merge into Afore XXI as the merging entity, with Afore Banorte disappearing; and (ii) Extraordinary General Shareholders' Meetings of their respective Siefores in which their merger with the corresponding Siefore of Afore XXI was approved.

In this operation both the IMSS and GFNorte each own 50% stake of Afore XXI Banorte S.A. de C.V. (Afore XXI Banorte), the largest in the financial system in terms of number of accounts and one of the largest in terms of managed funds. This merger will provide significant synergies and benefits to customers from both institutions, such as a blended fee of 1.33% as of 2012, initiatives that favor the development of the Retirement Savings System in Mexico.

- **Banco Mercantil del Norte's Extraordinary Shareholders' Meeting.**

The Shareholders' Meeting was held on October 3rd, to obtain authorization for the issuance of nonconvertible preferred subordinated Obligations up to an amount equivalent to $600 million US dollars, to be issued and placed in international markets according to Rule 144-A and Regulation S of the Securities Act of 1933 of the United States of America, and according to applicable legislation in the different jurisdictions in which the Subordinated Obligations are placed.

- **Banco Mercantil del Norte exercised the prepayment option of the Nonconvertible Subordinated Obligations expiring in 2016.**

In October 2011, Banorte exercised the call option on the Non Convertible Subordinated Notes issued in 2006 and maturing in 2016 for an amount of $400 million US dollars, registered in the Luxemburg Stock Exchange. The payment of these Subordinated Obligations was carried out on October 13th. This prepayment demonstrates Banorte's financial strength in spite of the weak conditions of other financial systems and the volatility in international financial markets.

- **Banorte formalizes strategic alliance with Cardtronics to add 2,000 ATMs its existing network.**

On March 30th 2011, Banorte and Cardtronics reached an agreement in order to integrate 2,000 ATMs into GFNorte's existing network. With this strategic alliance, and the merger of IXE GF in GFNorte, it will have one of the largest ATM networks in Mexico, offering clients from Banorte and Ixe access to more than 7,000 ATMs free of service fees, by yearend.

- **Acquisition of Royal and Sun Alliance Pensiones (México).**

On August 31st, 2011 GFNorte acquired 100% shares of the company Royal and Sun Alliance Pensiones (Mexico), the line of business of this company is focused on the retirement savings sector.

- **Banorte and Banjército join forces.**

On September 20th 2011, the Banco Nacional del Ejército Fuerza Aérea y Armada, S.N.C. (Banjército) and Banorte signed a Collaboration Agreement that will provide access to personnel of Mexico's armed forces to Banorte's nationwide infrastructure, as well as other benefits, such as access to the acquisition of Banorte's foreclosed properties with important discounts, and also assistance in Banjército's treasury operations.

- **GFNorte and Generali renew for the next 25 Years their distribution agreement for Insurance and Annuities products in Mexico.**

On December 12th 2011 GFNorte and Assicurazioni Generali renewed the business agreement between the two companies for the next 25 years. This agreement contemplates the joint distribution in Mexico of life, home, car and health insurance, as well as annuities. This agreement, which began in 1997, allowed Banorte Generali to issue nearly one million life, home, car and health insurance policies during 2011, and also to serve over 90,000 annuities' customers

- **Grupo Financiero Banorte was included in the IPC Sustainability Index.**

On December 8th, 2011, GFNORTE was included in the IPC Sustainability Index after reaching an adequate score regarding its adherence to sustainable policies and systems, coupled with its status as one of the most significant quoted stocks in the BMV, presenting high liquidity and trading levels. Additionally, the BMV recognized GFNORTE with the seal of Sustainable Company. Being included in sustainable indexes reflects the social responsibility culture that the Group has developed, based on four pillars: environmental protection, community support, ethics & quality of life and value chain. It also reflects the best corporate practices that GFNORTE has adopted in recent years, which increases its visibility and coverage in the financial markets.

- **The rating agency Standard & Poor's ratified Banorte's rating.**

On March 22nd, 2011 Standard and Poor's ("S&P") affirmed its rating for Banco Mercantil del Norte S.A with a "Stable" outlook, and affirmed the BBB- / A-3 global scale counterparty credit and certificate of deposit ratings. It also affirmed the BBB– rating of Banorte's Senior Unsecured Debt. This report was the result of an analysis made by the rating agency on the current performance of the Bank and its business perspectives after the merger of GFNorte with IXE GF.

- **The rating agency Standard & Poor's ratified and increased some of the ratings for Banorte & Ixe's subsidiaries.**

On December 1st, 2011 Standard and Poor's ("S & P"), affirmed its rating for Banco Mercantil del Norte with a "Stable" outlook, and affirmed the BBB-/ A-3 global scale and the "BBB-" rating for its senior debt. This as a result of the stability achieved by Banorte through diversification of business, strategy and good management. It ratified Ixe Banco with a "Stable" outlook, and affirmed the ratings 'BBB-/ A-3" global scale counterparty risk and certificates of deposit. Also, it assigned a rating of "BB" to its Junior Debt. On the other hand, the long-term rating for Ixe Casa de Bolsa (broker dealer) was increased to "mxAA +" and ratified the short-term rating "mxA-1" with a "Stable" outlook. Ixe Automotriz (car leasing company) was upgraded to "mxA +" in the national long-term scale and short-term "mxA-1" with a "Stable" outlook. Finally, S&P upgraded the ratings for Fincasa Hipotecaria (mortgage and home developer financing unit) to "mxA +" national long-term scale and short-term "mxA-1" with a "Stable" outlook. It also ratified the rating of “mxAA+ (sf)” to the certificates backed by mortgages issued by Fincasa Hipotecaria. These changes were the result of the analysis made by S&P on the current performance of these companies and their business forecasts after the merger with Grupo Financiero Banorte.

- **Moody's ratified Banorte’s ratings.**

In November 2011, Moody's affirmed its rating for Banco Mercantil del Norte with a "Stable" outlook, and the ratings “Baa1-/ A-3” in the national scale. Also, it ratified the local ratings of "Aaa.mx" and "Mx-1" for Casa de Bolsa Banorte (broker dealer) and Arrendadora y Factor (leasing and factoring), respectively. These changes were as a result of the analysis made by the rating agency on the current performance of the Bank and these subsidiaries, as a consequence of Banorte’s positive financial and market performance.

- **The rating agency Fitch confirmed its rating for GFNorte and upgrades ratings of Ixe Grupo Financiero and its subsidiaries.**

In April, the rating agency Fitch confirmed GFNorte with a "Stable" outlook ratifying the rating of “BBB”. This confirmation reflects Fitch’s opinion that there will be a moderate effect on GFNorte’s financial profile, since the merger with Ixe GF was completed under a shares exchange mechanism, and because it did not involve any cash disbursement, there will be no negative impact to GFNorte’s liquidity and capitalization profiles. Fitch also upgraded Ixe GF’s national scale rating from “A-(mex) to AA+” and those of its subsidiaries to align them with the GFNorte’s ratings. Fitch withdrew Ixe GF’s ratings since the merger became effective on April 15th.

- **Fitch ratified Seguros Banorte Generali’s (insurance company) ratings of “AA+”.**

In January 2012, the rating agency Fitch upgraded the domestic ratings for Seguros Banorte Generali to “AA +” (mex) from “AA” (mex) with a “Stable” outlook. The improved rating reflects the rating agency’s opinion on the growing importance of Seguros Banorte Generali and the insurance activities within its controlling entity, Grupo Financiero Banorte, as well as its clear commercial profile and adherence to the current regulatory framework, which stands as an explicit high quality support to the ratings.

- **Changes of the rating methodology for portfolios.**

As mentioned in note 12 of GFNorte’s Audited Financial Statements, on October 25th, 2010, the CNBV published a resolution that modifies the methodology for rating non-revolving consumer and mortgage loans, so that preventive provisions for loan risk will be calculated based on the expected loss instead of the incurred loss. This change went into effect on March 1st, 2011.

On October 5th, 2011, the CNBV published a resolution modifying the general applicable dispositions to Credit Institutions, changing the rating methodology for the loan portfolio granted to States and their Municipalities. This resolution modifies the current model for reserves based on public ratings, in order to establish a methodology which rates and reserves the portfolio according to expected losses for the following 12 months taking into consideration the probability of non-fulfillment, severity of the loss and exposure to each client's non-fulfillment.

- **Refinancing of some of GFNorte’s Subnational government exposures and results of applying the new methodology to reserve loans in this sector according to expected losses.**

On October 19th, 2011 GFNORTE informed that following the material event published on September 30th announcing its participation in the debt refinancing of the State of Coahuila, Banorte had also recently participated in the debt refinancing of the States of Aguascalientes and Sonora. The total amount of the refinanced debt with these three States amounts to Ps. $13.21 billion pesos, which represents 4% of GFNORTE’s total Loan Portfolio at closing of September 2011. The main goal to refinance these liabilities was to provide the States with better terms and financial conditions, which will provide them with flexibility in the management of their fiscal resources.

The maturities of the new loans range from 20 to 27 years 4 months, they have adequate coverage and in all cases the Federal Transfers (Participaciones Federales) are the main repayment source. It is also worth noting that no charge-offs or discounts were offered as part of these refinancings.

On the other hand, in relation to the new methodology for the creation of Loan Loss Reserves for States and Municipalities according to expected losses, GFNORTE informed that after applying the new methodology the impact on Banorte was a decrease in reserves. This was a result of the following strengths in Banorte's Loan Portfolio:

- ✓ 87% of the loans are secured by a Trust Guarantee and have Federal Transfers or other local source of income as a payment source.
- ✓ 79% have interest rate hedging during the term of the loan.
- ✓ 92% of the total portfolio are long-term loans and only 8% of the loans are unsecured short term loans.
- ✓ All loans have high coverage ratios of at least 2 to 1 times the debt service.
- ✓ The long-term loans are registered in the Public Debt Registry of the Ministry of Finance and Public Credit (SHCP).

GFNORTE also reported that it will continue to participate in future debt refinancing of other States and Municipalities as part of its strategy to provide comprehensive solutions to its customers and maintain the leadership that has characterized Banorte in financing to this sector.

RECOGNITIONS:

- **Fund Pro awards the best investment funds in Mexico in 2010.**

  On March 16th, Fund Pro Platinum Performance Award 2010 recognized NTEGUB as one of the best Debt Mutual Funds in the category of Non Taxable Short Term Debt. Once again Banorte demonstrates its commitment to clients by offering competitive products and services.

- **Euromoney and World Finance Recognitions.**

  Banorte - IXE was recognized in July 2011 by EuroMoney magazine's 20th edition of its "Awards for Excellence" as the "Best Bank in Mexico 2011" and last May by World Finance magazine as the "Best Commercial Bank in Mexico 2011." These recognitions were given for the high level of service, innovation and specialization in attention to clients, as well as for the quality of our products and services, among other attributes.

- **Institutional Investor's Rankings.**

  In November 2011, the Institutional Investor magazine published for a second year the rankings of "Best Management Team in Latin America," a survey conducted by leading market analysts and institutional investors. Grupo Financiero Banorte's CEO, Alejandro Valenzuela, was ranked first among the top CEOs in Mexico and third among the CEOs of financial institutions in Latin America. Banorte's Head of Investor Relations, David Suarez, received the highest ranking among his counterparts in Mexico and Latin American financial institutions; while the Investor Relations Executive Team was ranked as number one within Mexican companies and in third place among the Latin America financial institutions.

- **The Banker "Bank of the Year 2011 Mexico" Recognition**

  The growth achieved in recent months by GFNorte through mergers and strategic alliances was, among other things, one of the elements considered by the jury of the Financial Times Group awarded "Banorte-Ixe" as "Bank of the Year 2011."in late 2011, through its specialized publication "the Banker".

- **Latin Finance "Deals of the Year" Recognition.**

  On January 19th, 2012, Latin Finance magazine recognized the merger between Banorte and Ixe with the

"Deals of The Year 2011" award. This award recognizes the best financial transactions and alliances by companies that were characterized by innovation, performance, market presence and vision.

CHANGES IN ORGANIZATIONAL STRUCTURE:

- On 15th March, Jorge Alejandro Chavez Presa joined GFNorte as Deputy Managing Director for New Business Development. He holds a degree in Economics from the Instituto Tecnologico Autonomo de Mexico and has a Master in Arts and Ph. D. in Economics from The Ohio State University. In his career, he has held several positions in the Public Sector, as: i) Member of the Governing Board of the Instituto para la Protección al Ahorro Bancario (IPAB) (2007-2010) ii) Representative in Congress (2000-2003), where he chaired the Finance and Budget Committee, iii) Undersecretary for Energy Policy in the Ministry of Energy (1998-2000), iv) in the Ministry of Finance held various position, as the Head of the Budgetary Policy and Control Unit (1995-1998), General Director for Budget (1992-1995), Director of Public Debt (1991-1992) and Director of Financial Planning (1989-1991).

- In May 2011, Hector Avila Flores and Armando Rivero Laing were appointed as Co- Managing Directors of the Legal Department of Grupo Financiero Banorte.

- On September 23rd 2011, Alejandro Faesi, was designated as Managing Director of Markets and Institutional Sales; Carlos Arciniega Navarro as Managing Director of Treasury and René Pimentel as Managing Director of Business Development and Fundamental Analysis. Investment Banking and Structured Financing was assigned to Arturo Monroy, and Capital Markets' Investment Banking to Gerardo Tietzsch, both of whom will report directly to Marcos Ramírez and Enrique Castillo, Co-Managing Directors of Wholesale Banking.

- During the month of October, Sergio Garcia Robles Gil, who has 17 years of service in this Institution, was designated as Managing Director of Corporate Affairs in charge of GFNorte's Regional Boards. Rafael Arana was named Chief Financial Officer in substitution of Mr. Garcia Robles Gil. Mr. Arana has a successful professional trajectory of more than 16 years in the financial sector, during the last five years as Deputy Chief Executive Officer of HSBC's Retail Banking Division for Latin America. He also served as Deputy Managing Director and Director of HSBC Mexico.

- In November, Enrique Castillo Sanchez Mejorada assumed the Presidency of "Inversiones de Capital Banorte-IXE" in order to manage the Group's capital markets investments. Also, the position of Managing Director of Credit Cards was created, and Manuel Romo Villafuerte was designated in this position, and he will also continue to act as Managing Director of Ixe Banco. Finally, in the Wholesale Banking area, the International Banking and Financial Institutions Division was created, and Ricardo Velasquez was designated as Managing Director.

b) BUSINESS DESCRIPTION

i. MAIN ACTIVITIES

GFNorte is authorized by the SHCP to operate as a holding company of those companies mentioned later in this report, section 2. ix) "The Company- Corporate Structure", according to the guidelines and terms established by the LRAF and general regulations issued by the CNBV.

Its main activity is to acquire and manage shares representing equity of financial entities and societies that provide them with complementary or auxiliary services as well as other types of societies determined by the SHCP. GFNorte and its subsidiaries are regulated according to their activities, by the CNBV, the National Insurance and Finance Commission, the Mexican National Commission for the Retirement Savings System, the Central Mexico and other applicable laws.

GFNorte offers:

- **Banking Sector:** universal banking services in Mexico through Banorte and Ixe Banco; and - Inter National Bank (INB) - in the state of Texas, USA.
- **Long-term Savings:** retirement savings funds (Afore), insurance and annuities. The companies that comprise this sector are: Afore XXI Banorte, Seguros Banorte Generali (Insurance) and Pensiones Banorte Generali (Annuities).
- **Other finance companies:** leasing & factoring and warehousing services. The companies that comprise this sector are: Arrendadora y Factor Banorte (Leasing and Factoring), Almacenadora Banorte (Warehouse), Ixe Automotriz (Car) y Fincasa Hipotecaria (Mortgage).
- **Brokerage:** financial products and services. The companies that comprise this sector are: Casa de Bolsa Banorte (merged with Ixe Casa de Bolsa on January 1st, 2012), Ixe Casa de Bolsa (Broker Dealer) and Ixe Fondos (Mutual Funds).
- **Other Companies:** services subsidiaries.

The main activity of the Banking Sector is to offer universal banking products and services through the following business lines:

- **Retail Bank:** specializing in individuals and small businesses providing them with non specialized products and banking services through our distribution channels. Among the products and services offered are: checking and savings accounts, credit cards, mortgages, car loans, payroll and personal loans.

- **Wholesale Banking:** it is comprised of the Corporate and Government Banking, among others.

  - ✓ **Corporate Bank:** this segment specializes in credit products for small and medium sized companies. Main products are loans and lines of credit, cash management, fiduciary and payroll payment services. Comprehensive financial solutions are also offered to our corporate (Mexican corporations and large foreign multi-national corporations) clients through several specialized types of financing.

  - ✓ **Government Banking:** federal, local and state governments in Mexico and other entities such as social security institutions, etc. are served through this unit. Products and services offered include checking accounts, loans, cash management, payroll services and insurance products among others.

- **Recovery Bank:** the Solida subsidiary, is responsible for the management, collection and recovery of delinquent loans originated by the bank. It also conducts the management, collection of loans and real estate portfolios acquired through public and private auctions.

ii. DISTRIBUTION CHANNELS

Branch network

Banorte's Branches

Banorte ended 2011 with a network of 1,118 branches throughout 348 locations.

In 2011 Banorte started the implementation of an ambitious program for efficiency and consolidation of the branch network in two major phases.

The first phase was implemented during 2011 and it involved continuing with the strategy of opening and relocating branches in demanding markets, while merging the offices with smaller markets and limited infrastructure.

In 2012 we will continue with the second phase of this project focused on defining models "branch type" under the portfolio of service they provide.

IXE Banco's Branches

The growth strategy of the branch network in 2011, was to consolidate the presence in the markets where the brand is already known and venturing into new cities, such as the Bajío area (Central region in Mexico) in order to provide comprehensive attention in the area.

During 2011, IXE Banco opened 11 new branches, totaling 167 offices in 9 cities in Mexico: Mexico City, Toluca, Guadalajara, Monterrey, Queretaro, Puebla, Leon, Celaya and Irapuato.

Additionally, the Cuajimalpa branch in Mexico City was relocated and for 2012 there are plans to open more branches of IXE Banco in existing places and also seek new cities to accompany Banorte where it is solidly positioned, allowing to venture a more agile and efficient model.

ATMs

In 2011, GFNorte's ATM network grew significantly as a result of the strategic partnership with Cardtronics, which allowed the increase of 5,004 installed units at closing of 2010 to 6,367 at closing of 2011. This figure considers the 205 ATMs in the IXE network, which after the merger is considered as part of the same network, where customers can perform all their operations.

The total growth compared to 2010 taking into account both factors was 27%, becoming the second largest ATM network in Mexico, serving over 5 million customers with cards every month.

"Banortel" Contact Center

It is expected that in 2012 we will move into the new building, which will allow the integration and consolidation as a single Contact Center of the Financial Group.

In 2011, our contact center answered more than 36.9 million incoming calls and 18.5 million outgoing calls, while achieving high efficiency and service quality ratios. In addition, the integration of Banorte-IXE allowed learning of both models in order to maintain the service standards that distinguish GFNorte.

Point of Sale Terminals (POSs) / Banorte Ixe's Merchant Acquiring Business

In 2011, Banorte reached over 90,000 affiliations, while the number of transactions increased to 103 million, for a total billing of Ps 79.4 billion. The service offered to the affiliated members, as well as to the final clients, was highly efficient through the use of terminals and the Internet.

Currently the Merchant Acquiring Business ranks 4th nationally with an 11% market share.

IXE Banco's Point of Sale Terminals (POSs)

In 2011 the business base in affiliations grew by 4,725, reaching a total of 14,765 POS's, for a total billing of Ps 11.0 billion. Quality of service distinguishes IXE, becoming a leader in micro-markets such as the most exclusive restaurants and cafes, medical and shopping centers.

Banorte through the Internet

In 2011, more than 1 million clients used online banking, including Ixe Net, conducting more than 460 million transactions through the use of a menu with 80 different operations. To achieve this, new services were introduced through a technological platform characterized for its efficiency and reliability.

IXE Net

IXE Net continuous to offer new options with every day improvements, therefore its clients continue to grow, reaching 113,633 users in 2011, which represents 45% of IXE Banco's total customers.

In 2011, IXE's clients made more than 13 million transactions through this channel, 35% higher than in 2010.

Correspondent Banking

Banorte has positioned itself as a major player in this segment.

Telecomm-Telégrafos - Banorte offers correspondent banking services through 1,591 locations in places lacking or with limited access to banking services. In 2011, 3 million operations were carried out such as: deposits to accounts, cash withdrawals, purchasing insurance, payment of services and credit cards.

7-Eleven - During 2011 a total of 1,327 7-Eleven stores were available as correspondents, in which 401 thousand transactions took place, which include: deposits, payment of services and credit cards. 7 - Eleven is one of the largest convenience store chains' in Mexico, with the highest growth rate.

Banorte Móvil

Banorte Movil, our banking platform through mobile phones, was consolidated in 2011. It offers a global, efficient, secure and sustainable solution to a wide sector of clients, since its platform is compatible with all the mobile telephone service providers in Mexico.

Banorte Movil had an important year of adoption, since more than 74 000 customers used the service in 2011 and made more than 8 million transactions were carried out, 5 million more than in 2010.

iii. PATENTS, LICENSES, BRANDS AND OTHER CONTRACTS

The main registered trademark is *BANORTE*, since it represents the distinctive symbol of GFNorte and its subsidiaries, as well as *GRUPO FINANCIERO BANORTE*, both have a validity of 10 years from the filing date of the application for registration and may be renewed for additional periods of 10 years at the end of their terms. To date they are in use and in full legal effect.

Also, GFNorte and/or its subsidiaries own the trademarks of SUMA, CRÉDITO HIPOTECARIO BANORTE, AUTOESTRENE BANORTE, BANORTE MOVIL, SOLUCIÓN INTEGRAL PYME, which are relevant as they cover the main financial products offered by this credit institution, being valid for 10 years from the filing date of the application for registration and may be renewed for additional 10-year periods at the end of each term. To date they are in use and in full legal effect.

Additionally we have the trademarks for: ENLACE TRADICIONAL; ENLACE DINÁMICA; ENLACE GLOBAL; MUJER BANORTE; AGROPECUARIO BANORTE; COMO UN MEXICANO NO HAY DOS; COMO UN MEXICANO NO HAY DOS, FELICIDADES POR SER MEXICANO; 110 AÑOS BANORTE brands which also cover important financial products offered to the public by GFNorte and/or its subsidiaries, for a period of 10 years starting from the filing date of the application for registration, and which may be renewed for additional periods of 10 years at the end of their terms. To date they are in use and in full legal effect.

On the other hand, GFNorte and/or its subsidiaries has registered commercial slogans, among others:

BANORTE, EL BANCO FUERTE DE MÉXICO (BANORTE, THE STRONG BANK OF MEXICO)
MÉXICO PIENSA EN GRANDE (MEXICO THINKS BIG)
MÉXICO PIENSA EN GRANDE, BANORTE EL BANCO FUERTE DE MÉXICO (*MEXICO THINKS BIG, BANORTE THE STRONG BANK OF MEXICO)*
SIEMPRE TE DA MÁS (YOU ALWAYS GET MORE)
MUJER BANORTE, DETRÁS DE UNA GRAN MUJER HAY UN GRAN BANCO (*BANORTE WOMEN, BEHIND EVERY GREAT WOMAN THERE'S A GREAT BANK)*
DOS MEXICANOS SE UNEN PARA HACER UN MEXICANO MÁS FUERTE (*TWO MEXICANS UNITE TO MAKE A STRONGER MEXICAN)*
SOMOS MEXICANOS, SOMOS GENTE BANORTE (WE ARE MEXICAN, WE ARE BANORTE PEOPLE)

EL FUTURO ESTÁ EN BANORTE, ACÉRCATE A NOSOTROS (THE FUTURE IS IN BANORTE, GET CLOSER TO US)

These slogans are significant since they are part of an institutional campaign that promotes the solvency, stability and strength of this credit institution, which is one of the most representative subsidiaries of GFNorte and/ or its subsidiaries and are valid for 10 years starting from the date of commencement of the registration process, renewable for additional periods of 10 years at the end of their terms. To date, they are all in use and in full legal effect.

As a result of the merger between GFNorte and Ixe GF, GFNorte gained ownership of the "*IXE*" brand, which is duly registered for a period of 10 years from the filing date of the application for registration, renewable for periods of 10 years at the end of its term. To date it is existing and in full legal effect. *IXE AUTOMOTRIZ*, registered trademark for a period of 10 years from the filing date of the application for registration, renewable for additional periods of 10 years at the end of its term. To date, it is in use and in full legal effect. IXE NET duly registered trademark for a period of 10 years from the filing date of the application for registration, is renewable for additional periods of 10 years at the end of its term, and to date is current and in full legal effect. The IXE trademark, effective since 2010 which boasts advertisements such as ES LO MISMO PERO NO ES IGUAL *(THE SAME BUT NOT ALIKE)*, is duly registered for a period of 10 years as from the filing date of the application for registration, renewable for additional periods of 10 years at the end of its term, to date it is in current and in full legal effect. ASÍ DEBERÍA SER SIEMPRE, ASÍ ES IXE (*THAT'S THE WAY IT SHOULD ALWAYS BE, THAT IS IXE)*, are commercial advertisement slogans duly registered for a period of 10 years as from the filing date of the application for registration, renewable for additional periods of 10 years at the end of its term, to date they are being used and in full legal effect.

Each one of these property rights is protected by the respective authorities.

Relevant Contracts:

Banco Mercantil del Norte, S. A. (Banorte), has celebrated diverse contracts outside of its core business, among the most relevant are:

- Agreements with IBM Mexico, Comercialización y Servicios, S.A. de C.V., (i) for the acquisition of products (equipment or software licenses) and services, and (ii) leasing of technological equipment. The first contract was signed on December 5th, 2005 and the leasing contract was signed on May 7th, 2004; with the understanding that both contracts are for indefinite periods of time.

- The agreement with Sertres del Norte, S.A. de C.V., signed on June 1st, 2007 for an indefinite time for the provision of preventive maintenance and corrective services to the infrastructure equipment of the institution, as well as other contracts for the installation of mechanisms and/or infrastructure of uninterrupted energy in order to protect Banorte from the possible risk of interrupted transactions. These agreements are made in accordance to the needs of the institution, with the intention that they expire as soon as the service or commended task is concluded.

- The agreement with NCR de México, S. de R. L. de C. V., for preventive maintenance and corrective services for ATMs; replacement of consumable and/or vandalized parts was celebrated on March 1st, 2007 and was negotiated to last for an indefinite period of time, in addition there is a contract dated June 1st, 2009 for an indefinite period of time.

- The agreement with Diebold de México S. A. de C.V., for preventive maintenance and corrective services for ATMs, replacement of consumable and/or vandalized parts was celebrated on March 1st, 2008 for an indefinite period of time.

- The contract with Winston Data, S.A. de C.V., for printing services and inserting account statements into envelopes, was celebrated on July 15th, 2008 and is still in effect as it was negotiated for an indefinite period of time.

- The agreement with Azertia Tecnologías de la Información México, S. A. de C. V., for printing services and inserting account statements into envelopes, was celebrated on October 3rd, 2008 and is still in effect as it was negotiated for an indefinite period of time.

- The contract with Satélites Mexicanos S. A. de C.V., for satellite signal services was celebrated on July 12th, 2006, is in effect with the contract expiring on July 30th, 2012.

- The contract with ASAE Consultores S.A. de C.V. for the maintenance of computer equipment and networks was celebrated on July 1st, 2009 for an indefinite period of time.

- The agreement with NET & SERVICES TRANTOR, S.A. de C.V. for preventative and corrective maintenance of equipment, cabling of nodes, structured cabling for voice data installed in the Central Site, was celebrated on August 1st, 2007 for an indefinite period of time.

- The contract with Microsoft Licensing GP for the licensing of software was signed on December 28th, 2011 and expires on December 27th, 2014.

- The agreement with Algorithmics (UK) Limited for the licensing, support and maintenance of software was signed on June 30th, 2000 and expired on June 29th, 2010, but has been extended to expire on June 29th, 2020.

- The agreement with EMC Computer Systems de México, S.A. de C.V. for the support and maintenance Networker Legato licenses was signed on July 13th, 2011 for a period of 3 years.

- Two agreements with IGSA, S.A. de C.V. were signed, one in 2010 for the supply of UPS equipment batteries for UPS, which is indefinite and the other which was signed in 2011, for support services and electronic equipment for the project called “Fuerza eléctrica y Aire de precisión para servicios estratégicos” (Electrical Power and Precision Ventilation for strategic services) in the Contact Center’s Building, which expired in January 2012.

- GSAT Comunicaciones, S.A. de C.V. (formerly Libros Foráneos, S.A. de C.V.), signed a contract in Octubre 2009, for satellite link services for an indefinite period of time to supply satellite connectivity to Banorte’s private NETWORK.

No risk is involved in the renewal of the aforementioned contracts.

iv. MAIN CLIENTS

As of December 31st, 2011 Banorte had an ample and diversified client portfolio; with the largest client representing only 2.1% of the total loan portfolio.

Also, GFNorte’s transactions are adequately distributed among the different productive sectors of the economy, with no important concentration in any specific sector and for the same reason, no cyclical relevance.

v. APPLICABLE LEGISLATION AND TAX SITUATION

GFNorte has the Ministry of Finance and Public Credit’s authorization to be constituted and to function as a financial group in accordance with the guidelines and terms established by the Law to Regulate Financial Groups (LRAF), falling under the inspection and surveillance of CNBV. Its transactions consist of acquiring and managing shares with voting rights issued by members of the Group, as well as of societies that lend complementary or auxiliary services to one or more financial entities of the Group or to itself, and to other societies authorized by the SHCP through general dispositions. Its operations are regulated by the CNBV, the LRAF, the Stock Market Law, the mercantile legislation, mercantile uses and practices, the Civil Code for the Distrito Federal (Mexico City) and the Federal Tax Code, for the effects of notifications and legal actions referred to in Article 27 of the LRAF; each member of the financial group will be governed by the respective laws that are applicable to them.

As part of the CNBV's faculties in its capacity as regulator of financial groups, it must conduct revisions of financial information and require necessary modifications and if applicable, determine sanctions for non-compliance with the established norms.

GFNorte has signed an agreement of responsibilities in accordance with the LRAF, through which it must respond fully, with the obligations of the Group's financial entities that are their responsibility in accordance with the applicable regulations, even those that were assumed by those financial entities prior to their integration into the Group. GFNorte will also respond in an unlimited manner for the losses of all and each one of these entities. In the event that the capital of the Society is not sufficient to cover the responsibilities of the Group's financial entities, such responsibilities will be covered first by the banks that integrate the financial group, and later proportionately with respect to the other entities of the group until the Society's capital is depleted. To that effect, the relationship between the percentages that each one represents in the total equity of these financial entities will be taken into consideration.

The Society will only be able to assume direct or contingent liabilities and use its properties as guarantee according to the agreement of responsibilities referred to in Article 28 of the LRAF, as well as in operations with the IPAB and with the Bank of Mexico's authorization, to issue subordinated obligations with mandatory conversion to equity securities and to obtain short term loans, until shares are sold as a result of the incorporation or merger established in Article 10 of the referred law.

The Society will be prohibited: (i) to grant loans, except for those which are part of employee benefits; (ii) to process or carry out any arrangement related to the operations of the financial entities that it controls, and (iii) to provide information on its operations or those of other entities of the Group, except to the authorities in accordance with the legal framework, this limitation being extended to its Board of Directors, commissaries, officials, employees and in general to anyone who can commit the Society with their signature.

The By-laws of the Society, the Agreement of Responsibilities, as well as any modification to these documents must be submitted for the approval of SHCP who will grant or deny it after hearing the opinion of Banxico and CNBV. Any conflict arising from the interpretation, execution or non-fulfillment of the by-laws will submitted to the legal tribunals of Mexico City, Distrito Federal.

During the 2011 audited fiscal year, the Institution did not enjoy any special tax benefits, subsidies or exemptions granted by the tax authorities.

vi. HUMAN RESOURCES

GFNorte had 24,027 full-time and professional fee-based employees at the end of the year 2011, with 78% being from the Banking Sector.

Sector	2011	2010	2009
Banking [(1)]	18,859	15,895	15,343
Long term savings	3,808	3,597	3,718
Finance companies and other companies [(2)]	842	66	52
Broker Dealer	506	189	198
Total full-time employees	**24,015**	**19,747**	**19,311**
Total full-time employees & salaries	**24,027**	**19,759**	**19,327**

(1) Includes employees of Banorte, Banorte Servicios, INB, Remitance Company and Ixe Banco.
(2) Includes employees of Arrendadora y Factor, Almacenadora, IXE Fleet, Ixe Servicios, Ixe Automotriz, Fincasa Hipotecaria, Ixe Soluciones

56% of GFNorte's Banking Sector employees are non-unionized and the rest are union members.

Historically the relationship between Banorte's union and the Institution has been cordial and respectful, without any conflict. There have been no strikes, threats of work disruption or collective conflicts.

vii. ENVIRONMENTAL PERFORMANCE

Banorte has an established environmental policy. Since it is a service company, its operations don't represent a significant environmental risk.

The 4 Principles of Banorte's environmental policy are:

1. Achieve sustainable development.
2. Address the social responsibility in the pursuit of return on investment.
3. Convey awareness of sustainable development through the operation of the bank.
4. Integrate environmental protection in the operation of the bank.

Our Socially Responsible actions are sustained by 4 pillars, and one of those pillars is "Protecting the Environment", which refers to the responsibility of working in an environmentally conscious manner, conserving the resources used by the company and undertaking actions that generate an environmental social conscience.

During 2011, the 2010's actions were continued and some new actions were launched, the most important are:

- Integral Energy Control System (SICE) that works in two aspects. The first one with the implementation of an automatic lighting control system, light signals and air conditioning equipment. The second consists of the replacement of air conditioning equipment, enhancing their efficiency with new technologies that reduce electricity consumption.
- Videoconference system. In 2011, 30,000 videoconferences were held, with a significant increase compared to 2010 (18,204) and 2009 (11,712) resulting in an important reduction in the number of staff travel and non-emitted CO_2 emissions.
- The ecological toilet project was implemented in the Santa Fe offices in order to reduce water consumption.
- "Paperless" which is our paper reduction policy. During 2009 and 2010, isolated actions to reduce paper consumption, awareness and research began to take place. It was not until 2011 when it was strategically implemented. *Paperless* is an action plan for reducing consumption of paper and toner costs, taking as the base year 2010.
- In order to promote *Paperless*, 2 awareness workshops were provided on issues of climate change, deforestation and Corporate Social Responsibility, in which they gathered ideas for improvement and areas of opportunity for certain employees, to reduce paper consumption in our institution.
- The Investor CDP 2011 of the *Carbon Disclosure Project* was answered, offering information related to our carbon emissions.
- We signed the "Agreement for a Sustainable Mexico" that seeks to promote a shift into a "green economy" in our country.

As part of the partnership between IFC and Banorte, in 2011 the planning process of the Social and Environmental Management System (SEMS) was concluded, which will help to identify, measure and mitigate environmental and social risks associated to Banorte's operations. The implementation of SEMS will take place during 2012.

For 2011 there is no environmental or recognition certificate issued by a competent authority or accredited institution. Note that since 2011, GFNorte is part of the BMV's IPC Sustainable Index and the United Nations Global Compact.

viii. MARKET INFORMATION

The following demonstrates the evolution of GFNorte's market shares in various segments:

Company	Concept	2011	2010	2009
Banking Sector (1)	Retail Total Deposits	12.7%	11.5%	11.0%
	Performing Loans	13.8%	12.5%	11.4%
Brokerage (2)	Operations in equities	7.7%	3.4%	4.1%
Afore (retirement fund) (3)	Affiliations	16.6%	9.5%	9.8%
Insurance (4)	Issued Premiums	3.8%	3.0%	3.1%
Annuities (4)	Pensions	52.8%	43.3%	40.2%
Leasing and Factoring (5)	Total Loans	38.3%	41.0%	39.9%
Warehouse (6)	Certifications / retail deposits	6.3%	5.5%	4.1%
Ixe Automotriz (5)	Total Loans	1.0%	2.0%	3.0%
Fincasa Hipotecaria (5)	Total Loans	9.9%	8.4%	14.9%
Ixe Soluciones (5)	Total Loans	0.7%	1.3%	1.5%

1) Source: CNBV Banking System.
2) Asociación Mexicana de Intermediarios Bursátiles, A.C., dated December 31st, 2011.
3) Comisión Nacional del Sistema de Ahorro para el Retiro "CONSAR" dated December 31st, 2011.
4) Asociación Mexicana de Instituciones de Seguros, A.C., dated December 31st, 2011.
5) Source: CNBV Sociedades Financieras de Objeto Múltiple Reguladas, dated December 31st, 2011.
6) Source: CNBV Almacenes Generales de Depósito, dated December 31st, 2011.

GFNorte's attributes are its financial strength, service and experience, market knowledge, constant innovation and wide range of products and services.

Our main competitors are: Grupo Financiero Banamex, Grupo Financiero BBVA Bancomer, Grupo Financiero Santander, Grupo Financiero Scotiabank and Grupo Financiero HSBC as well as Banregio and Banco del Bajio in some regions of the country. In 2006 and 2007, operations of new banking institutions were authorized; although these new banks are not direct competitors of Banorte, they could become a competitor in the future, depending on the business strategies that they follow.

ix. CORPORATE STRUCTURE

Financial Entity	Totay Equity
Banco Mercantil del Norte, S. A., Institución de Banca Múltiple, Grupo Financiero Banorte. • Credit Institution authorized to conduct financial operations. • Conducts banking and lending operations.	92.72%
Arrendadora y Factor Banorte, Sociedad Anónima de Capital Variable, Sociedad Financiera de Objeto Múltiple, Entidad Regulada, Grupo Financiero Banorte. • Acquires goods and/or real estate for financial leasing. • Obtains loans and financing from credit and insurance institutions to cover liquidity needs. • Celebrates leasing and factoring contracts.	99.99%

Financial Entity	Totay Equity
Almacenadora Banorte, S. A. de C. V., Organización Auxiliar del Crédito, Grupo Financiero Banorte. • Storage services, keeps and conserves goods and merchandise. • Issues deposit certificates and pledged bonds. • Transforms deposited goods in order to increase their value.	99.99%
Seguros Banorte Generali, S. A. de C. V., Grupo Financiero Banorte. • Institution that insures and re-insures individuals and corporations.	51.00%
Pensiones Banorte Generali, S. A. de C. V., Grupo Financiero Banorte • Acts as an insurance institution whose objective is to exclusively manage annuities derived from Social security laws.	51.00%
Ixe Banco, S. A., Institución de Banca Múltiple, Grupo Financiero Banorte. • Credit Institution authorized to conduct financial operations. • Conducts banking and lending operations.	99.99%
Ixe Casa de Bolsa, S. A. de C. V., Grupo Financiero Banorte. • Act as an intermediary authorized to operate in the stock market, conducting transactions for the sale and purchase of securities, advice in securities' placement, and operations with securities and mutual funds.	99.99%
Ixe Automotriz, S. A. de C. V., Sociedad Financiera de Objeto Múltiple, Entidad Regulada, Grupo Financiero Banorte. • Celebrate financial leasing contracts. • Acquire goods to be used in financial leasing. • To obtain loans and financing from credit institutions, to insurance and guarantee its transactions.	99.99%
Ixe Fondos, S. A. de C. V., Sociedad Operadora de Sociedades de Inversión, Grupo Financiero Banorte. • Asset Management, distribution, valuation, promotion and acquisition of shares issued by mutual funds, deposit and custody of shares subject to investment and shares of mutual funds, accounting, and management in the issuance of securities.	99.99%
• Ixe Servicios, S. A. de C. V.	99.99%
Ixe Soluciones, S. A. de C. V., Sociedad Financiera de Objeto Múltiple, Entidad Regulada, Grupo Financiero Banorte. • Obtain resources from: (i) placing securities previously rated by a Rating Agency, registered in the National Securities Registry, for later offering in the stock market, and (ii) acquiring liabilities with all types of national and international financial entities, in the terms of the applicable legal dispositions, as well as grant loans to the automotive sector.	99.99%
Fincasa Hipotecaria, S. A. de C. V., Sociedad Financiera de Objeto Múltiple, Entidad Regulada, Grupo Financiero Banorte. • Obtain resources from the placement of securities previously rated by a Rating Agency, registered in the National Securities Registry, for later offering in the stock market. • Celebrate financial leasing and factoring transactions.	99.99%

For more information on the main business relationships with subsidiaries, see Section 4, item b) "Administration-Operations with Related Parties and Conflict of Interest" of this Annual Report.

x. DESCRIPTION OF MAIN ASSETS

The following are the most important real estate properties of GFNorte and its subsidiaries:

Location	Construction m^2	Net book value (thousands of Ps)
Mexico-Toluca highway, Col. Cruz Manca Mexico D. F.	43,761	$672,174
Av. Revolucion No. 3000, Monterrey, N. L.	40,222	349,818
Paseo de la Reforma no. 281 corner of Rio Sena 110 Mexico, D.F.	1,192	129,216
Calle Padre Mier Oriente No. 227, Monterrey, N. L.	5,810	68,345
Ave. Chapultepec corner of La Paz # 278, Guadalajara, Jalisco.	6,695	52,248

These properties are insured against damages and are not pledged as guarantee in credit operations.

In December 2005 Ixe changed its corporate offices to Torre Mayor, building in which 6.5 floors and an annex are leased. Following the merger in April 2011 with GFNorte, in addition to Ixe's corporate offices in Torre Mayor, it has office spaces for its subsidiaries in four buildings: Mexico City and Metropolitan Area, 2; Monterrey, 1, and Guadalajara, 1; and a total of 167 properties to IXE Bank branches. All these properties are leased to third parties for contracts ranging from 5 to 10 years in average duration. The location of the 167 rented properties is: Mexico City Metropolitan Area (92), Morelos (5), Leon (6), Guadalajara (26), Ciudad Juarez (2), Monterrey (15), Queretaro (8), Puebla (9) and Guanajuato (4).

xi. ADMINISTRATIVE, ARBITRATION AND JUDICIAL PROCESSES

There are no relevant matters to report.

For information on Commitments and Contingencies, see Note 38 Commitments and 39 Contingencies in the Audited Financial Statements (Section 8. C) "Annexes- Audited Financial Statements" of this Annual Report.

xii. REPRESENTATIVE SHARES OF COMPANY'S EQUITY

The total subscribed and paid equity is Ps 8,142'252,237.00, represented by 252,157,233 ordinary nominative shares, Series "O", Class I, and 2,074'200,549 ordinary, nominative shares Series "O", Class II, all with a face value of Ps 3.50.

Shares representing subscribed capital are classified as Class I shares which represent the fixed portion of equity and Class II shares which represent the variable portion of the equity.

The variable portion of equity cannot exceed 10 times the fixed portion, and is not subject to withdrawal according to legal and statutory regulations.

Total equity will be composed of common equity and could also include an additional portion.

The total common equity is made up of Series "O" shares.

Additional equity will be represented by Series "L" shares that can be issued up to an amount equivalent to forty percent of the ordinary capital, with the previous authorization of the CNBV.

Shares of the Series "O" and "L" will be available to the general public.

In the General Ordinary Shareholders' Meeting held on October 6th, 2005, an increase in the variable portion of the total equity was approved in the amount of by Ps 5,298,162,313.50, through the capitalization, of the

“Retained Earnings” account, issuing 1,513,760,661 ordinary nominative shares, Series "O", Class II, and giving shareholders 3 new shares for each share in circulation.

In the General Extraordinary Shareholders’ Meeting held on March 30th, 2011, the merger of Ixe Grupo Financiero, S.A.B. de C.V., into Grupo Financiero Banorte, S.A.B. de C.V. was approved, increasing Grupo Financiero Banorte’s variable portion of the total equity to Ps 1,078,035,819.00, by issuing 308,010,234 ordinary nominative Series "O" shares, with a face value of Ps 3.50 each.

See Note 31 in Equity in the Audited Financial Statements (Section 8. C) “Annexes- Audited Financial Statements” of this report.

xiii. DIVIDENDS

The company has decreed the following cash dividends for the last fiscal years as follows:

Meetings’ Date (decreed dividend)	Amount of Decreed Dividend (pesos per share)	Date of Payment	Comments
October 5th, 2009	$0.18	As of October 16th, 2009.	First of three payments that will be made for a total amount of Ps $ 0.52 per share, which was approved by the Group’s Board of Directors on July 23th, 2009.
February 15th, 2010	$0.17	As of February 26th, 2010.	Second of three payments to cover the amount of Ps. $ 0.52 per share, approved by Shareholders’ Assembly in October 2009.
April 23th, 2010	$0.17	As of May 7th, 2010.	Corresponds to the third and last payment to cover a total amount of Ps. $ 0.52 per share, which was approved by the Shareholders’ Assembly in October 2009.
October 4th, 2010	$0.17	As of October 15th, 2010.	First of three payments that will be made for a total amount of Ps $ 0.52 per share, which was approved by the Group’s Board of Directors on July 22th, 2010, corresponding to the 2009’s earnings.
February 18th, 2011	$0.17	As of February 28th, 2011	Second of three payments to cover the amount of Ps. $ 0.52 per share, approved by the Group’s Board of Directors in October 2010.
April 29th, 2011	$0.18	This dividend was paid since May 10th, 2011.	Corresponds to the third and last payment to cover a total amount of Ps. $ 0.52 per share, which was approved by the Shareholders’ Assembly in October 2010.
October 17th, 2011	$0.17	Dividend that was paid as of October 24th, 2011.	The decreed dividend corresponds to the first of three payments that will be made for a total amount of Ps $ 0.52 per share, which was approved by the Group’s Board of Directors on July 25th, 2011.
February 17th, 2012	$0.17	This dividend was paid since February 29th, 2012.	Corresponds second of three payments to cover the amount of Ps. $ 0.52 per share, approved by the Group’s Board of Directors in October 2011.
April 27th, 2012	$0.18	Will be covered from May 11th, 2012.	Corresponds to the third and last payment to cover a total amount of Ps. $ 0.52 per share, which was approved by the Shareholders’ Assembly in October 2011.

Also, the Ordinary General Shareholders’ Meeting held on October 17th, 2011, approved to modify the dividend policy so that the payments are as follows:

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

3. FINANCIAL INFORMATION

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

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

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

- ✓ *In April 2011, the merger with IXE GF became effective; therefore for the year of 2011, 9 months of integrated results are included. As a result, 2010 and 2009 figures are not entirely comparable.*
- ✓ *The arithmetic operations were carried out in pesos and in the following tables are presented in million pesos. As a result, it seems that some totals have minimal errors, which is not the case as it is matter of rounding off figures.*

a) SELECTED FINANCIAL INFORMATION

Grupo Financiero Banorte

	2011	*2010*	*2009*
Net Income Grupo Financiero Banorte (GFNorte) (*)	*$8,517*	*$6,705*	*$5,854*
Total Assets GFNorte (*)	*$829,277*	*$590,230*	*$567,138*
Total Liabilities GFNorte (*)	*$752,195*	*$540,003*	*$522,164*
Stockholders' equity GFNorte (*)	*$77,082*	*$50,227*	*$44,974*
Stockholders' equity GFNorte excluding minority interest (*)	*$70,849*	$46,117	$41,366
INFORMATION PER SHARE			
Net income per share (pesos)	$3.79	$3.32	$2.90
Dividend approved per share (pesos) (1)	$0.52	$0.52	$0.52
Book value per share (pesos) (excluding minority interest)	$30.45	$22.85	$20.50
Shares outstanding (millions)	2,312.8	2,018.3	2,017.8
INFRASTRUCTURE AND EMPLOYEES			
Bank branches (2)	1,285	1,134	1,088
ATMs (automated teller machines)	6,367	5,004	4,478
Full-time employees	24,015	19,747	19,311
Full-time employees and professional services	24,027	19,759	19,327

	2011	2010	2009
PROFITABILITY RATIOS			
NIM before REPOMO	4.1%	4.2%	4.3%
NIM adjusted for credit risks	3.3%	2.9%	2.8%
Return on Assets (ROA)	1.1%	1.2%	1.0%
Return on Equity (ROE)	14.1%	15.5%	14.9%
OPERATIONS			
Efficiency Ratio (3)	55.7%	51.4%	51.2%
Operating Efficiency Ratio (4)	3.2%	3.0%	3.0%
Liquidity Ratio	101.8%	84.0%	63.2%
ASSET QUALITY INDICATORS			
Past due loan ratio	1.9%	2.5%	2.5%
PDL Reserve coverage	143.1%	123.7%	122.4%
CAPITALIZATION RATIO (BANKING SECTOR)	**12.9%**	**16.1%**	**16.8%**

(*) Million Pesos.

(1) Dividends approved by the Shareholders' Assemblies in 2010 and 2011 were: a total dividend of Ps.0.52 per share in 2010, to be paid in three installments (Ps 0.17 in October 2010, Ps 0.17 in February 2011 and Ps 0.18 in May 2011). The total dividend of Ps 0.52 per share decreed in 2011 was also paid in three installments (Ps 0.17 in October 2011, Ps 0.17 in February 2012 and Ps 0.18 in May 2012).

(2) Includes bank modules and excludes agencies abroad.

(3) Non Interest Expense / (Total Operating Income + Loan Loss Provisions). Due to the reclassification of the item "Non Operating Income (Expenses), net" under Non Interest Income applied in January 2011, the Ratio published in the 2010's Annual Report (sent to the authority in February and June 2011) has been modified in this document.

(4) Non Interest Expense/ Average Total Assets.

b) FINANCIAL INFORMATION PER BUSINESS LINE, GEOGRAPHICAL REGION AND EXPORT SALES

a. Total Deposits

By Business line

	2011	2010	2009
Commercial	224,688	204,358	192,383
Business	18,391	16,701	16,297
Corporate	7,781	3,799	3,841
Government	46,565	37,293	36,391
Financial Intermediaries	39,174	30,464	25,996
Deposits	**$336,599**	**$292,615**	**$274,908**
IXE (1)	33,157	0	0
Other	533	0	0
Total Deposits	**$370,290**	**$292,615**	**$274,908**

Million Pesos.

(1) There is no infromation available by business line.

By Geographical Regions

	2011	**2010**	**2009**
Mexico City- South	34,734	33,473	29,158
Mexico City- North	31,698	27,167	24,777
Northern	58,473	49,145	47,114
Central	36,718	32,955	32,439
Northwest	23,035	19,727	19,945
West	29,754	26,818	27,241
South	11,531	11,009	9,854
Peninsular	17,067	12,853	12,675
Border	15,559	15,033	14,390
Isthmus	12,373	9,485	9,269
East	25,543	23,930	21,549
Central Treasury	13,054	4,357	4,098
Foreign	27,060	26,665	22,398
IXE (1)	33,157	0	0
Other	533	0	0
Total Deposits	**$370,290**	**$292,615**	**$274,908**

Million Pesos.

(1) There is no information available by geographical regions.

b. Total Loans

By Business line

	2011	2010	2009
Mortgages	65,534	57,139	50,929
Car Loans	9,502	8,289	7,567
Credit cards	12,368	12,199	13,411
Payroll	13,662	8,615	6,669
Consumer	101,066	86,241	78,576
Commercial (1)	66,544	23,854	26,658
Business	60,208	56,815	51,588
Corporate	58,467	52,458	46,233
Government	71,176	50,797	41,997
Asset Recovery	45	49	56
Total Loan Portfolio	**$357,507**	**$270,214**	**$245,108**

Million Pesos.
Government banking includes federal, state and municipal sectors.
(1) Commercial includes Ps 24,570 million from IXE.

By Geographical Regions

	2011	2010	2009
Mexico City- South	48,145	42,699	36,388
Mexico City- North	30,705	25,888	23,045
Northern	73,627	59,160	52,013
Central	24,351	21,118	21,167
Northwest	32,409	25,470	22,935
West	28,018	20,710	19,071
South	7,374	6,029	5,010
Peninsular	16,881	14,126	11,625
Border	14,520	13,100	12,502
Isthmus	18,263	12,527	11,426
East	16,655	16,997	14,778
Central Treasury	0	0	0
Abroad	11,037	12,389	15,147
Subtotal	321,985	270,214	245,108
Ixe (1)	35,021	0	0
Eliminations from acquiring IXE	500		
Total Loan Portfolio	**$357,507**	**$270,214**	**$245,108**

Million Pesos.
(1) There is no information available by geographical regions.

c) REPORT OF RELEVANT LOANS

Financing obtained from public investors up to December 31st, 2011:

Obligations

a) Subordinated Non cumulative & Non-preferred Obligations, in US dollars Notes Due 2021 ("Tier 1 Notes"):
Date Issued: October 13, 2006
Maturity date: October 13, 2021
Amount Issued: US $200 million dollars
Coupon rate: 6.862%.

b) Subordinated Preferred Non-convertible Obligations, in UDIS (Tier 2):
Date Issued: March 11, 2008
Maturity date: February 15, 2028
Amount Issued: UDIS 447 million
Coupon Rate: 4.95%

c) Subordinated Non-preferred, Non-convertible Obligations (Tier 1):
Date Issued: March 11, 2008
Maturity date: February 27, 2018
Amount Issued: Ps 3 billion
Coupon Rate: TIIE + 0.60%

d) Subordinated Preferred Non-convertible Obligations in Mexican pesos (Tier 2):
Date Issued: June 27, 2008.
Maturity date: June 15, 2018
Amount Issued: Ps 2.75 billion
Coupon Rate: TIIE + 0.77%.

e) Subordinated Preferred Non-convertible Obligations in Mexican pesos (Tier 2):
Date Issued: March 30, 2009.
Maturity date: March 18, 2019.
Amount Issued: Ps 2.2 billion
Coupon Rate: TIIE +2.00%.

f) Senior Notes Due 2015:
Date Issued: July 19, 2010.
Maturity date: July 19, 2015.
Amount Issued: $300 million US dollars
Coupon Rate: 4.375%.

INB

a) Non Convertible Preferred Subordinated Obligations:
Maturity date: June 23rd, 2034.
Amount Issued: US$10.3 million.
Coupon Rate: Libor 3 m + 2.75%.

b) Non Convertible Preferred Subordinated Obligations:
Maturity date: April 15th, 2034.
Amount Issued: US$10.3 million.
Coupon Rate: Libor 3m + 2.72%.

IXE

a) *Non Convertible Perpetual Obligations, in US dollars (Tier 1)*
Date Issued: February 26th, 2007.
Maturity date: Perpetual (Callable since February 26th, 2012)
Amount Issued: USD $120 million dollars
Coupon Rate: 9.75%

b) *Non Convertible Subordinated Obligations, in US dollars (Tier 1)*
Date Issued: October 14th, 2010.
Maturity date: October 14th, 2020.
Amount Issued: USD $120 million.
Coupon Rate: 9.25%

All of the subsidiaries of Grupo Financiero Banorte are current in the interest and/or capital payments of all their financial obligations.

Liabilities financed in foreign currency: Banorte + IXE

	December 2011	
CONCEPT IN FOREIGN CURRENCY	**Capital (Average)**	**Cost**
Core deposits	2,107,136	0.97%
Non-traditional deposits	440,000	8.58%
Total interbank loans	195,965	1.96%
Total Resources in Foreign Currency	**USD $2,743,101**	**2.26%**

Thousands of US dollars.

INB liabilities financed in foreign currency

	December 2011	
CONCEPT IN FOREIGN CURRENCY	**Capital (Average)**	**Cost**
Core deposits	1,648,598	1.07%
Total interbank loans	521	0.68%
Total Resources in Foreign Currency	**USD $1,649,119**	**1.07%**

Thousands of US dollars.

d) MANAGEMENT ANALYSIS AND COMMENTS ON OPERATING RESULTS AND THE COMPANY'S FINANCIAL SITUATION

The following analysis should be read together with the Audited Financial Statements and with the notes that accompany them. Regarding the items in the Financial Statements that were re-expressed using ratios different than the Mexican Consumer Price Index, refer to the corresponding Note of the audited financial statements for the years ending December 31st, 2011 and 2010, and the independent auditors' opinion of February 24th, 2012. (Note 4: "Principal Accounting Policies- Recognizing the effects of inflation on financial information".

Relevant transactions not registered in the Balance Sheet or Income Statement, do not apply since there are no registered relevant transactions.

i. OPERATING RESULTS

Grupo Financiero Banorte

Consolidated Income Statement of the Group

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

Million Pesos.

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

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

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

Net Income by Segment	2011	2010	2009
Banking Sector [(1)]	$6,544	$5,387	$4,786
Brokerage	$418	$403	$203
Long Term Savings [(2)]	$573	$444	$380
Afore (Retirement Funds)	209	208	141
Aseguradora (Insurance).	339	230	224
Pensiones (Annuities)	25	6	16
Finance Companies	$708	$500	$425
Arrendadora y Factor (Leasing and Factoring) [(3)]	616	443	403
Almacenadora (Warehouse)	40	57	22
Ixe Automotriz (Car Leasing)	30	-	-
Fincasa Hipotecaria (Mortgage & Home Development)	22	-	-
Other Companies	($62)	$-	$15
Ixe Soluciones	(64)	-	-
Ixe Servicios	2	-	-
Pronegocio [(4)]	-	-	15
Holding	$336	($29)	$45
GFNORTE	***$8,517***	***$6,705***	***$5,854***

Million Pesos.

(1) Since 4Q09, a participation of 92.72% in Banco Mercantil del Norte is considered.
(2) Earnings according to GFNorte's participation percentage in each company.
(3) Since February 2008, the leasing and factoring companies merged.
(4) As of August 31st, 2009 it merged with Banco Mercantil del Norte.

Comparative analysis: Summary of the years ended December 31st, 2011 and 2010 and December 31st, 2010 and 2009.

In 2011, GFNorte reported profits of Ps 8.52 billion, 27% higher than in 2010. The contribution by sector of accumulated profits for 2011 is as follows:

Net Income for the Banking Sector totaled Ps 6.54 billion (77% of GFNorte's profits) representing 21% growth vs. 2010.

The Brokerage Sector comprised of Casa de Bolsa Banorte, Ixe Casa de Bolsa and Ixe Fondos, generated accumulated profits of Ps 418 million in 2011, 4% higher than in 2010.

The contribution to GFNorte's profits from the Long Term Savings Sector (includes Insurance and Annuities companies, and for the first time Afore XXI Banorte) was Ps 573 million (according to its participation in each of these companies), representing a 29% increase vs. 2010.

Other Finance companies, which include Arrendadora and Factor Banorte, as well as Warehousing, Ixe Automotriz and Fincasa Hipotecaria (Ixe's Mortgage and Home Developer Financing Unit), totaled Ps 708 million in 2011, 42% higher compared to 2010.

In 2010, GFNorte reported profits of Ps 6.71 billion, 15% more than in 2009. In this period, Banking Sector profits, excluding the Afore and considering 92.72% participation, totaled Ps 5.39 billion, 13% greater than in the previous year, contributing with 80% of the Group's profits. The Brokerage Sector reported Ps 403 million in profits, 98 % more than in 2009; Other Finance Companies obtained Ps 500 million, 18% more than in 2009 and the Long Term Savings Sector reported a profit of Ps 444 million, 17% more than in 2009.

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

Net Interest Income

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

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

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

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

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

During 2010 Net Interest Income was Ps 22.73 billion, a (2%) YoY decline compared to 2009, due to a (4%) reduction in interest revenues as a result of lower market interest rates, which was partially off-set by increased loan volumes and improved portfolio mix in the second half of 2010, as well as a (6%) decline in interest expense due to stable funding costs and 7% YoY increase in core deposits. The average annual NIM declined slightly from 4.3% in 2009 to 4.2% in 2010 affected by a (1.0) percentage point reduction in average market interest rates, as well as an increase of 1% in average productive assets.

Provisions

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

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

Loan Loss Provisions represented 19.3% of the Net Interest Income in 2011, comparing favorably to the 30.3% in 2010 and represented 1.7% of the average loan portfolio, (1.0) pp less than in 2010.

Provisions charged to results for 2010 reached Ps 6.89 million, a (17%) YoY decline compared to 2009, resulting from lower requirements for the commercial portfolio (excluding corporate loans), mortgages and all the segments of consumer loans.

The accumulated annual loan provisions for 2010 represented 2.7% of the average loan portfolio, a decrease of (0.8) percentage points compared to 2009.

Non Interest Income

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

Million Pesos.

1) Includes fees received by the Recovery Bank and by the Bank.

2) Includes fees from letters of credit, transactions with pension funds, Warehouse services, financial advisory services and securities trading by the Brokerage House, among others.

3) As of April 2009, the CNBV issued changes to the main accounting criteria that require recording this item under Non Interest Income. The majority of these revenues correspond to recoveries of previously charged-off loans.

4) In January 2011, the CNBV issued changes to accounting criteria in which items previously registered under "Other Income and Expenses, net" after Net Operating Results, are now registered under Non Interest Income as of January 1st. (Criteria D-2).

5) In January 2011, the CNBV issued changes to accounting criteria to consolidate Insurance and the Annuities' companies (Criteria A-2).

The following table identifies the sources of Non Interest Income:

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

Million Pesos.

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

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

- **Service Fees**

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

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

- **Recoveries**

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

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

Million Pesos.

- **Trading**

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

Non Interest Income for 2010 totaled Ps 11.7 billion, a 16% YoY increase vs. 2009, driven by growth in all items:

- Service Fees: during 2010, service fees totaled Ps 6.78 billion, a YoY increase of 11% due to the favorable impact in volumes of a higher client base and the commercial network expansion program, as well as the positive performance of credit card fees resulting from i) greater volume in interchange fees, ii) higher revenues from campaigns to incentivize purchases with deferred fixed payments and iii) the growth in annual fees as a consequence of the 6% increase in the number of credit card holders. Service fees were also driven by increased Afore fees as a result of a 19% growth in AUMs, fiduciary due to greater business volumes & managed wealth and various fees related to consumer insurance products, letters of credit, Telecomm-Telegrafos services and prepayments, among others.

- Recoveries: Non Interest income from recoveries of previously written-off proprietary portfolios and the sale of foreclosed assets (revenues that are classified as Other Operating Income and Expenses) and also of real estate portfolios, increased by 26% in 2010 due to higher recoveries of previously written-off loans, including the recovery of approximately Ps 629 million of the Comercial Mexicana loan, as well as a 12% increase in the returns of real estate investment projects in light of a more favorable economic environment and an increase in the total invested amount to Ps 5.01 billion at closing of 2010 (+17% compared to 2009). The investment portfolio continues to show an adequate diversification by geography, projects and industries.

- Trading: accumulated revenues totaled Ps 1.69 billion, a 36% YoY increase due to adequate strategies followed in order to take advantage of value opportunities in the trading positions as a result of a flattening yield curve, as well as profits from the sale of the remaining MasterCard shares.

Non Interest Expense

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

Million Pesos.

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

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

During 2010, Non Interest Expenses totaled Ps 17.69 billion, a 4% YoY increase vs. 2009, mainly driven by more Personnel Expenses resulting from the expansion in the branch network and the strengthening of some business and staff areas. Operating Expenses also increased annually due to more rents, depreciations and amortizations resulting from the acquisition of new and previously leased ATMs and other equipment as part of the renovation strategy and the depreciation of equipment related to commercial projects, as well as an increase in employee profit sharing resulting from increased profitability. These increases were partially offset by reductions in administration and promotional expenses, professional fees paid and other taxes.

The Efficiency Ratio was 55.7% in 2011, 4.3 pp higher than in 2010 as a result of the integration with Ixe; for 2010 this ratio was 51.4%. Due to the accounting reclassifications in Non Interest Income, this ratio changed compared to the level shown in the Annual Report of 2010.

Performing Loan Portfolio

	2011	2010	2009
Commercial [1]	$121,512	$87,825	$84,118
Consumer	98,521	83,545	74,932
Corporate [1]	59,070	44,176	40,245
Government	71,162	47,550	38,993
Subtotal	**350,265**	**263,096**	**238,288**
Recovery Bank	292	454	666
Total Performing Loans	**$350,558**	**$263,550**	**$238,954**
Past due loans	6,949	6,664	6,154
% NPL Ratio	**1.9%**	**2.5%**	**2.5%**

Million Pesos.

[1] Figures according to the Quarterly Report at closing of December 2011. However, due to certain reclassifications between these two businesses sectors conducted during the 1Q12, the balances at the end of 2011 presented in this Annual Report may differ from information reported on April 26, 2012.

Performing Consumer Loan Portfolio

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

Million Pesos.

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

In 2010, the Performing Loan portfolio increased by Ps 24.81 billion YoY, from Ps 238.29 billion to Ps 263.1 billion; excluding loan portfolios managed by the Recovery Bank. This increase was mainly due to growth in the Government, Consumer (except Credit cards), Mortgage and Corporate portfolios.

Past Due Loans

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

At closing of 2010, past due loans grew by 8% YoY reaching Ps 6.66 billion, mainly driven by the classification of the Mexicana de Aviacion loan as delinquent during the fourth quarter of 2010. At the end of 2010, the PDL ratio was 2.5%, the same level as in 2009.

The PDL ratios by segment during 2011, including Ixe as of 2Q11, were:

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

Deposits

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

Million Pesos.

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

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

At closing of 2010, Total Deposits were Ps 292.62 billion, a 6% YoY increase driven mainly by a 9% YoY growth vs. 2009 in Demand Deposits, and a 5% growth in retail time deposits.

Banking Sector

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

In 2010 accumulated Net Income for the Consolidated Banking Sector (100%, including the Afore through the equity participation method) was Ps 6.04 billion, an 18% YoY growth, due to a 17% increase in Non Interest Income and a (17%) decline in loan loss provisions.

Banking Sector's Financial Ratios

	2011	2010	2009
Profitability			
NIM [(1)]	4.1%	4.1%	4.3%
ROA [(2)]	1.1%	1.0%	0.9%
ROE [(3)]	14.2%	14.2%	13.7%
Operation			
Efficiency Ratio [(4)]	57.6%	51.7%	50.8%
Operating Efficiency Ratio [(5)]	3.2%	2.9%	2.8%
Liquidity Ratio [(6)]	101.0%	82.2%	63.6%
Asset Quality			
% PDL Ratio	1.9%	2.5%	2.6%
Coverage Ratio	143.5%	122.0%	121.6%
Growth [(7)]			
Performing Loan Portfolio [(8)]	33.5%	10.0%	(1.1%)
Time Deposits	29.2%	7.3%	9.3%
Total Deposits	26.1%	6.4%	5.4%
Capitalization			
Net Capital / Credit Risk Assets [(9)]	18.6%	23.7%	24.4%
Net Capital / Credit and Market Risk Assets [(9)]	12.9%	16.1%	16.8%

(1) NIM= Annualized Net Interest Margin / Average Earnings Assets.
(2) Annualized earnings as a percentage of the average quarterly assets over the period.
(3) Annualized earnings as a percentage of the average quarterly equity over the period.
(4) Non Interest Expense / (Total Income + Loan Loss Provisions)
(5) Annualized Non Interest Expense / Average Total Assets.
(6) Liquid Assets / Liquid Liabilities (Liquid Assets = Cash and due from Banks + Negotiable Instruments + Securities held for sale) / (Liquid Liabilities = Demand Deposits + Loans from banks and other organizations with immediate call option + Short term loans from banks).
(7) Growth over the same period last year.
(8) Excludes Proprietary Loans managed by the Recovery Bank.
(9) The Banking Sector's Ratio is included for informational purposes only.

Consolidated Income Statement – Banking Sector

	2011	2010	2009
= Net Interest Income (NII)	**$25,105**	**$21,700**	**$22,357**
- Preventive Provisions for Loan Losses	5,311	6,772	8,181
= Net Interest Income Adjusted for Credit Risk	**19,794**	**14,928**	**14,176**
+ Non Interest Income	10,843	9,431	8,045
= Total Operating Income	**30,637**	**24,359**	**22,221**
- Non Interest Expense	20,694	16,080	15,437
= Operating Income	**9,943**	**8,279**	**6,784**
+ Earnings of Subsidiaries	158	222	161
= Pre-Tax Income	**10,101**	**8,502**	**6,945**
- Income Tax and Profit Sharing	1,902	2,431	2,352
- Tax on Assets	-	-	-
- Deferred Income Tax and Profit Sharing	938	36	(539)
= Net Income from Continuous Operations	**7,260**	**6,035**	**5,132**
+ Extraordinary items, net	-	-	-
- Minority Interest	(0)	(0)	-
= Net Income	**$7,260**	**$6,035**	**$5,132**

Million Pesos.

Does not include Afore its results are included in the Subsidiaries' equity through the participation method.

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

Net Interest Income

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

Million Pesos.

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

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

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

During 2010, Net Interest Income was Ps 21.70 billion, a (3%) YoY decline mainly due to lower average market interest rates compared to 2009; this reduction was partially off-set by a 10% YoY growth in performing loans and a 9% increase in demand deposits.

Non Interest Income

	2011	2010	2009
+ Fees for Commercial and Mortgage Loans	$12	$13	-
+ Fund Transfers	421	389	248
+ Account Management Fees	1,160	1,018	946
+ Fiduciary	329	288	254
+ Income from Real Estate Portfolios	1,117	906	818
+ Electronic Banking Services	872	940	1,030
+ Credit Card Fees	2,990	2,601	2,310
+ Fees from IPAB (1)	-	-	1
+ Other Fees Charged	1,711	1,052	874
Fees Charged on Services	**8,612**	**7,207**	**6,482**
+ Fund transfers	37	29	21
+ Other Fees Paid	1,860	1,452	1,218
+ Expenses from Real Estate Portfolios	-	-	-
Fees Paid on Services	**1,897**	**1,481**	**1,239**
= Net Fees	**6,714**	**5,726**	**5,243**
+ Foreign Exchange	1,197	703	875
+ Securities-Realized Gains	1,088	285	237
+ Securities-Unrealized Gains	(722)	459	(158)
= Trading Income	**1,564**	**1,447**	**953**
+ Subtotal Other Operating Income (Expenses) (2)	1,517	1,737	127
+ Non Operating Income (Expense), net (3)	1,048	521	1,722
Other Operating Income (Expenses)	**2,565**	**2,258**	**1,849**
= Non Interest Income	**$10,843**	**$9,431**	**$8,045**

Million Pesos.

1) Includes fees received by the Recovery Bank and by the Bank.

2) As of April 2009, the CNBV issued changes to the main accounting criteria that require recording this item under Non Interest Income. The majority of these revenues correspond to recoveries of previously charged-off loans.

3) In January 2011, the CNBV issued changes to accounting criteria in which items previously registered under " Non Operating Income (Expense), net " after Net Operating Results, are now registered under Non Interest Income as from January 1st. (Criteria D-2).

The following table shows a breakdown of Non Interest Income:

	2011	2010	2009
Services	$5,597	$4,820	$4,426
Recovery	1,117	906	818
Trading	1,564	1,447	953
Other Operating Income (Expense)	2,565	2,258	1,849
Non Interest Income	**$10,843**	**$9,431**	**$8,045**

Million Pesos.

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

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

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

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

In 2010, Non Interest Income was Ps 9.43 billion, an increase of 17% YoY vs. 2009, driven by a 52% growth in trading revenues.

Non Interest Expense

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

Million Pesos.

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

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

In 2010, Non Interest Expense was Ps 16.1 billion, an increase of 4% YoY vs. 2009, mainly as a result of the branch network expansion and reinforcement of business areas, as well as the purchase of equipment, causing an increase in Personnel expenses, and Depreciations and Amortizations, respectively.

Performing Loan Portfolio

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

Million Pesos.
(1) Balance excluding eliminations of GFNorte.

Performing Consumer Loan Portfolio

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

Million Pesos.

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

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

In 2010, Performing Loans totaled Ps 250.98 billion; when excluding the loan portfolio managed by the Recovery Bank, a 10% increase vs. 2009. Past due Loans grew by 8% annually, amounting to $6.52 billion, mainly driven by the classification of the Mexicana loan as delinquent during the fourth quarter of 2010. At closing of 2010, the PDL Ratio was 2.5%, (0.1pp) lower than in 2009.

Deposits

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

Million Pesos.

(1) Excludes IPAB cash management checking accounts for loan portfolios managed from Banpaís and Bancen. The balances of these accounts in 2009, 2010 and 2011 were Ps 20 million, Ps 0 million and Ps 0 million, respectively.
(2) Includes Debit Cards.
(3) Includes Bank Bonds (Customers and Financial intermediaries).

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

In 2010, Core Deposits grew from Ps 222.4 billion to Ps. 238.64 million, growing by 7% annually,

Brokerage

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

Million Pesos.

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

In 2010, the Brokerage sector reported net income of Ps 403 million, a 98% YoY increase mainly due to more revenues from management fees in mutual funds and also from risk money market trading positions.

Long Term Savings

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

Million Pesos.

- **Afore**

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

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

The Afore reported accumulated Net Income of Ps 440 million (51% corresponds to Banorte) in 2010, a 53% YoY increase driven by growth in operating income and financial revenues, and improved efficiency resulting from reduced operating expenses and the containment of sales related costs. At closing of 2010, the Afore had a total of 3.92 million affiliates, representing 9.4% of the total affiliates in the system and in certified accounts.

- **Insurance**

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

Insurance profits were Ps 451 million for 2010 (51% corresponds to GFNorte), a 3% YoY increase due to a containment in damage related costs and greater financial revenues.

- **Annuities**

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

Net Income for Annuities was Ps 12 million in 2010 (51% corresponds to GFNorte), declining (62%) YoY as a result of increased expenses related to annuities derived from 15% growth in the number of cases, as well as write-offs of some securities in the investment portfolio, increased technical reserves and reduced financial revenues generated by capital and reserves, all of which lowered revenues by Ps 69 million.

Other Finance Companies

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

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

- **Leasing and Factoring**

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

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

Leasing and Factoring generated profits of Ps 443 million in 2010, 10% higher YoY vs. 2009, due to 9% growth in the leasing and 22% increase in the factoring portfolios. At closing of 2010, the Past-Due Loan Ratio was 0.9%, while the Capitalization Ratio was 12.7%.

- **Warehouse**

Net income for Warehousing was Ps 40 million in 2011, a (29%) YoY decline vs. 2010, mainly due to a decline in revenues related to the commercialization of inventories. At closing of 2011 the Capitalization Ratio was 10.7% considering Ps 2.31 billion in total certificates at risk in circulation. The Warehouse ranks 3rd amongst the 20 Warehousing Companies in terms of profits generated.

In 2010, accumulated net income of the Warehousing Company was Ps 57 million, a 152% YoY increase vs.2009, as a result of more revenues related to commercialization of inventories, an increase in enabling operations and the start of logistic services. At closing of 2010, the Capitalization Ratio was 8.5% considering Ps 2.43 billion in total assets-at-risk certificates.

- **Ixe Automotriz**

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

- **Fincasa Hipotecaria**

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

Other Companies

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

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

ii. FINANCIAL SITUATION, LIQUIDITY AND CAPITAL RESOURCES

Liquidity

The function of liquidity administration is to ensure sufficient resources to fulfill financial obligations. These obligations arise from the withdrawal of deposits, payment of short term notes maturing, loans granted and other forms of financing and working capital needs. A significant element of liquidity administration is to fulfill Bank of Mexico's regulation requirements for reserves and liquidity coefficients.

Bank of Mexico's regulations require that we maintain certain levels of reserves in connection with liabilities denominated in pesos. On the other hand, reserves for deposits denominated in foreign currency continue to be mandatory. On December 31st, 2011 and December 31st, 2010, GFNorte fulfilled all the reserve and liquidity coefficient requirements requested by the authority. GFNorte's management considers that the cash flow generated by operations and other sources of liquidity will be sufficient to fulfill liquidity requirements in the next 12 months, including capital investment needs for 2012.

Liquidity Risk and Balance

In order to provide a global measurement of liquidity risk, as well as follow up in a consistent manner, GFNorte relies on financial ratios, among which the liquidity ratio (liquid assets / liquid liabilities) stands out. Considered within liquid assets are the Cash and Due from Banks, Negotiable Instruments and securities held for sale, while the liquid liabilities are Demand Deposits, callable interbank loans and with other institutions and short term loans from banks. GFNorte's liquidity ratio at the end of 2011 was 101.8% which compares favorably to the 84.0% registered in 2010 and the 63.2% in 2009.

On the other hand, the "investment rules for foreign currency transactions and conditions to satisfy within the terms of operations in such currency" designed by the Bank of Mexico for credit institutions, establishes the mechanism to determine the liquidity ratio of liabilities denominated in foreign currency. In accordance with these rules, in 2011 and 2010 GFNorte generated a monthly average liquidity requirement of $327,525,000 and $498,373,000 US dollars, respectively, and maintained an average investment in liquid assets of $646,244,000 and $1,069,131,000 US dollars, having an average surplus of $318,719,000 and $570,758,000 US dollars, respectively.

Internal and external sources of liquidity

Internal sources of liquidity in local and foreign currency come from the diverse deposit products that the institution offers to clients. That is to say, it receives funds through checkbook accounts and term deposits. Likewise it can obtain resources from the sale of the institution's assets.

Regarding external sources of liquidity, it has diverse mechanisms to access the debt and capital markets. The Institution obtains resources through the issuance of debt securities, loans from other institutions - including the Central Bank and international organisms -, as well as from the issuance of subordinated debt. Also considered is the liquidity that the Institution obtains through its proprietary repos' securities that qualify for this type of transactions. It also has the alternative of obtaining resources through the issuance of shares representing capital.

Currently, the Institution has diverse sources of liquidity. Deposits, including interest bearing and non-interest bearing demand and time deposits, are the bank's main source of liquidity. Negotiable and short term instruments, such as government securities and deposits in the Central Bank and other banks, are liquid assets that generate interest. Liquid assets also include deposits in foreign banks, which are denominated mainly in US dollars.

Detailed information related to liquidity sources is found under the different items of the bank's General Balance Sheet in this Annual Report.

Funding

Our main and most economic source of funding comes from client deposits. On December 31st, 2011, client deposits totaled Ps 370.29 billion (or 91.3% of the total funding) a 27% YoY increase which was mainly due to the integration of Ixe.

Repos are important securities in the Mexican Money Market, providing bank clients with short term investments, mainly instruments issued by the federal government and to a lesser extent, securities issued by banks and companies. GFNorte has used repos to achieve cost efficiencies and be more competitive. On December 31st, 2011, the balance of repos registered by the bank was Ps 243.76 billion, 36.4% higher than the Ps 178.75 billion registered at closing of 2010, mainly as a result of the merger with Ixe.

Another source of long term funding is long term debt. This is used to fund long term loans and investments and to reduce liquidity risk. On December 31st, 2011, total long term debt maturing in more than one year was Ps 16.54 billion, (7.1%) less than the Ps 17.8 billion registered at closing of 2010, as a result of the prepayment of subordinated debt.

Our current funding strategy seeks to reduce funding costs by taking advantage of our extensive branch network to attract clients' deposits. Although we are constantly monitoring the needs of long term loans and opportunities for long term loans under favorable conditions, we anticipate that our clientele will continue holding short term deposits (especially demand deposits), and therefore we will maintain our focus on the use of clientele deposits to fund loan activity.

Federal government UDI denominated deposits continue to fund the assets we maintain in the UDI off balance sheet trust funds. In return for these deposits, we have acquired Special CETES from the federal government that pay an interest rate indexed to the rate of CETES, with maturities and face values similar to the loans in the UDI trusts. These Special CETES pay cash interest as the trusts' loans expire. Government UDI denominated deposits have a real fixed interest rate that varies depending on the type of loan in the UDI trusts.

Bank assets denominated in foreign currency, mainly denominated in US dollars, are funded through different sources, mainly clients' deposits and medium and large exporting companies, inter-bank deposits and fixed-rate instruments. In the case of financing operations for external trade, facilities of the Mexican development banks and other foreign banks focused on financing exports, are used. The interest rate for this type of funding is usually indexed to the LIBOR.

Treasury Policies

The Treasury's General Management is the central unit responsible for balancing GFNorte's resource needs, monitoring and managing the levels of regulatory reserves, converting interest rate risk from fixed rate loans by hedging and implementing arbitrage strategies, all in strict adherence to regulations established by the authorities.

Cash and securities' investments are kept in Mexican pesos and US dollars.

Regulatory Framework

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

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

Treasury Management

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

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

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

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

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

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

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

Sources of Financing/International Treasury

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

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

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

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

4. Correspondent Banks:
    - Foreign banks.

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

a. Through diverse long term financing programs, proposals will be studied, analyzed and implemented, in order to consolidate an adequate debt profile.

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

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

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

Loan or tax liabilities

The tax credits listed below are currently in litigation:

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

Million Pesos.

GFNorte's Equity

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

Million Pesos.

The Group's equity increased by 53% from Ps 50.23 billion at closing of 2010 to Ps 77.08 billion at the end of 2011, mainly due to the following factors:

1) Increase in capital as a result of the merger with Ixe GF.
2) Increase in the balance of earnings from prior years.
3) Higher profits in the last 12 months.
4) Positive impact from conversions of foreign operations.
5) Greater capital reserves.

These elements offset the negative impact on the valuation of hedging instruments and securities available for sale.

Banco Mercantil del Norte's Capitalization Ratio

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

Million Pesos.
(1) Without intercompany eliminations.

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

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

Ixe Banco's Capitalization Ratio

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

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

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

GFNorte's Cash Flow Statement

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

GFNorte's Cash Flow Statement

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

Million Pesos.

iii. INTERNAL CONTROL

The companies that make up GFNorte have an Internal Control System (SCI) that has been structured according to the guidelines set forth by its Board of Directors and that addresses the requirements indicated by the regulating authorities.
The SCI's mission is to help in the operation of an adequate internal control in the operation and in data generating and recording. It is made up of various elements:

a) The Board of Directors with the support of the Management Committee, of the Committee of Risk Policies (CPR), the Committee of Audit and Corporate Practices (CAPS), the Advisory Board, the Human Resources' Committee and of the Designations Committee. The Bank has a CPR for the Bank, Casa de Bolsa (Brokerage House), Mutual Funds' Operator, Leasing and Factoring, and Banorte Securities International; there is also a CPR for the Insurance, Afore and Annuities companies. In that sense, there is an Audit Committee for Banco Mercantil del Norte, Arrendadora y Factor Banorte (Leasing and Factoring), a Committee for the Brokerage House and Mutual Funds' Operator, one for the Long Term Savings' (CASAP) companies and one for INB.

b) Management and support areas that are Unit Risk Management (UAIR), Legal and Comptroller, who are responsible for ensuring that adequate levels are maintained in risk control in the Group's operations and compliance the regulation.

c) Internal Audit, External Audit and Commissary (The Commissary applies only to GFNorte subsidiaries) as additional support structures to supervise how the Internal Control System functions and provide reasonable assurance regarding the reliability of the data generated. The Internal Audit Department reports to the Audit and Corporate Practices' Committee (CAPS) and maintains complete independence from the administrative areas.

d) The Executive Group, mainly those responsible for SCI assurance according to the functions and responsibilities assigned to them, in addition to promoting the enforcement of the regulations established for the Institution and the strategies set forth by the CEO GFNorte.

e) Documents that establish the general control criteria that should be followed in the operation and reporting of transactions; in optimizing human, material and technological resources; in the use, security, timeliness and reliability of the information; and in the adequate compliance with the external and internal regulations. Code of Conduct that regulates the behavior that each board member, officer or employee of the Group should assume while performing their duties. The basic Internal Control documents were ratified by the Board of Directors in October 2011.

f) Policy and procedure manuals that regulate documentation, recording and settlement operations that the Institution carries out and establish the control points that should be observed, assuring the separation of functions, clear assignment of responsibilities, safekeeping of information and prevention of unlawful acts.

During 2011, activities continued to be developed related to strengthening of the control environment, risk evaluation and management, establishment and monitoring of controls, and quality assurance of information, including::

a) As for the organizational structure, maintaining a functional separation of the business areas, support and control areas, as well as the independence of the Internal Audit Department, in addition to an adequate separation of duties in the various processes.

b) The different Corporate Governance Committees have received the necessary financial, economic and accounting and/or legal information corresponding to each case, as well as those related to monitoring the financial markets in order to make the appropriate decisions.

c) The financial institutions that previously integrated IXE GF have already incorporated the guidelines of Banorte's SCI, in terms of corporate governance and organizational structures, and are in the process of incorporating the systems used by Banorte's control areas.

d) The manual of policies and procedures has been updated as per the changes in external regulations, new products, and changes in the Institution's processes or the improvements to internal controls. Additionally, there has been continuous follow-up of the improvement actions regarding the observations made by the different members of the SCI.

e) The Supervisory Authorities' requirements have been addressed and the information required by the external regulations has been submitted.

f) Monitoring of the various business and support processes that make up the operation in GFNorte through Process Controllers and Management, to report periodically on compliance and identifying opportunity areas for a timely remediation.

g) The accounting and financial information is reflected appropriately and consistently in the Financial Statements in accordance with established accounting policies provided by Internal Audit to the Audit Committee and were verified in the external auditor's report to the Financial Statements for the 2011 fiscal year.

e) CRITICAL ACCOUNTING ESTIMATES, PROVISIONS OR RESERVES

GFNorte's key accounting policies are in accordance with the accounting criteria required by the CNBV through the issuance of accounting provisions and other applicable laws, which require management to make certain estimates and use certain assumptions to determine the valuation of some of the items included in the consolidated financial statements and to make the disclosure required. Even though they can differ from their final effect, Management believes that the estimates and assumptions used were appropriate under the circumstances.

According to the CNBV's Accounting Criteria A-1 "Basic framework of the set of accounting standards applicable to credit institutions", accounts of institutions shall be subject to financial reporting standards (NIF), defined by the Consejo Mexicano para la Investigación y Desarrollo de Normas de Información Financiera, A.C. (Mexican Board for Research and Development of Financial Reporting Standards), except when in the opinion of the CNBV, it is necessary to implement a regulatory framework or a specific accounting criteria taking into account the specialized operations Credit Institutions need to perform.

For more information regarding our policies and critical accounting estimates, see Note 4 of the Audited Consolidated Financial Statements to December 31st, 2011. (Section 8 c) "Annexes-Financial Statements" of this Annual Report.

GFNorte has identified the main critical accounting estimates described in this section as follows:

1. Preventive estimate for credit risk

Application of rating dispositions to the Portfolio

The loan portfolio is rated in accordance with the rules issued by the SHCP and the methodology established by the CNBV, and can be made applying internal methodologies authorized by the same CNBV.

Since June 2001, GFNorte has the consent of the CNBV to apply to commercial loans from Banco Mercantil del Norte, S.A. and Arrendadora y Factor Banorte, S.A. de C.V. SOFOM ER, a methodology called Calificación Interna de Riesgo (CIR Banorte), internal rating for risk, which establishes the rating of the debtor. The CIR Banorte applies to commercial loan portfolios equal to or greater than 4 million UDIS or its equivalent in national currency. The Rating of loans and the estimate of reserves are determined based on the regulations established by the CNBV. Also on November 30th, 2010, the CNBV issued Document N° 121-4/5486/2010 through which it renewed for a period of two years from December 1st, 2010 the authorization of the commercial loan portfolio rating methodology.

The commercial loan portfolio rating procedure stipulates that credit institutions apply the established methodology (general or internal), with information related to the quarters that concluded in the months of March, June, September and December of each year and register the preventive estimates in the financial statements at the end of each month. Also, the corresponding credit rating is applied for the months following the end of each quarter, which has been used at the end of the immediate previous quarter on the balance sheet, registered on the last day of the aforementioned months. Preventive estimates for credit risk exceeding the amount required by the rating of the portfolio are cancelled on the date when the following quarterly rating is applied against the results of the fiscal year. Also, recoveries of previously written-off loan portfolios are applied against the results of the fiscal year.

The rating of commercial loan portfolio equal to or greater than 4 million UDIS or its equivalent in national currency is determined by evaluating, among other things:

- The creditworthiness of the debtor.
- Loans related to the value of guarantees or property in trust or schemes known commonly as "structured", as is the case.

The commercial portfolio includes loans to businesses and corporate groups, state and municipal governments and their decentralized agencies and companies in the financial sector.

GFNorte applied the CIR Banorte rating internal methodology authorized by the CNBV in subsidiaries authorized by the CNBV and the regulatory rating methodology of the CNBV for other subsidiaries to establish a debtor's rating, except in loans granted to state and municipal governments and their decentralized agencies, loans earmarked for investment projects with their own source of payment and financing granted to Trusts acting under the provisions of trusts and loans commonly known as "structured" in which a patrimonial affectation exist to individually assess the risk associated with the mechanism, for which GFNorte maintained the procedure indicated by the CNBV in the general provisions applicable to credit institutions with respect to the loan portfolio rating issued by the CNBV on October 5, 2011.

For commercial loan portfolios less than 4 million UDIS or its equivalent in national currency, including the loan portfolio for state and municipal governments and their decentralized agencies, GFNorte used the general provisions applicable to credit institutions with respect to loan portfolio rating issued by the CNBV.

For the Consumer and Mortgage portfolios, GFNorte applies the general provisions applicable to credit institutions with respect to loan portfolio rating issued by the CNBV on October 5th, 2011. For the rating of Commercial loan portfolios, GFNorte uses the internal methodology in cases where such methodology is authorized by the CNBV and if not, the regulatory methodology for commercial portfolios.

2. Reserve for Uncollectable Accounts

GFNorte conducted a study which serves as a basis to quantify different future events that could affect the balance of accounts receivable of more than 90 days that determines the percentage of uncollectables and creates its estimate. The rest of the accounts receivable balances are reserved to the 90 calendar days following their initial registration. This estimate is based on historical collection experience, current trends, loan policy and a percentage of the other accounts receivable according to their seniority. To determine these percentages, historical write-offs of these accounts receivable are checked as well as current trends in the loan quality of its customer base, as well as changes in loan policies.

3. Investments in Securities

Investments in debt or capital securities are classified based on the intention for use at the time of acquisition and fair value is determined according to the type of financial instrument concerned, in accordance with the following:

(i) Trading Instruments

Trading instruments represent debt instruments and equity securities owned by the Financial Group, of which it intends to obtain profits by actively trading in the market.

At the time of their acquisition, they are recognized initially at a reasonable value, which includes in each case a discount or spreads. Securities are valued based on their reasonable value determined by a price supplier; the rating includes the capital component, as well as interest yielded. Income from trading securities is recognized in the results of the fiscal year.

(ii) Securities Available for Sale

Securities available for sale are debt or equity securities that are classified neither as trading nor held to maturity; not acquired with the intention of obtaining earnings from short term trading operations and, in the case of debt securities, neither with the intention or capacity of holding them to maturity. Therefore, they represent a residual category, that is to say, they are acquired with an intention different than that of trading or holding them to maturity.
They are valued in the same way as trading securities, but with unrealized gains and losses recognized in stockholders' equity.

In an inflationary environment, income from a monetary position corresponding to results from valuations of securities available for sale is recognized in other items of net income within the equity account.

(iii) Securities Held to Maturity

Secuities held to maturity are debt instruments whose payments and known maturities are fixed, acquired by the Financial Group with the intent and capacity to hold them to maturity.

They are initially recorded at acquisition cost and are subsequently carried at amortized cost which implies that the amortization of the premium or discount (included, if the case, the reasonable value at which it was initially recognized), form part of the interest yielded.

(iv) General valuation norms

Results from rating securities to be negotiated, previously recognized in the year's results, are reclassified as part of the result for trading at the date of sale. Also, the result for accumulated rating of the securities available for sale, recognized in other parts of the net income within the equity account, is reclassified as part of the result from trading on the date of the sale.

Interest yielded on debt securities is treated as cash interest and recognized in the corresponding category under the item of securities investments charged to net income of the year's results.

Dividends from net equity instruments are recognized in the corresponding category under the item of securities' investments charged to results of the fiscal year, at the time that the right to receive payment is generated.

Profits or losses in changes derived from securities' investments in foreign currency are recognized in the year's results.

Reclassification of held to maturity securities to securities available for sale can be done, provided it is not done with the intention or capacity of holding them to maturity. Reclassifications of held to maturity securities or trading securities to securities available for sale, can only be made with the express authorization of the Commission.

The valuation result corresponding to the date of reclassification, in the case of a reclassification of category of securities held to maturity to available for sale, is recognized in other items of the net income in equity.

In the case of debt securities authorized to be reclassified from the category of available for sale to held to maturity, the valuation result on the date of the transfer continues to be reported in the capital of the entity, and is amortized based on the remaining lifetime of that security.

Reclassifications that have been authorized to change category from Trading instruments to any other, have their valuation result on the date of the reclassification already registered in the results of the fiscal year.

Loss due to deteriorated securities is recognized against the year's results, if objective evidence of the deterioration exists as a result of one or more events that happened after the initial recognition of the securities, impacting estimated future cash flows that can be determined in a reliable way. The effect of the recognition of deteriorated securities is shown in Note 7 of the audited consolidated financial statements of GFNorte to December 31st, 2011.

Loss due to previously recognized deterioration is charged against the year's results if, at a later time, the amount of such loss diminishes and is objectively related to an event that happened after the deterioration was recognized.

GFNorte periodically evaluates if their securities available for sale and those held to maturity show deterioration using an assessment model for the date that the quarterly balance sheet is produced or when there are indications that a security has deteriorated.

A security is considered to show deterioration and therefore incurs a loss if and only if there is objective evidence of the deterioration as a result of a series of events that took place subsequent to the initial recognition of the securities' value that had an impact on the estimated future cash flows and that can be reliably determined.

Investments for which deterioration has been recognized continue to be analyzed each quarter in order to identify possible recoveries in value, and in its case reverse the recognized loss, which in turn, is reflected in the results of the fiscal year in which the recovery is identified.

4. Repo Operations

On the repurchase agreement transaction contract date, GFNorte acting as the seller, recognizes the entry of either cash, a liquidated debt account, as well as an account payable at its fair value, at the price initially agreed upon, which represents an obligation to repay the cash paid out. Accounts payable are later valued at their amortized cost, through the recognition of interest per repo agreements in accordance to the method of interest in effect, in the results of the fiscal year.

Repurchase transactions are recorded according to their economic substance, which is financed with collateral, by which GFNorte, acting as the purchaser, gives cash financing in exchange for financial assets as guarantee in case of non-fulfillment.

As to the collateral obtained, GFNorte classifies the financial asset in its balance sheet as restricted, valuing it according to the criteria described in Note 4 of the audited financial statements of GFNorte to December 31st, 2011 until the repurchase agreement's maturity.

5. Operations with Derivatives

Given that Derivates products operated by GFNorte are considered as conventional (*Plain Vanilla*), the bank uses the standard valuation models contained in derivatives operations and GFNorte risk management systems.

All valuation models used by GFNorte have the fair value of operations as a result and are calibrated regularly; they are also audited both by internal and external auditors, as well as by financial authorities.

The valuation of positions is carried out on a daily basis and inputs used by the operation and risk management systems are generated by a price provider which generates these curves based on the daily conditions of markets.

(A) Forward and Futures Contracts

Forward and futures contracts for trading purposes establish an obligation to buy or sell an underlying at a future date in the quantity, quality and prices pre-established in the contract. Futures contracts are recorded initially by

GFNorte in the balance sheet 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/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.

Derivatives are shown in a specific item of assets or liabilities, depending if their reasonable (as a consequence of established rights and/or obligations) value corresponds to a debit or credit balance, respectively. Debt or credit balances in the balance sheet are compensated if the Financial Group has the contractual right to compensate the recognized amounts, the intention of liquidating the net quantity, or to realize the assets and cancel the liability, simultaneously.

The balance of these transactions carried out for trading purposes represents the difference between the fair value of the contract and the established "forward" price.

(B) *Options Contracts*

GFNorte records the option premium as an asset or liability at the transaction date. Fluctuations of the option's premium market valuation are recorded in the income statement under "Trading Results" thereby affecting the corresponding account balance.

(C) *Swaps*

Are recorded at fair value which corresponds to the asset and liability portion for the rights and obligations agreed upon, valuing the future flows to receive or give at the current value according to the forecast of future applicable rates, discounting the market rate on the valuation date with curves provided by the price provider and the result of this rating is registered in the results of the fiscal year.

6.-Acquired Collection Rights

This area is represented by the cost of acquisition of the various loan assets packages acquired by GFNorte, applying to each package any of the three valuation methods described below:

(i) Cost recovery method. Recoveries performed on collection fees are applied against the account receivable until its balance is exhausted. Surplus recoveries are recognized in results.

(ii) Interest method. The amount resulting from multiplying outstanding collection fees by the estimated rate of return which is recognized in results. The difference with respect to payments actually made decrease accounts receivable.

(iii) Cash based method. The amount resulting from multiplying the rate of return estimated for the amount actually charged is recognized in results, whenever it is not greater than that recognized under the interest method. The difference between that recognized in results and payment made decreases the balance of the accounts receivable; once all of the initial investment has been amortized, any recovery will be recognized in results.

In loan asset packages valued based on the interest method, GFNorte evaluates twice a year if the expected cash flow estimates from collection rights is highly effective. For those collection rights in which the expected cash flow estimate is not highly effective, GFNorte uses the cost recovery method. The expected cash flow estimates are considered highly effective if the quotient resulting from dividing the amount actually collected between the sum of the expected cash flows, remains in a range between 0.8 and 1.25 at the time of the evaluation of said effectiveness.

7. Foreclosed Assets, Net.

Foreclosed property or property received as payment in kind are recorded at the lower of their net realizable value or cost. Cost is established as the forced-sale value determined by a judge upon foreclosure or, in the case of payments in kind, the price agreed between the parties involved.

If the book value of the loan exceeds that of the foreclosed property, the difference is recognized in the year's results under the item of “Other Operating Income (Expenses)”.

If the book value of the loan is less than the value of the foreclosed property, the latter must be adjusted to match the loan’s carrying value.

The book value is only modified when there is evidence that the net reasonable value is lower than the recorded carrying value. Adjustments arising from these estimates are recorded in current earnings as they occur.

The provisions applicable to the valuation methodology for the allowance for loan losses mentioned above also 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.

If problems realizing the value of foreclosed real estate are identified, GFNorte registers additional reserves based on estimates prepared by Management.

8.-Long Term Assets, Commercial loans and Other Intangible Assets.

(A) *Long Term Assets*

Long Term Assets are recorded at acquisition cost. Balances arising from acquisitions as of December 31, 2007 have been updated using factors derived from the value of the UDI to date.

Depreciation is calculated using the straight line method based on the useful lifetime of the assets identified by independent specialists.

(B) *Commercial loans and Other Intangible Assets*

Commercial loans as an intangible asset with an indefinite lifetime, must be subject to evidence of deterioration at least annually according to the provisions of the NIF C-15 "Deterioration in the value of long term assets and its regulations".

Intangible assets are recognized in the consolidated balance sheet provided they are identifiable and generate future economic benefits that are controlled by the Financial Group. Intangible assets with definite lives are amortized systematically over the period expected to receive benefits. The value of the intangible assets with indefinite lives is subject to annual impairment tests.

GFNorte maintains criteria for identifying and, where appropriate, recording intangible losses for deterioration or decline in value for those financial and other long-term assets, including commercial loans.

9. Income Taxes (“ISR”), Business Flat Tax (“IETU”) and Statutory Employee Profit Sharing (“PTU”)

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. 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. 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 sheet under the "Deferred taxes and PTU, net" heading.

10.-Technical Reserves

By provision of the Comisión Nacional de Seguros y Fianzas (Insurance and Bonding Commission - CNSF), technical reserves should be audited annually by independent actuaries, who in its opinion confirm that the amount of reserves registered by GFNorte to December 31, 2011 are reasonably acceptable with respect to its obligations, within the parameters indicated by actuarial practice and in adherence to the criteria on the subject considered by the corresponding authorities.

The technical reserves are created under the terms established the by the General Law for Institutions and Mutual Insurance Companies, as well as to provisions issued by the CNSF. For the purposes of valuing technical reserves, GFNorte used valuation methods established in the provisions contained in the 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 on March 31, 2004 by the CNSF and S-10.1.8, issued on May 13, 2004 and published in the DOF on April 27, 2004 and June 1, 2004 respectively.

11. Labor Obligations.

The determination of GFNorte's obligations and labor costs depend on the selection of certain estimates used by actuaries in calculating such amounts. These estimates are described in greater detail in Note 26 of the annual financial statements, consolidated to December 31, 2011. This Note includes expected yields on assets of retirement plans, the discount rate and the rate of growth in the costs of labor remuneration. The estimates depend on economic conditions in Mexico.

4. ADMINISTRATION

a) EXTERNAL AUDITORS

External auditors are appointed with the Board of Directors' approval which is based on the recommendations presented by the Audit and Corporate Practices Committee.

As of the 2005 fiscal year, the firm of Galaz, Yamazaki, Ruiz Urquiza, S. C. have audited the financial statements, therefore there has been no change in external auditors for the last seven fiscal years, also during this period, the firm of auditors has not issued a negative opinion or opinion with exception, nor have they abstained from issuing an opinion about the Financial Statements of GFNorte.

In the fiscal year of 2011, GFNorte hired a firm of external auditors at a total cost of Ps 380,000 with 100% of this cost corresponding to the auditing services for the financial statements.

Moreover, each of the Group's subsidiaries also make payments to the external auditor on account of the auditing services of their financial statements and provide certain other services which are approved by the based on the recommendations presented by the respective Audit Committee.

b) OPERATIONS WITH RELATED PARTIES AND CONFLICTS OF INTEREST

Transactions between the issuer and related parties are explained in detail in Note 28. Transactions and balances with subsidiary companies and associates of Section 8 c. "Annexes – Audited Financial Statements" of this report.

In Banorte, the total portfolio of performing loans under Article 73 of the Law of Credit Institutions does not surpass the established limit of 50% of the basic part of the net capital.

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

As of **March 31st, 2012**, the total loans granted to related parties, was Ps 13.27 billion.

As of December 31, 2011, the total portfolio of related party loans under Article 73 of the Law of Credit Institutions, was Ps 12.73 billion (including Ps 566 million in "CC" Credit Letters, which are registered in memorandum accounts), representing 4.2% of the total loan portfolio (excluding the balance of CC and Support to Federal Government Housing Debtors). Of the total related loans, Ps 4.72 billion were loans granted to clients linked to members of the Board of Directors; Ps 1.09 were granted to clients linked to shareholders and Ps 6.92 billion were linked to companies related to GFNorte.

Related parties loans have been granted with market conditions and rated in accordance with the policies, procedures and rating systems applicable to the rest of GFNorte's loan portfolio based on the general dispositions applicable to credit institutions with regard to rating of loan portfolios issued by CNBV and the internal methodology authorized by CNBV, to rate borrowers in the commercial loan portfolio. 100% of the related party loans were rated in Category "A", and the majority of these loans were classified as commercial loans.

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

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

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

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

Business Relations

GFNorte maintains the practice of identifying balances and operations that it carries out with its subsidiaries. All balances and transactions with consolidated subsidiaries that are shown below have been eliminated in the consolidation process. These transactions are also set using studies of transfer pricing.

In accordance with the Article 73 of the Law of Credit Institutions, loans granted by Banorte to related parties, cannot exceed 50% of the basic part of their net capital. On December 31st, 2011, 2010 and 2009, loans granted to related parties were Ps 12.73, Ps 8.77, and Ps 7.36, respectively, showing percentages that represent 59.8%, 47.1% and 46.2% respectively, of the limits established in the Law of Credit Institutions.

As of December 31st 2011, 2010 and 2009 the Holding Company's participation in the equity of its consolidated subsidiaries is as follows:

	2011	2010	2009
Banco Mercantil del Norte, S. A. and Subsidiaries	92.72%	92.72%	92.72%
Casa de Bolsa Banorte, S. A. de C. V. and Subsidiaries	99.99%	99.99%	99.99%
Arrendadora y Factor Banorte, S. A. de C. V. SOFOM, ER	99.99%	99.99%	99.99%
Almacenadora Banorte, S. A. de C. V.	99.99%	99.99%	99.99%
Seguros Banorte Generali, S. A. de C. V.	51.00%	51.00%	51.00%
Pensiones Banorte Generali, S. A. de C. V.	51.00%	51.00%	51.00%
IXE Banco, S. A.	99.99%	-	-
IXE Casa de Bolsa, S. A. de C. V.	99.99%	-	-
IXE Fondos, S. A. de C. V.	99.99%	-	-
IXE Servicios, S. A. de C. V.	99.99%	-	-
IXE Automotriz, S. A. de C. V. SOFOM, ER and Subsidiary	99.99%	-	-
IXE Soluciones, S. A. de C. V. SOFOM, ER	99.99%	-	-
Fincasa Hipotecaria, S. A. de C. V. SOFOM, ER and Subsidiary	99.99%	-	-

On January 31st, 2011 the CNBV issued general regulations modifying the "General Dispositions applicable to financial reporting standards for controlling companies of financial groups" (the dispositions). This resolution, since it became effective, modifies the permanent investments related to insurance and bonding institutions establishing the consolidation of these institutions by the control exercised over them. As a result, since February 2011, GFNorte's consolidated financial statements include Seguros Banorte Generali (Insurance) and Pensiones Banorte Generali (Annuities).

Balances and transactions with subsidiary companies not consolidated and other associated companies are integrated as follows:

Institution	Income			Accounts Receivable		
	2011	2010	2009	2011	2010	2009
Seguros Banorte Generali, S. A. de C. V.	$-	$650	$598	$-	$29	$9
Total	**$-**	**$650**	**$598**	**$-**	**$29**	**$9**

Million Pesos.

Institución	Income			Accounts Receivable		
	2011	2010	2009	2011	2010	2009
Seguros Banorte Generali, S. A. de C. V.	$-	$251	$101	$-	$19	$5
Total	**$-**	**$251**	**$101**	**$-**	**$19**	**$5**

Million Pesos.

<u>Sale of portfolios among related parties (nominal values)</u>

In February of 2003 Banorte sold Ps 1.93 billion from its proprietary portfolio (with interest) to the Sólida subsidiary for Ps 378 million. Of this transaction, Ps 1.89 billion correspond to past due loans and Ps 64 million to performing loans. The operation was based on August 2002 figures, which is why the final amount, which affected the general balance of February 2003, was Ps 1.86 billion, taking into consideration collections made in August 2002. Together with the portfolio sold, a total of Ps 1.58 billion in credit reserves related to the same were transferred.

In Document 601-II-323110 of November 5th, 2003, the Commission expressed the accounting criteria that must be monitored in the accounting and financial treatment of this operation and it issued a series of resolutions through which Banorte must explain in detail the performance of this operation as long as it subsists, and also consider that this operation was a unique exception and not a permanent procedure of portfolio transfer.

Based on the afore-mentioned, the following table shows the performance of the loan portfolio sold to Sólida as of August 2002 and for 2010 and 2011:

Type of Portfolio	Pesos			Foreign currency in Ps			Total		
	Aug 02	Dec 10	Dec 11	Aug 02	Dec 10	Dec 11	Aug 02	Dec 10	Dec 11
Performing Loans									
Commercial	$5	$-	$-	$5	$-	$-	$10	$-	$-
Mortgages	54	20	15	-	-	-	54	20	15
Total	**59**	**20**	**15**	**5**	**-**	**-**	**64**	**20**	**15**
Past Due Loans									
Commercial	405	331	322	293	104	117	698	435	439
Consumer	81	72	72	-	-	-	81	72	72
Mortgages	1,112	323	303	-	-	-	1,112	323	303
Total	**1,598**	**726**	**697**	**293**	**104**	**117**	**1,891**	**830**	**814**
Total Loan Portfolio	**$1,657**	**$746**	**$712**	**$298**	**$104**	**$117**	**$1,955**	**$850**	**$829**

Type of Portfolio	Pesos			Foreign currency in Ps			Total		
	Aug 02	Dec 10	Dec 11	Aug 02	Dec 10	Dec 11	Aug 02	Dec 10	Dec 11
Credit Reserves (1)									
Commercial	$326	$318	$321	$246	$104	$117	$572	$422	$438
Consumer	77	72	72	-	-	-	77	72	72
Mortgages	669	313	309	-	-	-	669	313	309
Total Reserves	**$1,072**	**$703**	**$702**	**$246**	**$104**	**$117**	**$1,318**	**$807**	**$819**

Million Pesos.

(1) Constituted reserves in accordance with the rating methodology used in Banorte maintained a participation percentage of 99.99% of Sólida's equity in 2011 and 2010.

As of December 31st, 2011 and 2010, the integration of Banorte's loan portfolio without subsidiaries, including the loan portfolio sold to Solida, was as follows:

Type of Portfolio	Pesos Dic 11	Pesos Dic 10	Foreign currency in Ps Dic 11	Foreign currency in Ps Dic 10	Total Dic 11	Total Dic 10
Commercial Loans	$192,102	$148,786	$16,426	$13,330	$208,528	$162,116
Consumer Loans	29,775	27,637	-	-	29,775	27,637
Mortgages	60,948	54,013	-	-	60,948	54,013
Performing Loans	**282,825**	**230,436**	**16,426**	**13,330**	**299,251**	**243,766**
Commercial Loans	3,922	3,954	335	252	4,257	4,206
Consumer Loans	1,294	1,348	-	-	1,294	1,348
Mortgages	1,060	1,025	-	-	1,060	1,025
Past Due Loans	**6,276**	**6,327**	**335**	**252**	**6,611**	**6,579**
Total Portfolio	**289,101**	**236,763**	**16,761**	**13,582**	**305,862**	**250,345**
Credit Reserves	8,939	8,131	487	297	9,426	8,428
Net Portfolio	**$280,162**	**$228,632**	**$16,274**	**$13,285**	**$296,436**	**$241,917**
PDL Reserves					**142.58%**	**128.10%**
% of PDL					**2.16%**	**2.63%**

Million Pesos.

c) MANAGERS AND SHAREHOLDERS

Board of Directors

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

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

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

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

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

NAME	POSITION	WITH THE COMPANY SINCE	PROFESSIONAL BACKGROUND
Roberto González Barrera	Chairman Emeritus	October 1993	• Chairman of the Board of Directors of Grupo Maseca. • Chairman of the Board of Directors of Banco Mercantil del Norte, SA.
Guillermo Ortiz Martínez	Chairman of the Board of Directors	March 2011	• Chairman of the Board of Directors of Banco Mercantil del Norte, S. A. • Guillermo Ortiz y Asociados, S. C. Consultancy. • Governor of Banco de Mexico and Secretary of Finance and Public Credit.
Bertha González Moreno	Proprietary Patrimonial Member	April 1999	• Director Emeritus of Patronato Cerralvo, A. B. P.
David Villarreal Montemayor	Proprietary Patrimonial Member	October 1993	• CEO of Artefactos Laminados, S. A.
Francisco Alcalá de León	Proprietary Independent Member	April 2001	• Chairman of Frajal Consultores, S. C.
Manuel Saba Ades	Proprietary Patrimonial Member	July 2011	• Chairman of the Board of Directors of Grupo Casa Saba, S.A.B. de C.V.
Herminio Blanco Mendoza	Proprietary Independent Member	April 2005	• Chairman and CEO of Soluciones Estratégicas. • Member of the Board of Directors of Banco Latinoamericano de Exportaciones, Bladex. • Member of the Board of Directors of Cydsa, S.A. • Advisor to Mr. Lakshimi Mittal (Chairman of the Board of Directors and CEO of Mittal Steel). • Secretary of Commerce and Industrial Development
Everardo Elizondo Almaguer	Proprietary Independent Member	April 2010	• Professor of Microeconomics of the Instituto Tecnológico y de Estudios Superiores de Monterrey (ITESM). • Deputy Governor of Banco de Mexico.
Patricia Armendáriz	Proprietary Independent Member	April 2009	• CEO of Credipyme, S.A. de C.V. • President of Consultoría Internacional
Armando Garza Sada	Proprietary Independent Member	July 2011	• Chairman of the Board of Directors of Grupo Alfa, S.A.B. de C.V. • Director of Desarrollo de Alfa, S.A.B. de C.V.

NAME	POSITION	WITH THE COMPANY SINCE	PROFESSIONAL BACKGROUND
Héctor Reyes Retana	Proprietary Independent Member	July 2011	• Independent Advisor to Consupago, S.A. de C.V: • Independent Advisor to Banco del Ahorro Nacional y Servicios Financieros, S.N.C. • Advisor to Creación de Proméxico • Managing Director of Banco Nacional de Comercio Exterior, S.N.C. (National Foreign Trade Bank)
Juan Carlos Braniff Hierro	Proprietary Independent Member	July 2011	• Chairman and CEO of Capital Inmobiliario.
Eduardo Livas Cantú	Proprietary Independent Member	October 1993	• Independent Advisor.
Enrique Castillo Sánchez Mejorada	Proprietary Related Member	July 2011	• Managing Director of Wholesale Bank of Banco Mercantil del Norte • Managing Director of Wholesale Bank of Ixe Grupo Financiero, S.A. • Chairman of the Board of Directors of Ixe Grupo Financiero.
Alejandro Valenzuela del Río	Proprietary Related Member	October 2007	• CEO of Grupo Financiero Banorte S. A. B. de C. V. • Managing Director of Corporate Relations of Grupo Financiero Banorte, S. A. B. de C. V. • Managing Director of Treasury and Investor Relations of Grupo Financiero, S. A. B. de C. V.
Roberto González Moreno	Patrimonial Alternate Member	April 2004	• President and CEO of Corporación Noble, S. A. de C. V.
Juan Antonio González Moreno	Patrimonial Alternate Member	April 2004	• CEO of Gruma (Asia) • Director of Special Projects of Mission Food (Grupo Maseca).
José G. Garza Montemayor	Patrimonial Alternate Member	October 1993	• CEO of Productos Laminados de Monterrey, S. A. de C.V.
Alberto Saba Ades	Patrimonial Alternate Member	July 2011	• Vice-president of the Board of Directors of Grupo Saba, S.A.B. de C.V. • CEO of Grupo Xtra, S.A. de C.V.
Isaac Becker Kabacnik	Independent Alternate Member	April 2002	• Chairman of Becker e Hijos, S.A. de C.V. and of Becktel, S.A. de C.V.
Manuel Aznar Nicolin	Independent Alternate Member	March 2007	• Partner at the offices of Kuri Breña, Sánchez Ugarte y Aznar, S.C.

NAME	POSITION	WITH THE COMPANY SINCE	PROFESSIONAL BACKGROUND
Javier Martínez Ábrego	Independent Alternate Member	October 1993	• Chairman of the Board of Directors of Motocicletas y Equipos, S.A. de C.V.
Carlos Chavarría Garza	Independent Alternate Member	April 2003	• CEO of Corporativo de Grupo Transregio, S.A.
Ramón A. Leal Chapa	Independent Alternate Member	July 2011	• CFO of Alfa Corporativo • Planning Director of Vitro
Julio César Méndez Rubio	Independent Alternate Member	July 2011	• CEO of Soluciones Especializadas Confianza, S.A. DE C.V., Sofom E.N.R. • Deputy Managing Director of Loans of Banco Nacional de Comercio Exterior
Guillermo Mascareñas MIlmo	Independent Alternate Member	July 2011	• Associate Director of Alpha Patrimonial, S.A. de C.V.
Alfredo Livas Cantú	Independent Alternate Member	April del 2006	• President of Praxis Financiera, S.C.
Javier Molinar Horcasitas	Related Alternate Member	July 2011	• Managing Director- Integration Offices of Banco Mercantil del Norte, S.A. • Managing Director, Ixe Grupo Financiero, S.A. • CEO of Ixe Banco, S.A.
José Marcos Ramírez Miguel	Related Alternate Member	July 2011	• Managing Director Wholesale Bank Banco Mercantil del Norte, S.A. • Managing Director Wholesale Bank Grupo Financiero Santander

It is informed through this Annual Report that during the Annual General Shareholders' Meeting held on April 27th, 2012, among the resolutions was the approval of the Board of Directors for the fiscal year 2012, which will be comprised by the following members after the meetings' minutes are protocolized:

NAME	POSITION	WITH THE COMPANY SINCE	PROFESSIONAL BACKGROUND
Roberto González Barrera	Chairman Emeritus	October 1993	*Founder and Chairman of the Board of Directors of Gruma S.A.B. de C.V. (Grupo Maseca).* *Founder of Grupo Financiero Banorte and served as its Chairman since 1993 until March 2011.* *He is father of Bertha Gonzalez Moreno, Juan Gonzalez Moreno and Roberto Gonzalez Moreno.*
Guillermo Ortiz Martínez	Chairman of the Board of Directors	March 2011	*Chairman of the Board of Directors of Banco Mercantil del Norte, S. A.* *Chairman of the Board of Directors of the International Monetary Fund's (IMF) External Review Panel to Assess the Fund's Risk Management Framework.* *He was Governor of the Bank of Mexico, Chairman of*

NAME	POSITION	WITH THE COMPANY SINCE	PROFESSIONAL BACKGROUND
			the Board of Directors of the Bank for International Settlements (BIS), Mexico's Minister of Finance and Public Credit (SHCP) and Mexico's Minister of Communications and Transportation.
Bertha González Moreno	Proprietary Patrimonial Member	April 1999	*She is Chief Executive Officer of the Patronato de Cerralvo A.B.P.* *Member of the Board of Directors of Adanec, Centro Educativo Universitario Panamericano, Grafo Industrial, S.A. de C.V., IGNIX, S.A. de C.V., among others.* *She is daughter of Roberto Gonzalez Barrera, sister of Juan Gonzalez Moreno and Roberto Gonzalez Moreno.*
David Villarreal Montemayor	Proprietary Patrimonial Member	October 1993	*Chief Executive Officer and major shareholder of Artefactos Laminados, S. A. de C.V.* *Member of the Board of Inmobiliaria Montevi, S.A. de C.V. and Inmobiliaria Monyor S.A. de C.V. (both Real Estate Agencies).* *Regional Advisor of Banco Nacional de Mexico, S.A. (Banamex) and a Financial Advisor and Business Developer for SISMEX, Sistemas Mexicanos S.A. de C.V.*
Manuel Saba Ades	Proprietary Patrimonial Member	July 2011	*Chairman of Grupo Casa Saba's Board of Directors, Member of the Board of Grupo Xtra Textil S.A. de C.V.* *He was Member of the Board of Directors for companies such as: Casa de Bolsa Finamex, Estudios Mexicanos Telemundo, Banco Serfín, Banca Promex and Valores Finamex, as well as the Chairman of the Executive Committee of Grupo Kosa (Celanese), and former member of the Board of Ixe Grupo Financiero.*
Alfredo Elías Ayub	Proprietary Independent Member	April 2012	*CEO of the Comision Federal de Electricidad (Mexican Federal Electricity Commission CFE)* *CEO of Aeropuertos y Servicios Auxiliares (Airports and Auxiliary Services -ASA) and held various positions within the Ministry of Energy.* *He was a member of the Alumni Council of the School of Business at Harvard University, Chairman of the Development Board at the Anahuac University and of the Mexico Foundation in Harvard.*
Herminio Blanco Mendoza	Proprietary Independent Member	April 2005	*Chairman and Chief Executive Officer of "Strategic Solutions".* *Member of the Board of Banco Latinoamericano de Exportaciones, Bladex and Cydsa, S. A.,* *He was Mr. Lakshimi Mittal's advisor (Chairman and CEO of Mittal Steel), Secretary of Commerce and Industrial Development and Chief Negotiator of the North American Free Trade Agreement (NAFTA).*
Everardo Elizondo Almaguer	Proprietary Independent Member	*April 2010*	*He was Director of Economic Studies of Grupo Industrial Alfa (Alfa Group).* *He founded the Consulting Agency Index, Economia Aplicada S.A.* *He founded and is Director of the Graduate School of the Faculty of Economics, University of Nuevo Leon. He is Professor at the Instituto Tecnologico y de Estudios Superiores de Monterrey (ITESM) in the Faculty of Economics and Public Administration.*
Patricia Armendáriz	Proprietary Independent Member	April 2009	*Chief Executive Officer of Credipyme, S.A. de C.V. President of Valores Financieros, S.A. (International Financial Consultancy).*

NAME	POSITION	WITH THE COMPANY SINCE	PROFESSIONAL BACKGROUND
Armando Garza Sada	Proprietary Independent Member	July 2011	*Chairman of the Board of Directors of Grupo Alfa, S.A.B. de C.V. Development Director of Grupo Alfa, S.A.B. de C.V. Member of the Board of: Banco de Mexico (Regional Board), Deutsche Bank (Latin-American Advisory Board), Femsa, Frisa, Liverpool, Proeza, member of the Advisory Board of Stanford University's Business School, and member of the Board of Stanford University. He was CEO of Selther, Polioles, Sigma and Versax, among others.*
Héctor Reyes Retana	Proprietary Independent Member	July 2011	*Independent Advisor of Consupago, S.A. de C.V: Independent Advisor of Banco del Ahorro Nacional y Servicios Financieros, S.N.C. (Bansefi). He founded the state organism "ProMexico, Inversion y Comercio". CEO of Banco Nacional de Comercio Exterior, S.N.C (Bancomext); International Operations' Director of Banco de Mexico (Banxico). In the private sector, he was CEO of Grupo Financiero Mifel and Banca Mifel, and was Vicepresident of the Mexican Banking Association (ABM).*
Juan Carlos Braniff Hierro	Proprietary Independent Member	July 2011	*Chairman and CEO of Capital I, Fondos de Inversión Inmobiliaria. He was Vicepresident of the Board of Directors of Grupo Financiero BBVA Bancomer, and Chairman of the Insurance, Annuities, Afore, Bancomer, also was Member of the Credit, Risk and Audit Committee. Also, was member of the Board of Directors of Femsa, Aeromexico, Maizoro, Hoteles Presidente Intercontinental, and former Member of the Compensation Committee of Ixe, among others.*
Eduardo Livas Cantú	Proprietary Independent Member	October 1993	*Independent Financial Adviser, Member of the Board of Directors of Gruma, Gimsa and Banco del Centro S.A., Was a member of the Board of the Executive Committee of Gruma and Chief Corporate Officer of Gimsa and Gruma. He is brother of Alfredo Livas Cantu.*
Enrique Castillo Sánchez Mejorada	Proprietary Related Member	July 2011	*President of GFNort'es Equity Invesments. Member of the Board of Directors of Grupo Industrial Herdez and Grupo Embotelladoras Unidas (Geupec). He was Chairman of the Board of Directors of IXE Grupo Financiero and Managing Director of Wholesale bank of Ixe Grupo Financiero, S.A. He was Director of Banco Nacional de Mexico, Casa de Bolsa Banamex, S.A. and Nacional Financiera. Also, he worked in Inverlat Casa de Bolsa, S.A, was CEO of Seguros América, S.A. and Director of Grupo Financiero Invermexico, S.A. de C. V. as well as Director of Credit Suisse First Boston.*
Alejandro Valenzuela del Río	Proprietary Related Member	October 2007	*Chief Executive Officer of Grupo Financiero Banorte S.A.B. de C.V. since April 2008; in the same Group he has held the positions of Managing Director of Institutional Relations, Managing Director of Treasury and Investor Relations. He was Managing Director of the European Aeronautic Defense and Space Company (EADS). Was Member of the Board of Directors of The Laredo National Bank, In the public sector, he was Director of International Relations and Foreign Affairs of Banco de Mexico, Chief*

NAME	POSITION	WITH THE COMPANY SINCE	PROFESSIONAL BACKGROUND
			of Staff to the Minister and Spokesman of the Ministry of Finance and Public Credit and Managing Director of International Financial Affairs at the same Ministry.
Jesús O. Garza Martínez	Related Alternate Member	1999	*Managing Director of Commercial Banking of Banco Mercantil del Norte.*
Juan Antonio González Moreno	Patrimonial Alternate Member	April 2004	*CEO of Gruma (Asia)* *Director of Special Projects of Mission Food (Grupo Maseca).* *He is the son of Roberto Gonzalez Barrera and brother of Bertha González Moreno and Roberto Gonzalez Moreno.*
José G. Garza Montemayor	Patrimonial Alternate Member	October 1993	*CEO of Productos Laminados de Monterrey, S. A. de C.V.*
Alberto Saba Ades	Patrimonial Alternate Member	July 2011	*Vice-President of the Board of Directors of Grupo Saba, S.A.B. de C.V.* *CEO of Grupo Xtra, S.A. de C.V.*
Isaac Becker Kabacnik	Independent Alternate Member	April 2002	*President of Becker e Hijos, S.A. de C.V. and of Becktel, S.A. de C.V.*
Manuel Aznar Nicolin	Independent Alternate Member	March 2007	*Partner at the offices of Kuri Breña, Sánchez Ugarte y Aznar, S.C.*
Javier Martínez Ábrego	Independent Alternate Member	October 1993	*Chairman of the Board of Directors of Motocicletas y Equipos, S.A. de C.V.*
Carlos Chavarría Garza	Independent Alternate Member	April 2003	*CEO of Corporativo de Grupo Transregio, S.A.*
Ramón A. Leal Chapa	Independent Alternate Member	July 2011	*CFO of Alfa Corporativo* *Planning Director of Vitro*
Julio César Méndez Rubio	Independent Alternate Member	July 2011	*CEO of Soluciones Especializadas Confianza, S.A. DE C.V., Sofom E.N.R.* *Deputy Managing Director of Loans of Banco Nacional de Comercio Exterior*
Guillermo Mascareñas MIlmo	Independent Alternate Member	July 2011	*Associate Director of Alpha Patrimonial, S.A. de C.V.*
Alfredo Livas Cantú	Independent Alternate Member	April del 2006	*President of Praxis Financiera, S.C.* *Brother of Eduardo Livas Cantú.*
Javier Molinar Horcasitas	Related Alternate Member	July 2011	*Managing Director- Integration Offices of Banco Mercantil del Norte, S.A.* *Managing Director, Ixe Grupo Financiero, S.A.* *CEO of Ixe Banco, S.A.*
José Marcos Ramírez Miguel	Related Alternate Member	July 2011	*Managing Director Wholesale Bank Banco Mercantil del Norte, S.A.* *Managing Director Wholesale Bank Grupo Financiero Santander*

In accordance with Article Thirty-three of the Corporate By-laws, the functions and faculties of the Board of Directors are:

I. To establish general strategies to guide the Group and the individuals who control it.

II. To monitor the management and direction of the Group and the individuals who control it, taking into consideration their relevance in the financial, administrative and legal situation of the Group, as well as the performance of the relevant directors.

III. To approve, with the prior opinion of the Audit and Corporate Practices' Committee:

a) Policies and limitations for the use of the Group's capital and for the individuals who control it on behalf of related parties.

b) Each individual transaction with related parties that the Group or individuals with control carry out. The following transactions do not require the approval of the Board of Directors as long as they adhere to the policies and limits established by the Board: 1. Transactions in amounts with insignificant relevance for the Group and the individuals who control it, 2. Transactions carried out by the Society and the companies that it controls or over which it has significant influence, or among them, only when: i) they are ordinary or normal business transactions; ii) they are carried out at market prices or supported by ratings qualified by external specialists. 3. Transactions with employees, only if carried out under the same conditions as with any client or as a result of general labor benefits.

c) Unusual or non-recurring transactions executed in the course of a fiscal year by the Group or individuals in control, either simultaneously or successively and considered to be, by their characteristics, a single operation or, the amount represents, based on figures corresponding to the closing of the previous quarter in any of the following cases: 1. The acquisition or alienation of goods with a value equal or superior to 5% of the consolidated assets of the Group. 2. The acquisition of guarantees or assumption of liabilities for an amount equal or superior to 5% of the Group's consolidated assets. Investments in debt or bank investments are exempted when they are carried out in accordance with the policies established by Board of Directors. Transaction waivers for amounts less than that mentioned in this paragraph can be delegated to the Audit and Corporate Practices Committee.

d) The appointment, election and if the case, dismissal of the Group's CEO and his remuneration, as well as the policies for the appointment and remuneration of the other relevant officers.

e) Policies for granting mutuals, loans or any type of credit or guarantees to related parties.

f) Exemptions, enabling a Board member, relevant officer or individual with control to take advantage of business opportunities for themselves or on behalf of a third party that correspond to the Group or individuals with control or those with significant influence. Exemptions for transactions for amounts less than the one mentioned in paragraph c) of this section, can be delegated to one of the Group's committees in charge of audits or corporate practices which is included in the Stock Market Law.

g) Limitations with regards to internal control and internal audit of the Group and controlling individuals.

h) Accounting policies of the Group, adjusted to known accounting principles or those issued by the CNBV of general character.

i) Financial statements of the Group.

j) The hiring of individuals to conduct external audits and if the case, additional or complementary services.

When the Board of Directors' resolutions are not in agreement with the opinions of the corresponding Committee, such Committee must instruct the CEO to disclose this situation to investors through the stock exchange in which shares of the Group are traded, and adapting itself to the terms and conditions of the internal regulations established by that stock exchange.

IV. To present to the General Shareholders' Meeting held at the end of each fiscal year, the following: a) the annual report on the activities of the Audit and Corporate Practices Committee; b) The report prepared by the CEO in accordance with the law, accompanied by an external auditor's finding; c) The Board of Directors' opinion on the content of the CEO's report referred to in the previous parenthesis; d) The report referred to in Article 172, paragraph b) of the General Law of Mercantile Societies establishing the main policies and accounting and information principles to follow in the preparation of financial information; e) The report on those activities and operations in which there could have been intervention in accordance to that foreseen in the applicable legislation.

V. Follow up on the main risks that the Group and its controlling individuals are exposed to, based on the information presented by the Committees, the CEO and external auditors, as well as accounting systems, internal control and internal audit, registration, filing or information, all of which can be carried out by the Audit and Corporate Practices' Committee.

VI. Approve communication and information policies with shareholders and the market, as well as with the Board of Directors and Relevant Officers, to comply with legal regulations.

VII. Determine the necessary actions to correct any identified irregularities and implement the corresponding corrective measures.

VIII. Establish the terms and conditions to which the Chief Executive Officer must adhere in exercising his power in acts of dominion.

IX. Order the Chief Executive Officer to publicly disclose any relevant events to his knowledge.

X. Represent the Group with corporations and individuals, as well as administrative and legal authorities or authorities of any other nature, whether municipal, state or federal, as well as local or federal labor authorities, the different Secretaries of State, Federal Tax Tribunal, Mexican Institute of Public Health, regional offices and other dependents of the same Institute and referees or arbitrators, with the authority to deal with cases and collections, conferred with the most ample general abilities referred to in the first paragraph of Article 2554 of the Civil Code for the Federal District, and with the special abilities that require special mention in accordance with the sections I, II, III, IV, V, VI VII and VIII of Article 2587 of the aforementioned legal document, by which, in an unlimited manner, they will be able to:

a) To settle and commit to in arbitration.
b) To come between and desist in all types of trials and resources.
c) To initiate Habeas Corpus trials or desist from them.
d) To present and ratify arraignments and penal quarrels and to meet their requirements; and to desist them.
e) To be co-council for the Federal or local District Attorney.
f) Grant pardons in penal procedures.
g) Explain or absolve positions in all types of trials, including labor trials, with the understanding however, that only those individuals designated by the Board of Directors have the ability to absolve them in accordance with the terms of Section X of this Article, which completely excludes them from the Rights enjoyed by other officials or directors of the Group.
h) Obtain awards of goods, surrender goods, present bids at auctions, challenge, and receive payments.

XI. Appear before any labor authority whether administrative or jurisdictional, local or federal; acting within the procedural policies or corresponding legal procedures, from the reconciliation stage to final execution; and to celebrate all types of agreements within the terms of Articles 11, 787 and 876 of the Federal Labor Law.

XII. Management of businesses and corporate assets with the most ample general authority within the terms of Article 2554, paragraph Two of the aforementioned Civil Code for the Distrito Federal;

XIII. Issue, subscribe to, grant, accept, endorse or guarantee by endorsement loan securities within the terms of Article 9 of the General Law of Securities and Loan Operations;

XIV. Open and close bank accounts in name of the Group, as well as make deposits and draw against them, and appoint people with signing authority.

XV. Exercise acts of disposition and domain regarding the Group's goods, or its real or personal rights, under the terms of paragraph three of Article 2554 of the aforementioned Civil Code and with the special abilities pointed out in sections I, II and V of Article 2587 of the legal classification referred to.

XVI. Grant general or special powers, always reserving the use of said authority, as well as revoking the powers granted.

XVII. Establish rules for the structure, organize, integrate, functions and abilities of the Board of

Directors' Executive Commission, Regional Councils, Internal Committees and the necessary work commissions; to appoint members; and set their remuneration.

XVIII. Formulate an internal work code.

XIX. Grant the necessary powers to officials indicated in the previous section or to any other persons, and revoke said granted powers; while observing all the applicable laws, delegate its powers and in the CEO, or some powers to one or several of the Board Members, or to Alternates that it designates, so that they exercise those powers in the business or businesses and under the terms and conditions that the Board of Directors establishes.

XX. Delegate the Group's legal representation to the person or persons considered suitable, granting signing power and conferring them with ample general powers for disputes and collections, as referred to in the first paragraph of Article 2554 of the Civil Code and with the special Powers that require expressed mention according to Sections III, IV, VI, VII and VIII of Article 2587 of the legal body so that they can:

a) Present themselves as the Group's legal representatives in any administrative, labor, judicial procedure or process, or any other and make all types of instances, and specifically; articulate or absolve positions on behalf of the Group, converge in the conciliatory period, before the reconciliation meetings and arbitration; intervene in the respective diligences; and to celebrate all types of agreements with employees.

b) Carry out all the other legal acts referred to in Section I of this Article.

c) Substitute powers and faculties without reducing their own, and to grant and revoke mandates.

XXI. Resolve acquisition related situations, liens or transmissions of shares owned by the Group and issued by other societies.

XXII. In general, to have all the necessary faculties to carry out the management entrusted and consequently carry out all the acts and operations, legal and material, directly or indirectly, related to the social objective defined in the Article Three and the complementary activities established in the Fourth Article of these By-Laws, without limitation. The references of this Article to the precepts of the Civil Code for the Distrito Federal are understood to correlate with the Civil Codes of the entities in which the mandate is exercised.

The Board of Directors will be responsible to monitor the execution of the agreements of the Shareholders' Meetings, which could be carried out through the Audit Committee that conducts the audits which this Law refers to.

Shareholders 2012

Don Roberto González Barrera exercises control over the Group.

According to the shareholder listings prepared for the Extraordinary and Ordinary General Shareholders' Meetings held on February 17th, 2012, Board Members and the main officials in the Group with over 1% participation in the Group's shares are distributed as follows:

Board Members	No. of Shares
Roberto González Barrera *.	342,634,000
David Villarreal Montemayor, representing the shareholdings of Doña Alicia Montemayor de Villarreal.	46,527,200
Javier Martínez Ábrego.	31,000,000

* Includes the participation of his children Bertha Gonzalez Moreno and Juan Antonio Gonzalez Moreno with 44,703,777 and 6,744,361 shares, respectively.

According to the shareholder listings prepared for the Extraordinary and Ordinary General Shareholders' Meetings held on February 17th, 2012, the names of the 10 main shareholders of GFNorte are:

Roberto González Barrera and Family
JP Morgan (on behalf of third parties)
State Street Bank and Trust Co. (on behalf of third parties)
Bank of New York Mellon (on behalf of third parties)
BNP Paribas Securities (on behalf of third parties)
Citibank (on behalf of third parties)
CBNY Global Custody-Secore Br910 (on behalf of third parties)
The Northern Trust Company (on behalf of third parties)
Brown Brothers Harriman and Co NY (on behalf of third parties)
Nacional Financiera, S.N.C. Institución de Banca de Desarrollo

Support committees for GFNorte's Board of Directors

The established support Committees for the Board of Directors of GFNorte are the Management Committee, the Risk Policies' Committee (CPR), the Audit and Corporate Practices' Committee (CAPS), the Advisory Board, the Human Resources Committee and the Designation Committee, which are made up of Board members and officers of the Group are involved in some of them. It is the Board's responsibility to authorize the by-laws of the committees and to evaluate their performance on an annual basis.

MANAGEMENT COMMITTEE

Objective: to make decisions on strategic matters for the Institution and to follow up on the general state of the Institution and it's most relevant matters.

Frequency of sessions: the Chairman of the Board of Directors calls the sessions.

Comprised of:

MEMBERS		
Roberto González Barrera	Chairman Emeritus of the Board of Directors	
Guillermo Ortiz Martínez	Chairman of the Board of Directors	President
Alejandro Valenzuela del Río	CEO GFNorte	Coordinator
Sergio García Robles Gil	MD Corporate Affairs	Member
Jesús O. Garza Martínez	MD Retail Banking	Member
Rafael Arana de la Garza	CFO	Member

Quorum: four members must be present always including the Chairman and the Chief Executive Officer of GFNorte.

Decisions are adopted with unanimous votes of those present.

RISK POLICIES' COMMITTEE (CPR)

Objective: To manage the risks that the Institution is exposed to and oversee that its operations are adjusted to meet objectives, policies and procedures for the Integral Management of Risks, as well as to the global limitations of risk exposure approved by the Board.

Functions:

1. To propose for approval by the Board of Directors:
    a. Objectives, limitations and policies for the Integral Management of Risks, as well as modifications to the same.
    b. Global limitations for the different types of risk considering consolidated risk, broken down by business unit or risk factor, taking into account what is established in Articles 79 to 85 of the applicable regulations of General Character for Credit Institutions, published in the Diario Oficial (second section) on December 2nd, 2005.
    c. Mechanisms for the implementation of corrective measures.
    d. Special cases or circumstances in which specific or global limitations could be exceeded.

2. To approve:
    a. Specific limitations for discretionary risks, as well as tolerance levels for non-discretionary risks.
    b. Methodology and procedures to identify, measure, monitor, limit, control, inform and disclose the different types of risk, as well as their modifications.
    c. Models, parameters and scenarios to carry out the rating, measurement and control of risks that

the unit for Integral Risk Management proposes.
d. Methodologies for the identification, rating, measurement and control of risks for new operations, products and services that the Group seeks to offer on the market.
e. Corrective measures proposed by the unit of Integral Risk Management.
f. The technical evaluation of the aspects of the Integral Risk Management's unit referred to in Article 77 of the applicable regulations of general character for credit institutions, published by the Diario Official (second section) on December 2nd, 2005, for presentation to the Board of Directors and the CNBV, as well as the report resulting from the technical evaluation.
g. The manuals for the Integral Risk Management unit, in accordance with the objectives, limitations and policies established by the Board of Directors referred to in the last paragraph of Article 78 of the applicable Regulations of General Character for Credit Institutions, published by the Diario Official (second section) on December 2nd, 2005.
h. The appointment or removal of the executive responsible for the Integral Risk Management unit, which must be ratified by the Board of Directors.

3. Inform the Board of Directors about:
   a. The risk exposure assumed by the Group and the possible negative impact, non-observance of established exposure limits and risk tolerance levels, on a quarterly basis.
   b. The corrective measures implemented in accordance with the Integral Risk Management unit's proposal.

4. Review at least once a year:
   a. The specific limits for discretionary risks, as well as the tolerance levels for non-discretionary risks.
   b. Methodologies and procedures to identify, measure, monitor, limit, control, inform and disclose the different types of risk, as well as their modifications.
   c. Models, parameters and scenarios that will be used to carry out the rating, measurement and control of risks that the Integral Risk Management unit proposes.

The Risk Policies' Committee should at all times, ensure that all personnel involved in risk taking have knowledge of the global and specific limits for discretionary risks, as well as the tolerance levels for non-discretionary risks.

Frequency of the sessions: should hold monthly sessions. All sessions and resolutions should be properly recorded and signed by all those in attendance.

Comprised of:

MEMBERS	
Eduardo Livas Cantú (President)	Proprietary Independent Member of the Board
Francisco Alcalá de León	Proprietary Independent Member of the Board
Manuel Aznar Nicolín	Proprietary Independent Member of the Board
Everardo Elizondo Almaguer	Proprietary Independent Member of the Board
Juan Carlos Braniff Hierro	Proprietary Independent Member of the Board
Alejandro Valenzuela del Río	CEO GFNorte
Manuel Romo Villafuerte	MD IXE Banco (Bank), IXE Tarjetas de Crédito (Credit Cards)
Fernando Solís Soberón	MD Long Term Savings
Gerardo Zamora Nañez	MD Leasing & Factoring, and Warehouse
Patricio Rodríguez Chapa	MD IXE Private Banking, IXE Casa de Bolsa (Broker Dealer)
Sigfrido Gunther Benítez	MD IXE Fincasa Hipotecaria, IXE Soluciones
Javier Márquez Diez Canedo (Secretary)	MD Risk Management
Héctor Ávila Flores (Invited) (without vote)	MD Legal
Jesus O. Garza Martínez (Invited) (without vote)	MD Retail Banking

MEMBERS	
José Armando Rodal Espinosa (Invited) (without vote)	MD Business and Corporate
Rafael Arana de la Garza (Invited) (without vote)	CFO
Luis Fernando Orozco Mancera (Invited) (without vote)	MD Asset Management
Carlos Eduardo Martínez González (Invited) (without vote)	MD Government
Benjamín Vidargas Rojas (Invited) (without vote)	MD Internal Audit

Quorum: two Proprietary Board Members, the CEO of GFNorte and the Committee's Secretary.

Decisions will be adopted by the unanimous vote of those present.

AUDIT AND CORPORATE PRACTICES' COMMITTEE (CAPS)

Audit and Corporate Practices' Committee

Objective:

To support GFNorte's Board of Directors in monitoring the management, performance and execution of the Group's businesses and of their controlling individuals, considering the relevance that these have in the financial, administrative, and legal situation of the Group; as well as in the execution of the agreements approved in the Shareholders' Meetings.

Integration and Meetings:

The Audit and Corporate Practices' Committee (CAPS) is comprised exclusively of independent members, with a minimum of three and not more than five members of the Board of Directors, appointed by the Board of Directors, at the proposal of the President.

The President of the CAPS is appointed to/or removed from his position exclusively by the General Shareholders' Meeting and cannot be the President of the Board of Directors. The Secretary of the Committee is appointed by the same committee.

Sessions of the CAPS are valid with a majority participation of its members, provided that the President is present or whoever has been designated, from among the Committee members, to take his place in his absence. The proposals put forth will be approved with the majority of votes of those members present, with the President's vote being the deciding vote in the event of a tie.

MEMBERS		
Francisco Alcalá de León	Proprietary Independent Member of the Board	President
Herminio Blanco Mendoza	Proprietary Independent Member of the Board	Member
Manuel Aznar Nicolín	Proprietary Independent Member of the Board	Member
Patricia Armendáriz Guerra	Proprietary Independent Member of the Board	Member
Héctor Reyes Retana	Proprietary Independent Member of the Board	Member
Isaías Velázquez González	Secretary with no vote	

The CAPS can hold sessions as many times as necessary, having the capacity to summon meetings, the President of the Board of Directors, 25% of the Board Members, the Chief Executive Officer, or the President of this Committee.

The Committee records its sessions, and the records of each session are signed by those individuals acting as President of the session and Secretary of the Committee.

Functions:

<u>I. Regarding Corporate Practices:</u>

a. Provide the Board of Directors with an opinion on matters of concern in accordance with the applicable legislation.
b. Solicit the opinion of independent experts for cases it considers necessary, in order to perform appropriately or when acting in accordance to applicable legislation.
c. Convene Shareholders' Meetings and request the inclusion of topics considered important in the agenda of those Meetings.
d. Support the Board of Directors in the elaboration of reports to be presented at the Shareholders' Meetings.
e. Monitor and ensure that the Group's performance lies within the limits established by law and the Group's Corporate By-Laws.
f. Define and update the structure of share incentive plans for the institution's executives.

<u>II. Regarding Audit:</u>

a. Provide the Board of Directors with an opinion on matters of concern in accordance to the applicable legislation.
b. Evaluate the performance of corporations providing external audit services, such as analyzing the findings, opinions and reports prepared by the external auditor. To do so, the Committee may require the presence of the afore-mentioned auditor whenever considered convenient, without prejudice of meeting at least once a year.
c. Discuss the Group's financial statements with the individuals responsible of their elaboration and revision, and based on that, recommend or oppose their approval to the Board of Directors.
d. Inform the Board of Directors of the state of the internal control and internal audit systems of the Group or corporations that control them, including any detected irregularities, if the case.
e. Prepare an opinion on the CEO's report and submit it to the Board of Directors for its consideration and later presentation to the Shareholders' Meeting, based on the external auditor's findings, among other factors. This opinion should at least point out:
    1. If the accounting and information policies and criteria followed by the Group were appropriate and sufficient, taking into consideration the particular circumstances of the situation.
    2. If these policies and criteria were applied in the information presented by the CEO.
    3. If, as a consequence of numbers 1 and 2, the information presented by the CEO reasonably reflects the financial situation and results of the Group.

f. Support the Board of Directors in the preparation of the reports to be presented to the Shareholders' Meeting.
g. Check that operations referred to in Number 3 of Article 33 of the Corporate By-Laws, as well as those indicated by the applicable legislation, are carried out according to the law and By-Laws.
h. Solicit the opinion of independent experts in such cases where it is judged to be convenient, for the appropriate performance or when in accordance with the applicable legislation.
i. Require relevant officers and other employees of the Group or corporations that it controls, to report relative to the elaboration of financial and of any other type of information that it considers necessary for the execution of their duties.
j. Investigate the possible non-fulfillment of duties by those with knowledge of operations, operational limitations and policies, internal control, internal audit and accounting registration system, either of the Group or of controlled corporations through an examination of documentation, registrations and other proof or evidence, to the extent necessary to fulfill this supervision.
k. Receive observations expressed by shareholders, Board Members, relevant officers, employees and, by any third party in general, regarding matters referred to in the previous paragraph, as well as to carry out actions that are reasonable in their opinion in connection with such observations.
l. Request periodic meetings with the relevant officers, as well as the delivery of any type of information related to the internal control and internal audit of the Group or its corporations.
m. Inform the Board of Directors of any important irregularities detected related to the execution of their

duties and if the case, of the corrective measures taken or proposed.

n. Convene a Shareholders' Meeting and request that pertinent topics be included in the agenda.
o. Monitor that the CEO executes the adopted resolutions of the Shareholder Meetings and of the Group's Board of Directors according to the instructions dictated by Shareholders' Meeting or the Board of Directors.
p. Supervise the establishment of mechanisms and internal controls that allow verification that the acts and operations of the Group and its corporations, adhere to the applicable norms, as well as to implement methodologies that facilitate the revision of the above-mentioned execution.
q. Supervise that all activities adhere to the corporate by-laws and established laws.

Responsibilities:

The President of the CAPS must prepare an annual report on the activities that correspond to this Committee and must present it to GFNorte's Board of Directors. This report must consider the following points:

I. Regarding Corporate Practices:

a. Observations regarding the performance of relevant officers.
b. Operations with related parties, during the fiscal year reports detailing the specifics of significant operations.
c. Integral compensation or remuneration packages for individuals referred to in Article 28, Section III, paragraph d) of the Stock Market Law (LMV).
d. Waivers granted by the Board of Directors in terms stipulated in Article 28, Section III, paragraph f) of the LMV.
e. Responsibilities related to the share incentive plan for executives of the bank:
    1. Name the officers eligible for the incentive plan (beneficiaries).
    2. Establish the participation granted to beneficiaries, terms and form of payment of the incentive plan.
    3. Authorize the number of shares assigned to the incentive plan that will be purchased by the Trust.
    4. Interpret, manage, modify and if the case, propose to the Board of Directors of Banorte the termination of the incentive plan.
    5. Take any necessary actions for the efficient and timely execution of the incentive plan.
    6. Inform the Board of Directors on relevant matters concerning the institution's incentive plan.

II. Regarding Audit:

a. The state of the internal control and internal audit system of the Group and its corporations and the description of any deficiencies and deviations, if the case, as well as aspects that require improvement, taking into account the opinions, reports, official statements and findings of the external audit, as well as the reports issued by the independent experts that extended their services during the period covered by the report
b. The mention and follow-up of preventive and corrective measures implemented based on the results of investigations related to not adhering to the guidelines, operation and accounting registration policies by either the Group or its corporations.
c. Evaluation of the corporation's performance in providing the external audit service as well as the external auditor in charge of it.
d. The description and assessment of any additional or complementary services provided by the corporation conducting the external audit, as well as those provided by independent experts.
e. The main results of revisions to the financial statements of the Group and of its corporations.
f. The description and effects of the modifications to accounting policies approved during the period covered in the report.
g. The measures taken because of observations considered significant, by shareholders, Board Members, relevant officers, employees or any third party, regarding accounting, internal controls and topics related to internal or external audits, or, arising from accusations of management irregularities.
h. Follow-up on the resolutions adopted by the Shareholder' Meetings and the Board of Directors.

To prepare the reports referred to by this legal precept, as well as that of the opinions pointed out in Article 42 of the LMV, the CAPS should listen to the relevant officers; in the event that there is a difference of opinion, such differences will be reported in those mentioned reports and opinions.

OTHER AUDIT COMMITTEES

Audit Committee for Banco Mercantil del Norte (Banorte)

Objective: to support the Board of Directors of Banco Mercantil del Norte in the definition and upgrade of the Internal Control System's (SIC) objectives and the guidelines for their implementation; as well as in their verification and evaluation. The Audit Committee will follow-up on activities of Internal and External Audit, as well as of the Institution's Internal Controllership, keeping the Board of Directors informed of the performance of the afore-mentioned activities.

The Committee will also supervise that financial information and accounting are prepared in accordance with the guidelines and dispositions that the Institutions are subject to, as well as applicable accounting principles.

Integration and sessions: The Audit Committee is comprised of at least three and not more than five members of the Board of Directors, of which at least one should be Independent, and named by the Board of Directors. Members will be selected for their capacity and professional prestige and at least one of the members must be someone who, for their knowledge and development, has ample experience in finance and/or audit and internal control.

The Audit Committee must be presided over by an independent board member. In the event of the President's absence in any session, members should appoint the person who should preside over that session from among the independent members.

Sessions of the Audit Committee are valid with the participation of a majority of their members, only if the President or his Alternates intervene. Resolutions will be approved with a majority vote of the members present, with the President holding the deciding vote in the event of a tie. The person responsible for the function of Internal Audit and the CEO of the Institution may submit to the Committee for its consideration matters to be included in the agenda.

MEMBERS		
Francisco Alcalá de León	Proprietary Independent Member of the Board	President
Herminio Blanco Mendoza	Proprietary Independent Member of the Board	Member
Manuel Aznar Nicolín	Proprietary Independent Member of the Board	Member
Patricia Armendáriz Guerra	Proprietary Independent Member of the Board	Member
Héctor Reyes Retana	Proprietary Independent Member of the Board	Member
Isaías Velázquez González	Secretary with no vote	

The Audit Committee should hold at least a quarterly session, duly recording approved resolutions and the minutes of each session which must be signed by each of the participating members, in the understanding that these sessions may be held electronically, through videoconference or telephone.

In no case members of the Audit Committee can be officers or employees of the same Institution.

Participating as permanent guests, with the right to a voice but without a vote, are the CEO of the Financial

Group, the Managing Director of Corporate Affairs and those responsible for the functions of Legal Affairs, Risks, Administration, Internal Controllership and Internal Audit. The President of the Committee can also summon any other person if he considers it appropriate due to the nature of the topic to be discussed, or to carry out his deliberations.

The Committee should have a secretary who is responsible for the minutes of the respective sessions, and who can be a member of the Committee or not.

If necessary, members of the Audit Committee should receive appropriate training and periodic information in areas related to:

- Finance.
- Processes for releasing financial information.
- New accounting and financial information preparation standards.
- Environment and evolution of the financial sector.
- Key controls in systems, processes and information.
- Concepts of risk.

Authority:

The Audit Committee has the authority to:

I. Propose to the Board of Directors for approval:

1. The Internal Control System (SCI) that the Institution needs to function properly, as well as upgrades. Purposes of the SCI are:
    a. Ensure that operation mechanisms are in accordance with strategies and objectives of the Institution that allow the prediction, identification, management, follow-up and evaluation of the risks that can arise, in order to minimize the possible losses that can be incurred.
    b. To define the functions and responsibilities of the corporate bodies.
    c. To have financial, economic, accounting, legal and managerial information that is complete, correct, precise, integral, reliable and opportune.
    d. To permanently cooperate in adherence to applicable norms.
2. The appointment of the Institution's Internal Auditor.
3. The appointment of the External Auditor, and additional services resulting from the audited financial statements that, in their case, they will provide.
4. The Institution's Code of Conduct, prepared by the General Management.
5. Changes, if the case, to accounting policies relating to the registration, rating of items of the financial statements, and the presentation and revelation of information of the Institution, so that it is complete, correct, precise, reliable and timely, prepared by the General Management in accordance with the applicable norms, or by its own Committee considering the opinion of the General Management.
6. The Statute and norms that will govern the functions of the Audit Committee, to be sent later on to the Commission (CNBV).
7. All matters that in accordance with dispositions, should be authorized by the Board of Directors, will be presented directly by the Committee.

To directly approve:

1. The manuals considered relevant for the operation of the Institution, prepared by the CEO.
2. The Statute of Internal Audit's function.
3. With the prior opinion of the CEO, the annual work program of Internal Audit.
4. The applicable methodology and policies to review the quality of internal control of main operations, called Models of Risk Evaluation (MER).
5. The direct recruiting of independent specialists, within their areas of responsibility, subject to the corporate policies of the Institution.

The Audit Committee can also meet with the Board of Directors, high officials of the Financial Group, the Internal Auditor, External Auditor, Authorities and Investors, as well as request information directly or indirectly from those responsible for any area of the organization and summon them to their sessions.

To convene extraordinary sessions, when considered necessary.

To know and evaluate jointly with the General Management, the corrective and preventative measures related to the flaws or deviations in the Internal Control System (SCI).

Responsibilities:

Financial Statements:

1. Propose for approval by the Board of Directors, the accounting policies related to the registration, rating of items in the financial statements and presentation and revelation of information of the Institution, so that it is complete, correct, precise, reliable, timely and serves in decision making. In any event, the Committee will also be able to propose changes that it considers necessary to these policies, considering the opinion of the General Management.
2. Assist the Board of Directors in the revision of the annual financial information and intermediate in the release process, relying on the Internal and External Auditors' work.
3. To review with Management and the Internal and External Auditors, the opinion of the annual financial statements, before their presentation to regulatory authorities.
4. To supervise that the financial and accounting information is formulated in accordance with the applicable guidelines and dispositions, as well as with applicable accounting principles.
5. To review significant accounting and reporting issues, including complex or unusual transactions, as well as professional opinions and recent regulations, and to understand their impact in the financial statements.

Internal Control:

1. Propose for approval by the Board of Directors:
    a. The objectives and guidelines for their implementation, prepared by the General Management, of the Internal Control System (SCI) that the Institution needs to function properly, as well as updates.
    b. The Institution's Code of Conduct, prepared by the General Management.
2. Approve operation manuals that are required for the Institution to function properly, prepared by the General Management, and to review and monitor with the support of Internal Audit that these adhere to the Internal Control System approved by the Board of Directors.
3. To review, in coordination with the General Management, at least once a year or when significant changes exist, the operating manuals and Code of Conduct of the Institution.
4. To permanently have a current up-to-date registration of the SCI objectives and guidelines for their implementation, as well as operating manuals, prepared by those responsible for the function of Internal Controllership.
5. To review with the support of Internal and External Audits, the application of the Internal Control System, evaluating efficiency and effectiveness.
6. To inform the Board of Directors, at least once a year, on the situation of the Internal Control System of the Institution. The report should at least contain the following:
    a. Flaws, deviations or aspects of the SCI that require improvement, taking this into account for the reports and the internal and external auditor's opinions respectively, as well as those of Internal Controllership.
    b. Mention and follow-up of the implementation of preventive and corrective measures resulting from observations made by CNBV and the results of the internal and external audits, as well as the SCI evaluation carried out by the Committee.
    c. Evaluation of the performance of Internal Controllership and Internal Audit functions.
    d. Evaluation of the external auditor's performance, as well as of the quality of the audit and the reports it elaborates, in fulfillment of the applicable general dispositions, including observations made by the CNBV.
    e. Significant aspects of the SCI that could affect the performance of the Institution's activities.
    f. Results of the audit review, reports, opinions and the external auditor's official statements.

Internal Audit:

1. To propose, for ratification by the Board of Directors, the appointment of the individual responsible for Internal Audit.
2. Monitor at all times, the independence of Internal Audit regarding the other units of the Financial Group; and to inform the Board of Directors in the event of any lack of independence.
3. Approve:
    a. The Statute of Internal Audit's functions.
    b. Internal Audit's annual work program, with the General Director's previous opinion.
    c. The recruitment of services for the external evaluation of the quality of Internal Audit functions.
4. To review, at least once a year or when required by the CNBV, that the Internal Audit program performs in accordance with the appropriate standards in quality in accounting and internal control matters, and that the activities of Internal Audit are carried out with effectively.
5. To ensure receipt from the Internal Auditor, of a quarterly written report on management's result; notwithstanding that the Internal Auditor shall immediately report the detection of any flaw or deviation deemed significant or relevant.
6. To ensure that Internal Audit follows-up on the relevant detected flaws or deviations to oversee that they are appropriately corrected and that the report which contains this information is at all times available to the Board of Directors and competent financial authorities.
7. To know and evaluate the results of the internal and external evaluations of quality of Internal Audit functions, and in their case to follow-up on the implementation of recommendations made.
8. To review and evaluate, at least once a year, the organizational structure, capabilities and the adequacy of resources assigned to the area of Internal Audit for the performance of its functions, and approve the actions required to ensure greater effectiveness in the fulfillment of its goals and objectives.
9. To coordinate the Internal Auditor's activities with those of the External Auditor.
10. To meet regularly with the Internal Auditor on any matter that the Committee deems necessary.

External Audit:

1. Propose for approval by the Board of Directors the appointment of the External Auditor, the scope of his functions and terms of employment, according to established policies and applicable external norms, as well as provide any additional services to audit the financial statements if required.
2. Confirm and review the independence of external auditors by obtaining statements from them, and for any service they provide.
3. Evaluate the performance of the External Auditor and the quality of his opinion and reports prepared in compliance with the applicable general provisions, including comments made by the CNBV, and inform the Board of Directors of the results.
4. Coordinate the activities of the External Auditor with the Internal Auditor.
5. Meet regularly with the External Auditor to discuss any matters that the Committee deems necessary.

Internal Controllership:

1. To follow-up on the activities of the internal auditor of the institution, keeping the Board of Directors informed on the performance of these activities.
2. Know and assess the report of management prepared by the internal auditor, at least every six months.

Compliance:

1. Monitor that policies, procedures and operations in the manuals of operation are consistent with the laws and other regulations and administrative provisions, as well as internal control guidelines approved by the Board of Directors.
2. To obtain the opinion of the internal auditor on proper compliance with laws and other applicable regulations and administrative provisions.
3. Review the results of inspections conducted by supervisory agencies.

Information and others:

1. Report annually to the Board of Directors on significant irregularities identified during the exercise of their functions, and propose appropriate, corrective actions to be implemented.
2. Review the different reports of Internal and External Audit to be presented to the Board of Directors. All matters which under the prudential dispositions of internal control should be authorized by the Board of Directors, must be presented directly by the Audit Committee.
3. Receive and review the written annual report of the Director General to the Audit Committee, about the performance of the activities related to internal control, as well as the functioning of the SCI as a whole.
4. Comment on transactions with related parties referred to by Article 14 Bis 3 of the Securities Exchange Act in Section IV paragraph d), and if necessary propose the hiring of independent specialists, to express their opinion with respect to these transactions.
5. Propose for approval by the Board of Directors, the Audit Committee Charter, revised as necessary and to confirm annually that all the responsibilities outlined in this Charter are carried out.
6. The Audit Committee, in the performance of its duties, shall establish the necessary procedures for its overall performance. In any case, members of the Committee shall take as a basis for their activities, the information prepared by the internal and external auditors as well as General Management.
7. Annually, the Audit Committee will self-assess their performance and that of each of its members, reporting the results to the Board of Directors.

Audit Committee for IXE Banco

Objective: to support the Board of Directors of IXE Banco in the definition and upgrade of the Internal Control System's (SIC) objectives and the guidelines for their implementation; as well as in their verification and evaluation. The Audit Committee will follow-up on activities of Internal and External Audit, as well as of the Institution's Internal Controllership, keeping the Board of Directors informed of the performance of the afore-mentioned activities.

The Committee will also supervise that financial information and accounting are prepared in accordance with the guidelines and dispositions that the Institutions are subject to, as well as applicable accounting principles.

Integration and sessions: The Audit Committee is comprised of at least three and not more than five members of the Board of Directors, of which at least one should be Independent, and named by the Board of Directors. Members will be selected for their capacity and professional prestige and at least one of the members must be someone who, for their knowledge and development, has ample experience in finance and/or audit and internal control.

The Audit Committee must be presided over by an independent board member. In the event of the President's absence in any session, members should appoint the person who should preside over that session from among the independent members.

Sessions of the Audit Committee are valid with the participation of a majority of their members, only if the President or his Alternates intervene. Resolutions will be approved with a majority vote of the members present, with the President holding the deciding vote in the event of a tie. The person responsible for the function of Internal Audit and the CEO of the Institution may submit to the Committee for its consideration matters to be included in the agenda.

MEMBERS		
Francisco Alcalá de León	Proprietary Independent Member of the Board	President
Herminio Blanco Mendoza	Proprietary Independent Member of the Board	Member
Manuel Aznar Nicolín	Proprietary Independent Member of the Board	Member
Patricia Armendáriz Guerra	Proprietary Independent Member of the Board	Member

MEMBERS		
Héctor Reyes Retana	Proprietary Independent Member of the Board	Member
Isaías Velázquez González	Secretary with no vote	

The Audit Committee should hold at least a quarterly session, duly recording approved resolutions and the minutes of each session which must be signed by each of the participating members, in the understanding that these sessions may be held electronically, through videoconference or telephone.

In no case members of the Audit Committee can be officers or employees of the same Institution.

Participating as permanent guests, with the right to a voice but without a vote, are the CEO of the Financial Group, the Managing Director of Corporate Affairs and those responsible for the functions of Legal Affairs, Risks, Administration, Internal Controllership and Internal Audit. The President of the Committee can also summon any other person if he considers it appropriate due to the nature of the topic to be discussed, or to carry out his deliberations.

The Committee should have a secretary who is responsible for the minutes of the respective sessions, and who can be a member of the Committee or not.

If necessary, members of the Audit Committee should receive appropriate training and periodic information in areas related to:

- Finance.
- Processes for releasing financial information.
- New accounting and financial information preparation standards.
- Environment and evolution of the financial sector.
- Key controls in systems, processes and information.
- Concepts of risk.

Authority:

The Audit Committee has the authority to:

I. Propose to the Board of Directors for approval:

1. The Internal Control System (SCI) that the Institution needs to function properly, as well as upgrades. Purposes of the SCI are:
    a. Ensure that operation mechanisms are in accordance with strategies and objectives of the Institution that allow the prediction, identification, management, follow-up and evaluation of the risks that can arise, in order to minimize the possible losses that can be incurred.
    b. To define the functions and responsibilities of the corporate bodies.
    c. To have financial, economic, accounting, legal and managerial information that is complete, correct, precise, integral, reliable and opportune.
    d. To permanently cooperate in adherence to applicable norms.
2. The appointment of the Institution's Internal Auditor.
3. The appointment of the External Auditor, and additional services resulting from the audited financial statements that, in their case, they will provide.
4. The Institution's Code of Conduct, prepared by the General Management.
5. Changes, if the case, to accounting policies relating to the registration, rating of items of the financial statements, and the presentation and revelation of information of the Institution, so that it is complete, correct, precise, reliable and timely, prepared by the General Management in accordance with the applicable norms, or by its own Committee considering the opinion of the General Management.
6. The Statute and norms that will govern the functions of the Audit Committee, to be sent later on to the Commission (CNBV).
7. All matters that in accordance with dispositions, should be authorized by the Board of Directors, will be presented directly by the Committee.

To directly approve:

1. The manuals considered relevant for the operation of the Institution, prepared by the CEO.
2. The Statute of Internal Audit's function.
3. With the prior opinion of the CEO, the annual work program of Internal Audit.
4. The applicable methodology and policies to review the quality of internal control of main operations, called Models of Risk Evaluation (MER).
5. The direct recruiting of independent specialists, within their areas of responsibility, subject to the corporate policies of the Institution.

The Audit Committee can also meet with the Board of Directors, high officials of the Financial Group, the Internal Auditor, External Auditor, Authorities and Investors, as well as request information directly or indirectly from those responsible for any area of the organization and summon them to their sessions.

To convene extraordinary sessions, when considered necessary.

To know and evaluate jointly with the General Management, the corrective and preventative measures related to the flaws or deviations in the Internal Control System (SCI).

Responsibilities:

Financial Statements:

1. Propose for approval by the Board of Directors, the accounting policies related to the registration, rating of items in the financial statements and presentation and revelation of information of the Institution, so that it is complete, correct, precise, reliable, timely and serves in decision making. In any event, the Committee will also be able to propose changes that it considers necessary to these policies, considering the opinion of the General Management.
2. Assist the Board of Directors in the revision of the annual financial information and intermediate in the release process, relying on the Internal and External Auditors' work.
3. To review with Management and the Internal and External Auditors, the opinion of the annual financial statements, before their presentation to regulatory authorities.
4. To supervise that the financial and accounting information is formulated in accordance with the applicable guidelines and dispositions, as well as with applicable accounting principles.
5. To review significant accounting and reporting issues, including complex or unusual transactions, as well as professional opinions and recent regulations, and to understand their impact in the financial statements.

Internal Control:

1. Propose for approval by the Board of Directors:
    c. The objectives and guidelines for their implementation, prepared by the General Management, of the Internal Control System (SCI) that the Institution needs to function properly, as well as updates.
    d. The Institution's Code of Conduct, prepared by the General Management.
2. Approve operation manuals that are required for the Institution to function properly, prepared by the General Management, and to review and monitor with the support of Internal Audit that these adhere to the Internal Control System approved by the Board of Directors.
3. To review, in coordination with the General Management, at least once a year or when significant changes exist, the operating manuals and Code of Conduct of the Institution.
4. To permanently have a current up-to-date registration of the SCI objectives and guidelines for their implementation, as well as operating manuals, prepared by those responsible for the function of Internal Controllership.
5. To review with the support of Internal and External Audits, the application of the Internal Control System, evaluating efficiency and effectiveness.
6. To inform the Board of Directors, at least once a year, on the situation of the Internal Control System of the Institution. The report should at least contain the following:

a. Flaws, deviations or aspects of the SCI that require improvement, taking this into account for the reports and the internal and external auditor's opinions respectively, as well as those of Internal Controllership.
b. Mention and follow-up of the implementation of preventive and corrective measures resulting from observations made by CNBV and the results of the internal and external audits, as well as the SCI evaluation carried out by the Committee.
c. Evaluation of the performance of Internal Controllership and Internal Audit functions.
d. Evaluation of the external auditor's performance, as well as of the quality of the audit and the reports it elaborates, in fulfillment of the applicable general dispositions, including observations made by the CNBV.
e. Significant aspects of the SCI that could affect the performance of the Institution’s activities.
f. Results of the audit review, reports, opinions and the external auditor's official statements.

Internal Audit:

1. To propose, for ratification by the Board of Directors, the appointment of the individual responsible for Internal Audit.
2. Monitor at all times, the independence of Internal Audit regarding the other units of the Financial Group; and to inform the Board of Directors in the event of any lack of independence.
3. Approve:
    d. The Statute of Internal Audit’s functions.
    e. Internal Audit’s annual work program, with the General Director’s previous opinion.
    f. The recruitment of services for the external evaluation of the quality of Internal Audit functions.
4. To review, at least once a year or when required by the CNBV, that the Internal Audit program performs in accordance with the appropriate standards in quality in accounting and internal control matters, and that the activities of Internal Audit are carried out with effectively.
5. To ensure receipt from the Internal Auditor, of a quarterly written report on management’s result; notwithstanding that the Internal Auditor shall immediately report the detection of any flaw or deviation deemed significant or relevant.
6. To ensure that Internal Audit follows-up on the relevant detected flaws or deviations to oversee that they are appropriately corrected and that the report which contains this information is at all times available to the Board of Directors and competent financial authorities.
7. To know and evaluate the results of the internal and external evaluations of quality of Internal Audit functions, and in their case to follow-up on the implementation of recommendations made.
8. To review and evaluate, at least once a year, the organizational structure, capabilities and the adequacy of resources assigned to the area of Internal Audit for the performance of its functions, and approve the actions required to ensure greater effectiveness in the fulfillment of its goals and objectives.
9. To coordinate the Internal Auditor's activities with those of the External Auditor.
10. To meet regularly with the Internal Auditor on any matter that the Committee deems necessary.

External Audit:

1. Propose for approval by the Board of Directors the appointment of the External Auditor, the scope of his functions and terms of employment, according to established policies and applicable external norms, as well as provide any additional services to audit the financial statements if required.
2. Confirm and review the independence of external auditors by obtaining statements from them, and for any service they provide.
3. Evaluate the performance of the External Auditor and the quality of his opinion and reports prepared in compliance with the applicable general provisions, including comments made by the CNBV, and inform the Board of Directors of the results.
4. Coordinate the activities of the External Auditor with the Internal Auditor.
5. Meet regularly with the External Auditor to discuss any matters that the Committee deems necessary.

Internal Controllership:

1. To follow-up on the activities of the internal auditor of the institution, keeping the Board of Directors

informed on the performance of these activities.
2. Know and assess the report of management prepared by the internal auditor, at least every six months.

Compliance:

1. Monitor that policies, procedures and operations in the manuals of operation are consistent with the laws and other regulations and administrative provisions, as well as internal control guidelines approved by the Board of Directors.
2. To obtain the opinion of the internal auditor on proper compliance with laws and other applicable regulations and administrative provisions.
3. Review the results of inspections conducted by supervisory agencies.

Information and others:

1. Report annually to the Board of Directors on significant irregularities identified during the exercise of their functions, and propose appropriate, corrective actions to be implemented.
2. Review the different reports of Internal and External Audit to be presented to the Board of Directors. All matters which under the prudential dispositions of internal control should be authorized by the Board of Directors, must be presented directly by the Audit Committee.
3. Receive and review the written annual report of the Director General to the Audit Committee, about the performance of the activities related to internal control, as well as the functioning of the SCI as a whole.
4. Comment on transactions with related parties referred to by Article 14 Bis 3 of the Securities Exchange Act in Section IV paragraph d), and if necessary propose the hiring of independent specialists, to express their opinion with respect to these transactions.
5. Propose for approval by the Board of Directors, the Audit Committee Charter, revised as necessary and to confirm annually that all the responsibilities outlined in this Charter are carried out.
6. The Audit Committee, in the performance of its duties, shall establish the necessary procedures for its overall performance. In any case, members of the Committee shall take as a basis for their activities, the information prepared by the internal and external auditors as well as General Management.
7. Annually, the Audit Committee will self-assess their performance and that of each of its members, reporting the results to the Board of Directors.

Audit Committee for Casa de Bolsa Banorte (Currently Ixe Casa de Bolsa)

Objective: the Audit Committee's primary objective is to support the Board of Directors in defining, updating, verifying and evaluating objectives, policies and guidelines of the Internal Control System (SCI); as well as the monitoring of processing and audit activities, both internal as well as external, at all times with a channel of communication between the Board of Directors and both internal and external Auditors.

It will also support the Board in monitoring the financial reporting processes and the verification of compliance with laws and other regulatory provisions, as well as strict adherence to Grupo Financiero Banorte's Code of Conduct.

Comprised of: The Audit Committee shall consist of at least three members of the Board of Directors, at least one must be independent, who will preside. Each and every one of the members shall be appointed and removed from office by the Board of Directors of the Brokerage House (Casa de Bolsa).

Members of the Committee shall be selected for their ability and professional prestige, which by their knowledge and development have extensive experience in the area of finance, audit and internal control.

Those who are invited with the right to voice but without vote, are the Managing Director of the Brokerage House (Casa de Bolsa), those responsible for the functions of internal audit, legal, management, risks, internal auditor as well as the External Auditor, Commissioner, Policy Controller and, in general, any person summoned by the Committee whose presence is considered appropriate given the nature of the issues discussed.

The Committee must have a Secretary, who will be responsible for recording the sessions and following- up on the resolutions made at such meetings; and who may be a member of the same Committee or a third party.

MEMBERS		
Manuel Aznar Nicolín	Alternate Independent Board Member	President
Alejandro Valenzuela Del Río	Proprietary Related Board Member	Member
Javier Márquez Diez-Canedo	Proprietary Related Board Member	Member
Gerardo Mejía Zacarías	Secretary with no vote	

Meetings: the Audit Committee shall hold meetings at least quarterly and may convene special meetings whenever deemed necessary, which may be held via electronic media, video conferencing or telephone.

The information on the material in question must be prepared and submitted in advance for all sessions of the Committee.

All meetings and resolutions of the Committee, without exception, must be duly recorded in detailed minutes signed each one of the participating members, as well as those invited to the session in question.

Sessions of the Committee shall be valid with the participation of the majority of its members, provided the President intervenes. Resolutions will be passed by a majority vote of the members present.

Authority:

The Audit Committee has the authority to conduct or authorize investigations into any issue or matter that is within the scope of its responsibilities and to investigate possible breaches of those with knowledge of operations, operational policies and guidelines, the Internal Control System, audit and accounting records.

The Committee can:

1. Require from relevant officers and other employees, reports concerning the preparation of financial information and any other information deemed necessary.
2. Receive comments from shareholders, directors, executive officers, employees or any third party in respect of any breach in operations, guidelines and operating policies, internal control, audit and accounting records.
3. Conduct a review of documentation, records and other evidence, to the degree and extent necessary to monitor possible violations described in the preceding point.
4. Request opinions from independent experts, when appropriate or when regulations require it.
5. Solicit regular meetings with senior officers, as well as the delivery of any information relating to internal control and internal audit of the Brokerage House.
6. Convene shareholders' meetings and request the inclusion of any resolutions it deems appropriate into the agenda of these meetings.

Responsibilities:

The Audit Committee has the responsibilities set forth below.

External Audit:

1. Propose for approval by the Board of Directors, the appointment of an external auditor, the scope of activities and conditions of their employment in compliance with regulations and internal policies established for that purpose, as well as additional services to the audit of financial statements, if any are required.
2. Monitor and confirm the independence of the External Auditor, obtain the corresponding statements as well as additional services.
3. Evaluate the external auditor's performance and assess the quality of the audit, opinions or reports prepared and signed, verifying that they are in adherence to regulations.
4. Coordinate the activities of the external Auditor with those of the Internal Auditor.
5. Meet regularly as deemed necessary and separately with the external auditors to discuss any matter it

considers important and that should be dealt with privately.

Internal Control:

1. Prepare for approval by the Board of Directors, upon recommendation of the Director General, objectives, guidelines and policies on internal control for the proper functioning of the Brokerage House and their update.
2. With the support of Internal Audit, approve the manual for internal control and review annually or when there are significant changes in the operation of the Brokerage House.
3. With the support of Internal Audit and Control, monitor that the policies, procedures and operations in the afore-mentioned manuals are consistent with regulations, as well as with the objectives, guidelines and policies approved by the Board of Directors.
4. Verify the effectiveness of the Brokerage House's Internal Control System, considering the security and control on information technology issues.
5. Evaluate on an annual basis, the condition of the Internal Control System and inform the Board of Directors of the results.
6. Develop, with the prior opinion of the CEO, for approval by the Board, Conduct and Ethics Codes.
7. Propose for approval by the Board of Directors, guidelines and policies regarding the reception and assignment system.
8. Develop policies that establish guidelines and procedures for the management, conservation and where necessary, destruction of books, records, documents and other information related to accounts that have been or will be microfilmed and recorded, in strict adherence to regulations.

Financial Statements:

1. Develop accounting policies relating to the registration, valuation of financial statement items, presentation and disclosure of information to the effect that it is accurate, complete, reliable, and timely that contributes to decision-making. The Committee may propose the changes deemed necessary to these policies, taking into consideration the opinion of the Managing Director of the Brokerage House.
2. Review significant accounting and reporting issues, including complex or unusual transactions, high risk areas as well as pronouncements arising from accounting regulations, understanding its impact on the financial statements.
3. Support the Board of Directors in reviewing the annual and interim financial information and disclosure process, relying on the work of the Internal and External Auditor.
4. Review the audit results with the Director General and the External Auditor, including any difficulties encountered.
5. Review the financial statements and opinion of the Brokerage House with the External Auditor, Internal Auditor, the CEO, the Internal Comptroller and whomever deemed necessary and verify that they are complete and consistent with the information known by Committee members; that the financial and accounting information is formulated in accordance with applicable guidelines and provisions and reflect the appropriate accounting principles and based on the foregoing, issue a recommendation to the Board of Directors, for approval.

Internal Audit:

1. Propose for approval by the Board, the appointment of the person to be responsible of the Internal Audit function.
2. Monitor the independence of the internal audit department.
3. Review and approve:
   a. The status of the Internal Audit function.
   b. Upon the CEO's recommendation, the annual Internal Audit work program.
   c. The personnel and organizational structure of Internal Audit's activities.
   d. The hiring of external quality assessment services of Internal Audit's functions.
4. Verify on an annual basis, or when required by the CNBV, that the internal audit program performs in accordance with appropriate quality standards in accounting and internal controls and the activities of this area are carried out effectively.
5. Meet regularly as deemed appropriate and separately, with the person in charge of internal audit

operations for any matter requiring their judgment and consideration, that should be dealt with privately.

6. Establish the frequency of internal audit written reports on the results of management, without prejudice to the Internal Auditor report, immediately upon the detection of any flaw or deviation that is deemed significant or relevant.
7. Ensure that Internal Audit follows-up on detected significant flaws or deviations, to ensure they are promptly corrected and the report containing this information is available to the Board of Directors and competent financial authorities at all times.
8. Know and review the results of internal and external evaluations of quality made on Internal Audit functions and, where appropriate, follow-up on the implementation of recommendations.

Internal Control:

1. Follow-up on activities for the Internal Comptroller of the Brokerage House, keeping the Board of Directors informed on the performance of these activities.
2. Know and assess the quarterly report prepared and submitted by the Internal Comptroller.

Information and Others:

Report to the Board of Directors any important irregularities detected and if the case, the corrective actions taken or proposed.

1. Monitor fulfillment of the resolutions approved by the Shareholders and Board of Directors, by the Managing Director of the Brokerage House.
2. Oversee the establishment of mechanisms and controls to verify that the acts and operations of the Brokerage House adhere to Regulation.
3. Comment on the content of the internal control report issued by the Managing Director of the Brokerage House.
4. Monitor that the policies, procedures and operations contained in the operations manuals are consistent with the laws and other applicable regulations and administrative provisions, as well as with the guidelines of internal control approved by the Board of Directors.
5. Obtain the opinion of Internal Control on proper compliance with laws and other applicable regulations and administrative provisions.
6. Review the results of the inspections carried out by supervisory agencies.
7. Evaluate the performance of functions in the areas of Internal Audit, External Audit, as well as Internal Control.
8. Evaluate and verify annually that the Charter is sufficient and adheres to the needs and requirements of the Brokerage House, the Board of Directors, as well as regulations and internal policies; and propose, if necessary, changes requested by the Board of Directors, or by the same Committee.
9. Evaluate and verify annually that the responsibilities described in the Charter are fulfilled.
10. Periodically evaluate the performance of the Committee and each of its members.

REGIONAL BOARDS

The General Ordinary Shareholders' Meeting held on July 21st, 2011, approved to constitute Regional Boards of the Company, primarily in the Northwestern region and subsequently in the cities of Monterrey, Nuevo Leon, Guadalajara, Jalisco, Merida, Yucatan, and Mexico City, and they will be named as determined by the Chairman of the Board, in order to serve as consultative and advisory bodies to the Chairman of Board of Directors.

Each Regional Board will only function as a consultative and advisory body to the Board of Directors, therefore its functions will be to give opinions and advice on trends and opportunities in their region, as well as those issues that the Board of Directors submit to their consideration. In addition, it will function as an organism to reach the business community in each region.

Each Regional Board will meet semi-annually or when convened by the Chairman of the Board of Directors. In all sessions, an executive from GFNorte must attend, who will be assigned by the Chairman of the Board of

Directors.

Each Regional Board will be constituted by 20 members, who must have the technical quality, honesty and satisfactory credit history, as well as extensive knowledge and experience in the financial, legal or administrative fields, develop their activities in the respective regions and are not be members of the Board of Directors. Members of each Regional Board shall be elected by the Chairman of the Board of Directors.

The members will remain in office for 1 year, with the possibility of being reelected for any number of times and will receive the compensation that the Shareholders' Assembly or the Board of Directors' establishes.

The following adjustments to modify the Regional Boards' functions were approved by the GFNorte Ordinary General Shareholders' Meeting held on February 17, 2012:

a) Each Regional Board will be constituted by the number of members determined by the Chairman of the Board of Directors.
b) Members of the Regional Boards will be elected and, if the case, removed by the Chairman of the Board of Directors and will remain in office for 2 years, with the possibility of being reelected for any number of times.
c) The Regional Boards will meet 3 times a year or when convened by the Chairman of the Board of Directors.

Aside from this changes, the rest of the faculties, duties and other operational rules of the Regional Boards, which were constituted by the Annual Ordinary General Shareholders' Meeting held on July 21st, 2011, will continue to be valid for all the corresponding effects.

HUMAN RESOURCES COMMITEE

Responsibility: To look after the shareholders' interests in regard to remuneration and its regulatory framework.

Scope: CEO and Managing Directors **, the Wholesale Banking Division up to the level of Executive Director (Treasury, Money Market, Capital Markets, Derivatives, Mutual Funds, Asset Management and Private Banking) **.

**(Job Positions to be proposed in a first stage, taking into account that they can make decisions or intervene in proceedings that involve any risks for the institution).

Integration:

MEMBERS		
Herminio Blanco Mendoza	Proprietary Independent Member	President
Everardo Elizondo Almaguer	Proprietary Independent Member	Member
Alejandro Garay Espinosa	MD of Corporate Services	Member
Javier Márquez Diez-Canedo	MD of Risk Management	Member
Rafael Arana de la Garza	CFO	Member
Benjamín Vidargas Rojas	MD of Audit	Member With voice/ No vote
Luis Gerardo Valdés Manzano	DMD of Human Resources	Member
Jorge Eduardo Vega Camargo	DMD of Comptrolership	Member
Gerardo Zamora Nañez *****	DMD of Leasing, Factoring and Warehouse	With voice and vote
Martha Elena Navarrete Villarreal	DE of Internal Audit	Secretary With voice/ No vote

*Participates and votes in the Human Resources' Committee on issues related to Arrendadora y Factor Banorte, S.A. de C.V., SOFOM, E.R., Grupo Financiero Banorte.

ADVISORY BOARD

I. Objective

The General Ordinary Shareholders' Meeting held on July 21st, 2011, approved to constitute an Advisory Board to be denominated as so, or as determined by the Chairman of the Board, and it will serve as a consultative and advisory body to the Chairman of the Board.

II. Faculties:

The Advisory Board will only function as a consultative and advisory body to the Board of Directors through the Chairman of the Board. Its functions will be:

- To give opinions and advice to the Board on issues related to the development of the Company,
- New business opportunities or issues that the Board of Directors' Chairman submits to their consideration.

These opinions will be delivered to the Board of Directors' Chairman, who may refer them to the Board of Directors.

III. Meetings:

The Advisory Board meets when convened by its Chairman.

IV. Members:

The Advisory Board should be constituted by 10 members, who must have the technical quality, honesty and satisfactory credit history, as well as extensive knowledge and experience in the financial, legal or administrative fields, and who may, may not be or have been members of the Board of Directors. The members of the Advisory Board should be elected by the Shareholders' Assembly or by the Board of Directors, as a proposal of its Chairman and Chairman Emeritus.

Members will remain in office for a period of 3 years, with the possibility of being reelected in various occasions (although the Shareholders' Assembly or the Board of Directors may remove any of these members) and will receive the compensation that the Shareholders' Assembly or the Board of Directors establishes.

MEMBERS	POSITION
Guillermo Ortiz Martínez	Chairman
Francisco Alcalá de León	
Enrique Castillo Sánchez Mejorada	
Javier Molinar Horcasitas	
Rodolfo F. Barrera Villareal	
Manuel Aznar Nicolín	
José G. Garza Montemayor	
Eugenio Clariond Reyes-Retana	
Jacobo Zaidenweber Cvilich	
Isaac Hamui Mussali	

DESIGNATIONS COMMITEE

The General Ordinary Shareholders' Meeting held on October 17th, 2011, approved to constitute this Committee, adding for this reason Article Thirty-seven Bis-1 in GFNorte's Corporate By-Laws

Objetives:

i. Propose for approval by the Shareholders' Assembly the appointment of the members of the Company's Board of Directors, as well as the Board members of any of the Financial Groups' subsidiaries.

ii. Elaborate an opinion regarding the persons who will hold the position of CEO at the Company's and any of the Financial Group's subsidiaries, without prejudice to the faculties assigned to the Audit and Corporate Practices' Committee in terms of Article Thirty-three section d) of these bylaws.

iii. Propose for approval by the Shareholders' Assembly or by the Board of Directors, the compensation for the members of the Company's Board of Directors and its Committees, as well as the Boards of the Financial Groups' Subsidiaries.

iv. Propose for approval by the Shareholders' Assembly or by the Board of Directors, the removal of members of the Company's Board of Directors, as well as from the Board of any of the Financial Groups' Subsidiaries".

Integration:
The Designation Committee will be appointed by the Shareholders' Assembly or by the Board of Directors, it will be constituted by 3 members, who are members of the Board of Directors and shall remain in office for 1 year with possibility of being reelected.

Meetings:

The Designation Committee will hold sessions at least once a year or when convened by its Chairman.

The statutory reform is conditional upon obtaining approval from SHCP, with the understanding that the delegates appointed by the Assembly may carry out the adjustments or amendments to that resolution specified by the SHCP.

Support Committees to GFNorte's General Management

There are several committees which support GFNorte's General Management's work, which propose and resolve within their abilities, diverse aspects related with the progress of the business. The Managing Directors of areas that report directly to the CEO sit on these Committees, as well as other officials responsible for specific areas. These Committees are detailed as follows:

OPERATIONS COMMITTEE

Mission: to be the highest ranking committee in the institution to make strategic decisions related to the critical variables of GFNorte's business.

Scope: the scope of the Operations Committee extends to all of GFNorte's companies.
Functions:

1. To establish strategies for new financial products and services.
2. Based on the Viability Analysis' recommendation: to analyze and evaluate the business concept of strategic projects and if warranted, request their evaluation by the Evaluation Group.
3. Make any other strategic decision related with critical variables of the business.

Faculties:

1. Approve the viability of initiatives for new products and services.

Frequency of sessions: sessions should be held every two weeks.

TECHNOLOGY AND INVESTMENT COMMITTEE

Mission: To be GFNorte's highest organ in charge of approving and prioritizing the portfolios of investment projects, as well as budgetary assignments.

Scope: the Technology Committee's scope includes all the companies that form GFNorte.

Functions:

1. Follow up on the projects of the annual investment program authorized by the Board of Directors.
2. Manage the investment program authorized by the Board of Directors.
3. Analyze, and if necessary authorize the initiatives and projects that have been approved by the Operations Committee, and that have been previously evaluated by the Evaluation Group.
4. Modify, suspend or cancel previously approved projects that present critical deviations, considering the recommendations by the Evaluation Group.
5. Follow up on the results and general benefits of the investment projects' portfolio.
6. Follow up on the implementation of the authorized investment budget.

Faculties:

1. Approve, modify and cancel projects.
2. Assign the budget.
3. Prioritize the portfolio.

Frequency of the sessions: must hold sessions on a bimonthly basis, every third Thursday of the month.

Recovery and Continuity Committee

Mission: to be the authorized Committe of GFNorte that, in the event of an interruption in services, evaluates the impact of the damage(s), identifies the affected business areas, estimates the recovery time and in the event of a declared disaster, coordinates the renewal of operations, informs the Committee of Investment and Technology and the CEO.

Scope: the area of the Recovery and Continuity Committee is comprised of the Banking, Brokerage and Leasing and Factoring sectors.

Functions:

1. To ensure that the BCP Business Continuity Plans, (Processes, Procedures, Communication, etc.) including the DRP Recovery Plan for Disasters are documented, current and proven to respond to a contingency in an organized manner.
2. To ensure that the different components (Hardware, Software, Communications, etc.) of the Alternate Computer Center are installed and available for a contingency.
3. To ensure the availability and proper functioning of the facilities located in the Alternate Computer Center.
4. Monitor the execution of Recovery Plans and Business Continuity (BCP) in the event of a disaster (DRP).
5. Request the necessary resources from the Technology and Investment Committee to coordinate and execute test runs of the Recovery and Continuity Plans at least once a year.
6. Coordinate the actions of the Immediate Response Team (Crisis Center) to evaluate the impact, identify the affected business areas, estimate recovery time and prioritize the actions to be executed in the event of a lingering interruption of services.
7. In the event of a declared disaster, to coordinate the recovery and/or continuity at an Institutional level until ensuring the total recovery of all the necessary components for operation (software, hardware, communications, human resources and materials, clients, suppliers, etc).

Frequency of sessions: the Committee of Recovery and Continuity will hold sessions on the first Friday of February, May, August and November and should the need arise, when summoned by the President or Secretary of the Committee.

SECURITY COMMITTEE

Objective: propose improvements and seek solutions to physical security problems that affect the institutional assets or pose risks of embezzlement by employees or third parties, through changes to processes and procedures, as well as sanction whoever is responsible for unhealthy practices in their financial function and services at the Financial Group.

Scope: The Security Committee is an organism with direct dependence on the General Management of GFNorte. Territorial Security sub-committees depend on this Security Committee.

The objectives, functions, integration and frequency of the Security Committee's sessions and of the Territorial Security Sub-committees are generally applied to all the companies that make up Grupo Financiero Banorte.

Functions:

1. To analyze the origin of the damage or risk of irregular events of third parties or employees.
2. To implement preventive measures to avoid risk, through changes in the operations or management and send messages to alert employees and officers of the network.
3. To take corrective measures and actions in the face of irregular or illicit behavior by employees, officers (labor sanctions) and by third parties (legal action).
4. Evaluate and follow through on resolutions made in of Security's Territorial Sub Committees.

Frequency of the sessions: meetings will be held every third Thursday of each month. The time between sessions may be extended if there are no topics that need to be discussed, this will be left to the criteria of the President or the Secretary Coordinator of the Committee.

CENTRAL CREDIT COMMITTEE

This Committee has the functions of resolving the credit applications presented by the clientele through the banking areas, based on the experience and knowledge of GFNorte's officers regarding the situation of the different sectors, regional economies and specific clients, with a focus on business profitability and measurement of institutional risk.

The Central Credit Committee is supported by various committees with different geographical coverage and amounts that can be granted using special faculties. Standardization also exists so that under a scheme of individual or joint faculties, GFNorte officers can authorize transactions to special clients occasionally.

The Central Credit Committee convenes every fifteen days. The Credit Committees supporting it convenes with the same frequency, or if needed, on a weekly basis or more frequently as required.

CENTRAL CREDIT RECOVERY COMMITTEE

Objectives: The integration of these Committees seeks to take advantage of members' experience and knowledge of the national and regional economic situations, as well as the different situations being attended to by the Area of Asset Recovery, so that the resolution of proposals presented to them are carried out in an objective and appropriate manner.

Functions:

Resolve clients' recovery proposals that are under management of the Asset Recovery Business, as well as borrowers from traditional banking that propose cash settlements, restructurings and payments in kind or conversions of debt to equity, that could imply or not debt cancellations or removals.

Additionally, the Recovery Committees are in charge of resolving foreclosed asset proposals, based on the following:

1. Analyze the selling values of the foreclosed assets, based on financial reasoning in first instance, considering the criteria of present value and funding costs.
2. Propose to the Risk Policies Committee, adjustments to the sale policies of foreclosed assets.
3. Analyze, and if the case, authorize all proposals for the sale of foreclosed real estate assets.
4. Analyze the quarterly operations' report of the Director of Management and Sale of Assets.
5. Monitor advances and compliance in the sale of foreclosed assets, as well as the adequate coordination among the areas involved.
6. Decide the hiring of brokers and/or specialized bureaus for the sale of real estate; in case of urgency, this decision can be taken by 3 of its members, having to inform it (and record in the minutes) of the Committee's next session.
7. Attend any matter related to the sale of foreclosed assets not contemplated in this policy.

ASSETS AND LIABILITIES COMMITTEE

Functions:

1. Maintain and increase the productivity of the Bank through management of the financial margin.
2. Review, validate and if necessary homologate the tariff and price policies of various products and services offered by the bank.
3. Analyze, evaluate and determine the parameters and/or conditions to launch new programs, products and services and/or modifications to existing ones, required by the Operations Committee and/or the Evaluation Group.
4. Analyze the evolution of financial margins of the bank and other subsidiaries.
5. Monitor the evolution of the bank's balance sheet.
6. Monitor the impact of interest rate variations on the balance sheet.
7. Establish productivity parameters for the business areas.
8. Monitor the adequate utilization of the Group's capital.
9. Review that the intermediation activities (pesos and dollars) of the bank are according to the global strategies.
10. Evaluate and authorize transactions with assets (interest bearing and non-interest bearing) among entities controlled or managed by the Group where there are no minority interest associates, in all modes (purchase/sale, assignment, etc.).
    - Operations may be considered when:
        - They generate an improvement in the finances of GFNorte's entities.
        - They prevent or minimize a deterioration in the financial structure of GFNorte.
        - They prevent or minimize commercial or property damage to clients for reasons attributable to GFNorte and/or its officials.
    - Must have the following characteristics to proceed with their operation:
        - They must comply with the official provisions and the internal regulations.
        - They should be at market when an external reference exists (price or pit evaluator etc.), in case that is not defined, the market value should be consulted with the external auditor for asset valuation, following at all times the accounting criteria that apply in the situation, with the prior recommendation of the Accounting area.
        - They must have the approval of the Deputy Managing Director of Risk Management to ensure they do not exceed GFNorte's risk limits.
        - They must have the authorization or if the case, No Objection from the corresponding Credit Committee.
        - They must have the "No Objection" of the CPR in case there is a negative wealth effect on GFNorte, which must be previously validated by the áreas of Comptroller Norms and

Accounting.

- If the case, the operation must involve lines of risk granted to entities of the group - this should be reported to the executive or area responsible for serving subsidiaries of GFNorte that establish the corresponding changes in the coverage of credit with respect to risks authorized in each subsidiary.

Frequency of sessions: Meetings are held at least once a month; the Secretary is responsible to coordinate the agenda and convene sessions.

PROPRIETARY INVESTMENT PORTFOLIO COMMITTEE

Functions:

1. Analysis of the national and international economic environment.
2. Approval of general investment strategies (maximum amounts, stop loss levels, profit taking, maximum terms, types of instrument, etc.) and trading financial instruments.
3. To follow-up on the Balance Sheet and to define strategies for risk in proprietary investment portfolios proposed by the business areas thatmanage those portfolios.
4. Review and evaluation of the portfolios.
5. Supervise compliance with limits authorized by the Board of Directors or by the corresponding Risk Policy Committee.
6. Define investment strategies in abnormal situations of risk.
7. Review parameters and define remedial liquidation measures if the case applies (without a secondary market, low securitization, etc).

Frequency of Sessions: meetings shall be held every two weeks; the Secretary is responsible to coordinate the agenda and convene sessions. In the event that the financial situation requires it, any member can summon extraordinary meetings.

COMMUNICATIONS AND CONTROL COMMITTEE

Functions:

1. Submit for the approval of the Audit Committee of the entity involved, the policies for client identification and knowledge, as well as those that it must develop for identification of users, including the criteria, measures and procedures that must be developed for proper compliance, as well as any modification in compliance with that established in the General Regulations referred to in Articles 115 of the LIC.
2. Act as the instance to learn the results obtained by the Internal Audit area of the entity with respect to judging the efficiency of the policies, criteria, measures and procedures mentioned in the previous fraction, in order to adopt the necessary actions to correct the failures, deficiencies and omissions;
3. Learn about account openings and contracts whose characteristics could generate high risk to Banco Mercantil del Norte, S. A., or any other subsidiary, according to the reports presented to the Compliance Officer and, if the case, formulate recommendations for proceeding;
4. Establish and promote the criteria for Client classification, according to their degree of risk;
5. To ensure that the Institution's systems contain, the officially acknowledged lists issued by Mexican authorities, international organisms, intergovernmental groups or authorities of other countries, of people linked to terrorism or its financing, or with other illegal activities; as well as the lists of countries or jurisdictions that apply fiscally preferable régimes or don't have measures to prevent, detect and combat operations with resources of illicit origin or financing of terrorism, or when the application of this measures is faulty, and the lists of Politically Exposed people, these last two provided by the SHCP.
6. To rule on operations that should be reported to the SHCP, through theCNBV, considered as unusual or worrisome, in the terms established in the General Dispositions referred to in Article 115 of the LIC;
7. Approve the training programs for the personnel of Banco Mercantil del Norte, S. A. or any other subsidiary, personnel, related to the prevention, detection and reporting of conducts directed to favor, help or cooperate with any terrorist financing activities, or that could be under the supposition of being

transactions from illegal origin;

8. Inform the Institution's competent area about the conducts carried out by directors, officers, employees or representatives that infringe the generally applicable dispositions referred in Article 115 of the Law of Credit Institutions, or in the cases that such directors, officers, employees or representatives contravene the established policies, criteria, measures and procedures for the correct compliance with the generally applicable dispositions referred in Article 115 of the Law of Credit Institutions, with the objective of imposing the corresponding disciplinary measures, and
9. Resolve other matters submitted to its consideration, related to the application of these dispositions.

Frequency of the sessions: sessions will be held not more than one calendar month nor less than 10 days apart.

FIDUCARY BUSINESS COMMITTEE

Functions:

1. Accept high risk fiduciary business representing assets up to an amount of 48 million UDIS or its equivalent in local currency.
2. Determine the matters that according to their risk do not require attention by this Committee.
3. Make decisions in matters with a contingency that does not exceed Ps 20 million.
4. If a case exceeds these limits, the signature of Grupo Financiero Banorte's CEO is required.
5. Condone up to 100% of delinquent fiduciary business fees and/or penalty interest and/or conventional penalties.
6. Authorize the formalization of new businesses that, according to the authorization policies of this Committee, are classified according to the following: medium risk, high risk, restricted risk; in case of discrepancy or doubt about the classification of risk, the highest risk must be used as the reference.

INVESTMENT PROJECTS COMMITTEE

Scope: the objectives, functions, members and frequency of the investment projects committee's sessions are generally applicable to GFNorte and subsidiaries.

Objectives: analyze the viability of every proposal related to: 1) the acquisition of credit portfolios, 2) acquisition of real estate portfolios, and 3) investment in housing, commercial real estate, infrastructure and tourism projects, which must be authorized in adherence to GFNorte's strategies.

Functions:

1. Analyze and approve different business transactions presented to this Committee, such as:
    a. Acquisition of loan portfolios.
    b. Acquisition of real estate portfolios.
    c. Investment in housing, real estate, infrastructure and tourism projects. (see norms at the end of this section)
    d. Extensions and changes to authorizations.
2. Monitor and review advances in the business transactions being executed, through a presentation by those responsible for each business.
3. To ensure that every business transaction presented to the Committee adheres to the minimum profitability and risk criteria established in GFNorte and/or the Board of Sólida Administradora de Portafolios.
4. Recommend that additional funds be requested to the corresponding instances in order to advance in the initiatives or projects under development that require the disbursement of additional resources.
5. Respect all the norms issued by the Risk Policies Committee (CPR) that impact its areas of influence.
6. The Committee will be able to request a review of analysis presented to it by an expert in the subject, as well as by personnel of the specialist areas.

Frequency of the sessions: upon request by the Coordinator and/or Secretary of the Committee. Advancement on the projects should be presented at least once every three months.

INTEGRITY COMMITTEE

Integrity Committee

Scope: the objectives, functions, members and frequency of the Integrity Committee's sessions are generally applicable to GFNorte and subsidiaries.

Objective: align the security and control efforts of the information under a preventive approach, defining new strategies, policies, processes and procedures and seeking to solve security problems that affect the Institution's assets or represent risks of embezzlement by third parties or employees, ensuring the integrity, reliability and timeliness of the information.

Functions:

1. Define an integral strategy for the security of information.
2. Identify threats and vulnerabilities, and assess their impact.
3. Evaluate the risk of system and critical information loss.
4. Establish objectives, define policies and procedures.
5. Foster a culture of information security.
6. Monitor, measure and report the risks that affect the security of information.
7. Create special committees in order to follow up and attend special risk situations or problems related to information security matters.

These functions are directed towards technological mitigation or prevention measures, as well as to decide about the programs and projects destined to safely store the integrity of information security.

Frequency of the sessions: the meetings are carried out quarterly, with the possibility of extraordinary meetings at the request of any proprietary member.

INVESTMENTS IN MANAGED PORTFOLIOS COMMITTEE

Functions:

1. Analysis of the national and international economic environment.
2. Definition of the General investment guidelines based on the applicable regulation and normns, on the prospectus of mutual funds or on that established in the mandates of customers, previously formalizing acceptance of risks by the client.
3. Review of compliance with the guidelines defined by the Committee in third-party investment risk portfolios including loan, market and liquidity risk.
4. Follow-up on general investment strategies
5. Approval of exceptions to the guidelines defined by extreme market situations (a rating's downgrade, increase in the VaR, greater concentration, etc.) by defining regularization strategy (buy, sell or hold)
6. Define investment strategies in abnormal risk situations.
7. Approve temporary situationss that exceed prudential investment parameters approved by the Committee, always within the limits authorized by the CPR, in particular those that exceed the maximum concentration percentages of the issuer, emission, sector and others that may be established

Frequency of Sessions: sessions shall be held monthly and the Secretary is responsible to coordinate the agenda and convene sessions. In the event that a financial situation requires it, any member can summon extraordinary meetings.

Main Officers to December 2011

Name	Years with the company	Current Position	Age	Maximum Level of Education	Main executive positions at other companies
Alejandro Valenzuela del Río	8.1	GFNorte's CEO	50	PhD in Economics	EADS
Jesús Oswaldo Garza Martínez	12.2	Managing Director of Retail Bank	54	Masters in Financial Administration	BBV, Casa de Bolsa Probursa and Valores Finamex
Jose Marcos Ramírez Miguel	1.0	Managing Director Wholesale Bank	49	MBA and Masters in Finance	Grupo Financiero Santander
Carlos Eduardo Martínez González	12.5	Managing Director of Government Banking	48	Public Accountant	Grupo Financiero Serfin
José Armando Rodal Espinosa	18.5	Managing Director of Corporate & Commercial Banking	42	Chemical Engineer Administrator	ITESM
Luis Fernando Orozco Mancera	7.9	Managing Director of Asset Recovery	57	Master of Business Administration	Citibank México
Fernando Solís Soberón	4.4	Managing Director of Long Term Savings	50	Masters and PhD in Economy	Grupo Nacional Provincial, Grupo Bal, CONSAR, Comisión Nacional de Seguros y Fianzas
Carlos I. Garza (1)	6.1	Managing Director of Banorte USA	54	Public Accountant and Auditor	Texas State Bank, Mc Allen State Bank, City of Mc Allen, Mc Allen – Hidalgo Bridge Board and Anzalduas Bridge Board
Javier Molinar Horcasitas (2)	.6	Managing Director Integration Office	52	Bachelor in Business Administration	CEO Ixe Grupo Financiero, S.A. and CEO, Ixe Banco, S.A.
Rafael Victorio Arana de la Garza	.3	Chief Finanancial Officer	60	Electric Mecanical Engineer	Chief Executive Officer of HSBC's Retail Banking Latin America. Deputy Managing Director of HSBC Mexico.
Alejandro Eric Faesi Puente	1.4	Managing Director of Markets and Institutional Sales	43	Master in Finance	JP Morgan Grupo Financiero
Guillermo Guemez Sarré	1.4	Managing Director of Technology	44	Computer Systems' Engineer	Servicios Administrativos Wal-Mart
Carlos Alberto Arciniega Navarro	18.1	Managing Director of Treasury	51	Master of Business and Finance	Empresas La Moderna
Sergio García Robles Gil	17	Managing Director of Corporate Affairs	51	Master of Business Administration	Fina Consultores (Consultancy)

Name	Years with the company	Current Position	Age	Maximum Level of Education	Main executive positions at other companies
Alejandro Garay Espinosa	2.8	Managing Director of Corporate Services	49	Attorney at Law	Bank of Mexico
Héctor Martín Ávila Flores	2.2	Managing Director of Legal Affairs	45	Attorney at Law	Red de Universidades SC (SC Universities)
Carla Juan Chelala	4.1	Managing Director of Marketing	42	Masters in Marketing and Advertising	Grupo Financiero HSBC
Benjamín Vidargas Rojas	2.9	Managing Director of Audit	53	Attorney at Law	CNBV
Javier Márquez Diez Canedo	2	Managing Director of Risk Management	71	Doctorate in Math Sciences	Fobaproa, Ixe/Fimsa Casa de Bolsa, ITAM, Operadora de Bolsa
Sergio Deschamps Ebergenyi	13.9	Territorial Director of North	58	Bachelor of Business Administration	Banca Serfin
Andrés Emmanuel Aymes Ansoleaga	2.5	Territorial Director of South	41	Bachelor in Economics	Financiero
Rodolfo Cacho Morales	15.5	Director Territorial Mexico City North	48	Bachelor in Administration	Editores FOC
Juan Carlos Cuéllar Sánchez	26.3	Territorial Director of West	50	Master of Executive Management	BANCAM
Alfonso Páez Martínez	13.7	Territorial Director of Central	46	Master of Executive Management	Casa de Bolsa Abaco and Casa de Bolsa Probursa
Roberto Francisco Ayala Ramos	12.8	Territorial Director of Border	53	Master of Business and Finance	Bancrecer, Banco del Atlántico, Banco Mexicano Somex
Héctor Guijarro Avila	18	Territorial Director of Isthmus	50	Degree in Public Accounting and Finance	Partido Revolucionario Institucional (political party)
Arturo Valdés Villaseñor	15	Territorial Director of Northwest	51	Masters in Administration	Central Bank of Monterrey
Jorge Luis Molina Robles	17.4	Territorial Director of Penninsular	55	Civil Engineer	Government of the State of Chiapas
Alberto Salvador López	9.5	Territorial Director of South	48	Bachelor of Actuary	Seguros Bancomer, S. A., Banca Promex, Banco del Atlántico
Ma. Del Socorro Bermúdez	30	Territorial Director of West	47	Electronic Engineer	
Armando Jorge Rivero Laing (2)	0.8	Managing Director of Legal Affairs	48	Attorney at Law	Ixe Grupo Financiero; Arka Casa De Bolsa
Miguel Angel Martínez Sienra (2)	0.8	Deputy Managing Director of Commercial Banking	58	Industrial Engineer	Ixe Grupo Financiero
Victor Antonio Roldán Ferrer (2)	0.8	Managing Director Director of Transactional Corporate Banking	45	Bachelor in Informatics	Ixe Grupo Financiero; Banco Santander

Name	Years with the company	Current Position	Age	Maximum Level of Education	Main executive positions at other companies
Ricardo Velázquez Rodríguez (2)	0.8	Managing Director International Banking and Financial Institutions	35	Bachelor in Economics and MBA	Ixe Grupo Financiero
José Patricio Rafael Rodríguez Chapa (2)	0.8	Managing Director of Private Banking and Management	56	Bachelor in Economics	Ixe Grupo Financiero; SEI Investment
Luis Ernesto Pietrini Sheridan (2)	0.8	Managing Director of Asset Management	40	Bachelor in Adminitration with specialization in Finance	Vectormex Inc. (Ny); Vector, Casa de Bolsa; Ixe Grupo Financiero
René Pimentel Ibarrola (2)	0.8	Managing Director of Development and Management	39	Bachelor in Economics	Ixe Grupo Financiero
Manuel Antonio Romo Villafuerte (2)	0.8	Managing Director of Ixe Banco	46	Bachelor in Adminitration and Masters in Economics.	Ixe Grupo Financiero; Banco Nacional de Mexico

(1) Carlos I. Garza has been employed by INB since 1995.
(2) IXE GF's employee; Position in GFNorte officially occupied in April 2011.

Compensations and benefits

The total amount of compensation and benefits' for 2011 provided to the Board of Directors and GFNorte's main officials was approximately Ps 220.3 million.

Compensations and benefits are as follows:

- **Fixed Compensation:** Salary.

- **Annual Bonus Plan for 2011:**

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

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

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

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

  Stock Options:

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

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

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

  Restricted Stock:

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

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

For Ixe there is nothing to report

- **Vacations:** From 10 to 30 working days depending on the number of years of service. For Ixe, 12 working days in the first 4 years, as of the 5th year the LFT (Ley Federal del Trabajo or Federal Labor Law) table applies.

- **Legally Mandated Christmas Bonus:** Equivalent to 42 days of salary. For Ixe, the quivalent to 30 days of salary.

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

- **Medical Service:** Banorte provides medical services through renowned specialized institutions, obtaining efficiency in cost and service. IXE provides medical coverage through the administration of a major medical expenses insurance policy.

- **Life Insurance:** In the event of death or total incapacity, a life insurance policy provides a sum of up to 36 months' salary. In the event of an accidental death, the compensation would be double, with prior verification by the insurance company. For Ixe, in the event of death or total incapacity, a life insurance policy provides an amount of up to 37 months' salary. In the event of an accidental death, the compensation would be double, with prior verification by the insurance company.

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

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

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

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

d) CORPORATE BY-LAWS AND OTHER AGREEMENTS

In 2006 the by-laws were modified in order to adapt them with the dispositions of the new Stock Market Law to incorporate the articles related to the integration, organization and functioning of the social organs. The Board of Directors’ functions were redefined as the organ in charge of strategy and supervision, and the CEO responsible for conduction and management of the company. Also, the commissary figure was eliminated and its functions were redistributed within the Board of Directors, the Audit and Corporate Practices’ Committee and the Independent External Auditor. The objective of the Audit and Corporate Practices’ Committee is to monitor all the accounting processes of the company, having the following general functions: evaluate the performance of the external independent auditor, elaborate an opinion regarding the financial statements prior to presenting them to the Board, inform the Board about the internal control systems and monitor that the generally accepted accounting principles and procedures are followed, among others. The objective of the Corporate Practices’ Committee is to reduce the potential risk that transactions are carried out in disadvantageous conditions for the company’s patrimony or give privileges to a determined group of shareholders. Its general functions include: approve the policies for the use of the company’s assets, authorize transactions with related parties, among others.

Also, the by-laws and the Unique Responsibilities Agreement were reformed with respect to the responsibility of the holding company for the losses of the entities that form the group, so that in case that the equity of the holding was not enough to cover the losses of the Group’s members, the losses corresponding to the credit institution will be first covered, and later on a pro-rata basis with respect to the other entities until the holding’s equity is depleted.

Banco del Centro, S, A. was spun-off from Grupo Financiero Banorte due to its merger with Banco Mercantil del Norte, S. A., as well as Fianzas Banorte, S.A. de C.V., as a result of selling all the shares that represented its equity, thus modifying the second article of the by-laws to eliminate the reference of these companies as entities that are part of the Financial Group.

Additionally, Arrendadora Banorte, S.A. de C.V. merged Arrendadora y Factor Banorte, S. A. de C. V. and changed its denomination to remain as Arrendadora y Factor Banorte, S. A. de C. V., Multipurpose Financial Company, Regulated Entity, Grupo Financiero Banorte.

Créditos Pronegocio S. A. de C.V. was also spun-off from Grupo Financiero Banorte, due to its merger with Banco Mercantil del Norte, S. A., consequently modifying the second article of the corporate bylaws, to eliminate the reference of this society as an entity of the Financial Group.

Recently Ixe Grupo Financiero, S. A. B. de C. V., was merged into Grupo Financiero Banorte, S. A. B. de C. V., modifying articles: second, under the terms of Article 15 of the Law to Regulate Financial Groups (LRAF), to change the Group’s participation in the financial entities that conform it, including the financial subsidiaries of Ixe Grupo Financiero; tenth and twenty-first in reference to Article 50 of the Stock Market Law concerning the right of shareholders who either individually or jointly hold 10% of the Group’s equity, to require the Board of Directors’s Chairman or the Committees’ that carry out the functions related to Audit and Corporate Practices, at any moment, to convene a General Shareholders’ Meeting, without the effect being applicable to the percentage pointed out in Article 184 of the General Law of Mercantile Companies; Articles 25, 31, 32 and 36 in order to reflect changes in the Corporate By-Laws as a result of the appointment of a Chairman Emeritus and a Chairman of the Board of Directors; Article 25 establishing the faculties so that the Chairman Emeritus presides the Shareholders' Meetings and in his absence, the Chairman of the Board of Directors will have full authority; Article 31 in order to grant the General Assembly the faculty to designate a Chairman Emeritus and also a Chairman of the Board of Directors, both of which are part of the Board of Directors. Also, the Assembly or the Board will designate a Secretary or his/her respective alternate (Pro-Secretary) who will not be part of these corporate organisms. The Chairman Emeritus will not have an alternate. Also, in the event of death, inability, remotion or resignation of the Chairman of the Board of Directors, he/she will be substituted by the rest of the proprietary members in the order that they determine, or if there is no rule in this respect, in the order of their appointments until the Shareholders Assembly names a new Chairman of the Board. The changes also grant the faculty to the Chairman Emeritus to preside the Shareholders Assemblies and the Board Sessions of the company as stipulated in articles Twenty-Five and Thirty-Two of the Corporate By-Laws. Also, the Chairman of the Board of Directors will have the following faculties, obligations, attributions and powers unless otherwise indicated by the Assembly: i) Preside the Shareholders Assemblies and Board Sessions in the absence of the Chairman Emeritus; ii) Propose to the Board the independent board members that will integrate the Corporate Practices and Audit Committees, as well as the temporary board members whose designation corresponds to the board in accordance with article Thirty-Six of the By-Laws and iii) Execute or supervise the execution of the resolutions taken by the Shareholders Assembly and the Board of Directors, doing whatever is necessary or prudent to protect the interests of the company, without violating the faculties that the Assembly, Board of Directors and the legal framework gives to the Chief Executive Officer; Article Thirty-Two will be modified in order to make express reference to articles 27 of the Stock Market Law and 24 of the Law to Regulate Financial Institutions regarding the requirement to hold at least one board meeting every quarter. Also, the obligation of the Chairman of the Board of Directors to call the necessary board meetings in accordance with article 411 of the Stock Market Law. The changes also reflect the faculty of the Chairman Emeritus to preside the Board Sessions, and in his absence, by the Chairman of the Board of Directors. In the case that both are absent, the Board of Directors' sessions will be presided by the board member designated by those present at the meeting. Also, the Chairman Emeritus and the President of the Board of Directors will have a tie-breaking vote in case of a tie in the voting of the Board's resolutions. Article Thirty-Six will change in order to make a express reference to Article 25 of the Stock Market Law regarding the faculty of the Chairman of the Board of Directors to propose to the Board or the Shareholders Assembly, the independent members that will integrate the Audit and Corporate Practices Committee.

Also the following were incorporated to the Unique Agreement of Responsibilities: Fincasa Hipotecaria, S. A. de C. V., SOFOM, Entidad Regulada, Grupo Financiero Banorte; Ixe Soluciones, S. A. de C. V., SOFOM, Entidad Regulada, Grupo Financiero Banorte; Ixe Fondos, S. A. de C. V., Sociedad Operadora de Sociedades de Inversión, Grupo Financiero Banorte; Ixe Automotriz, S. A. de C. V., SOFOM, Entidad Regulada, Grupo Financiero Banorte; Ixe Casa de Bolsa, S. A. de C. V.; Grupo Financiero Banorte; and Ixe Banco, S.A., Institución de Banca Múltiple, Grupo Financiero Banorte.

Also, through agreements reached at the Extraordinary General Shareholders' Meeting held on July 21, 2011, Article Twenty Nine for the Board of Directors was modified, so that is is composed of a maximum of 15 members and, where appropriate, by their respective alternates and also members may be appointed for defined periods of 3 years, with the possibility of reelection, balancing generation, ensuring that at least 50% of the members are characterized as independent in accordance with best practices.

Moreover, the Extraordinary General Shareholders' Meeting held on October 17, 2011, Article Thirty-seventh Bis 1 of the Bylaws was added, in order to establish the creation and operation of the Designations Committee, whose main objective is the to propose to the Assembly the people who serve on the Board of Directors of the Company and the Directors of the Subsidiaries and entities that comprise the financial group.

It is important to point out that both the LRAF Groups and the Stock Market Law establish the following requisites for the acquisition or transmission of the Company's shares:

- The individuals who acquire or transfer series "O" shares representing more than 2% of the company's equity must inform the Ministry of Finance and Public Credit (Secretaría de Hacienda y Crédito Público) within 3 business days of such acquisition or transfer.

- Any individual or company can acquire through one or various simultaneous transactions, the control of series “O” shares of the company, in the understanding that such transactions must be previously approved by the Ministry of Finance and Public Credit (Secretaría de Hacienda y Crédito Público), hearing the opinion of the National Banking and Securities Commission (Comisión Nacional Bancaria y de Valores), when they exceed more than 5% (five percent) of such equity.

- The authorization of the Ministry of Finance and Public Credit (Secretaría de Hacienda y Crédito Público) is required for any group of people to acquire, directly or indirectly, through one or various simultaneous or successive transactions of any nature, the control of the company, which is understood as acquiring more than 30% (thirty percent) or more of the shares representing paid in capital, having control of the Shareholders’ Assembly, be in a position to name the majority of the Board of Directors’ members or to control the company through any other means.

- The person or group of persons who acquire, directly or indirectly, within or outside of the Stock Exchange, through one or various simultaneous or successive transactions of any nature, series “O” shares that result in holdings equal to or greater than 10% (ten percent) and lower than 30% (thirty percent) of such shares, must inform the public of this situation the next business day at the latest, through the corresponding stock exchange, following the terms and conditions established by the Exchange. If it is a group of persons, the individual holdings of each member of the group must be disclosed. Also, the individual or group of persons must inform their intention or not of acquiring a significant influence in the company.

- Individuals related to the company who directly or indirectly increase or reduce their holdings of the company by 5% (five percent), through one or various simultaneous or successive transactions, must inform the public of this situation on the next business day at the latest, through the corresponding stock exchange, following the terms and conditions established by the Exchange. Also, they must express their intention or not of acquiring a significant influence or increasing it in the terms outlined in the previous paragraph.

- Any individual or group of persons who directly or indirectly own 10% (ten percent) or more of the shares representing the company’s equity, as well as members of the Board of Directors and relevant officers of the company, must inform the National Banking and Securities Commission (Comisión Nacional Bancaria y de Valores) and the public in the cases established by generally applicable dispositions issued by the Commission, of the acquisition or disposal of these securities within the stated timeframe established by the Commission.

The current by-laws also include mechanisms to protect the interests of minority shareholders, which basically consist of:

- Board of Directors’ approval to any shareholder or group of shareholders related to each other or to third parties to acquire 5% (five percent) or more of GFNORTE’s shares. This also applies when the holdings are close to reaching or already exceed through public offering or not, the following percentages: 10%, 15%, 20%, 25% and up to 30% minus one share of the total shares outstanding representing the company’s equity.

  If the aforementioned is not followed, whoever acquires these shares, will not be able to exercise the corporate rights inherent to those shares and will not be taken into consideration to determine quorum at Shareholders’ Meetings.

- The Board of Directors will be the only organism with faculties to approve or deny a potential acquirer from acquiring either through public offering or not, conducting a “Due Diligence” of the company, and in the case of approval, the potential acquirer must sign the contracts and confidentiality agreements that establish the obligations deemed convenient by the Board.

- Anyone with the intention of acquiring holdings that represent 30% or more of the company’s equity, will be obligated to make a public bid for 100% of the shares, and only in the case that after the bid for 100% of the shares they retain a percentage equal to or less than 50% of the shares, they must seek approval from the Board to exercise the corporate rights of such shares.

- Additionally, whoever becomes holder of the shares representing (or exceeding), the following percentages must notify the company within 30 business days after purchasing, reaching or exceeding the limit in their holdings of 4%, 8%, 16% and 24% respectively. In this case, corporate rights are not lost for not notifying nonetheless it will be taken into consideration for Board's prior approval or denial to acquire the percentages previously mentioned.

For the purpose of protecting minority shareholders, the following rights are established:

- Shareholders who represent at least 5% of the equity can directly exercise civil responsibility action against managers in the terms established by applicable legislation.

- Shareholders with voting rights, including limited or restricted rights, which individually or jointly make up 10% (ten percent) of the company's equity, will have the right to designate or revoke in the General Shareholders' Assembly a member to the Board of Directors. Such designation can only be revoked by the remaining shareholders when the nomination of all other proposed shareholders is also revoked, in which case the substituted persons cannot be nominated for that position for 12 months following the date of being revoked.

- Shareholders with voting rights, including limited or restricted rights, which individually or jointly make up 10% (ten percent) of the company's equity will have the right to request the President of the Board or Presidents of the Committees which conduct corporate practices and audit functions, to convene a General Shareholders' Assembly at any time, without having to follow the percentage stipulated in article 184 of the Law of Mercantile Societies.

- Shareholders with voting rights, including limited or restricted rights, with at least 10% (ten percent) of shares represented in an Assembly can request the postponement of voting on any matter which they consider not being properly informed about, under the terms and conditions indicated in the applicable legislation.

- Shareholders with voting rights, including limited or restricted rights, that represent at least 20% (twenty percent) of equity, will be able to judicially oppose the resolutions of the General Assemblies in which they have voting rights, under the terms and conditions indicated in the applicable legislation.

The corporate by-laws stipulate the company's faculties to purchase its shares under the terms of the Mexican Stock Market Law.

Shares representing the company's equity will be made up ordinary portion and additional shares.

Both "O" and "L" series will be freely subscribed; the latter will be issued for an amount of up to forty percent of ordinary equity with prior authorization by the CNBV, and will have limited voting and other corporate rights.

Foreign entities that exercise authority functions cannot participate in any form in the company's equity. Domestic financial entities also cannot participate, including those that are part of the group, unless when acting as institutional investors under the terms established in the Law to Regulate Financial Groups.

To install and vote the resolutions of Extraordinary Meetings to resolve matters related to Series "L" shares, regulations related to General Ordinary Shareholders' Meetings established by the Law of Mercantile Societies apply.

To install and vote on resolutions of the General Shareholders' Meetings, ordinary or extraordinary, the dispositions established in the Law of Mercantile Societies for these types of meetings will apply.

Since GFNorte is a financial group, the integration, organization and functioning of the social organs, including those related to administration and monitoring, will be governed by the dispositions of the Stock Market Law, as established in fraction IV of article 22 of this legislature.

5. STOCK MARKET

a) SHARE STRUCTURE

GFNorte does not have convertible obligations or Ordinary Participation Certificates (CPO's) of shares. The information on representative shares of equity can be found in section 2.B) "The Company – Business Description - Representative Shares of Equity" of this Reporte.

In June 2009, Grupo Financiero Banorte (BMV: GFNORTEO) established a Level I Sponsored Program of ADRs in the United States, as a consequence of changes on October 10th, 2008 to regulation 12g3-2b of the Securities and Exchange Commission (SEC) that facilitates the establishment of sponsored and non-sponsored ADR programs for shares in companies which don't trade in US financial markets. Because Banorte shares are one of the most liquid and one of the most traded in the Mexican Stock Exchange, they have attracted the interest of institutional funds around the world. This ADR program supplements the efforts of Banorte to achieve presence in the main international financial markets for its shares. The program has been established as Level 1, which allows it to operate in "Over the Counter" markets without having to be listed in the NYSE, NASDAQ or any other Stock exchange. The shares operate under the GBOOY symbol. Each ADR represents 5 shares of Banorte and 2,684,205 ADRs were in circulation at closing of 2011. The depository bank is Bank of New York Mellon. On July 15th, 2010, the Level 1 ADR program was authorized to quote and operate in the OTCQX International Premier platform, the highest level in the "Over The Counter" (OTC) market.

On Tuesday, June 9th, 2009, ordinary shares of Grupo Financiero Banorte S. A. B. de C. V. began trading in the Madrid Stock Exchange through the Latin American Stock Market "Latibex", under the symbol XNOR. The Banorte shares were included in the FTSE Latibex All Shares index from their inclusion to the market, and as of June 10th, they were incorporated into the FTSE Latibex TOP index which includes the 16 Latin American most important companies of this market. One share of XNOR represents 10 shares of GFNORTE.

b) PERFORMANCE OF SHARES IN THE STOCK MARKET

The series "O" shares of GFNorte are traded in the Mexican Stock Exchange (BMV) under the ticker "GFNORTEO".

The following charts show, for the indicated periods, the maximum and minimum market prices in Mexican pesos for shares in the BMV (GFNORTEO).

Performance of the stock at closing of the last 5 fiscal years:

Date	Maximum	Minimum	Close	P/BV *	P/E **	Volume of Shares (Daily Average)	Total Volume Operated
31/12/2007	55.00	40.99	45.08	2.75	17.89	4,715,471	1,183,583,100
31/12/2008	51.81	15.00	24.88	1.33	9.87	5,183,529	1,311,432,900
31/12/2009	51.00	13.04	47.84	2.33	16.16	5,447,834	1,367,406,400
31/12/2010	60.80	41.25	58.86	2.58	16.91	4,951,769	1,247,845,700
31/12/2011	60.64	37.80	42.32	1.39	9.80	5,692,451	1,434,497,700

Quarterly performance of the stock for the last 2 fiscal years:

Date	Maximum	Minimum	Close	P/BV *	P/E **	Volume of Shares (Daily Average)	Total Volume Operated
31/03/2010	55.90	41.25	54.57	2.62	17.49	4,939,607	301,316,000
30/06/2010	57.39	44.50	50.14	2.37	15.29	5,352,717	337,221,200
30/09/2010	51.63	45.70	47.71	2.19	14.03	5,016,713	321,069,600
31/12/2010	60.80	47.50	58.86	2.58	16.91	4,503,733	288,238,900
31/03/2011	60.19	51.90	55.98	2.37	15.55	5,266,505	326,523,300
30/06/2011	60.64	50.36	53.30	1.86	15.14	6,087,195	383,493,300
30/09/2011	55.16	37.80	41.16	1.39	11.18	6,006,174	390,401,300
31/12/2011	48.49	39.31	42.32	1.39	9.80	5,388,384	334,079,800
31/03/2012	58.20	42.40	56.98	1.81	13.50	5,590,353	352,192,237

Monthly performance of shares during the last 6 months:

Date	Maximum	Minimum	Close	Volume of Shares (Daily Average)	Total Volume Operated
31/10/2011	47.79	39.31	45.51	5,965,776	125,281,300
30/11/2011	48.49	42.01	46.94	5,130,485	102,609,700
31/12/2011	48.08	40.48	42.32	5,056,610	106,188,800
31/01/2012	53.34	52.29	51.94	7,020,688	154,455,143
29/02/2012	54.88	50.06	52.54	5,073,575	101,471,503
31/03/2012	58.20	52.59	56.98	4,584,076	96,265,591

*P/BV = Multiple Price to Book Value. The indicators were calculated with known numbers as of the date of the report.
**P/E = Multiple Price to Earnings. The indicators were calculated with known numbers as of the date of the report.
Source: Bloomberg. .

c) MARKET MAKER

GFNorte does not have or ever has, a market maker.

6. UNDERLYING ASSETS

At the moment GFNorte’s subsidiaries do not carry out operations that involve underlying assets.

7. RESPONSIBLE OFFICERS

"The undersigned hereby solemnly declare that within the scope of our respective functions, we have truthfully prepared the information contained in this annual report related to Grupo Financiero Banorte, which to the best of our knowledge and understanding reasonably reflects the situation. We also declare that we do not have knowledge of any relevant information that has been omitted or falsified in this annual report or that it contains information that could mislead investors."

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

Rafael Arana de la Garza
Chief Financial Officer

Lic. Hector Ávila Flores
Managing Director of Legal Affairs

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Los suscritos manifestamos bajo protesta de decir verdad que los estados financieros consolidados de Grupo Financiero Banorte, S.A.B. de C.V. y Subsidiarias al 31 de diciembre de 2011 y 2010 y por los años que terminaron en esas fechas que contiene el presente reporte anual, fueron dictaminados de acuerdo con las normas de auditoría generalmente aceptadas en México.

Asimismo, manifestamos que, dentro del alcance del trabajo realizado para dictaminar los estados financieros antes mencionados, no tenemos conocimiento de información financiera relevante que haya sido omitida o falseada en este Reporte Anual o que el mismo contenga información que pueda inducir a error a los inversionistas.

Galaz, Yamazaki, Ruiz Urquiza, S.C.
Firma miembro de Deloitte Touche Tohmatsu Limited.

CPC Fernando Nogueda Conde
Auditor Externo

CPC Jorge Alberto Villarreal González
Apoderado Legal

27 de abril de 2012

8. ANNEXES

a) AUDIT AND CORPORATE PRACTICES' COMMITTEE REPORT

Mexico, D. F., March 28th, 2012

To the Board of Directors of Grupo Financiero Banorte, S. A. B. de C. V.:

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

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

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

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

I. With regard to audit:

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

1. Revision of annual reports on activities regarding Internal Control of the aforementioned relevant entities, are prepared by their respective CEOs.

2. The reports of GFNorte's Internal Comptroller and its relevant entities as well as the Internal Comptrollers of Seguros Banorte Generali, Pensiones Banorte Generali and Banorte Generali Afore.

3. Opinions about the state of the Internal Control System of the relevant entities, issued by the Internal Audit, the CEO and Comptrollers.

4. Observations on control deficiencies or deviations of GFNorte and its subsidiaries, presented on a regular basis by Internal Audit during this Committee's sessions, covering all relevant entities and a follow-up on the corrective measures undertaken.

5. External Auditors' reports of observations about the state of Internal Control, and follow-up of the corrective measures taken with respect to the areas of opportunity identified in such reports; as well as the audited the financial statements of GFNorte and its subsidiaries.

6. Reports on inspection visits by the corresponding regulator and follow-up on the implementation of the pertinent corrective measures.

7. Internal Audit's management reports on the execution and fulfillment of the work program approved by this Committee and reports of the results of its program for quality assurance and improvement.

8. The Commissioner's reports of the relevant entities corresponding to the 2011 fiscal year.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

II. With regard to Corporate Practices:

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

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

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

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

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

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

b) COMMISSARY REPORT

Does not apply, due to the removal of this figure in terms of the Stock Market Law.

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

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

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

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

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

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

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

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

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

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

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

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Deputy Managing Director - Controller

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Dr. Alejandro Valenzuela del Río
Chief Executive Officer

Ing. Rafael Arana de la Garza
Managing Director - CFO

Lic. Benjamín Vidargas Rojas
Managing Director - Audit

Lic. Jorge Eduardo Vega Camargo
Deputy Managing Director - Controller

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

1 – ACTIVITY AND REGULATORY ENVIRONMENT

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

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

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

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

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

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

2 – SIGNIFICANT EVENTS DURING THE YEAR

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

On February 10, 2011, the Financial Group announced the sale of 161,405,905 shares, excluding the over-allotment option, at a price of Ps. 52.00 per common share through and international offering and public offering in Mexico by the selling shareholder GRUMA. Additionally, the Mexican and International underwriters decided to exercise the over-allotment option fully on February 11, 2011; therefore all the shares included in the Global offering were settled on February 15, 2011. Consequently, the total proceeds from the Offering of 177,546,496 shares were deliverd to GRUMA. As a result of the offering and the exercise of the over-allotment option by the initial purchasers and the underwriters, GRUMA no longer owns any of the Financial Group's share capital. The offering in Mexico was carried out through the Mexican Stock Exchange, Bolsa Mexicana de Valores, S.A.B. de C.V. (BMV), while the international offering was carried out in the U.S. under Rule 144A of the Securities Act of 1933 and, in other countries, in accordance to Regulation S of the same law and the applicable legislations in the relevant international jurisdictions. The common shares offered in the international offering were not registered under the Securities Act of 1933, and were not offered or sold in the U.S. without registration or an applicable exemption to the registration requirements.

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

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

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

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

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

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

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

The results of applying the purchase method are described below:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

e. Prepayment of subordinated debentures

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

f. Change in the loan rating methodology

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

3 – BASIS OF PRESENTATION

Monetary unit of the financial statements

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

Consolidation of financial statements

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

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

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

	2011	2010
Ixe Automotriz, S. A. de C. V. SOFOM, ER and subsidiary*	99.99%	-
Ixe Soluciones, S. A. de C. V. SOFOM, ER*	99.99%	-
Fincasa Hipotecaria, S. A. de C. V. SOFOM, ER and subsidiary*	99.99%	-

* Subsidiary consolidated as of April 2011.

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

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

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

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

Comprehensive Income

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

4 – SIGNIFICANT ACCOUNTING POLICIES

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

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

Changes in accounting policies

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

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

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

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

   The main changes to this resolution are described below:

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

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

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

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

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

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

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

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

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

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

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

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

Recognition of the inflation effects in the financial information

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

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

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

Cash and cash equivalents

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

Trading securities

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

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

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

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

Securities available for sale

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

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

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

Securities held to maturity

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

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

General valuation standards

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The events considered by the model are divided into:

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

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

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

Customer repurchase agreements (repos)

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

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

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

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

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

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

Derivatives financial instruments

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

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

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

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

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

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

Forward and futures contracts

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

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

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

Option contracts

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

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

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

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

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

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

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

Swaps

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

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

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

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

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

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

- A cash flow hedging transaction is recorded as follows:

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

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

- A fair value hedging transaction is recorded as follows:

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

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

Valuation method

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

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

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

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

Operation strategies

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

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

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

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

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

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

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

Contingencies

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

At present, no such contingency situations have arisen.

<u>Embedded derivatives</u>

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

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

Loan portfolio

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

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

- Loans with bullet payment of principal and interest at maturity: 30 calendar days after being overdue.
- Loans involving a single principal payment at maturity, but with periodic interest payments, total principal and interest payments 30 and 90 calendar days after being overdue, respectively.
- Loans for which the payment of principal and interest is agreed based on partial periodic payments, 90 calendar days after the first payment is due.

- In the case of revolving loans, whenever payment is outstanding for two billing periods or when they are 60 or more days overdue.

- Overdrawn customer checking accounts are considered as part of the past-due portfolio when such situations arise.

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

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

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

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

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

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

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

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

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

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

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

Consumer loans – 180 days or more overdue.

Mortgage loans – 270 days or more overdue.

Allowance for loan losses

Application of new portfolio rating criteria

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

General description of rules established by the Commission

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

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

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

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

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

Probability of default

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

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

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

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

Severity of the loss

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

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

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

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

Exposure to non-compliance

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

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

- Mortgage loans – loan balance on the rating date.

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

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

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

Acquired loan portfolios

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

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

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

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

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

Premium receivables, net

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

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

Reinsurance

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

Securitizations involving transfer of ownership

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

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

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

Other accounts receivable and payable

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

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

Merchandise inventory

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

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

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

Foreclosed assets, net

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Property, furniture and equipmnet

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 carryforwards and certain tax credits. The deferred tax assets are recorded only when there is a high probability of recovery.

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

Intangible assets

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

Goodwill

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

Deposits

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

Interbank and other loans

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

Technical Reserves

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

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

1) Current risk reserve:

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

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

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

The current risk reserve is valued as per the following:

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

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

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

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

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

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

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

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

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

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

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

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

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

2) Contractual obligations:

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

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

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

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

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

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

3) Catastrophic reserve:

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

Provisions

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

Employee retirement obligations

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

Defined benefits plan

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

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

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

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

Defined contribution plan

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

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

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

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

Foreign currency conversion

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

Interest from outstanding subordinated debentures

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

Transfer of financial assets

The Financial Group can act as the assignor o assignee, as applicable, in this type of transactions. Moreover the

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

Share-based payments

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

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

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

Memorandum accounts

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

Contingent assets and liabilities (unaudited):

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

Loan commitments:

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

Assets in trust or mandate (unaudited):

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

Assets in custody or under management (unaudited):

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

Collateral received:

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

Collateral received and sold or given as a pledge:

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

Main subsidiaries' income recognition

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

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

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

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

Securities purchase-sales results are recorded when performed.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Income form premiums – Recognized as follows:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- Pursuant to the accounting standards established by the Comission, in the cash flow statement, cash and cash equivalents do not contemplate highly liquid short-term securities that are subject to inconsequential risks, as MFRS C-1 "Cash and cash equivalents" requires. Moreover the Commission establishes that the cash flows statements are based on the net result, whereas MFRS require them to be based on earnings before income taxes.

- Up until December 31, 2008 the Commission allowed the transfer of financial assets for securitization without having transferred all the control over the ceded asset. According to MFRS, these concepts should be evaluated and require substantial compliance with the transfer of control, risks and benefits.

- The Commission's accounting criteria indicate that in covering fair value, the adjustment to book value for the covered item should be reported as a separate item in the general balance sheet instead of including it with the covered primary position, according to MFRS.

- The Commission's accounting criteria indicates that for loan acquisitions, they should be recorded at their nominal value of the acquired loan under the loan portfolio item, while the difference originated when the acquisition price is lower than the portfolio's contractual value should be recorded in the period's results for an amount of up to the allowance for loan losses, while the remainder should be reported as a deferred loan which will be amortized as collected. When the acquisition price is higher than the portfolio's contractual value, it will be recorded as a deferred receivable, which will be amortized as collected. MFRS indicate that the loan portfolio should be recorded at fair value at the acquisition date, in other words, at the acquired purchase price.

6 - CASH AND CASH EQUIVALENTS

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

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

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

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

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

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

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

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

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

7 - INVESTMENTS IN SECURITIES

a. Trading securities

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

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

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

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

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

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

b. Securities available for sale

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

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

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

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

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

c. Securities held to maturity

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

Medium and long-term debt instruments:

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

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

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

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

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

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

d. Collateral

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

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

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

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

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

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

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

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

8 - CREDITOR BALANCES UNDER REPURCHASE AND RESALE AGREEMENTS

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

<u>Acting as seller of securities</u>

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

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

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

Acting as securities purchaser

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

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

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

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

9 - DERIVATIVES FINANCIAL INSTRUMENTS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Cash flow hedging

The Financial Group has cash flow hedges as follows:

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

Fair value assets hedging

The Financial Group has fair value hedges as follows:

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

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

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

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

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

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

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

The following table shows the cash flows hedging valuation balance:

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

10 - LOAN PORTFOLIO

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

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

Restructured loans

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

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

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

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

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

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

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

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

*Loans with 100% allowance for loan loss.

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

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

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

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

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

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

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

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

Policies and Procedures for Granting Loans

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

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

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

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

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

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

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

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

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

11 - LOANS RESTRUCTURED IN UDIS

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

Early termination of mortgage loan borrower support programs

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

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

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

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

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

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

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

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

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

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

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

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

12 - ALLOWANCE FOR LOAN LOSSES

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

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

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

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

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

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

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

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

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

Consumer and mortgage loan rating

Modification of the consumer and mortgage loan rating methodology

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

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

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

Consolidated balance sheet	Balances, December 31, 2011	Effect	How it would have been presented
Stockholders' equity			
Retained earnings from prior years	Ps. 30,573	Ps. 350	Ps. 30,923
Net Income	Ps. 8,517	(Ps. 350)	Ps. 8,167
Total stockholders' equity	Ps. 77,082	Ps. -	Ps. 77,082

Consolidated income statements

Provision for loan losses	Ps. 5,438	Ps. 582	Ps. 6,020
Net interest income after allowance for loan losses	Ps. 22,804	(Ps. 582)	Ps. 22,222
Deferred income taxes, net	Ps. 933	(Ps. 232)	Ps. 701
Net income	Ps. 8,517	(Ps. 350)	Ps. 8,167

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

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

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

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

Movements in allowance for loan losses

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

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

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

13 - ACQUIRED COLLECTION RIGHTS

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

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

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

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

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

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

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

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

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

14 – PREMIUM RECEIVABLES, net

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

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

15 – ACCOUNTS RECEIVABLE FROM REINSURANCE

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

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

16 - OTHER ACCOUNTS RECEIVABLE, NET

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

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

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

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

17 - FORECLOSED ASSETS, NET

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

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

18 - PROPERTY, FURNITURE AND EQUIPMENT, NET

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

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

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

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

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

19 - PERMANENT STOCK INVESTMENTS

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

	Share %	2011	2010
Seguros Banorte Generali, S. A. de C. V.	51%	Ps. -	Ps. 1,243
Fondo Sólida Banorte Generali, S. A. de C. V., SIEFORE	99%	888	843
Pensiones Banorte Generali, S. A. de C. V.	51%	-	524
Banorte Mutual funds	Various	14	129
Controladora Prosa, S. A. de C. V.	19.73%	57	46
Afore XXI, S. A. de C. V.	50%	390	-
Transporte Aéreo Técnico Ejecutivo, S. A. de C. V.	45.33%	116	42
Concesionaria Internacional Anzaldúas, S.A. de C.V.	40%	82	156
Internacional de Inversiones, S.A.P.I. de C.V.	5.62%	95	95
Servicios Banorte Generali, S. A. de C. V.	33%	22	-
Commercial Banorte Generali, S. A. de C. V.	33%	12	-
Horizontes Banorte Generali, S. A. de C. V.	49%	65	-

	Share %	2011	2010
Ixe Tarjetas (Credit Cards), S. A. de C. V.*	50%	356	-
Sociedades de Inversión Ixe Fondos (Mutual Funds)	Various	116	-
Others	Various	67	52
		Ps. 2,280	**Ps. 3,130**

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

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

20 - DEFERRED TAXES, NET

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

	2011			**2010**		
	Temporary Differences	**Deferred Effect**		**Temporary Differences**	**Deferred Effect**	
		ISR	**PTU**		**ISR**	**PTU**
Temporary Differences _ Assets						
Allowance for loan losses	Ps. 669	Ps. 215	Ps. -	Ps. 339	Ps. 119	Ps. -
Tax loss carryforwards of UniTeller and Banorte USA	11	4	-	11	4	-
Tax loss carryforwards	1,845	554	-	5	2	-
State tax on deferred assets	25	9	-	10	3	-
Surplus preventive allowances for credit risks over the net tax limit	4,200	1,198	375	5,526	1,548	552
Excess of tax over book value of foreclosed and fixed assets	1,437	396	66	1,361	374	60
PTU	463	139	45	798	239	80
Fees collected in advance	364	110	31	20	6	2
Non-deductible provisions	2,352	706	97	1,390	417	131
Other assets	109	33	-	46	13	-
Total deferred assets	**Ps. 11,475**	**Ps. 3,364**	**Ps. 614**	**Ps. 9,506**	**Ps. 2,725**	**Ps. 825**

	2011			2010		
	Temporary Differences	Deferred Effect		Temporary Differences	Deferred Effect	
		ISR	PTU		ISR	PTU
Temporary Differences_Liabilities						
Excess of book over tax value of fixed assets and expected expenses	Ps. 7	Ps. 3	Ps. -	Ps. 33	Ps. 10	Ps. -
Unrealized loss in securities available-for-sale	247	86	-	75	26	-
Contribution to pension fund	2,772	778	270	2,000	560	200
ISR payable on UDI trusts	-	-	-	22	6	-
Portfolios acquired	2,271	660	122	2,126	617	110
Capitalizable projects' expenses	1,109	328	110	706	211	71
Unrealized capital gain from special allowance	177	54	-	170	51	-
Reversal of sales costs	-	-	-	8	3	-
Federal Home Loan Bank dividends	5	2	-	4	1	-
Intangible assets	480	145	-	64	22	-
IXE fair value adjustment*	1,659	498	-	-	-	-
Other	3,028	897	64	953	276	46
Total deferred liabilities	**Ps. 11,755**	**Ps. 3,451**	**Ps. 566**	**Ps. 6,161**	**Ps. 1,783**	**Ps. 427**
Net accumulated asset	**(Ps. 280)**	**(Ps. 87)**	**Ps. 48**	**Ps. 3,345**	**Ps. 942**	**Ps. 398**
Deferred tax (liability) asset, net			**(Ps. 39)**			**Ps.1,340**

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

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

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

21 - OTHER ASSETS

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

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

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

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

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

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

22 - DEPOSITS

Liquidity Coefficient

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

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

Core Deposits

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

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

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

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

Immediately due and payable deposits:

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

Time deposits:

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

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

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

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

23 - INTERBANK AND OTHER LOANS

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

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

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

The average interest rates are shown below:

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

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

24 – TECHNICAL RESERVES

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

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

25 - SUNDRY CREDITORS AND OTHER PAYABLES

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

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

26 - EMPLOYEE RETIREMENT OBLIGATIONS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

27 - SUBORDINATED DEBENTURES

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

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

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

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

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

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

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

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

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

	Mexican pesos			**Foreign Currency**			**Total**		
Type of portfolio	**Aug 02**	**Dec 10**	**Dec 11**	**Aug 02**	**Dec 10**	**Dec 11**	**Aug 02**	**Dec 10**	**Dec 11**
Performing Loan Portfolio									
Commercial	Ps. 5	Ps. -	Ps. -	Ps. 5	Ps. -	Ps. -	Ps. 10	Ps. -	Ps. -
Mortgage	54	20	15	-	-	-	54	20	15
Total	**59**	**20**	**15**	**5**	**-**	**-**	**64**	**20**	**15**
Past-due portfolio									
Commercial	405	331	322	293	104	117	698	435	439
Consumer	81	72	72	-	-	-	81	72	72
Mortgage	1,112	323	303	-	-	-	1,112	323	303
Total	**1,598**	**726**	**697**	**293**	**104**	**117**	**1,891**	**830**	**814**
Total portfolio	**Ps. 1,657**	**Ps. 746**	**Ps. 712**	**Ps. 298**	**Ps. 104**	**Ps. 117**	**Ps. 1,955**	**Ps. 850**	**Ps. 829**

	Mexican pesos			**Foreign Currency**			**Total**		
Type of portfolio	**Aug 02**	**Dec 10**	**Dec 11**	**Aug 02**	**Dec 10**	**Dec 11**	**Aug 02**	**Dec 10**	**Dec 11**
Allowance for loan losses(1)									
Commercial	Ps. 326	Ps. 318	Ps. 321	Ps. 246	Ps. 104	Ps. 117	Ps. 572	Ps. 422	Ps. 438
Consumer	77	72	72	-	-	-	77	72	72
Mortgage	669	313	309	-	-	-	669	313	309
Total allowance for loan loss	**Ps. 1,072**	**Ps. 703**	**Ps. 702**	**Ps. 246**	**Ps. 104**	**Ps. 117**	**Ps. 1,318**	**Ps. 807**	**Ps. 819**

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

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

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

29 - INFORMATION BY SEGMENT

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

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

	2011	2010
Banking sector:		
Net income	Ps. 7,260	Ps. 6,035
Stockholders' equity	54,909	44,316
Total portfolio	341,897	257,957
Past-due portfolio	6,583	6,523
Allowance for loan losses	(9,446)	(7,955)
Total net assets	726,082	564,386
Brokerage sector:		
Net income	418	403
Stockholders' equity	2,591	1,883
Portfolio balance	578,762	174,068
Total net assets	23,528	10,169

	2011	2010
Long Term Savings' sector		
Net income	1,157	903
Stockholders' equity	5,140	5,244
Total net assets	51,814	40,993
Other finance companies sector:		
Net income	708	500
Stockholders' equity	3,726	2,136
Total portfolio	22,115	15,884
Past-due portfolio	480	141
Allowance for loan losses	(545)	(289)
Total net assets	23,056	16,456
Others:		
Net income	(Ps. 1,026)	(Ps. 1,136)

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

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

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

	2011				
	Geographical location				
Economic sector	**North**	**Central**	**West**	**South**	**Total**
Agriculture	Ps. 3,322	Ps. 613	Ps. 903	Ps. 1,005	Ps. 5,843
Mining	365	197	16	10	588
Manufacturing	9,915	4,686	1,611	917	17,129
Construction	9,618	14,194	658	2,229	26,699
Public utilities	20	89	5	-	114
Commerce	13,870	12,497	3,619	6,899	36,885
Transportation	2,804	6,397	1,081	346	10,628
Financial services	15,174	5,359	1,080	1,505	23,118
Communal, social services	8,120	2,628	470	539	11,757
Public administration and services	36,165	13,239	6,891	10,094	66,389
INB	-	-	-	-	8,181
Credit card	-	-	-	-	11,465
Consumer	-	-	-	-	18,528
Mortgage	-	-	-	-	63,143
Other					112
Arrendadora y Factor Banorte	-	-	-	-	15,117
Ixe Banco*					
Commercial	-	-	-	-	24,999
Consumer	-	-	-	-	4,049
Mortgage	-	-	-	-	997
Fincasa Hipotecaria	-	-	-	-	3,579
Ixe Automotriz	-	-	-	-	337
Ixe Soluciones	-	-	-	-	111
Ixe fair value adjustment**	-	-	-	-	790
Performing loan portfolio	**Ps. 99,373**	**Ps. 59,899**	**Ps. 16,334**	**Ps. 23,544**	**Ps. 350,558**

*29% of the Ixe Banco loans correspond to the commercial sector, 28% to the professional and technical services sector, 19% to industry, 7% to construction and 17% to other sectors. 80% of the loans are concentrated in the central region.

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

	2010				
	Geographical location				
Economic sector	**North**	**Central**	**West**	**South**	**Total**
Agriculture	Ps. 2,473	Ps. 1,094	Ps. 741	Ps. 911	Ps. 5,219
Mining	354	176	19	19	568
Manufacturing	7,830	5,014	1,459	635	14,938
Construction	5,346	7,433	557	2,023	15,359
Public utilities	35	293	2	1	331
Commerce	12,157	10,412	3,493	6,103	32,165
Transportation	1,174	5,062	123	253	6,612
Financial services	8,302	9,233	198	1,300	19,033
Communal, social services	6,680	5,234	1,520	417	13,851
Business groups	9	364	6	5	384
Public administration and services	24,164	16,189	2,188	4,901	47,442
International organization services	2	-	-	-	2
INB	-	-	-	-	9,232
Credit card	-	-	-	-	11,159
Consumer	-	-	-	-	16,668
Mortgage	-	-	-	-	56,168
Other	-	-	-	-	105
Arrendadora y Factor Banorte	-	-	-	-	14,314
Performing loan portfolio	**Ps. 68,526**	**Ps. 60,504**	**Ps. 10,306**	**Ps. 16,568**	**Ps. 263,550**

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

	2011				
	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**

*29% of the Ixe Banco loans correspond to the commercial sector, 28% to the professional and technical services sector, 19% to industry, 7% to construction and 17% to other sectors. 80% of the loans are concentrated in the central region.

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

Economic sector	2010				
	Geographical location				
	North	Central	West	South	Total
Agriculture	Ps. 261	Ps. 125	Ps. 46	Ps. 24	Ps. 456
Mining	5	-	1	1	7
Manufacturing	107	250	63	38	458
Construction	297	104	12	21	434
Commerce	329	231	148	159	867
Transportation	17	1,318	8	11	1,354
Financial services	10	13	-	1	24
Communal, social services	45	50	44	30	169
Business groups	-	-	-	1	1
INB	-	-	-	-	505
Credit card	-	-	-	-	1,040
Consumer	-	-	-	-	236
Mortgage	-	-	-	-	971
Arrendadora y Factor Banorte	-	-	-	-	142
Past-due loan portfolio	**Ps. 1,071**	**Ps. 2,091**	**Ps. 322**	**Ps. 286**	**Ps. 6,664**

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

Product	2011								
	Geographical location								
	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 deposits	-	-	-	-	-	-	-	-	13,203
Time deposits	-	-	-	-	-	-	-	-	19,954
Total deposits	**Ps.57,238**	**Ps.102,232**	**Ps.29,754**	**Ps. 38,594**	**Ps. 40,971**	**Ps. 25,543**	**Ps.15,741**	**Ps.27,060**	**Ps.370,290**

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

Product	2010 Geographical location Monterrey	Mexico City	West	Northwest	Southeast	Treasury and other	Foreign	Total
Non-interest bearing checking accounts	Ps. 14,964	Ps. 22,000	Ps. 6,992	Ps. 8,876	Ps. 7,873	Ps. 89	Ps. -	Ps. 60,794
Interest-bearing checking accounts	7,532	26,293	4,093	6,041	7,580	166	-	51,705
Savings accounts	1	1	-	-	-	-	-	2
Current account in pesos and pre-established	4,042	5,983	1,612	3,024	2,840	138	-	17,639
Non-interest bearing demand deposits, USD	1,611	818	212	1,177	266	-	4,435	8,519
Interest bearing demand deposits, USD	2,258	1,398	465	2,038	218	-	4,520	10,897
Savings accounts in USD	-	-	-	-	-	-	258	258
Retail time deposits	12,623	26,581	6,843	7,551	9,881	1,754	-	65,233
Time deposits, USD	3,307	3,737	1,525	2,307	688	16	13,747	25,327
Customers money market	17,416	15,940	5,076	3,745	4,001	150	-	46,328
Financial intermediaries	-	-	-	-	-	2,208	3,705	5,913
Total deposits	**Ps. 63,754**	**Ps. 102,751**	**Ps. 26,818**	**Ps. 34,759**	**Ps. 33,347**	**Ps. 4,521**	**Ps. 26,665**	**Ps. 292,615**

30 - TAX ENVIRONMENT

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

ISR

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

Conciliation of the accounting and fiscal results

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

Employee Profit Sharing (PTU)

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

Business Flat Tax

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

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

31 - STOCKHOLDERS' EQUITY

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

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

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

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

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

Restrictions on profits

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

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

Share-based payments

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

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

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

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

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

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

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

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

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

Banorte

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

Characteristics of the subordinated debentures:

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

Assets subject to risk are detailed below:

Assets subject to market risk

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

Assets subject to credit risk

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

Assets subject to operational risk:

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

Management

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

Ixe Banco

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

Characteristics of the subordinated debentures:

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

Assets subject to risk are detailed below:

Assets subject to market risk

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

Assets subject to credit risk

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

Assets subject to market risk:

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

32 - FOREIGN CURRENCY POSITION

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

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

33 - POSITION IN UDIS

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

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

34 - EARNINGS PER SHARE

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

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

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

35 - RISK MANAGEMENT (unaudited)

Authorized bodies

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

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

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

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

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

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

2. Approve and review at least once a year:

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

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

3. Approve:

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

4. Assign and remove the person responsible for the Comprehensive Risk Management Unit, who is ratified by the Board of Directors.
5. Inform the Board, at least every quarter, of the exposure to risk and its possible negative effects, as well as a follow up on limits and tolerance levels.
6. Inform the Board of the corrective measures implemented.

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

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

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

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

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

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

The primary objectives of the DGAR are summarized as follows:

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

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

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

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

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

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

Credit risk

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

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

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

Individual credit risk

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

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

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

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

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

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

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

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

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

Portfolio credit risk

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

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

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

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

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

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

As of December 31, 2011, the total operating portfolio of Banco Mercantil del Norte, S.A. (Banco Mercantil del Norte) was Ps. 305,033. The expected loss represents 1.8% and the unexpected loss represents 3.6% of the total operating portfolio. The average expected loss was 2.0% for the period between October and December 2011.
The credit exposure of the investments made by Casa de Bolsa Banorte, S.A. de C.V. (Casa de Bolsa Banorte) was Ps. 314 and the expected loss represents 0.0490% of such exposure. The average expected loss was 0.0776% for the period between October and December 2011.

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

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

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

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

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

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

Credit risk of financial instruments

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

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

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

The Credit Committee is the body that authorizes operational lines with financial instruments according to the authorization policies. The authorization request is submitted with all the relevant information by the business area and the areas involved in the operation and, if applicable, authorized by the Committee.

The policy to manage lines in order to operate financial instruments contemplates the procedures for registration, instrumentation, regulation compliance, revision, consumer monitoring, line management and responsibility of the areas and bodies involved in operating financial instruments.

Concentration of credit risk with financial instruments is managed continuously on an individual level, monitoring maximum operational parameters per counter-party or issuer depending on the rating and type of operation. For portfolios, there are economic and internal group risk diversification policies in place. Additionally, concentration is monitored by type of counter-party or issuer, size of the financial institutions and where they operate in order to get the right diversification and avoid unwanted concentrations.

Credit risk is measured through the rating associated with the issuer, issue or counterparty, which has an assigned degree of risk based on two elements:

1) The probability of default by the issuer, issue or counterparty; expressed as a percentage between 0% and 100%. The higher the rating, the lower the probability of delinquency, and vice versa.

2) The severity of the loss with respect to the total operation's in the event of default, expressed as a percentage between 0% and 100%. The better the guarantees or credit structure, the lower the severity of the loss, and vice versa. In order to mitigate credit risk and reduce the severity of the loss in case of default, the Financial Group has signed ISDA contracts and netting agreements with its counterparties, which contemplate implementing credit lines and using collateral to mitigate losses as a result of defaults.

As of December 31, 2011, the credit risk exposure of the investments in securities was Ps. 212,611, of which 99.2% has a rating greater than or equal to A-(mex) on the local scale. This places them in investment grade; the three main issuers other than the Federal Government, Semi-Private agencies and Domestic Financial Institutions represent 16% of the basic capital as of September 2011. Additionally, the investment exposure with the same issuer other than the Federal Government that represents a concentration greater than or equal to 5% of the Net Capital as of September 2011 has a rating of at least AA+(mex) and is comprised of (term in weighted average, amount in million pesos and interest rate): exchange listed debt certificates and Pemex bonds with a 5-year 5-month maturity for Ps. 10,994 at 4.2%; exchange listed debt certificates, certificates of deposit and promissory notes of Banco Santander with a 1-year 2-month maturity for Ps. 10,116 at 4.9%; exchange listed debt certificates and certificates of deposit of Banco Inbursa with a maturity of 11 months for Ps. 7,152 at 4.7%; exchange listed debt certificates and certificates of deposit of Bancomer with a 10-month maturity for Ps. 6,135 at 4.9%; and exchange listed State and Municipal government loan securitization certificates with a 25-year 5-month maturity for Ps. 3,456 at 6.1%.

For derivatives, the exposure is (Ps. 4,941), of which 99.0% is rated at least A-(mex) on the local scale, which places them at investment grade; the three main counterparties other than the Federal Government, Semi-Private agencies and Domestic Financial Institutions represent 3% of the basic capital as of September 2011.

Regarding Casa de Bolsa Banorte, the exposure to credit risk of the investments in securitieswas Ps. 314, of which 100% has a rating greater than or equal to AA+(mex) on the local scale. This places them in investment grade; the three main issuers other than the Federal Government, Semi-Private agencies and Domestic Financial Institutions represent 15% of the basic capital as of September 2011. Additionally, the exposure of investments to the same issuer other than the Federal Government that represents a concentration greater than or equal to 5% of the Net Capital as of September 2011 has a rating of at least AA+(mex) and they are international investments of Deutsche Bank with a 1-year 5-month maturity for Ps. 314 at 8.2%. There are no operations for derivatives financial instruments.

Arrendadora y Factor Banorte have no investments in securities, nor derivatives financial instruments.

As of December 31, 2011, the risk of exposure in investment in securities of Ixe Banco is Ps. 42,480. 58.7% of the total is in instruments with a government or quasi-government counterparty; 24.3% is from banks and 17.0% is private investors.

The credit risk exposure for derivatives financial instruments at the close of the fourth quarter of 2011 is Ps. 111. The total is distributed as follows: 26.1% from banks and 73.9% private investors.

The credit risk exposure of the investments in securities risk of Ixe Casa de Bolsa is Ps. 20,332. 69.1% of the total is in instruments with a government or quasi-government counterparty and 30.9% is with banks. There are no operations for derivatives financial instruments.

Ixe Automotriz has no investments in securities or derivatives financial instruments.

The exposure in investments in securities of Fincasa Hipotecaria is Ps. 16 and it has no derivatives.

For Ixe Soluciones, the risk exposures of investments in securities is Ps. 221 in privately issued bonds. Ixe Soluciones has no position in derivatives financial instruments.

Risk Diversification

In December 2005, the CNBV issued the "General Rules for Risk Diversification in Performing Asset and Liability Transactions Applicable to Credit Institutions".

These regulations require that the Banks perform an analysis of the borrowers and/or loans they hold to determine the amount of their "Common Risk". Also, the Financial Group must have the necessary documentation to support that a person or group of persons represents a common risk in accordance with the assumptions established under such rules.

In compliance with the risk diversification rules for asset and liability transactions, the following information regarding Banco Mercantil del Norte is provided below:

Basic capital as of September 30, 2011	**Ps. 42,597**
I. Financings whose individual amounts represent more than 10% of basic capital:	
Credit transactions	
Number	3
Overall amount	13,975
% in relation to basic capital	33%
Money market transactions	
Number	-
Overall amount	-
% in relation to basic capital	0%
Overnight transactions	
Number	-
Overall amount	-
% in relation to basic capital	0%
II. Maximum amount of financing with the three largest debtors and common risk groups	**Ps. 22,841**

In compliance with the risk diversification rules for asset and liability transactions, the following information regarding Arrendadora y Factor Banorte is provided below:

Basic capital as of September 30, 2011	**Ps. 2,395**
I. Financings whose individual amounts represent more than 10% of basic capital:	
Credit transactions	
Number	14
Overall amount	5,411
% in relation to basic capital	226%
II. Maximum amount of financing with the three largest debtors and common risk groups	**Ps. 2,682**

In compliance with the risk diversification rules for asset and liability transactions, the following information regarding Ixe Banco is provided below:

Basic capital as of September 30, 2011	**Ps. 4,237**
I. Financings whose individual amounts represent more than 10% of basic capital (group level):	
Credit transactions	
Number	13
Overall amount	9,341
% in relation to basic capital	220%
Money market transactions	
Number	9
Overall amount	10,202
% in relation to basic capital	241%
Overnight transactions	
Number	-
Overall amount	-
% in relation to basic capital	0%
II. Maximum amount of financing with the three largest debtors and common risk groups	**Ps. 3,594**

In compliance with the risk diversification rules for asset and liability transactions, the following information regarding Ixe Automotriz is provided below:

Stockholders equity as of September 30, 2011	**Ps. 320**
I. Financings whose individual amounts represent more than 10% of stockholders' equity (group level):	
Credit transactions	
Number	4
Overall amount	198
% in relation to stockholders equity	62%
Money market transactions	
Number	-
Overall amount	-
% in relation to stockholders equity	0%
Overnight transactions	
Number	-
Overall amount	-
% in relation to stockholders' equity	0%
II. Maximum amount of financing with the three largest debtors and common risk groups	**Ps. 163**

In compliance with the risk diversification rules for asset and liability transactions, the following information regarding Fincasa Hipotecaria is provided below:

Stockholders equity as of September 30, 2011	**Ps. 707**
I. Financings whose individual amounts represent more than 10% of stockholders' equity (group level):	
Credit transactions	
Number	22
Overall amount	2,691
% in relation to stockholders equity	380%
Money market transactions	
Number	-
Overall amount	-
% in relation to stockholders equity	0%
Overnight transactions	
Number	-
Overall amount	-
% in relation to stockholders' equity	0%
II. Maximum amount of financing with the three largest debtors and common risk groups	**Ps. 582**

In compliance with the risk diversification rules for asset and liability transactions, the following information regarding Ixe Soluciones is provided below:

Stockholders equity as of September 30, 2011	**Ps. 424**
I. Financings whose individual amounts represent more than 10% of stockholders' equity (group level):	
Credit transactions	
Number	10
Overall amount	845
% in relation to stockholders equity	199%
Money market transactions	
Number	3
Overall amount	217
% in relation to stockholders equity	51%
Overnight transactions	
Number	-
Overall amount	-
% in relation to stockholders' equity	0%
II. Maximum amount of financing with the three largest debtors and common risk groups	**Ps. 354**

Market risk of Banco Mercantil del Norte

Value at risk

The exposure to market risk is determined through the calculation of the Value at Risk ("VaR"). The meaning of the VaR under this method is the potential day loss which could be generated in the valuation of the portfolios at a given date. This methodology is used both for the calculation of market risk and for the establishment and control of internal limits.

The Financial Group applies the nonparametric historical simulation method to calculate the VaR, considering for such purpose a 99% confidence level, using the 500 immediate historical scenarios, multiplying the result by a security factor that fluctuates between 3 and 4 depending on the annual Back Testing results calculated on the previous quarter, considering 10 days to dispose of the risk portfolio in question. These measures ensure that unforeseen volatiles are considered in the main risk factors that affect those portfolios.

The methodology is applied to all the portfolios of financial instruments on and off balance sheet, including money market and treasury transactions, capital, foreign-exchange and derivatives held for trading and hedging purposes, which are exposed to variations in their value due to changes in the risk factors affecting their market valuation (domestic and foreign interest rates, exchange rates and indexes, among others).

The average VaR for the portfolio of financial instruments was Ps. 2,392 for the last quarter in 2011.

	4Q10	1Q11	2Q11	3Q11	4Q11
VaR Banorte*	Ps. 1,600	Ps. 1,497	Ps. 1,640	Ps. 1,736	Ps. 2,392
Banorte net capital***	52,620	53,850	54,505	56,709	50,369
VaR / net capital Banorte	3.04%	2.78%	3.01%	3.06%	4.75%

* Quarterly Average.

*** Sum of net capital at the close of the quarter.

Also, the average of the VaR per risk factor for the Financial Group's portfolio of securities behaved as follows during the fourth quarter of 2011:

Risk factor	VaR
Domestic interest rate	Ps. 2,045
Foreign interest rate	331
Exchange rate	681
Total VaR	Ps. 2,392

The VaR for each of the risk factors presented is determined by simulating 500 historical scenarios of the variables comprising each of such factors, keeping constant the variables that affect the other risk factors shown. Also, the consolidated VaR for the Financial Group considers the correlations of all the risk factors influencing the valuation of the portfolios, the reason why the arithmetical sum of the VaR Factors does not match the individual amounts.

Operations with derivatives products

The Financial Group's individual VaR on a one-day time horizon for each type of trading and hedging derivatives for the fourth quarter of 2011 was:

Trading derivatives	4Q11	4Q10
Futures		
MEXDER rate futures	Ps. 2	Ps. 13
Exchange rate derivatives		
Forwards	1	-
Options	-	1
Interest rate options		
TIIE	3	3
LIBOR	1	1
Swap options		
LIBOR	-	2
TIIE	-	5
Interest rate swaps (IRS) and exchange rate		
TIIE swaps	12	11
LIBOR swaps	3	2
Cross currency exchange rate swaps	32	12
Total trading derivatives	**Ps. 54**	**Ps. 50**

Hedging derivatives	4Q11	4Q10
Swaps		
Cross currency exchange rate swaps for portfolio hedging in USD	Ps. -	Ps. 2
Cross currency exchange rate swaps for hedging obligations in USD	-	86
Cross currency exchange rate swaps for hedging bonds in USD	275	220
TIIE swaps for hedging obligations in Mexican pesos	18	30
TIIE swaps for hedging promissory notes in Mexican pesos	189	181
Interest rate options for hedging fixed rate portfolios	13	14
Total hedging derivatives	**Ps. 495**	**Ps. 533**

To calculate the VaR for each of the derivatives listed, the non-parametric historic simulation method is applied to a 99% level of confidence and a one-day horizon. For instance, the Value at Risk for TIIE Swaps is Ps. 12. This means that under normal conditions, 99 days out of every 100, the maximum potential loss is Ps. 12 in one day.

The trading and hedging derivatives' totals are the arithmetic sum of each VaR without considering any correlation among them.

Investments in securities

The Financial Group's individual VaR on a one-day time horizon for each type of trading securities for the fourth quarter of 2011 was:

Trading securities	4Q11	4Q10
Floating rate government bonds	Ps. 35	Ps. 11
Fixed rate government bonds	28	2
Securitization certificates	47	20
CEDES	7	2
US treasury bonds	-	1
PEMEX Eurobonds	8	29
UMS	-	6
Bank Eurobonds	21	37
Private company Eurobonds	8	8
Total	**Ps. 154**	**Ps. 116**

Securities at maturity	4Q11	4Q10
Floating rate government bonds	Ps. -	Ps. 52
Fixed rate government bonds	-	1
Securitization certificates	37	41
CEDES	9	-
Bank bonds	-	1
PEMEX bonds	115	90
UMS	54	64
Zero coupon bank bonds	2	8
Private company Eurobonds	-	-
Total	**Ps. 217**	**Ps. 257**

To calculate the VaR for each type of securities listed, the non-parametric historic simulation method is applied to a 99% level of confidence and a one-day horizon. For instance, the Value at Risk for exchange listed debt certificates is Ps. 47. This means that under normal condition, 99 days out of every 100 the maximum potential loss is Ps. 47 in one day.

The trading and hedging derivatives totals are the arithmetic sum of the VaR of each without considering any correlation among them.

Backtesting analysis

To validate the effectiveness of the measurements of the calculation of the daily VaR as a measurement of market risk, the Backtesting analysis is updated each week. This analysis makes it possible to compare the estimated results through the VaR with the actual results generated.

The Backtesting results for the Financial Group as of December 2011 are as follows:

During 2011, there were four surplus events due mainly to movements in the discount curves and USD/MXP FX.

Sensitivity analysis and tests under extreme conditions

To improve analysis and obtain the impact of any movements in risk factors, sensitivity analyses and tests under extreme conditions are performed periodically. These analyses foresee potential situations in which the Financial Group might suffer extraordinary losses from the valuation of the financial instruments in which it holds positions.

Sensitivity for derivatives' transactions

Sensitivity analysis on derivatives transactions is carried out as follows:

- Estimate gain or loss of the securities valuation in the event of:
  - A parallel change of +100 basis points of domestic interest rates.
  - A parallel change of +100 basis points of foreign interest rates.
  - A 5% devaluation in the MXP/USD and MXP/EUR exchange rate.

The results may be gains or losses depending on the nature of the derivative.

Trading derivatives	+100 bp domestic rates	+100 bp foreign rates	+5% exchange rate
Futures			
MEXDER futures	(Ps. 31)	Ps. -	Ps. -
Exchange rate derivatives			
Options			(1)
Forwards	-	-	9
Interest rate options			
TIIE	(16)	-	-
LIBOR	-	10	-
Swap options			
LIBOR	-	-	-
TIIE	-	-	-
Interest rate swaps (IRS) and exchange rate			
TIIE Swaps	32	-	-
LIBOR Swaps	-	(1)	(21)
Cross exchange rate Swaps	(47)	(2)	(198)
Total trading derivatives	**(Ps. 62)**	**Ps. 7**	**(Ps. 211)**

Hedging derivatives	+100 bp domestic rates	+100 bp foreign rates	+5% exchange rate
Rate swaps and exchange rate			
Cross currency exchange rate swaps for hedging obligations in USD	Ps. -	Ps. -	Ps. -
Cross currency exchange rate swaps for hedging bonds in USD	(281)	496	(1,767)
TIIE swaps for hedging obligations in Mexican pesos	124	-	-
TIIE swaps for hedging promissory note in Mexican pesos	759	-	-
TIIE caps for fixed rate loan hedging	26	-	-
Total hedging derivatives	**Ps. 628**	**Ps. 496**	**(Ps. 1,767)**

In the event of any of above scenarios, the losses or gains of the trading securities will directly impact the Financial Group's consolidated income statements and capital hedging derivatives.

Based on the above analysis, it can be concluded that the portfolio of trading derivatives is exposed mainly to increases in domestic interest rates and exchange rate devaluations; however, the portfolio of hedging derivatives is exposed to foreign interest rate increases without considering the gain of the hedged liability.

Sensitivity for securities' trading

Sensitivity analysis on derivatives transactions is carried out as follows:

- Estimate gain or loss of the securities valuation in the event of:
  - A parallel change of +100 basis points of domestic interest rates.
  - A parallel change of +100 basis points of foreign interest rates.
  - A 5 devaluation in the MXP/USD and MXP/EUR exchange rate.
  - A change of +5 basis points in the spreads of government bonds.
  - A change of +50 basis points in sovereign risk.
  - A change of +10% in the IPC (Consumer Price Index).

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 sovereig n risk
Floating rate government bonds	(Ps. 177)	Ps. -	Ps. -	(Ps. 149)	Ps. -
Fixed rate government bonds	(208)	-	-	-	-
Exchange listed debt certificates	(16)	-	-	-	-
CEDES	(4)	-	-	-	-
PEMEX bonds	-	(26)	57	-	(5)
Bank bonds in USD	-	(48)	166	-	-
Private company bonds	(13)	-	-	-	-
Total	**(Ps. 418)**	**(Ps. 74)**	**Ps. 223**	**(Ps. 149)**	**(Ps. 5)**

Securities at maturity	+100 bp domestic rates	+100 bp foreign rates	+5% exchange rate	+5 bp rate spreads	+50 bp sovereign risk
Variable rate government bonds	Ps. -	Ps. -	Ps. -	Ps. -	Ps. -
Securitization certificates	(70)	-	12	-	-
Promissory note payable upon maturity	19	-	-	-	-
Bank bonds	(1)	-	-	-	-
PEMEX eurobonds	-	(340)	988	-	(163)
CEDES	-	(1)	63	-	-
UMS	-	(114)	454	-	(57)
Zero coupon bank bonds	(1)	-	-	-	-
Private bonds in dollars	-	(8)	59	-	-
Total	**(Ps. 53)**	**(Ps. 463)**	**Ps. 1,576**	**Ps. -**	**(Ps. 220)**

In the event of any of above scenarios, the losses or gains of the operations with trading securities and securities held to maturity will directly impact the Financial Group's results.

In conclusion, trading securities and securities held to maturity are exposed to domestic interest rate increases, foreign rate increases, interest rate spreads and deterioration of the sovereign risk.

Market risk for Ixe Banco

To calculate the VaR, the non-parametric historical simulation methodology is used, considering a confidence level of 95% and using the last 100 historical scenarios.

The average VaR for Ixe Banco's financial instruments portfolio was Ps. 13 for the last quarter in 2011.

	4Q10	1Q11	2Q11	3Q11	4Q11
VaR Ixe Banco*	Ps. 11	Ps. 17	Ps. 13	Ps. 11	Ps. 13
Ixe Banco net capital***	6,511	6,468	7,662	7,366	7,577
Ixe Banco VaR/net capital	0.17%	0.26%	0.17%	0.15%	0.17%

* Quarterly Average.
*** Sum of net capital at the close of the quarter.

The one day time horizon VaR per Business Unit prior to the fourth quarter of 2011 is as follows:

	Total 4Q11	
Ixe Banco	**Average**	**Closing**
Value at Risk 95% 1 day		
Money market	8.45	8.63
Capital market	4.94	3.70
Foreign exchange market	0.01	0.02
Derivatives market	0.63	0.16
Treasury	14.05	16.94
TOTAL	12.58	16.43
Diversification effect	(15.51)	(13.03)
Net capital	7.577	7.577
VaR / Net Capital	**0.17%**	**0.22%**

The value at risk does not consider instruments held to maturity.

Market risk for Ixe Casa de Bolsa

The average VaR for Ixe Casa de Bolsa's securities' portfolio was Ps. 13 for the last quarter 2011.

	4Q10	1Q11	2Q11	3Q11	4Q11
VaR Ixe Casa de Bolsa*	Ps. 3	Ps. 4	Ps. 3	Ps. 3	Ps. 2
Net capital Ixe Casa de Bolsa***	663	544	565	578	672
VaR/Net capital Ixe Casa de Bolsa	0.41%	0.69%	0.54%	0.45%	0.24%

* Quarterly Average.
*** Sum of net capital at the close of the quarter.

The one day time horizon VaR per Business Unit prior to the fourth quarter of 2011 is as follows:

	Total 4Q11	
Ixe Casa de Bolsa	**Average**	**Closing**
Value at Risk 95% 1 day		
Money market	1.56	1.80
Capital market	0.18	0.10
Foreign exchange market	0.00	0.00
Derivatives market	0.00	0.00
Treasury	0.13	0.19
Total	1.64	1.77
Diversification effect	(0.23)	(0.33)
Net capital	672	672
VaR / Net Capital	**0.24%**	**0.26%**

The value at risk does not consider instruments held to maturity.

Market risk for Fincasa Hipotecaria

The average VaR for the Fincasa Hipotecaria loans for the fourth quarter of 2011 was Ps. 4, which represents 0.59% of the net capital as of December 2011. As of December 30, 2011, the VaR was 2.59 representing 0.37% of the net capital as of December 2011.

The historical simulation methodology with a 100-day horizon was used; policy dictates that estimates consider a 95% confidence level at a 1-month horizon.

	Total 4Q11	
Fincasa Hipotecaria	**Average**	**Closing**
VaR Balance	4.22	2.59
Net capital	713	707
VaR / Net Capital	**0.59%**	**0.37%**

Market risk for Ixe Automotriz

The average VaR for the Ixe Automotriz loans for the fourth quarter of 2011 was Ps. 1, which represents 0.28% of the net capital as of December 2011. As of December 30, 2011, the VaR was 1.00 representing 0.32% of the net capital as of December 2011.

The historical simulation methodology with a 100-day horizon was used; policy dictates that estimates consider a 95% confidence level at a 1-month horizon.

	Total 4Q11	
Ixe Automotriz	**Average**	**Closing**
VaR Balance	0.86	1.00
Net capital	305	319
VaR / Net Capital	**0.28%**	**0.32%**

Market risk for Ixe Soluciones

The average VaR for the Ixe Soluciones loans for the fourth quarter of 2011 was Ps. 3, which represents 0.99% of the net capital as of December 2011. As of December 30, 2011, the VaR was 3.34 representing 1.44% of the net capital as of December 2011.

The historical simulation methodology with a 100-day horizon was used; policy dictates that estimates consider a 95% confidence level at a 1-month horizon.

	Total 4Q11	
Ixe Soluciones	**Average**	**Closing**
VaR Balance	3.22	3.34
Net capital	325.65	304.12
VaR / Net Capital	**0.99%**	**1.43%**

Backtesting analysis

To validate the effectiveness of the measurements of the calculation of the daily VaR as a measurement of market risk, the Backtesting analysis is updated on a daily basis. This analysis makes it possible to compare the estimated results through the VaR with the actual results generated; furthermore, a statistical test, known as the Kupiec test, is conducted as back up.

During 2011, there were 11 surplus events for Ixe Banco due mainly to the volatility; whereas for Ixe Casa de Bolsa there were 13 such events for the same reason.

Sensitivity analysis and tests under extreme conditions

To improve analysis and obtain the impact of any movements in risk factors, sensitivity analyses and tests under extreme conditions are performed periodically. These analyses foresee potential situations in which the Financial Group might suffer extraordinary losses from the valuation of the financial instruments in which it holds positions.

Sensitivity for operations with securities and derivatives financial instruments

Sensitivity analysis on securities and derivative transactions is carried out as follows:

- Estimate gain or loss of the securities valuation in the event of:
  - A parallel change of +100 basis points of domestic interest rates.
  - A parallel change of +100 basis points of foreign interest rates.
  - A 5 devaluation in the MXP/USD and MXP/EUR exchange rate.
  - A change of +5 basis points in spreads of government bonds.
  - A change of -5% in the IPC (Consumer Price Index).
  - A change of +5 basis points in spreads of government bonds.
  - As stress analysis: +10% domestic interest rates; +3.5% foreign interest rates; fixed foreign exchange rate at 15.50 pesos per dollar; and +20 basis points rate spread.

The results may be gains or losses depending on the nature of the instrument. Such position contemplates the Bank and Broker Dealer's operations.

	TIIE+100BP	LIBOR+100 BP	TC+5%	ST GUBER+5 BP	IPC-5%	ST PRIV/BNC+5 BP	TOTAL	TIIE 10% LIBOR 3.5% TC 15.50 ST 20 BP
Money market	(88.11)	0.17	(0.33)	(40.39)	-	(31.62)	(160.28)	(744.74)
Derivatives	(0.69)	-	-	-	-	-	(0.69)	(3.59)
Capital	-	-	-	-	(12)	-	(12)	-
Foreign exchange	-	-	0.04	-	-	-	0.04	0.25
Treasury	41.06	(17.99)	16.54	(0.86)	(21.98)	(6.06)	10.71	226.66
Total	**(47.74)**	**(17.82)**	**16.25**	**(41.25)**	**(33.98)**	**(37.68)**	**(162.22)**	**(521.42)**

In the event of any of above scenarios, the losses or gains of the trading securities will directly impact the Financial Group's consolidated income statements and capital hedging derivatives.

In conclusion, trading securities and securities held to maturity are exposed to increases in domestic interest rates, foreign rates, and interest rate spreads.

Liquidity and balance sheet risk

In order to provide a measurement of liquidity risk in the Financial Group and provide follow-up consistently, the Financial Group relies on the use of financial ratios, which include the Liquidity Ratio (Current Assets/Liquid Liabilities). Liquid assets include cash and cash equivalents, trading securities and Securities available for sale. By the same token, liquid liabilities include immediate demand deposits, immediate demand interbank loans and short-term loans. The liquidity ratio at the end of the fourth quarter of 2011 was 91.3%, while the average during the quarter was 94.8%, as shown below:

			End of quarter		
	4Q10	1Q11	2Q11	3Q11	4Q11
Liquid assets	Ps. 132,713	Ps. 126,759	Ps. 127,601	Ps. 118,934	Ps. 164,484
Liquid liabilities	160,432	142,401	144,363	151,706	180,088
Liquidity ratio	82.7%	89.0%	88.4%	78.4%	91.3%

			Average		
	4Q10	1Q11	2Q11	3Q11	4Q11
Liquid assets	Ps. 125,871	Ps. 135,363	Ps. 138,778	Ps. 139,508	Ps. 157,210
Liquid liabilities	135,251	138,192	139,777	148,421	165,791
Liquidity ratio	93.1%	98.0%	99.3%	94.0%	94.8%

Average calculation considering the Liquidity Ratio's weekly estimates.

To quantify and follow up on the liquidity risk for its dollar portfolio, the Financial Group uses the criteria established by Banco de México for the determination of the Liquidity Ratio. It facilitates an evaluation of the differences between the flows of assets and liabilities in different time periods. The above promotes a healthier distribution of terms for these assets.

Also, to prevent concentration risks in relation to payment terms and dates for the Financial Group, gap analysis is performed to match the resources with the funding sources, which detects any concentration in a timely fashion. These analyses are performed separately by currency (Mexican pesos, foreign currency and UDIS).

Furthermore, balance sheet simulation analyses are prepared for the Financial Group, which provides either a systematic or dynamic evaluation of the future behavior of the balance sheet. The base scenario is used to prepare sensitivity analyses for movements in domestic, foreign and real interest rates. Also, tests are performed under extreme conditions to evaluate the result of extreme changes in interest, funding and exchange rates.

As an evaluation measure of the effectiveness of the simulation model, the projections are periodically compared with actual data. Using these tests, the assumptions and methodology used can be evaluated and, if necessary, adjusted.

The operation with derivatives allows leveling the differentials between assets and liabilities in different maturity gaps, minimizing the Liquidity Risk. Considering only the contractual obligations of the different types of hedging and trading swaps that the Financial Group operates, a maturity analysis is found below:

Net position			
Gap	**Asset position**	**Liability position**	**Net**
1 month	415,367	(608,365)	(192,998)
3 months	2,161,094	(2,257,262)	(96,168)
6 months	1,092,209	(1,177,351)	(85,142)
1 year	2,160,134	(2,532,907)	(372,773)
2 years	4,186,826	(4,746,513)	(559,687)
3 years	10,567,620	(10,926,412)	(358,792)
4 years	2,533,577	(2,655,652)	(122,075)
5 years	2,207,140	(2,247,957)	(40,817)
7 years	7,946,184	(9,341,216)	(1,395,032)
10 years	4,764,113	(4,688,489)	75,624
15 years	474,836	(360,083)	114,753
20 years	170,664	(150,147)	20,517
> 20 years	99,081	(100,674)	(1,593)
Total	**38,778,845**	**(41,793,028)**	**(3,014,183)**

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 106.26%. Additionally, the liquidity ratio (liquid assets / deposits) as of December 2011 was 25.40%.

Ixe Banco	**4Q10**	**1Q11**	**2Q11**	**3Q11**	**4Q11**
Gap accumulated over 1 month (MXP + UDIS)	(Ps. 371)	Ps. 468	Ps. 128	(Ps. 1,208)	Ps. 548
Liquid assets	8,717	8,855	5,455	5,470	8,052
Net capital	6,512	6,468	7,662	7,366	7,577
Liquidity vs. net capital	**133.87%**	**136.90%**	**71.20%**	**74.26%**	**106.26%**
Liquidity ratio	**28.98%**	**28.68%**	**17.88%**	**17.77%**	**25.40%**

The ratio at the end of 4Q11 for Ixe Casa de Bolsa was 57.50%.

Ixe Casa de Bolsa	**4Q10**	**1Q11**	**2Q11**	**3Q11**	**4Q11**
Gap accumulated over 1 month (MXP + UDIS)	Ps. 0.87	Ps. 0.00	Ps. 2.22	Ps. 2.51	Ps. 2.56
Liquid assets	403	203	387	387	386
Net capital	663	544	565	578	672
Liquidity vs. net capital	**60.77%**	**37.27%**	**68.49%**	**66.92%**	**57.50%**

The liquidity ratio vs. net capital for Fincasa Hipotecaria as of December 31, 2011 was 5.33%.

Fincasa Hipotecaria	USO – December 2011
Gap accumulated over 1 month (MXP + UDIS)	(Ps. 1,250.33)
Gap accumulated over 3 month (MXP + UDIS)	(2,022.74)
Liquid assets	37.69
Net capital	706.64
Basic capital	692.21
Liquidity vs. net capital	**5.33%**
Liquidity vs. net capital	**5.44%**

The liquidity ratio vs. net capital for Ixe Automotriz as of December 31, 2011 was 1.31%.

Ixe Automotriz	USO – December 2011
Gap accumulated over 1 month (MXP + UDIS)	(Ps. 775.12)
Gap accumulated over 3 month (MXP + UDIS)	(799.50)
Liquid assets	4.11
Net capital	318.75
Basic capital	317.79
Liquidity vs. net capital	**1.31%**
Liquidity vs. net capital	**1.31%**

The liquidity ratio vs. net capital for Ixe Soluciones as of December 31, 2011 was 0.07%.

Ixe Soluciones	USO – December 2011
Gap accumulated over 1 month (MXP + UDIS)	(Ps. 4.33)
Gap accumulated over 3 month (MXP + UDIS)	(1,041.94)
Liquid assets	0.21
Net capital	304.12
Basic capital	304.12
Liquidity vs. net capital	**0.07%**
Liquidity vs. net capital	**0.07%**

Operational risk

The Financial Group established a formal operational risk department denominated "Operational Risk Management Department" as part of its Risk Management Strategy.

The Financial Group defines operational risk as the potential loss due to failures or deficiencies in internal controls because of operations processing and storing or in data transfer, and adverse administrative and judicial rulings, frauds or theft (this definition includes technological and legal risk).

Operational Risk Management's objectives are: a) to enable and support the organization to reach its institutional objectives through operational risk prevention and management; b) to ensure that the existing operational risks and the required controls are duly identified, evaluated and aligned with the organization's risk strategy; and c) to ensure that operational risks are duly quantified in order to assign the proper capital for operational risk.

Operational risk management's cornerstones

I. Policies, objectives and guidelines

The Financial Group has documented the operational risk policies, objectives, guidelines, methodologies and responsible areas.

The Operational Risk Department works closely with the Controllership Department to promote effective Internal Control that defines the proper procedures and controls the mitigation of Operational Risk. The Internal Audit Department follows up on compliance.

The Conmptroller, as part of the Internal Control System, performs the following risk-mitigating activities: a) internal control validation; b) institutional regulations' management and control; c) monitoring of operating process' internal control by means of control indicator reports submitted by the process controllers in the various areas; d) money-laundering prevention process management; e) regulatory provisions controls and follow-up; and f) analysis and assessment of operating processes and projects with the participation of the directors in each process in order to ensure proper internal control.

II. Quantitative and qualitative measuring tools

Operating Losses Database

To record operational loss events, a system is in place that enables the central information supplier areas to directly record such events online, which are classified by type of event in accordance with the following categories (in line with the Basle II Agreement proposals):

Types of events	Description
Internal fraud	Losses derived from actions intended to defraud, illegally seize ownership or evade the regulations, law or policies of the Institution (excluding diversity/discrimination events) involving at least one internal party.
External fraud	Losses derived from actions taken by third parties intended to defraud, illegally seize ownership or evade the law.
Labor relations and job safety	Losses derived from actions inconsistent with laws or employment, health or safety agreements, or which result in the payment of claims for damages to personnel or diversity/discrimination claims.
Customers, products and business practices	Losses derived from negligence or unintentional breaches which prevent compliance with professional obligations with customers (including trust and adaptation requirements or due to the nature or design of a product.
Natural disasters and other events	Losses due to damage or harm to physical assets due to natural disasters or other events.
Business incidences and system failures	Losses derived from incidences in the business and system failures.
Process execution, delivery and management	Losses derived from errors in transaction processing or in process management, as well as relations with counterparties and suppliers.

This historical database provides the statistics of the operating events experienced by the Financial Group in order to be able to determine the respective trends, frequency, impact and distribution; furthermore, the database will serve to calculate capital requirements for advanced models in the future.

Legal and tax contingencies database

For the recording and follow-up of legal, administrative and tax issues that may arise from adverse unappealable rulings, an internal system called "Legal Risk Issues Monitoring System" (SMARL) was developed. This system enables the central data supplying areas to record such events directly and on-line, which are then classified by company, sector and legal issue, among others.

As part of the Financial Group's Legal Risk management initiative, legal and tax contingencies are estimated by the attorneys that process the issues based on an internal methodology. This makes it possible to create the necessary book reserve to face such estimated contingencies.

Risk management model

The Financial Group and its subsidiaries have defined objectives, which are achieved through different plans, programs and projects. Compliance with such objectives may be adversely affected due to operating risks, for which reason a methodology must be in place to manage them within the organization. Consequently, operational risk management is now an institutional policy defined and supported by senior management.

To perform operational risk management, each of the operating risks involved in the processes must be identified in order to analyze them. In this regard, the risks identified by Regulations Control are recorded in a risk matrix and processed to eliminate or mitigate them (trying to reduce their severity or frequency) and to define the tolerance levels, as applicable. In this regard, the risks identified by the Conmptroller are recorded in a risk matrix and processed to eliminate or mitigate them (trying to reduce their severity or frequency) and to define the tolerance levels, as applicable.

III. Calculating capital requirement

Pursuant to the Operational Risk Capitalization Rules, the Financial Group has adopted a Basic Model, which is calculated and reported periodically to the authorities. Assets subject to operational risk are found in the corresponding note of the Rules.

IV. Information and reporting

The information generated by the databases and the Management Model is processed regularly in order to report the main operating events detected, trends, identified risks (risk matrix) and the mitigating strategies to the Risk Policy Committee and the Board of Directors. The status of the principal initiatives for operational risk mitigation implemented by the different areas of the organization is also reported.

Technological risk

It is defined as the potential loss due to damage, interruption, alteration or failures in the use of or dependence on hardware, software, IT systems, applications, networks and any other data distribution channel for rendering services to customers. Technology risk forms an inherent part of operational risk, for which reason its management is performed throughout the entire organization

To address operational risk associated with data integrity, the "Integrity Committee" was created. Its objectives include aligning data security and control efforts to a preventive approach, defining new strategies, policies, processes or procedures and solving data security issues that affect or may affect the Financial Group's assets.

The Financial Group performs the functions for technological risk management set forth by the Commission under the guidelines established by the institutional regulations and the Integrity Committee.

To address the operational risk caused by high impact external events, the Financial Group has a Business Continuity Plan (BCP) and Disaster Recovery Plan (DRP) based on a same-time data replication system at an alternate computer site. This guarantees the back-up and recovery of critical applications in the event of an operational contingency.

Legal risk

Legal risk is defined as the potential loss due to noncompliance with applicable legal and administrative provisions, adverse administrative and judicial rulings, and imposed penalties.

The legal risk must be measured as an inherent part of operating risk in order to understand and estimate its impact. Therefore, those legal issues which result in actual operating losses in the SMARL system are recorded in the database of operational events in accordance with a predetermined classification.

Based on the statistics of the current legal issues and real loss events, the Financial Group can identify specific legal or operating risks, which are analyzed in order to eliminate or mitigate them in an attempt to reduce or limit their future occurrence or impact.

Operational Risk: IXE

IXE has an operational risk management manual and an internal control system that covers operating, technological risks and incorporates policies, procedures, roles and responsibilities of government agencies in operational risk management. It also has processes, policy and procedures manuals for the operational processes in every single area of the institution.

For operational risk management, it has a model to identify, evaluate, mitigate, manage and monitor operational, legal and technological risk throughout the entire company, and the support of the process owners and operational risk delegates.

To record operational loss events, IXE uses a database that enables the central information providing areas to report the events directly. Such events are classified by type and line of business. This classification renders statistics of the operational events so their trends, frequency, impact and distribution may be determined.

The functions of technological risk management set forth by the Commission are carried out under the guidelines established by the institutional norms.

Moreover, IXE has a business continuity plan and a disaster recovery plan that back up and recover the institution’s critical applications if needed.

A database is used to record and follow up, and classify legal, administrative and tax issues that may lead to unfavorable resolutions not subject to appeal, and it enables the central information providers to report such matters directly.

Pursuant to the operational risk capitalization rules in effect, Ixe has adopted the basic model that is calculated and reported regularly to the competent authority.

37 - MEMORANDUM ACCOUNTS

	2011	2010
Operations on behalf of third parties		
Banks customers (current accounts)	Ps. 70	Ps. 9
Settlement of customer transactions	76	1
Customer securities received in custody	497,608	172,922
Customer repurchase agreements	58,841	28,647
Securities lending transactions on behalf of clients	-	-
Collateral pledged on account of clients	5,981	-
Managed trusts	4,181	4,348
Investment banking transactions on account of third parties (net)	75,989	-
	Ps. 642,746	**Ps. 205,927**
Proprietary transactions		
Other contingent assets and liabilities (unaudited)	Ps. 255	Ps. 256
Credit commitments (unaudited)	30,562	23,558
Deposits of assets	3,107	2,429
Assets in trusts or under mandate (unaudited)	248,561	124,723
Managed assets in custody (unaudited)	377,098	230,140
Investment banking transactions on account of third parties (net) (unaudited)	-	78,069
Collateral received by the institution	124,475	62,224
Collateral received and sold or given as a pledge by the entity	66,970	36,195
Interest accrued but not charged of past due loans	327	136
	Ps. 851,355	**Ps. 557,730**

38 - COMMITMENTS

As of December 31, 2011 and 2010, the Financial Group had the following contingent obligations and commitments:

- Other contingent obligations and opening of credits totaling Ps. 30,817 (Ps. 25,640 in 2010), which are recorded in memorandum accounts.
- Certain operating equipment is leased. Total property lease payments for the years ended December 31, 2011 and 2010, were Ps. 202 and Ps. 207, respectively.

39 - CONTINGENCIES

As of December 31, 2011, there are lawsuits filed against the Financial Group in civil and business court cases; however, the Financial Group’s attorneys consider that the claims filed are unsubstantiated and, in the event of an adverse ruling, they would not significantly impact the Financial Group's consolidated financial position. As of December 31, 2011, the Financial Group has recorded a reserve for contentious matters of Ps. 150 (Ps. 118 in 2010).

40 - PREVENTIVE MECHANISM FOR SAVINGS' PROTECTION

The objective of the Institute for the Protection of Bank Savings (IPAB) is to protect the deposits of small customers and thereby contribute to maintaining the financial system's stability and the proper functioning of the payments systems.

According to the Law of Bank Savings Protection (LPAB), the IPAB manages a bank savings protection system that guarantees the payment of bank deposits or loans or credits to Full Service Banking Institution up to an amount equivalent to 400 thousand UDIS per individual or business entity, regardless of the number or type of such obligations in the customer's favor and charged to a single bank.

On July 30, 2007, general rules were issued for addressing joint accounts or those in which there is more than one account holder, referred to in art.14 of the LPAB, as well as the rules banks must observe for classifying information relative to transactions associated with guaranteed obligations.

The IPAB plays a major role in the implementation of the LPAB resolutions methods and the Law of Credit Institutions (LIC) as timely and adequate mechanisms for salvaging and liquidating Full Service Banking Institutions in financial trouble that may affect their solvency. The purpose is to provide maximum protection to the public while minimizing the negative impact that salvaging an institution may have on others in the banking system.

During 2011 and 2010, the amount of contributions to the IPAB payable by Banorte for fees amounted to Ps. 1,284 and Ps. 1,084, respectively.

41 – NEW ACCOUNTING GUIDELINES

On October 6, 2011, the Commission issued a resolution to the General Provisions for Banking Institutions modifying Circular B-6 "Loan Portfolios", by which it clarifies the specific treatment applicable to loan restructuring and renewals. Furthermore, the circular clarifies the conditions for considering a loan as performing or past-due. This modification will become effective on March 1, 2012.

The main changes to the provisions mentioned above are:

- The loan restructuring or renewal fees shall be deferred during the term of the loan.
- "Sustained payment" requires that the loan amortizations cover at least 20% of the principal or the total amount of the interest of any type that have been accrued according to the restructuring or renewal payments model.
- If various loans granted to a single borrower are consolidated by means of a restructuring or renewal, the loan will be treated as the worst of the loans involved in the consolidation.
- In order to prove sustained payment, the Financial Group shall show the evidence of the borrower's payment capacity to the Commission.
- This includes the treatment for loans with principal and interest amortizations that are restructured or renewed before 80% of the original term has elapsed. It also mentions the treatment for the time during the last 20% of the original term.
- Conditions by which the original loan may undergo changes without being considered as a restructuring are also clarified.

42 – SUBSEQUENT EVENTS

a. Acquisition of 50% of Ixe Tarjetas de Crédito S.A. de C.V.

Banorte acquired 50% of the capital stock of Ixe Tarjetas, S.A. de C.V., Sociedad Financiera de Objeto Múltiple (Ixe Tarjetas) by means of an agreement entered into with CMC Holding Delaware, Inc. Such agreement establishes that the transfer of the shares in favor of Banorte would be carried out on January 1, 2012 and, in exchange, Banorte paid in advance 62,653,160 USD as a consideration. The acquisition consisted of 50,000 Class I, Series B shares and 820,220,500 Class II, Series B shares; all of which represent 50% of the stake in Ixe Tarjetas. With the aforementioned acquisition by Banorte and with 50% in possession of Ixe Banco, the Financial Group holds 100% of Ixe Tarjetas' capital stock, fully controlling it as of January 1, 2012. This transaction registered Ps. 426 in goodwill.

b. Strategic merger with Afore XXI

On January 16, 2012, the mergers of Afore Banorte and Afore XXI and their respective Siefores became effective through registering such Agreements in the Public Registry of Commerce. Derived from this merger, Banorte is currently evaluating the loss of control over the Afore; the effect on the assets and liabilities if not consolidated would be a reduction of Ps. 1,614 and Ps. 317, respectively.

c. Merger of Broker Dealers

On January 2, 2012, the regulating bodies authorized the merger of Casa de Bolsa Banorte as the merged entity and Ixe Casa de Bolsa as the merging entity. The merger will become effective as of January 1, 2012.