2010 Annual Report

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

IN ACCORDANCE WITH REGULATIONS APPLICABLE TO FINANCIAL INFORMATION OF CONTROLLING CORPORATIONS OF FINANCIAL GROUPS SUBJECT TO SUPERVISION BY THE COMISIÓN NACIONAL BANCARIA Y DE VALORES PUBLISHED IN THE DIARIO OFICIAL DE LA FEDERACION ON APRIL 27th, 2005

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I. MANAGEMENT ANALYSIS AND COMMENTS

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

- ✓ *The figures for 2008 are not totally comparable with those of 2009 and 2010 due to changes in the accounting criteria published by CNBV on April 27th and May 28th, 2009 applicable to credit institutions and controlling companies of financial groups. Effects from the reclassifications resulting from the retroactive application of these accounting changes are presented in Annex 4 of the Audited Financial Statements.*
- ✓ *The arithmetic operations were carried out in pesos and in the following tables they are presented in millions of 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.*
- ✓ *In accordance with the established accounting norms, the re-expression of financial statements as of January 2008 is does no longer apply.*

A) OPERATING RESULTS

SELECTED FINANCIAL INFORMATION

	2010	2009	2008
Net Income Grupo Financiero Banorte (GFNorte) (*)	$6,705	$5,854	$7,014
Total Assets GFNorte (*)	$590,558	$567,138	$577,025
Total Liabilities GFNorte (*)	$540,331	$522,164	$537,279
Stockholders' equity GFNorte (*)	$50,227	$44,974	$39,746
Stockholders' equity GFNorte excluding minority interest (*)	$46,117	$41,366	$37,802
INFORMATION PER SHARE			
Net income per share (pesos)	$3.32	$2.90	$3.48
Dividend approved per share (pesos) (1)	$0.52	$0.52	$0.47
Book value per share (pesos) (excluding minority interest)	$22.85	$20.50	$18.77
Shares outstanding (millions)	2,018.3	2,017.8	2,014.0
INFRASTRUCTURE AND EMPLOYEES			
Bank branches (2)	1,134	1,088	1,117
ATMs (automated teller machines)	5,004	4,478	4,136
Full-time employees	19,747	19,311	19,997
Full-time employees and professional services	19,759	19,327	20,008
PROFITABILITY RATIOS			
NIM before REPOMO	4.2%	4.3%	6.8%
NIM adjusted for credit risks	2.9%	2.8%	4.7%
Return on Assets (ROA)	1.2%	1.0%	1.9%
Return on Equity (ROE)	15.5%	14.9%	19.7%
OPERATIONS			
Efficiency Ratio (4)	52.3%	52.6%	51.2%
Operating Efficiency Ratio (5)	3.0%	3.0%	4.3%
Liquidity Ratio	84.0%	63.2%	47.1%
ASSET QUALITY INDICATORS			
Past due loan ratio	2.5%	2.5%	2.0%
PDL Reserve coverage	123.7%	122.4%	135.2%
CAPITALIZATION RATIO (BANKING SECTOR) (6)	**16.1%**	**16.8%**	**15.0%**

(*) Million Pesos
(1) The Shareholders' Assembly approved a dividend of Ps 0.52 per share to be paid in three installments. The first payment of Ps 0.17 per share was made in October 2010. The second and third payments of Ps 0.17 and Ps 0.18 per share respectively, will be paid in February and May 2011.
(2) Includes bank modules and excludes agencies abroad.
(3) Non-financial expense / (Total Revenues - REPOMO Margin + Provisions).
(4) Non-financial expense / Average Total Assets.
(5) The capitalization ratio at closing of 2008 is higher compared to the one published in the 2008 report, due to an adjustment in computing subordinated obligations as Tier 2 Capital.

MANAGEMENT ANALYSIS AND COMMENTS

In 2010 GFNorte reported profits of Ps 6.705 billion, 15% more than in 2009 and (4%) less than in 2008. In this period, Banking Sector profits, excluding the Afore and considering 92.72% participation, totaled Ps 5.387 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.

Grupo Financiero Banorte

Consolidated Income Statement of the Group

	2010	2009	2008
NII before REPOMO	$22,732	$23,183	$22,585
+ REPOMO-Margin	-	-	-
= NII before credit risks	**22,732**	**23,183**	**22,585**
- Preventive provisions for Loan Losses	6,889	8,286	6,896
- Loan Loss Sharing Provisions Fobaproa	-	-	-
= NII adjusted for credit risks	**15,843**	**14,897**	**15,689**
+ Non interest income (1)	11,114	9,177	8,284
= Total Net Income	**26,957**	**24,074**	**23,973**
- Non Interest Expense (2)	17,691	17,024	15,807
= Total Operating Income	**9,266**	**7,050**	**8,166**
- Non Operating Income, net	581	872	2,346
= Income before Taxes and Profit Sharing	**9,847**	**7,922**	**10,511**
- Income Tax and Profit Sharing (2)	2,735	2,581	3,645
- Tax on Assets	-	-	-
- Deferred Income Tax and Profit Sharing	70	(536)	(245)
= Net Income before subsidiaries	**7,042**	**5,877**	**7,111**
+ Subsidiaries' Net Income	320	313	276
= Net Income from continuous operations	**7,362**	**6,190**	**7,387**
+ Extraordinary items, net	-	-	-
- Minority interest	657	336	373
= Total Net Income	**$6,705**	**$5,854**	**$7,014**

Million pesos.

(1) As a result of the new accounting criteria effective as of April 2009, recoveries of previously written-off loans are registered as non interest income in "Other Revenues (Expenses) ".

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

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

Net Interest Income

	2010	2009	2008 (1)
Interest Income	$40,861	$44,873	$49,864
Interest Expense	18,603	22,235	27,789
Loan Fees Charged	619	578	510
Loan Fees Paid	144	33	-
Net Interest Income	**$22,732**	**$23,183**	**$22,585**
Average Productive Assets	$545,229	$537,603	$332,942
% Net Interest Income (NIM) (2)	**4.2%**	**4.3%**	**6.8%**

Million Pesos

(1) In accordance with the accounting criteria B-3 "Repos" issued on October 14, 2008 as well as the authorization given by the Banking and Securities Commission (CNBV), credit institutions were allowed to classify debt instruments, regardless of their category, as Investments in Securities considering that: i) the guidelines relative to the reclassification of the instruments will be equally applicable to proprietary repos transactions and securities' lending, given that investment in securities is equally done through these operations; ii) the value of the securities to be received in repos and securities' lending transactions may be adjusted to the market value (closing price) of such instruments corresponding to October 1, 2008 in the same manner as was stipulated for the book value adjustment of proprietary investments in securities; iii) once the book value of the instruments to be received in repos and securities' lending operations has been adjusted, such instruments can be reclassified to any category of investments in securities according with the institutions' intentionality for those instruments, and they will be later valued according to the valuation standards for each category established in the accounting criteria; iv) the reclassification of investments in securities, as well as the adjustment to the valuation of the repos to be received and securities' lending transactions, will be done on only one occasion on the date that each institution determines during the last quarter of 2008.;
(2) NIM (net interest margin) = net interest income / average productive assets of the period.

During 2010 *Net Interest Income* was Ps 22.732 billion, a (2%) YoY decline due to a (9%) 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 (16%) 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 by a 1% increase in average productive assets.

Non Interest Income

	2010	**2009**	**2008**
+ Fund transfers	$239	$248	$222
+ Account Management Fees	945	946	998
+ Fiduciary	288	254	295
+ Revenues from Real Estate Portfolios	906	818	734
+ Electronic banking services	905	1,030	1,009
+ Credit Card Fees	2,601	2,310	2,533
+ Fees from IPAB (1)	0	1	1
+ Fees charged by Afore	1,269	1,070	989
+ Other Fees Charged (2)	2,081	1,613	1,671
Fees charged for Services	**9,234**	**8,291**	**8,452**
+ Fund Transfers	26	21	19
+ Other Fees Paid	1,522	1,317	1,189
+ Acquired Portfolio Expenses	-	-	-
Fees paid for Services	**1,548**	**1,338**	**1,208**
= Net Fees	**7,686**	**6,953**	**7,244**
+ Foreign Exchange	703	875	779
+ Trading	528	522	276
+ Securities – Unrealized Gains	458	(153)	(15)
= Trading Revenues	**1,689**	**1,244**	**1,040**
Other operating revenues and expenses	**1,739**	**980**	**-**
= Non Interest Income	**$11,114**	**$9,177**	**$8,284**

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 purchase/sale of securities by the Brokerage House, among others.

The following table identifies the sources of Non Interest Income:

	2010	2009	2008
Services	$6,780	$6,134	$6,509
Recovery	906	819	735
Trading	1,689	1,244	1,040
Other Operating Income (Expenses)	1,739	980	-
Non Interest Income	**$11,114**	**$9,177**	**$8,284**

Million pesos.

Non Interest Income for 2010 totaled Ps 11.114 billion, a 21% YoY increase, 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 and wealth managed and various fees related to consumer insurance products, l 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 47% 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 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 Ps1.69 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

	2010	2009	2008
Personnel Expenses	$7,166	$6,763	$6,156
Professional Fees	1,408	1,465	1,192
Administrative and Promotional Expenses	4,400	4,452	4,941
Rents, Depreciations and Amortizations	1,949	1,727	1,687
Other taxes	847	865	894
Contributions to IPAB	1,084	1,073	938
Employee Profit Sharing PTU (1)	837	679	-
Non Interest Expenses	**$17,691**	**$17,024**	**$15,807**

Million Pesos
(1) Changes in accounting criteria as of April 2009 resulted in recording employee profit sharing as Non Interest Expense.

During 2010, Non Interest Expenses totaled Ps 17.69 billion, a 4% YoY increase, 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 52.3% in 2010, (0.3) pp lower than in 2009, as a result of positive operating leverage throughout the year. After eliminating the effect of reclassifying employee profit sharing as an expense in 2009, the efficiency ratio was 49.8% for 2010, (0.7) pp less than in 2009.

Non Operating Income (Expense), net

	2010	2009	2008
+ Other Revenues	$1,503	$939	$1,367
+ Foreign Exchange	-	-	-
+ Recoveries	240	525	1,806
+ REPOMO – Other Revenues	-	-	-
+ Warehousing	136	975	617
= Other Products	**1,879**	**2,438**	**3,789**
- Other Expenses	(1,166)	(608)	(833)
- Foreign Exchange	-	-	-
- REPOMO – Other Expenses	-	-	-
- Warehousing	(132)	(958)	(611)
= Other Expenses	**(1,298)**	**(1,566)**	**(1,444)**
= Non Operating Income (Expense)	**$581**	**$872**	**$2,346**

Million Pesos

Non Operating Income in 2010 was Ps 581 million, a (33%) YoY drop, due to higher expenses resulting from an increase in estimates for items more than 90 days overdue, contingencies, bankruptcies and losses in loan portfolio sale transactions, as well as reduced recovery income from the sale of loan portfolios purchased, furniture and properties , and in revenues from the commercialization of warehousing inventories, which offset the increase in "Other Revenues".

Performing Loan Portfolio

	2010	2009	2008
Commercial	$87,825	$84,118	$92,521
Consumer	83,545	74,932	74,868
Corporate	44,176	40,245	45,127
Government	47,550	38,993	26,989
Subtotal	**263,096**	**238,288**	**239,505**
Recovery Bank	454	666	794
Total Performing Loans	**$263,550**	**$238,954**	**$240,299**
Fobaproa / IPAB Portfolio	-	-	-
Past due loans	6,664	6,154	4,948
% Past Due Loan Ratio	**2.5%**	**2.5%**	**2.0%**

Million Pesos

Performing Consumer Loan Portfolio

	2010	2009	2008
Mortgages	$55,718	$49,221	$45,499
Car Loans	8,208	7,424	7,594
Credit cards	11,159	11,801	15,067

Payroll	8,460	6,487	6,707
Total Performing Consumer Loans	**$83,545**	**$74,932**	**$74,868**

Million Pesos

The Performing Loan portfolio increased by Ps 24.80 billion YoY, from Ps 238.28 billion to Ps 263.1 billion; when 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.

This is evidence of greater loan demand in Mexico, and also a reflection of the policies implemented by Banorte to reactivate loan volumes. In the coming months, we anticipate that the favorable trends in loan growth will continue in the banking industry.

At closing of 2010, past due loans grew by 8% YoY reaching Ps 6.664 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 Ratio for credit cards was 8.5% in 2010 which compares favorably against the 12.0% in 2009. On the other hand, at closing of 2010, the PDL Ratio for car loans was 1.0% (vs. 2.0% in 2009), Payroll was 1.8% (vs. 2.8% in 2009), Mortgages 1.7% (vs. 2.1% in 2009), Commercial 3.9% (vs. 4.0% in 2009), and Corporate 2.5% (vs. 0.1% in 2009), growing in the fourth quarter due to the classification of the loan to Gamma Servicios de Negocio (Mexicana) as delinquent, while Government remained at 0% throughout the entire year.

Deposits

	2010	2009	2008
Non Interest Bearing Demand Deposits	$69,615	$61,611	$57,876
Interest Bearing Demand Deposits (1)	80,218	75,977	70,481
Total Demand Deposits (2)	**149,833**	**137,588**	**128,357**
Time Deposits – Retail	88,805	84,808	75,085
Core Deposits	**238,638**	**222,396**	**203,442**
Money Market (3)	54,142	52,646	57,454
Total Bank Deposits	**$292,780**	**$275,042**	**$260,896**
GFNorte's Total Deposits (4)	**$292,615**	**$274,888**	**$260,755**
Third Party Deposits	145,602	156,864	144,916
Total Assets Under Management	**$438,382**	**$431,906**	**$405,812**

Million Pesos

(1) As of 2004, IPAB checking accounts for deposit of cash collections related to managed portfolios of Banpaís and Bancen are excluded, retroactively for comparison The balances of these accounts for 2008, 2009 and 2010 were Ps 14 million, Ps 20 million and Ps 0 million respectively.
(2) Includes debit cards.
(3) Includes bank bonds. (Customers and financial intermediaries).
(4) Includes eliminations between subsidiaries.(2008, 2009 and 2010 were Ps 142 million, Ps 154 million and Ps 165 million respectively.

At closing of 2010, Total Deposits were Ps 292.6 billion, a 6% YoY increase driven mainly by a 9% YoY growth in Demand Deposits, and a 5% growth in retail time deposits.

1. Banking Sector

In 2010 the Banking Sector (100%, including the Afore through the equity participation method) had a Net Income of Ps 6.03 billion, a 18% YoY growth due to an increase in non interest income and reduced loan loss provisions.

Net Income of the Banking Sector declined from Ps 6.543 billion in 2008 to Ps 6.035 billion in 2010, an (8%) reduction.

Consolidated Income Statement – Banking Sector

	2010	2009	2008
NII before REPOMO	$21,700	$22,357	$21,662
+ REPOMO-margin	-	-	-
= NII before credit risks	**21,700**	**22,357**	**21,662**
- Preventive Provisions for Loan Losses	6,772	8,181	6,722
- Loan Loss Sharing Provisions Fobaproa	-	-	-
= NII adjusted for Credit Risk	**14,928**	**14,176**	**14,940**
+ Non Interest Income	8,910	7,184	6,512
= Total Operating Income	**23,838**	**21,360**	**21,452**
- Non Interest Expense	16,080	15,437	14,191
= Net Operating Income	**7,758**	**5,923**	**7,261**
- Non Operating Income	521	861	2,487
= Income before Taxes and Profit Sharing	**8,279**	**6,784**	**9,748**
- Income Tax and Profit Sharing	2,431	2,352	3,428
- Tax on Assets	-	-	-
- Deferred Income Tax and Profit Sharing	36	(539)	(198)
= Net Income before Subsidiaries	**5,812**	**4,971**	**6,518**
+ Subsidiaries' Net Income	222	161	113
= Net Income for Continuous Operations	**6,035**	**5,132**	**6,631**
+ Extraordinary items, net	-	-	-
- Minority Interest	-	-	88
= Net Income	**$6,035**	**$5,132**	**$6,543**

Million Pesos
Does not include Afore results, which are included in Subsidiaries' Revenues through the participation method.

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

Net Interest Income

	2010	2009	2008
Interest Income	$39,040	$43,329	$48,027
Interest Expenses	17,815	21,517	26,857
Loan Fees Charged	619	578	493
Fees Paid	144	33	-
Net Income before REPOMO	**$21,700**	**$22,357**	**$21,662**
Average Earnings Assets	$525,977	$525,686	$324,109
% Net Interest Income (NIM) (1)	**4.1%**	**4.3%**	**6.7%**
% Net Interest Income adjusted for credit risk (NIM)(2)	**2.8%**	**2.7%**	**4.6%**

Million Pesos
(1) NIM= net interest income / performing assets average for the period.
(2) NIM= net interest income adjusted for credit risks / performing assets average for the period.

During 2010, Net Interest Income before Repomo was Ps 21.70 billion, a (3%) YoY decrease, mainly due to lower average market interest rate compared to the previous year. This reduction was partially off-set by a 10% YoY growth in performing loans and a 9% yearly growth in demand deposits.

Non Interest Income

	2010	2009	2008
+ Fund Transfers	$239	$248	$222
+ Account Management Fees	945	946	998
+ Fiduciary	288	254	295
+ Income from Acquired Portfolios	906	818	734
+ Electronic Banking Services	906	1,030	1,009
+ Credit Card Fees	2,601	2,310	2,533
+ Fobaproa Fees (1)	0	1	1
+ Other Fees Charged	1,322	874	993
Fees Charged on Services	**7,207**	**6,482**	**6,785**
+ Fund Transfers	26	21	19
+ Other Fees Paid	1,455	1,218	1,132
+ Expenses from Acquired Portfolios	-	-	-
Fees Paid on Services	**1,481**	**1,239**	**1,151**
= Net Fees	**5,726**	**5,243**	**5,634**
+ Foreign Exchange	703	875	779
+ Securities – Realized Gains	285	237	114
+ Securities - Unrealized Gains	459	(158)	(16)
= Trading Income	**1,447**	**953**	**878**
Other Operating Revenues (Expenses)	**1,737**	**987**	**-**
= Non Interest Income	**$8,910**	**$7,184**	**$6,512**

Million Pesos
(1) Includes fees received by Recovery Banking and by the Bank.

The following table shows a breakdown of non-interest income:

	2010	2009	2008
Services	$4,820	$4,426	$4,899
Recovery	906	818	735
Trading	1,447	953	878
Other Operating Revenues (Expenses)	1,737	987	-
Non Interest Income	**$8,910**	**$7,184**	**$6,512**

Million Pesos

Non-Interest Income for 2010 totaled Ps 8.91 billion, 9% higher YoY, due to favorable performance in the following items:

- Service Fees: rose during 2010 to Ps 4.82 billion, a 9% YoY growth due to the favorable impact in volumes of a higher client base and an expansion in the commercial network, as well as positive performance of credit card fees as a result of: i) more interchange fees, ii) increased revenues from campaigns to incentivize purchases with interest free fixed monthly payments and iii) growth in annual fees due to the 6% increase in the number of credit card holders.

- Recoveries: revenues from recoveries of previously written-off proprietary portfolios, the sale of foreclosed assets (whose revenues are classified as Other Operating Income and Expenses) and real estate portfolios, increased by 46% in 2010 due to greater recovery of previously written-off portfolios, including a recovery of approximately Ps 629 million of the Comercial Mexicana loan, as well as a 12% increase in revenues from real estate investment projects in the face of a more favorable economic environment and an increase in the amount invested to Ps 5.01 billion at closing of 2010 (+17% compared to 2009). The investment portfolio continues to show an appropriate geographical diversification of projects and industries.

- Trading: Intermediation Revenues rose to Ps 1.45 billon, a 52% YoY increase, due to the strategies adopted to take advantage of opportunities in securities trading and money market positions in the face of a flattening yield curve and earnings from the sale of the remaining MasterCard shares.

Non Interest Expense

	2010	2009	2008
Personnel Expenses	$6,556	$6,156	$5,812
Professional Fees	1,382	1,440	1,163
Administrative and Promotional Expenses	3,902	4,006	4,213
Rents, Depreciations and Amortizations	1,583	1,337	1,285
Other Taxes	746	756	780
Contributions to IPAB	1,084	1,073	938
Employee Profit Sharing PTU (1)	827	668	-
Non Interest Expense	**$16,080**	**$15,437**	**$14,191**

Million Pesos

(1) Changes in the accounting criteria as of April 2009 resulted in caused and deferred employee profit sharing being registered as non interest expenses.

Non interest expense for 2010 grew by 4% YoY driven by more personnel expenses resulting from the expansion in the commercial network and reinforcement in business and staff areas. Operating Expenses also increased YoY due to more rent, depreciations and amortizations resulting from the acquisition of new ATMs and previously leased equipment, and the depreciation of equipment related to commercial projects and acquired buildings; as well as an increase in employee profit sharing resulting from higher profitability. These increases were partially offset by reductions in administration and advertising expenses, professional fees paid and other taxes.

Non Operating Income and Expense

	2010	2009	2008
+ Other Revenues	$1,453	$950	$1,404
+ Foreign Exchange	-	-	-
+ Recoveries	227	519	1,786
+ REPOMO - Other Revenues	-	-	-
= Non Operating Income	1,680	1,469	3,190
- Other Expenses	(1,159)	(608)	(703)
- Foreign Exchange	-	-	-
- REPOMO - Other Expenses	-	-	-
= Non Operating Expenses	(1,159)	(608)	(703)
= Non Operating Income (Expenses)	**$521**	**$861**	**$2,487**

Million Pesos

The amount reported for 2010 was Ps 521 million, a (39%) YoY reduction, due to more expenses related to estimates, bankruptcies and losses, as well as a reduction in the Recovery revenues.

Performing Loan Portfolio

	2010	2009	2008
Commercial	$73,524	$72,219	$80,170
Consumer	83,543	74,924	74,863
Corporate	46,364	42,037	48,597
Government	47,549	38,982	26,977

Subtotal	**250,980**	**228,162**	**230,607**
Recovery Bank	454	666	794
Total Performing Loans	**$251,434**	**$228,828**	**$231,401**
Fobaproa / IPAB Portfolio	-	-	-
Past Due Loans	6,523	6,051	4,836
% Past Due Loans	**2.5%**	**2.6%**	**2.0%**

Million Pesos

Performing Consumer Loan Portfolio

	2010	2009	2008
Mortgages	$55,718	$49,221	$45,499
Car Loans	8,208	7,424	7,589
Credit cards	11,159	11,801	15,067
Payroll	8,458	6,479	6,707
Total Performing Consumer Loan Portfolio	**$83,543**	**$74,924**	**$74,863**

Million Pesos

Total Performing loans grew from Ps 228.16 billion to Ps 250.98 billion on a yearly basis; excluding the loan portfolio managed by the Recovery Bank. This increase is mainly due to growth in the Government, Consumer (except Credit Card) Mortgage and Corporate portfolios.

At closing of 2010, past due loans increased by 8% YoY, driven mainly by the classification of the Mexicana de Aviacion loan as delinquent in 4Q10. At closing of 2010, the past due loan ratio was 2.5%, (0.1) pp lower than the 2.6% registered in 2009.

Deposits

	2010	2009	2008
Non Interest Bearing Demand Deposits	$69,615	$61,611	$57,876
Interest Bearing Demand Deposits (1)	80,218	75,977	70,481
Demand Deposits (2)	**149,833**	**137,588**	**128,357**
Time Deposits - Retail	88,805	84,808	75,085
Core Deposits	**238,638**	**222,396**	**203,442**
Money Market (3)	54,142	52,646	57,454
Total Bank Deposits	**$292,780**	**$275,042**	**$260,896**
Third Party Deposits	145,602	156,864	144,916
Total Assets Under Management	**$438,382**	**$431,906**	**$405,812**

Million Pesos

(1) As of 2004, IPAB checking accounts for deposit of cash collections related to managed portfolios of Banpaís and Bancen are excluded, retroactively for comparison. The balances of these accounts for 2008, 2090 and 2010 were Ps 14 million, Ps 20 million and Ps 0 million respectively.
(2) Includes debit cards.
(3) Includes bank bonds, comprised of clients and financial intermediaries.

At closing of 2010, Total Bank Deposits were Ps 292.78 billion, 6% more compared to 2009, driven mainly by the 9% growth in Demand Deposits and a 5% growth in Retail Term Deposits.

2. <u>Brokerage</u>

	2010	2009	2008
Brokerage House			

Net Income	$403	$203	$183
Stockholders' Equity	1,883	1,396	1,143
Assets	10,169	5,273	1,662
Assets Under Management	174,068	135,621	119,286

Million Pesos

In 2010, the Broker-dealer reported a net profit of Ps 403 million, a 98% YoY increase as a result of more revenues from management fees in mutual funds, and also from risk money market trading positions.

3. Long Term Savings

	2010	2009	2008
Afore			
Net Income	$440	$288	$189
Total Equity	1,780	1,340	1,052
Assets	2,096	1,557	1,218
AUM	86,271	72,287	56,186
Insurance			
Net Income	$451	$438	$476
Total Equity	2,436	2,370	2,130
Assets	13,419	12,257	11,306
Annuities			
Net Income	$12	$31	$33
Total Equity	1,028	1,016	985
Assets	25,478	18,212	14,833

Million Pesos

The Afore reported accumulated Net Income of Ps 440 million (51% corresponds to Banorte), a 53% YoY increase. This increase is due to growth in operating income and financial revenues, and improved efficiency resulting from reduced operating expenses and the containment of sales related costs. At year end, 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 451 million for 2010 (51% corresponds to GFNorte), a 3% YoY increase due to a containment in damage related costs and greater financial revenues.

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.

4. Other Finance Companies

	2010	2009	2008
Leasing and Factoring [(1)]			
Net Income	$443	$403	$313
Equity	1,930	1,486	1,184
Total Portfolio	15,884	13,461	13,874
Past Due Loans	141	103	74

Assets	15,679	13,434	14,001
Warehousing			
Net Income	$57	$22	$23
Equity	206	144	124
Inventories	49	119	165
Assets	777	211	321

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

On February 2008, the leasing and factoring companies were merged under a regulated Multi-purpose financial company (SOFOM). Among other things, this merger enables the merged entity to optimize the use of capital, improve leverage capacity and create the possibility of achieving higher credit ratings. Results of both companies, as of 1Q08 are presented on a consolidated basis under the heading of “Arrendadora y Factor Banorte, S.A. de C.V.”

Leasing and Factoring generated profits of Ps 443 million in 2010, 10% higher YoY due to a 9% growth in the leasing and a 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%.

On November 28th, 2008, the Ministry of Finance (SHCP) modified the authorization given to Almacenadora Banorte to constitute and operate as a General Deposit Warehouse, given the increase in the fixed portion of its Shareholders’ equity of Ps 31,780,651 which was approved by the Extraordinary Shareholders' Meeting held on October 1st, 2008.

Accumulated net income of the warehousing company was Ps 57million, a 152% YoY increase, 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 of 8.5% considering Ps 2.43 billion in total assets-at-risk certificates. At closing of 2010, Banorte’s Warehouse ranked 3rd amongst the 20 Warehousing Companies in terms of profit level.

5. Micro Lending

	2010	2009	2008
Pronegocio			
Net Income	$-	$15	($120)
Equity	-	-	48
Total Portfolio	-	-	269
Past Due Loans	-	-	38
Assets	-	-	433

Million Pesos

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. Since this resolution was approved, there has been a gradual transfer of expenses to the bank and the relocation of performing clientele of the SOFOM to other Banorte products. The final merger agreement was signed on August 31st, 2009 after receiving the necessary authorizations from the regulating authorities.

The merger process required a specific work plan to reduce the financial impact on Banorte's long term capitalization process of this company, as well as the absorption of recurring losses for several fiscal years.

The work plan which concluded in December 2009 included among its objectives the closing of all branches and the reduction of the financial impact. In accordance with this plan, all branches were closed at the end of September 2009 and the financial impact has been reduced to almost Ps 265 million. This cost could be reduced even further if the loan portfolio continues to be controlled and recovery of existing portfolio balances continues.

As of January 2010, the Asset Recovery unit will be in charge of monitoring the recovery of the remaining portfolio through third parties.

B) FINANCIAL SITUATION, LIQUIDITY AND CAPITAL RESOURCES

NET INCOME AND PROFITABILITY INDEXES

GFNorte Equity (*)

	2010	2009	2008
Paid-in Capital	11,971	11,956	11,941
Premium of Subscribed & Issued Shares	1,673	1,526	1,468
Subscribed Capital	**$13,644**	**$13,481**	**$13,409**
Capital Reserves	3,181	3,154	2,720
Retained Earnings	25,492	20,681	16,935
Surplus (Deficit) from Valuation of Securities Available for Sale	309	206	(550)
Results from Valuation of Hedging Instruments	(2,214)	(1,369)	-
Results from Conversions of Foreign Operations	(1,000)	(641)	1,095
Surplus (Deficit) from valuation of equity	-	-	-
Results of Non Monetary Assets:			
Fixed Assets	-	-	-
Permanent Share Investments	-	-	(2,821)
Accumulated effect of deferred taxes	-	-	-
Net Income	6,705	5,854	7,014
Earned Capital	**$32,473**	**$27,885**	**$24,393**
Minority Interest	4,110	3,608	1,944
Total Shareholders' Equity	**$50,227**	**$44,974**	**$39,746**

Million Pesos
(*)Does not include Afore.

The Banking Sector (excluding Afore) contributed with 90% of the Group's profits, reaching Ps 6.03 billion in 2010, an 18% YoY increase.

Banking Sector Paid-in Capital (*)

	2010	2009	2008
Paid-in Capital	11,488	11,488	10,955
Premium of Subscribed & Issued Shares	2,491	2,490	853
Subscribed Capital	**$13,979**	**$13,977**	**$11,808**
Capital Reserves	5,172	4,659	4,005
Retained Earnings	22,066	18,339	13,426
Surplus (Deficit) from Valuation of Securities Available for Sale	432	315	(237)
Results on valuation of cash flow derivatives	(2,316)	(1,404)	(1,626)
Results from Conversions of Foreign Operations	(1,061)	(679)	1,123
Surplus (Deficit) from valuation of equity	-	-	-
Results of Non Monetary Assets:			
Fixed Assets	-	-	-
Permanent Share Investments	-	-	87
Accumulated effect of deferred taxes	-	-	-
Net Income	6,035	5,132	6,543
Earned Capital	**$30,328**	**$26,361**	**$23,320**
Minority Interest	10	10	397
Total Shareholders' Equity	**$44,316**	**$40,348**	**$35,526**

Million Pesos
(*)Does not include Afore.

Banking Sector Capitalization Ratio

	Dec-10	Dec-09	Dec-08[1]
Tier 1 Capital	39,369	35,380	28,300
Tier 2 Capital	13,252	14,277	17,076
Net Capital	**$52,621**	**$49,657**	**$45,376**
Credit Risk Assets	222,146	203,305	204,884
Market & Operational Risk Assets	104,335	92,741	97,395
Total Risk Assets [2]	**$326,481**	**$296,046**	**$302,279**
Net Capital / Total Risk Assets	**23.70%**	**24.40%**	**22.10%**
Capitalization Ratio			
Tier 1	12.1%	12.0%	9.4%
Tier 2	4.1%	4.8%	5.6%
Total Capitalization Ratio	**16.1%**	**16.8%**	**15.0%**

Million Pesos

(1) The Capitalization Ratio reported at closing of 2008 was revised upwards by an adjustment in the calculation of subordinated obligations as Tier 2 capital.

(2) Without inter-company eliminations.

At closing of 2010, the Capitalization Ratio was 16.1% taking into consideration credit and market risks, and 23.7% considering only credit risks. The Tier 1 ratio was 12.1% while Tier 2 was 4.1%. On an annual basis, the capitalization ratio for 2010 was lower than in 2009 due to:

1) The effect of profits generated in 2010: +1.8 pp.
2) Growth of risk assets in the period: -1.7 pp.
3) Effects of valuation of hedging instruments: -0.3 pp.
4) Payment of dividends: -0.2 pp.
5) Valuation of Securitizations: -0.2 pp.
6) FX effect on Subordinated Obligations: -0.1 pp.

CASH FLOW STATEMENT

The cash flow statement reveals the availability of cash that the institution has at a certain point in time in order to meet its obligations with creditors. The structure of the cash flow statement provides details regarding the cash generated by the operation and uses of resources for net financing and the investment program. As of December 2010, available cash amounted to Ps 62.497 billion, 5% higher than the Ps 59,268 million registered in December 2009.

GFNorte Cash Flow Statement

	2010
Net Income	**$6,705**
Operations that do not generate or require resources:	
Provisions for credit risks	6,889
Provisions for loan losses	164
Depreciations and Amortizations	1,181
Provisions	430
Caused & Deferred Taxes	2,805
Undistributed earnings of subsidiaries	337
	$18,511
OPERATING ACTIVITIES:	
Change in Margin accounts	(159)
Change in Treasury operations (investments in securities)	7,626
Change in repo debtor balances	(579)
Change in Derivatives (assets)	(2,639)
Change in Loan Portfolio	(32,062)
Change in acquired collection rights	523
Change in benefits to be received for securitization operations	(518)
Change in foreclosed assets	94
Change in other performing assets	(1,461)
Change in Deposits	18,975
Change in loans from banks and other institutions	5,483
Change in repo creditor balances	(6,892)
Change in collateral sold or given in guarantee	9
Change in Derivatives (liabilities)	2,684
Change in subordinated obligations	(350)
Change in other operating liabilities	(3,274)
Change in hedging instruments (related to operations)	136
Net cash generated from operations	**$6,107**
INVESTMENT ACTIVITIES:	
Receivables from acquisition of property and fixed assets	304
Payments for acquisition of property and fixed assets	(2,215)
Payments for acquisition of subsidiaries	69
Receivables from other permanent investments	1
Payments for acquisition of other permanent investments	(171)
Receivables from cash dividends	227
Net cash used for investment activities	**($1,785)**
FINANCING ACTIVITIES:	
Payment of cash dividends	(1,029)
Repurchase of shares	69
Net cash used for financing activities	**($960)**
Increase (decrease) in cash and equivalents	**$3,362**
Adjustments to cash flow for variations in exchange rates	**(133)**
Cash and equivalents at the beginning of the period	**59,268**
Cash and equivalents at the end of the period	**$62,497**

Million Pesos

GFNorte Cash Flow Statement

	2009
Net Income	**$5,854**
Operations that do not generate or require resources:	
Provisions for credit risks	8,286
Provisions for loan losses	182
Depreciations and Amortizations	954
Provisions	(1,786)
Caused & Deferred Taxes	2,045
Undistributed earnings of subsidiaries	(313)
	$15,222
OPERATING ACTIVITIES:	
Change in Margin accounts	(11)
Change in Treasury operations (investments in securities)	12,312
Change in repo debtor balances	144
Change in Derivatives (assets)	501
Change in Loan Portfolio	(8,167)
Change in acquired collection rights	502
Change in benefits to be received for securitization operations	364
Change in foreclosed assets	(94)
Change in other performing assets	(969)
Change in Deposits	15,344
Change in loans from banks and other institutions	(15,644)
Change in repo creditor report balances	(7,088)
Change in Derivatives (liabilities)	(717)
Change in subordinated obligations	(2,481)
Change in other operating liabilities	(2,365)
Change in hedging instruments (related to operations)	133
Net cash generated from operations	**$6,986**
INVESTMENT ACTIVITIES:	
Receivables from acquisition of property and fixed assets	259
Payments for acquisition of property and fixed assets	(1,447)
Payments for acquisition of subsidiaries & associates	(183)
Receivables from other permanent investments	1
Payments for acquisition of other permanent investments	(1)
Receivables from cash dividends	135
Net cash used for investment activities	**($1,236)**
FINANCING ACTIVITIES:	
Payment of cash dividends	(364)
Repurchase of shares	(451)
Net cash used for financing activities	**($815)**
Increase (decrease) in cash and equivalents	**$4,935**
Adjustments to cash flow for variations in exchange rates	**(63)**
Cash and equivalents at the beginning of the period	**54,396**
Cash and equivalents at the end of the period	**$59,268**

Million Pesos

DIVIDENDS

The Annual Ordinary General Shareholders Meeting, held on April 29th, 2003, approved a dividend payment policy in which the Board of Directors annually proposes to the General Ordinary Shareholders' Meeting the payment of a dividend of least 15% of the net recurring income of the company, provided that there is no legal impediment and that market conditions and the company's own financial situation allows it.

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

Regulatory Framework

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

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

Treasury Management

In order to maintain a prudent strategy in the administration of assets and liabilities through stable funding sources, as well as 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.

PAID AND DEFERRED TAXES

Concept	To December 31st, 2010
Income Tax (ISR)	2,735
Profit Sharing (PTU)	836
Deferred ISR & PTU	70
Total	**$3,641**

Million Pesos

Temporary Asset Differences	ISR	PTU	Net
Tax losses	2	0	2
Provisions for possible loan losses	119	0	119
Operational loss Uniteller and Banorte USA Corp.	4	0	4
Deferred State Tax on assets	3	0	3
Non-deductible Provisions	417	131	548
Excess book value over fiscal value of repossessed and fixed assets	374	60	434
Reducible Profit Sharing	239	80	319
Excess of preventive reserves for credit risks on fiscal limit	1,548	552	2,100
Fees collected in advance	6	2	8
Others	13	0	13
Total Assets	**$2,725**	**$825**	**$3,550**

Temporary Liability Differences	ISR	PTU	Neto
Unrealized loss in securities for sale	26	0	26

Capital project expenses	211	71	282
Excess book value over fiscal value for fixed assets and anticipated expenses	10	0	10
Pension Fund Contributions	560	200	760
Loan Portfolio Acquisitions	617	110	727
Income tax to pay on UDIS Trust funds	6	0	6
Federal Home Loan Bank Dividends	1	0	1
Intangible Assets	22	0	22
Rollback of Sale Costs	3	0	3
Unrealized capital gain from Special Reserve	51	0	51
Others	276	46	322
Total Liabilities	**$1,783**	**$427**	**$2,210**
Assets (Liabilities) Accumulated Net	**$942**	**$398**	**$1,340**

Million Pesos

As of January 1st, 2010 through to December 31st, 2012 the applicable Income Tax rate (ISR) is 30%, and for the fiscal year of 2013 it will be 29%. Management, in accordance with the NIF D-4 "Income tax", and with that indicated in the NIF-8 "Effects of Corporate Tax at a Basic Rate (IETU)", and based on projections for recovery of deferred taxes, adjusted the balances of the same to the prospective rates that will be in effect at the time recovery is made; also projections were made calculating the Flat Rate (IETU) and comparing it with Income Tax (ISR), determining that GFNorte and its Subsidiaries will continue paying Income Tax (ISR); therefore no adjustments were made to the calculation of deferred taxes.

The deferred tax assets and liabilities of Banorte USA are determined by applying the enforceable or general balance method. Under this method, the net deferred tax asset or liability is determined based on the fiscal effects of the temporary differences between the accounting and fiscal base of the assets and liabilities of the general balance to recognize changes in the tax rates and laws. Due to the consolidation of Banorte USA, the amount of Ps 38 million has been added to the deferred net taxes at a rate of 35% in accordance with fiscal regulations established in the U.S.A.

On the other hand, employee profit sharing (PTU) is calculated taking into consideration the temporary differences arising during the year to which the corresponding fiscal rate is applied, creating a liability or benefit in the future.

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

The deferred taxes for each subsidiary to December 31st, 2010 are as follows:

Deferred Taxes	To December 31st, 2010
Banco Mercantil del Norte, S. A.	1,475
Casa de Bolsa, S. A. de C. V.	(125)
Almacenadora Banorte, S. A. de C. V.	(12)
Grupo Financiero Banorte, S. A. B. de C. V.	2
Total	**$1,340**

Million Pesos

TAX CREDITS OR DEBTS

The tax credits listed below are currently in litigation:

	To December 31st, 2010
BANORTE	**$201**
Value Added Tax (IVA) not credited for the 2006 fiscal year	179
IMSS fees, various occupations	5
INFONAVIT fees, various occupations	17
AFORE BANORTE	**$21**
Fiscal year 2003 (330-SAT-17738)	7
Fiscal year 2004 (330-SAT-VIII-6-11775)	14
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

Million Pesos

C) INTERNAL CONTROL

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

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

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

A. The Board of Directors with the support of the Risk Policies' Committee and the Audit and Corporate Practices' Committee (CAPS).

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

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

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

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

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

During 2010 activities were continuously being developed that focused on strengthening the control environment, evaluating and managing risks, establishing and monitoring controls, and ensuring the quality of the information; placing special emphasis on:

A. The Entities of GFNorte (Bank, Brokerage House, Leasing and Factoring, Pronegocio, INB, Insurance, Afore and the Recovery Bank Unit Sólida, Portfolio Administrator) presented their annual report to the CAPS, which contains the operation and situation of the Internal Control system as well as the performance of their functions related with this matter. These reports, together with the audited financial statements issued by the External Auditors and the reports and observations carried out by Internal Audit and the Controllership, are taken as a basis so that CAPS can inform the Board of Directors on the ICS situation that the Comptroller keeps.

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

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

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

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

II. MAIN TRANSACTIONS AND INTRAGROUP EXHIBITS

OPERATIONS WITH RELATED PERSONS AND CONFLICTS OF INTEREST

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

	GFNorte		
	Dec-10	**Dec-09**	**Dec-08**
Portfolio Art. 73	$8,772	$7,362	$8,216
Portfolio Art. 73 / 50% of Basic Capital	47.1%	46.2%	53.8%

On **December 31, 2010,** the total portfolio of performing loans under Article 73 of the Law of Credit Institutions, was Ps 8.77 billion (including Ps 948 million in loan obligations, which are registered in memorandum accounts), representing 3.5% of total loan obligations (excluding the balance of CC, ADE, FOPYME and FINAPE). Of the total related loans, Ps 2.43 billion were loans granted to clients linked to members of the Board of Directors, Ps 1.83 billion were to clients linked to shareholders, and Ps 4.51 billion were linked to companies related to GFNorte.

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

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

On **December 31, 2009,** the total portfolio of performing loans under Article 73 of the Law of Credit Institutions, was Ps 7. 36 billion (including Ps 596 million in loan obligations, which are registered in memorandum accounts), representing 3.3% of total loan obligations (excluding the balance of CC, ADE, FOPYME and FINAPE). Of the total related loans, Ps 2.51 billion were loans granted to clients linked to members of the Board of Directors, Ps 1.22 billion were to clients linked to shareholders, and Ps 3.63 billion were linked to companies related to GFNorte.

The related loans were granted and rated in accordance with the same policies, procedures and rating systems that apply to the rest of GFNorte's loan portfolio, based on the general dispositions applicable to credit institutions with regard to rating of loan portfolios issued by the CNBV and the internal methodology authorized by CNBV, to rate the commercial loan portfolio. 94.4% of related loans are rated as Category "A" and 5.6% as Category "B", the majority of these loans are classified as commercial loans.

In accordance with Article 73 of the Law of Credit Institutions, the balance of GFNorte's related loan portfolio for individuals and corporations at closing of December 2009 was 46.2% of the limit set by Banco de Mexico (Central bank) of 50% of the basic part of the net capital.

III. BOARD OF DIRECTORS

The Board of Directors of Grupo Financiero Banorte, S. A. B. de C. V (GFNorte) is made up of 15 members of which 8 (53.33%) are independent. Alternate Members can only replace their respective proprietary members in the event of a temporary vacancy, with the understanding that Alternates of Independent Board Members must have this same capacity.

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 2010 fiscal year by the Annual General Ordinary Shareholders' Meeting and the General Ordinary Shareholders' Meeting of April 23rd and October 4th, 2010 respectively is composed of the following members:

NAME	POSITION	WITH THE COMPANY SINCE	PROFESSIONAL BACKGROUND
Don Roberto Gonzalez Barrera	President Proprietary Patrimonial	October 1993	• President of the Board of Directors of Banco Mercantil del Norte, S. A. • President of the Board of Directors of Grupo Maseca.
Don Rodolfo Barrera Villarreal	Vice-president Proprietary Patrimonial	October 1993	• Vice-president of the Board of Directors of Banco Mercantil del Norte, S. A. • President of the Board of Directors of Grupo Quimmco, S. A. de C. V.
Doña Bertha Gonzalez Moreno	Proprietary Patrimonial	April 1999	• CEO of Patronato de Cerralvo A. B. P.
Don José G. Garza Montemayor	Proprietary Patrimonial	October 1993	• CEO of Productos Laminados de Monterrey, S. A. de C. V.
Don David Villarreal Montemayor	Proprietary Patrimonial	October 1993	• Proprietor of Artefactos Laminados, S. A.
Don Francisco Alcalá de León	Proprietary Independent	April 2001	• President of Frajal Consultores, S. C.
Don Eduardo Livas Cantú	Proprietary Related	April 1999	• Independent Advisor.

NAME	POSITION	WITH THE COMPANY SINCE	PROFESSIONAL BACKGROUND
Don Eugenio Clariond Reyes-Retana	Proprietary Independent	April 2001	• President of Grupo IMSA, S. A. de C. V.
Don Herminio Blanco Mendoza	Proprietary Independent	April 2005	• President 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 (President of the Board of Directors and CEO of Mittal Steel).
Don Manuel Aznar Nicolín	Proprietary Independent	March 2007	Partner at the offices of Kuri Breña, Sanchez Ugarte, Corcuera y Aznar, S. C.
Don Jacobo Zaidenweber Cvilich	Proprietary Independent	October 1993	• President of the bilateral Committee Mexico-USA of C.E.M.A.I. • Member of the Board of Directors of C.O.E.C.E.
Don Alejandro Valenzuela del Río	Proprietary Related	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 Banorte, S. A. B. de C. V.
Don Isaac Hamui Mussali	Proprietary Independent	April 2002	CEO of Inmobiliaria IHM, S. A. de C. V.
Everardo Elizondo Almaguer	Proprietary Independent	April 2010	• Professor of Microeconomics of the Instituto Tecnológico y de Estudios Superiores de Monterrey (ITESM). • Deputy Governor of Banco de Mexico.
Doña Patricia Armendáriz Guerra	Proprietary Independent	April 2009	• CEO of CrediPyme, S. A. de C. V. • President (International Consultancy)
Don Roberto González Moreno	Alternate Shareholder	October 2010	• President and CEO of Corporación Noble, S. A. de C. V.
Don Jesús L. Barrera Lozano	Alternate Shareholder	April 2002	• CEO of Grupo Quimmco, S. A. de C. V.
Don Juan González Moreno	Alternate Shareholder	April 2004	• Director of Special Projects of Mission Food (Grupo Maseca).
Don Javier Martínez Ábrego	Alternate Shareholder	October 1993	• President of the Board of Directors of Motocicletas y Equipos, S. A. de C. V.
Don Carlos Chavarría Garza	Alternate Shareholder	April 2003	• CEO of Corporativo de Grupo Transregio, S. A.

NAME	POSITION	WITH THE COMPANY SINCE	PROFESSIONAL BACKGROUND
Don Luis Manuel Merino Villasante	Independent	April 2009	• CEO of Cocreación, Consultores y Editores, S. A de C. V.
Don Alfredo Livas Cantú	Alternate Related	April 2006	• President of Praxis Financiera, S. C.
Don Benjamín Clariond Reyes Retana	Alternate Independent	April 2005	• Director of the IMSATEL Division of Grupo IMSA, S. A. de C. V.
Don Simón Nizri Cohen	Alternate Independent	October 1993	• Founder and member of the Board of Directors of Textiles Unidos, TISAMEX, Industrias Eureka, Bordados Fénix, Alto Acabado, S.A. de C. V. • Founder and member of the Board of Directors of Hilados Mary, Organización Kadima, Terpel, Diseños Logar, S.A. de C.V.
Don César Verdes Quevedo	Alternate Independent	April 2004	• Financial Advisor to Casa de Bolsa Banorte, S. A. de C. V. (Brokerage House) • CEO of Operadora Cever, S. A. • CEO of Grupo Automotriz Cever, S. A
Don Isaac Becker Kabacnik	Alternate Independent	April 2002	• President of Becker e Hijos, S. A. de C.V. and of Becktel, S. A. de C. V.
Don Sergio García Robles Gil	Alternate Related	April 2006	• Chief Financial Officer of Grupo Financiero Banorte S. A. B. de C. V.

IV. RENUMERATION AND BENEFITS

The total amount of compensations and benefits provided in 2010 for the Board of Directors and main officials of GFNorte was approximately Ps 146 million.

Compensations and benefits are as follows:

- **Fixed Compensation:** Salary.

- **Annual Bonus Plan for 2010:**

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

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

  For executive personnel 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.

- **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 March 2009 and July 2009.

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

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

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

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

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

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

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

  The total amount accumulated by GFNorte for pension, retirement or similar plans for principal officers is Ps 32 million.

V. RESPONSIBLE OFFICERS

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

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

Ing. Sergio Garcia Robles Gil
Chief Financial Officer

Lic. Jorge Eduardo Vega Camargo
Managing Director of Comptrollership

Lic. Benjamín Vidargas Rojas
Managing Director of Internal Audit

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

VI. BASIC AUDITED FINANCIAL STATEMENTS

The Audited Financial Statement is available online (www.banorte.com) in Investor Relations/ Financial Statements/ 2010 Audited Information.

This same report is also available in this same link, in the "Annual Reports" section under the title: “2010 Annual Report”.