



## 2009 Annual Report

### **GRUPO FINANCIERO BANORTE, S. A. B. DE C. V.**

Ave. Revolucion 3000, Col. Primavera  
C. P. 64830  
Monterrey, N. L., Mexico

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 31<sup>st</sup>, 2009.

The 2,017,847,548 "O" series shares of Grupo Financiero Banorte, S.A.B. de C.V. in circulation as of December 31<sup>st</sup>, 2009 were traded in the BMV under the symbol "GFNORTEO."

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 pamphlet, 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:

<http://www.banorte.com/portal/banorte.portal?nfpb=true&pageLabel=pagePersonal&productId=309&sectionId=1190>

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# 1. GENERAL INFORMATION

## a) GLOSSARY OF TERMS AND DEFINITIONS

ABM:	Asociación de Bancos de México, A. C. (Mexican Bankers Association)
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. (Banco Mercantil del Norte, S. A.)
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)
Call Center:	Call center for Banortel clients
CC:	Credit cards
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)
DG:	Director General (General 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:	Grupo Financiero Banorte, S. A. B. de C. V.
Holding:	Holding company
ICV:	Past due loan ratio
IFC:	International Finance Corporation
INB:	Inter National Bank, INB Financial Corp.
Indeval:	Institute of Securities Deposit
IPAB:	Institute of Deposit Insurance
ISR:	Income Tax
LIC:	Credit Institutions Law
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)
pp:	Percentage points
POS:	Point Of Sale Terminal
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 Enterprises
REPOMO:	Resultado de posición monetaria (Result of monetary position)
ROA:	Return on Average Assets

ROE:	Return on Average Equity
SD:	Sub-director
Bank Sector:	Banorte and subsidiaries and the Afore by the participation method
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 that establishes 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)
UDIS:	Units of investment indexed to inflation
UniTeller:	UniTeller Holdings, Inc. (remittance company based in New Jersey).
USD:	US dollars

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## **b) EXECUTIVE SUMMARY**

**IMPORTANT:** When analyzing the information contained in this report, it is important to consider the following:

- ✓ Figures for 2007 and 2008 are not fully comparable with those of 2009 because on April 27<sup>th</sup> and May 28<sup>th</sup>, 2009 the CNBV announced changes to accounting regulations and criteria for credit institutions and controlling financial groups. The effects of the reclassifications as a result of the retroactive application of these changes in accounting criteria are shown in Note 4 of the Audited Financial Statements.
- ✓ Certain amounts and percentages in this report have been rounded off. Consequently, the figures presented in different charts can vary slightly and it is possible that some figures which appear as totals are not an exact arithmetic sum of the figures that precede them.
- ✓ In accordance with established accounting norms, the re-expression of financial statements as of January 2008 is unnecessary, and the financial statements of previous years remain expressed in pesos of the last upgraded period, which in this case is December 2007.

### **Results**

Grupo Financiero Banorte earned net income in 2009 of Ps 5,854 million, (17%) less than in 2008. The results were affected by an environment of declining interest rates and greater loan loss provisions due to deterioration in the portfolio. Profits declined sequentially only between the first and second quarters, and then grew by 9% between 2Q09 and 3Q09; and 5% between 3Q09 and 4Q09. ROE was 15%, lower when compared to the 19.7% registered in 2008, while ROA was 1%.

In spite of the heavy drop in market interest rates and reduced loan portfolio volumes, net interest income increased by 3% YoY in 2009, to Ps 23,183 million.

During this period, Banking Sector profits (by the participation method of 92.72%) were Ps 4,786 million, a (24%) YoY decline, contributing with 82% of the Group's net income. The Broker Dealer reported profits of Ps 203 million, an 11% YoY increase; Other Finance Companies reported net income of Ps 425 million, 27% more than in 2008, and the Long Term Savings Sector reported profits of Ps 380 million, an 8% YoY increase.

<b>Net Income per Sector</b>	<b>2009</b>	<b>2008</b>
<b>Banking Sector <sup>(1)</sup></b>	<b>4,786</b>	<b>6,257</b>
<b>Broker Dealer</b>	<b>203</b>	<b>183</b>
<b>Long Term Savings Sector</b>	<b>380</b>	<b>354</b>
Afore	141	94
Insurance	224	243
Annuities	16	17
<b>Other Finance Companies</b>	<b>425</b>	<b>336</b>
Leasing and Factoring <sup>(2)</sup>	403	313
Warehousing	22	23
<b>Micro Lending <sup>(3)</sup></b>	<b>15</b>	<b>(120)</b>
<b>Holding</b>	<b>45</b>	<b>5</b>
<b>GFNorte</b>	<b>5,854</b>	<b>7,014</b>

Majority participation in millions of pesos.

(1) From 2008 to 2Q09 participation was 97.06%, as of 3Q09 it increased to 97.07%, and in 4Q09 it was 92.72%.

(2) Leasing and Factoring were merged as of February 2008.

(3) Merged with Banco Mercantil del Norte as of August 31st, 2009.

## Deposits

At year end, total deposits were Ps 274,888 million, 5% higher YoY, driven mainly by the 7% annual growth in demand deposits and 13% growth in retail time deposits.

## Loans

Performing loans decreased by (1%) YoY from Ps 239,505 million in 2008 to Ps 238,288 million in 2009; excluding the portfolio managed by the Recovery Bank of Ps 666 million.

## Asset Quality

During 2009, past due loans grew by 24%, due to deterioration in the consumer, commercial and mortgage portfolios. The past due loan ratio was 2.5% at year-end, while reserve coverage for past due loans was 122%.

## Efficiency

The efficiency ratio was 53% in 2009 with a moderate YoY increase, although when employee profit sharing (PTU) is included to the 2008 figures in accordance with changes in the accounting criteria which came into effect in April 2009, efficiency shows a slight improvement. Non interest expenses grew by 8% YoY and 2% in comparable terms, lower than the 3.6% inflation rate, which reflects GFNorte's efforts to rationalize expenses.

## Capitalization

At closing of 2009, the Capitalization Ratio was 16.8% considering credit, market and operational risks, and 24.4% considering only credit risks. Tier 1 ratio was 12.0% while Tier 2 was 4.8%.

## Relevant Events in 2009

**Issuance of subordinated obligations:** In March 2009, Banorte issued subordinated obligations to strengthen its regulatory capital. The issuance of preferred non-convertible subordinated obligations (BANORTE 09) was for Ps 2,200 million, maturing in 10 years and paying an interest rate of TIIE to 28 days plus 200 basis points. The debt was rated as Aaa.mx by Moody's and as AA (mex) by Fitch.

**Banorte consolidates its presence in Texas:** On April 1st, 2009, Grupo Financiero Banorte announced the purchase of the remaining 30% of INB Financial Corp's shares (INB), the controlling company of Inter National Bank, headquartered in the state of Texas, USA. This acquisition marks the completion of the original strategy outlined in January 2006, when the acquisition of 70% of Inter National Bank's shares was announced.

**GFNORTE is listed in the Latibex market of the Madrid stock exchange:** On Tuesday June 9th, 2009, the ordinary shares of Grupo Financiero Banorte S. A. B. de C. V., began trading successfully in the Madrid stock exchange through the "Latibex" index under the symbol XNOR.

**Portfolio acquisitions by Afore Banorte Generali, S. A. de C. V. (AFORE Banorte):** In June 2009, AFORE Banorte acquired the assets of IXE AFORE's retirement savings funds. In August 2009, AFORE Banorte also purchased AFORE Ahorra Ahora's assets and on December 21st, 2009 AFORE Argos's assets. These transactions rank AFORE Banorte as the fourth largest Afore in Mexico in terms of number of affiliates.

**GFNorte's General Ordinary Shareholders' Meeting approves a payment of cash dividends:** In 2009, the Board of Directors and Shareholders' Assembly approved the payment of cash dividends for a total of Ps 0.52 per share made in three payments in 2009 and 2010. This payment is equal to 15% of the recurring net income of 2008, demonstrating Banorte's commitment to maintaining its dividend policy even under a tough environment.

**GFNORTE initiates a Level I ADR Program in the USA:** Grupo Financiero Banorte (BMV: GFNORTEO) established a Level I Sponsored ADR Program of in the United States, in response to the changes in Rule 12g3-2b by the Securities and Exchange Commission (SEC) on October 10<sup>th</sup>, 2008 that facilitate the establishment of sponsored and non-sponsored ADR programs for shares in companies that do not operate in US stock markets.

**IFC investment in Banco Mercantil del Norte:** IFC, a member of the World Bank, invested US 150 million dollars in the capital of Banco Mercantil del Norte, the bank subsidiary of Grupo Financiero Banorte, on November 12th, 2009. This represents 4.48% of Banco Mercantil del Norte's equity.

#### **Products and services:**

- **Launching of "Banorte Movil":** On March 5<sup>th</sup>, 2009, the "Banorte Mobile" application became available to our clients. This is a novel electronic banking service that operates through cellular telephones and mobile devices using the Internet.
- **SME Loan Restructuring Campaign:** On March 24th, 2009, Banorte launched an aggressive loan restructuring program for its Crediactivo clients, providing a payment term of up to 7 years and a lower interest rate for timely payments.
- **Launching of the "Dollar Debit Card":** On March 30th, 2009, the "Dollar Debit Card" was launched, as well as the new savings product "Enlace Dollars without a Checkbook", directed to individuals who reside along the country's border.
- **Banorte launches the most attractive credit card in the market:** In response to market demand, Banorte created a credit card that guarantees cardholders the best traditional credit card benefits, as well as the lowest Total Annual Cost (CAT) on the market and added security benefits.
- **Banorte launches "Cuenta Fuerte", an all-inclusive package of products with additional benefits:** With the objective of offering all Mexicans the best package of banking products with high value added benefits, Banorte launched "Cuenta Fuerte" on September 7<sup>th</sup>, 2009, which is a comprehensive package of products that includes an Enlace Global checking account, credit card, demand and time investments, Internet banking, Banorte Mobile, telephone banking, ATM services and life insurance, all under one contract.
- **Banorte launches the "Anniversary Mortgage":** On September 9<sup>th</sup>, 2009, as part of its 110th Anniversary, Banorte launched a new mortgage product on the market that offers a lower interest rate of 11.0% and initial commission of 1.10%. This product also offers the lowest initial payment in the market and unemployment insurance.

- **The CNBV authorizes Banorte to operate through third party correspondents:** On September 30<sup>th</sup>, 2009, TELECOMM-TELEGRAFOS, a public decentralized entity of the Ministry of Communications and Transportation (SCT), and Banorte, received authorization from the banking commission (CNBV) to jointly offer financial services nationwide in areas with little or no banking presence.

#### Acknowledgements:

- **Recognized as “Best Financial Group 2009 in Mexico” by World Finance:** In April 2009, Grupo Financiero Banorte received, for the first time, World Finance magazine’s award for the “Best Financial Group 2009 in Mexico”. This is the first time that a Mexican bank has been recognized with this award by the prestigious media group "World News Media" with headquarters in London.
- **Banorte named Bank of the Year by The Banker Magazine:** In December 2009, the Financial Times Group, through its specialized publication "The Banker", named Banorte as "The Bank of the Year in Mexico 2009", a distinction Banorte has also earned in 2000, 2005, 2006 and 2008.

#### 1Q10 Relevant Events

**GFNorte’s Shareholders’ Meeting approved payment of a cash dividend:** In February 2010, Grupo Financiero Banorte reported that the Extraordinary Shareholders’ Meeting approved payment of a cash dividend of Ps 0.17 for each share in circulation; and in the General Ordinary Assembly held in April 2010, an additional payment was authorized to be made in May for Ps 0.17 pesos for each share in circulation. These payments correspond to the second and third disbursements in order to complete the total cash dividend of Ps 0.52 per share, which was approved by the Board of Directors in October 2009.

#### Recognitions:

- **Banorte the most transparent bank in payroll accounts:** Banorte was recognized by CONDUSEF as the bank with the most transparency in payroll accounts, receiving a rating of 10 - the highest granted by that Commission. The bank stood out for its transparency in contracts, Internet portals, headlines and account statements issued by the institution.
- **Banorte among the ten best companies to work for - "Great Place to Work":** In its first year of participation, Banorte was ranked among the ten best companies with 5,000 or more employees to work for. The "Great Place to Work Institute" Mexico conducted a survey among employees of the 400 participating companies, as well as a review of their human resource related policies.
- **Named “Best Financial Group in Mexico 2010” by World Finance:** In April 2010, World Finance magazine recognized Grupo Financiero Banorte for a second consecutive occasion with the award for the “Best Financial Group in Mexico 2010”, which is granted to leading companies in the financial sector. The main selection criteria included: excellence in client service, investor benefits and transparency in disclosure, innovation and flexibility, keeping ahead of the competition, evidence of greater market penetration, market transformations, leadership and geographical scope.

#### Stock Performance

The performance of GFNORTEO shares in the last 6 months is shown as follows:

Date	Maximum	Minimum	Close	P/BV*	P/E**	Volume
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10/30/2009	43.89	41.02	43.31	2.18	15.25	6,239,500
11/30/2009	47.60	44.00	44.75	2.25	15.76	8,603,300
12/31/2009	48.10	46.50	47.84	2.33	16.16	2,191,300
01/29/2010	43.80	42.60	43.01	2.10	14.53	9,020,400
02/26/2010	48.00	47.21	47.78	2.33	16.14	5,148,800
03/31/2010	54.99	53.51	54.57	2.62	17.49	5,735,600

\*P/VL = Price/Book Value

\*\*P/U = Price/Earnings

Source: Casa de Bolsa Banorte (Broker Dealer Banorte). The indicators were calculated with figures known at the time of this report.

## **c) RISK FACTORS**

### **Risks related to Mexico**

#### **Macro-economic Situation**

To a large extent, GFNorte's main activities are conducted in Mexico and depend on the performance of the Mexican economy. Historically, Mexico has had recurring economic crises characterized by high inflation rates, volatility and devaluation in the exchange rate, high interest rates, reduced consumer demand as well as credit availability, an increase in the unemployment rate and a loss of investors' confidence, among other things. GFNorte cannot guarantee that such events will not happen again in the future and that situations resulting from such events will not affect the financial situation, businesses or operating results of the Group.

#### **Economic Growth**

Any reduction in Mexico's economic growth rate, periods of negative growth and/or increased inflation and/or higher interest rates could create a reduction in the demand for the Group's products and services, a reduction of prices for such products and services, or a demand for products and services with lower margins. Because many of its costs and expenses are fixed, GFNorte would find it difficult to adjust these costs and expenses to face any events which could negatively affect profit margins.

#### **Significant depreciation and/or devaluation of the peso in face of other currencies**

Despite the fact that the peso has been relatively stable in the last few years vis a vis the US dollar and other currencies, (except for the last months of 2008 and first months of 2009), if a significant devaluation of the peso were to happen with respect to the dollar or other currencies, the Mexican economy would be negatively affected and could therefore have to restrict transfers or conversions of pesos into dollars and other foreign currencies.

#### **Inflation**

Inflation in Mexico, measured by the increase in the National Consumer Price Index was 3.57% in 2009. If inflation increases more than wages, the result would adversely affect the purchasing power of individuals and companies with loans, and therefore their payment capacity.

#### **Interest rates**

In the last few years, Mexico has maintained interest rates below two digits. Adverse situations in the national economy could result in substantial increases in market interest rates, which in turn would affect the payment capacity of borrowers, with adverse repercussions in the Bank's business, financial situation and operating results.

#### **Employment Level**

If changes in the economic, political or social environment result in a loss of employment in the country, the payment capacity of individuals and companies with loans would be adversely affected by the loss of their



source of income, which in turn could cause a decrease in the Group's receivables and therefore an increase in delinquencies.

### **Changes in governmental dispositions**

Any change in the law or in governmental policies and strategies related to the services and financial products offered by banking institutions could affect the operational and legal framework of Banorte, thereby impacting its business, financial situation or operating results.

### **Political Situation**

As a result of the federal elections held in July 2006, no party holds a majority in Congress, impeding them from controlling any of the Chambers (Deputies and Senate). This situation will continue, at least until the next election of federal congressmen in 2009 and could result in the impossibility of adopting the structural reforms needed for the country.

GFNorte cannot ensure that political events in Mexico (over which it has no control), will not have an unfavorable effect in its financial situation or results.

### **Risks related to Multiple Banking Institutions**

#### **Competition in financial services**

Banorte faces strong competition from other Mexican financial institutions that target the same corporate and individual segments, as well as global financial institutions. Banorte is constantly facing strong competition from new banks recently authorized by Hacienda to begin operations that, in some way, seek to penetrate the same corporate and individual segments as Banorte, as well as non-regulated entities, commonly known as SOFOMES, whose main activity is originating loans.

#### **Changes in governmental regulations**

Credit institutions are subject to regulations regarding their organization, operation, capitalization, transactions with related parties, reserves for credit losses, diversification of investments, liquidity ratio levels, loan origination policies, interest rate levels and accounting criteria, among other aspects. This regulation has been modified in recent years, causing changes in Banorte's financial statements. Should the applicable regulations be modified again in the future, their effects could have an unfavorable impact in the business, financial situation or the operating results of Banorte.

#### **Foreclosures**

Foreclosures are conducted through legal procedures which, on occasion, can become lengthy or hindered. Delays or impediments in foreclosures can adversely affect the value of the property given as guarantee and the business, financial situation or operating results of Banorte as well.

#### **Credit risk reserves**

Banking regulations for loans establish that multiple banking institutions must rate their portfolios based on the estimated level of risk according to qualitative and quantitative factors to establish the corresponding credit reserves. Banorte meets the current requirements for portfolio rating and considers that the preventive estimate for credit risks is enough to cover expected or non expected losses in its loan portfolio. The policy it follows is to create reserves at the maximum levels allowed by the law; its purpose being to have a solid contingency structure in the face of any eventuality in its portfolio. Should an increase in reserves be considered necessary,

or if regulations for rating loan portfolios are modified and require increased reserves, this could adversely affect the operating results and the capitalization level of the bank.

It is important to mention that on August 22, 2008, the Ministry of Finance and Public Credit published in the Diario Oficial de la Federación a resolution that modifies the dispositions applicable to credit institutions. Section II of Article 91 establishes a progressive chart so that credit institutions rate the portfolio, constitute and register preventive reserves for revolving consumer credit portfolios in their accounting. In accordance with the Second Transitory Article of this resolution, credit institutions must adhere to the chart of Section II of Article 91 by the last day of October 2008 at the very latest. In this regard, Banorte has met this requirement and already reflects the changes in regulations in its 2008 financial statements.

## **Liquidity**

Deposits made by clients constitute a source of financing for Banorte. The short term nature of this source of funding can represent a liquidity risk for Banorte if the deposits are not made in the estimated volumes or if these deposits are withdrawn in an unexpected manner.

## **Foreign currency operations**

In accordance with Banxico regulations, Banorte liabilities expressed in foreign currency are subject to a liquidity coefficient which must not exceed a determined level with respect to its regulatory capital. Although Banorte meets the applicable dispositions and follows procedures for the administration of risk positions in connection with its bank and treasury activities and movements; it cannot ensure that it won't be subject to losses regarding futures positions in the event of volatile exchange rates or interest rates, which could have an adverse effect on business, the financial situation or operating results of Banorte.

## **Possible Increase in the Past Due Loan Portfolio**

The current global financial crisis has created high volatility in the international and local markets. This crisis has generated devaluation in exchange rates, high interest rates, a strong reduction in consumer demand, increased unemployment ratios, reduction in credit availability and lowered confidence by investors on a global scale, among others. All of these elements could cause Banorte's past due loans to grow, since there is more probability of payment delinquencies. Although Banorte has diverse policies and controls regarding loan placements and collection of payments, these policies and controls cannot prevent an increase in the past due loan portfolio in adverse situations that at the moment reign in the national and international economies.

## **Risk related to Banorte**

### **Foreseen risks in financial statement notes**

Banorte is subject to series of risks including market risk, credit, liquidity, operating, technological and legal risks. The consolidated financial statement notes for Banorte, included as annexes to this report, contain a description of these risks. Any update to these risks could adversely affect the business, financial situation or operating results of Banorte.

### **Repeal of authorization**

In accordance with the LIC (Credit Institutions Law), some of the reasons for which the CNBV could revoke Banorte's authorization to operate as a banking institution are if the bank: (i) doesn't carry out the corrective measures required by the CNBV; (ii) doesn't implement the established capitalization requirements according to

applicable legal dispositions; (iii) in certain cases, does not fulfill its debt obligations or its obligations derived from compensation processes or those with its depositors; and (iv) repeatedly conducts operations that are prohibited or sanctioned according to the LIC (see “Applicable Legislation and Tax Situation”).

### **Market risk**

Banorte is exposed to market risks from different risk factors associated to the positions that it maintains in a wide range of financial products, including maturing instruments, derivatives and privately placed debt certificates. Measuring the market risk quantifies the potential change in value of the positions as a consequence of changes in the risk factors associated with these positions. These changes can affect the operating results and the financial position of Banorte.

An integral risk administration assures an appropriate control through a group of management, measurement and information policies, as well as established limits for market risk factors. Global risk measurement is made through a combination of methodologies applied to negotiated portfolios and the structural balance sheet.

Banorte fulfills the dispositions and requirements of authorities in a timely fashion, continuously implementing improvements according to healthy and better market practices with respect to risk administration.

For more information, see Notes 32. Risk Administration and 33. Unit for Integral Risk Administration (UAIR), point 7. ANNEXES of this report.

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### **d) OTHER SECURITIES**

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

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### **e) SIGNIFICANT CHANGES TO REGISTERED SECURITIES' RIGHTS**

GFNorte does not have any debt securities issued for terms longer than 1 year.

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### **f) DESTINATION OF FUNDS**

Not applicable.

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### **g) PUBLIC DOCUMENTS**

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

Ave. 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](mailto:david.suarez@banorte.com)

or at:

Ave. Revolucion 3000, 8th Floor  
Col. Primavera, Monterrey, Nuevo Leon, 64830  
Telephone: (5281) 8318-5002  
E-mail: [investor@banorte.com](mailto:investor@banorte.com).

This report is available to the general public at: [www.banorte.com/ri](http://www.banorte.com/ri) Select "Annual Reports" in the Financial Information section and then the document entitled "Circular Unica CNBV 2009".

## 2. THE COMPANY

### a) DEVELOPMENT AND HISTORY OF THE ISSUER

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

The main offices are located in:

#### MEXICO CITY, D. F.

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

#### MONTERREY, N. L.

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

### GFNorte's most important historical events

GFNorte's origins date back 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 were merged in January 1986 under the name of Banco Mercantil del Norte, Sociedad Nacional de Crédito. In May of 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 one 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 nation wide presence. All the necessary corporate acts were successfully conducted for the accounting and fiscal merger of Banpaís with Banorte, as of March 1<sup>st</sup>, 2000 the latter subsists. On September 30<sup>th</sup>, 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 8<sup>th</sup>, 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 28<sup>th</sup>, 2006 Bancen also merged with Banorte through a resolution of their respective Extraordinary General Shareholder Meetings held on August 16<sup>th</sup> and 17<sup>th</sup>, 2006, thereby concluding the last phase of integration of this bank. As part of a developmental strategy in the US, on November 16<sup>th</sup>, 2006 GFNorte acquired 70% of INB shares. INB had 14 branches when acquired and its headquarters were located in McAllen, Texas. On January 18<sup>th</sup>, 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 30<sup>th</sup>, 2007, the Bonding Company was spun-off from Grupo Financiero and as of January 31<sup>st</sup>, 2008 the factoring and leasing companies were merged. Finally, on April 1<sup>st</sup>, the remaining 30% of INB Financial Corp. shares were purchased. On August 31<sup>st</sup>, 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. Finally, on November 12<sup>th</sup>, 2009 the International Financial Corporation (IFC) invested US \$150 million dollars in Banco Mercantil del Norte, which represented 4.48% of Banorte's capital.

### Relevant events in 2009

**Issuance of subordinated obligations:** In March 2009 Banorte issued subordinated obligations to strengthen its regulatory capital. The bank issued \$2,200 in 10 year Subordinated Preferred Non-convertible Obligations (BANORTE 09), paying an interest rate of 28 day TIIE plus 200 basis points. The securities were rated as Aaa.mx by Moody's and AA (mex) by Fitch.

**Banorte consolidates its presence in Texas:** On April 1<sup>st</sup>, 2009, Grupo Financiero Banorte announced the purchase of the remaining 30% of INB Financial Corp. ("INB") shares, the controlling company of "Inter National Bank" with corporate offices in the state of Texas, USA. This acquisition concludes the original plan outlined in January 2006 when the acquisition of 70% of Inter National Bank's shares was announced. Banorte paid \$146.6 million dollars with its own resources. This acquisition did not impact Banorte's regulatory capital since 100% of the transaction was accounted in 2006.

**GFNORTE is traded in Latibex index of the Madrid stock exchange:** On Tuesday June 9th, 9 2009, the ordinary shares of Grupo Financiero Banorte S. A. B. de C. V., began trading successfully in the Madrid stock exchange through the "Latibex" index under the symbol XNOR. The shares of Banorte were included in FTSE Latibex All Shares index since their inclusion to the market, and as of June 10<sup>th</sup>, 2009 they were incorporated in the FTSE Latibex TOP index that includes the 16 most important Latin American companies in this market. One share of XNOR represents 10 shares of GFNORTE.

**Portfolio acquisitions by Afore Banorte Generali, S. A. de C. V. (AFORE Banorte):** In June 2009, AFORE Banorte acquired the assets and client base of IXE AFORE. This transaction implies the transfer of a portfolio of 312,489 clients, representing Ps 5,447 million in managed assets. In August 2009 AFORE Banorte acquired AFORE Ahorra Ahora's portfolio of 367,660 clients, representing Ps 1,138 million in managed assets. And, on December 21st, 2009 the AFORE Argos' portfolio of 22,000 clients, representing Ps 600 million in managed assets, was also acquired. These transactions were approved by the respective Boards of Directors, with the authorizations of the Junta de Gobierno de la Comisión Nacional del Sistema de Ahorro para el Retiro (Retirement Savings Commissions) and the Comisión Federal de Competencia (Antitrust Commission). These transactions place AFORE Banorte as the fourth largest Afore in Mexico in terms of number of affiliates.

**GFNorte's General Ordinary Shareholders' Meeting approves payment of cash dividends:** In 2009, the Board of Directors approved the payment of cash dividends for a total of Ps 0.52 per share made in three payments in 2009 and 2010, prior approval by the corresponding Shareholder Assemblies. This payment is equal to 15% of the net recurring income registered in 2008, demonstrating Banorte's commitment to its shareholders.

**GFNORTE initiates a Level I ADR Program in the USA:** Grupo Financiero Banorte (BMV: GFNORTEO) established a Level I Sponsored Program of ADRs in the United States, after changes to Rule 12g3-2b by the Securities and Exchange Commission (SEC) on October 10<sup>th</sup>, 2008 that facilitate the establishment of sponsored and non-sponsored ADR programs for shares in companies that do not operate in US stock markets. Because Banorte shares are one of the most liquid and most traded in the Mexican Stock Market, they have generated great interest among institutional funds around the world; this ADR program enhances Banorte's efforts to obtain presence in the main international financial centers 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 or NASDAQ. The shares operate under the symbol GBOOY and one ADR represents 5 shares of Banorte. The depository bank is the Bank of New York Mellon.

**Extraordinary Shareholders' Meeting authorizes capital stock increase for Banco Mercantil del Norte S.A.:** Grupo Financiero Banorte reported that on October 23<sup>rd</sup>, 2009, its subsidiary Banco Mercantil del Norte S. A. (the bank), authorized in an Extraordinary Shareholders Meeting the increase in capital stock for this subsidiary and the modification of corporate by-laws to include the capitalization with International Financial Corporation (IFC), an organization that is part of the World Bank. A total of 4,800,380,031 shares of the bank were issued as part of this operation, while any remaining stock was kept in Treasury prior to being cancelled.

**International Financial Corporation (IFC) invests in Banorte:** On November 12<sup>th</sup>, 2009, IFC invested US 150 million dollars in the capital of Banco Mercantil del Norte, the bank subsidiary of Grupo Financiero Banorte; which represents 4.48% of Banco Mercantil del Norte's capital. This operation was approved by the Board of Directors in the session held in July 2009, while the increase in capital of the banking subsidiary was authorized by the Shareholders' Meeting in October 2009. At the moment, IFC and Banorte are working in several initiatives, including a plan of social responsibility for the bank, which will allow it to consolidate this long term relationship. IFC is member of the World Bank Group whose mission is to support the sustainable development of the private sector in developing countries. Through this investment, IFC seeks to strengthen its role in expanding the Mexican financial system.

**Impact of fiscal modifications approved for 2010 on Grupo Financiero Banorte:** On December 7<sup>th</sup>, 2009 the Diario Oficial de la Federación (Official Gazette) published the tax reforms approved by Congress, which went into effect on January 1<sup>st</sup>, 2010. Banorte informed the financial community and its investors that the new regulations regarding tax consolidation will not have any impact on the Group because financial groups are not permitted to consolidate fiscally. Also, the increase in the income tax rate from 28% to 30% will have a negative impact in Grupo Financiero Banorte because the bank pays the highest marginal tax rate.

#### **Products and services:**

- **Launching of "Banorte Movil":** On March 5<sup>th</sup>, 2009, the "Banorte Mobile" application became available to clients. This is a novel electronic banking service that operates through mobile phones and other mobile devices using the Internet. This service can be accessed from anywhere in the country using a mobile device, regardless of the model or the company service provider. During the first weeks of use, a total of 15,000 electronic banking clients downloaded this application to their mobile phones.
- **SME's Loan Restructuring Campaign:** On March 24<sup>th</sup>, 2009, Banorte launched an aggressive loan restructuring program for its Crediactivo clients, providing a payment term of up to 7 years and a lower interest rate for clients with timely payments.
- **Launching of the "Dollar Debit Card":** On March 30<sup>th</sup>, 2009, the "Dollar Debit Card" was launched as well as the new savings product "Enlace Dollars without a Checkbook", directed to individuals who reside along the country's border.
- **Banorte launches the most attractive credit card on the market:** In response to one of the most significant demands in the market, Banorte created a credit card that guarantees cardholders the best traditional credit card benefits, as well as the lowest Total Annual Cost on the market and security advantages.
- **Banorte launches "Cuenta Fuerte", an all-inclusive package of products with additional benefits:** With the objective of offering all Mexicans the best package of bank products with high value benefits ; on September 7<sup>th</sup>, 2009 Banorte launched "Cuenta Fuerte", a comprehensive package of products that includes an Enlace Global checking account, a credit card, demand and time investments, Internet banking, Banorte Mobile, telephone banking, services at ATMs and life insurance, all under one single contract.
- **Banorte launches the "Anniversary Mortgage":** On September 9<sup>th</sup>, 2009, as part of its 110<sup>th</sup> Anniversary, Banorte launched a new mortgage product on the market that offers a reduced interest rate of 11.0% and a lower initial commission of 1.10%. The mortgage also offers the lowest initial payment in the market and unemployment insurance. As part of this offer, Banorte gives clients access to the only tool in the market for mobile phone quotes, helping them to make the best decision when acquiring a home. Through this mortgage, Banorte rolled out an attractive mortgage offering during a difficult economic environment, reducing the initial payments and enabling Mexicans to acquire a larger home with the same monthly installment.
- **The CNBV authorizes Banorte to operate through third party correspondents:** On September 30<sup>th</sup>, 2009 TELECOMM-TELEGRAFOS, public decentralized organism of the Secretary of Communications and Transports (SCT), and Banorte, received authorization from the CNBV to jointly offer financial services on a national level in areas with little or no banking presence. With this authorization, both institutions are ranked as leaders in providing financial services through the new framework designed by CNBV for third parties and commission agents, known as correspondents; and they continue to support the Federal Government's program to make banking services available throughout the country.

## Recognitions:

- **Named “Best Financial Group 2009 in Mexico” by World Finance:** In April 2009, for the first time Grupo Financiero Banorte received World Finance magazine’s award for the “Best Financial Group 2009 in Mexico”. This is the first time that a Mexican bank has been recognized with this award by the prestigious publication group "World News Media" with headquarters in London. Banorte was recognized for its constant innovations, originality and quality of its products and services, continuous market development, a growing participation in all sectors and excellence in attention to clients among others.
- **Banorte named Bank of the Year by The Banker Magazine:** In December 2009, the Financial Times Group, through its specialized publication "The Banker", named Banorte as "The Bank of the Year in Mexico 2009", a distinction Banorte also earned in 2000, 2005, 2006 and 2008. The magazine mentions that BANORTE stood out for its innovation, service to clients, prudence in risk administration and appropriate management.

## 1Q10 Relevant Events

**GFNorte’s Shareholders’ Meeting approved payment of a cash dividend:** In February 2010, Grupo Financiero Banorte reported that the Extraordinary Shareholders’ Meeting approved payment of a cash dividend of Ps 0.17 for each share in circulation; and in the General Ordinary Assembly held in April 2010, an additional payment was authorized to be made in May for Ps 0.17 pesos for each share in circulation. These correspond to the second and third payments to complete the total cash dividend of Ps 0.52 per share which was approved by the Board of Directors in October 2009.

## Recognitions:

- **Banorte the most transparent bank in payroll accounts:** Banorte was recognized by CONDUSEF as the bank with the most transparency in payroll accounts, receiving a rating of 10 - the highest granted by that Commission. The bank stood out for its transparency in contracts, Internet pages, headlines and account statements issued by the institution.
- **Banorte among the ten best companies to work for - "Great Place to Work":** In its first year of participation, Banorte was ranked among the ten best companies to work among those that have 5,000 or more employees. The "Great Place to Work Institute" Mexico conducted a survey among employees of the 400 participating companies, as well as a revision of their human resource related policies.
- **Named “Best Financial Group in Mexico 2010” by World Finance:** In April 2010, World Finance magazine recognized Grupo Financiero Banorte for a second consecutive occasion with the award for the “Best Financial Group in Mexico 2010”, which is granted to leading companies in the financial sector. The main selection criteria included: excellence client service, investor benefits and transparency, innovation and flexibility, keeping ahead of the competition, evidence of greater market penetration, market transformations, leadership and geographical scope.



## **b) BUSINESS DESCRIPTION**

### **i. MAIN ACTIVITIES**

GFNorte was authorized by the Ministry of Finance and Public Credit (SHCP) to operate as a holding company of those companies mentioned later in this report (item ix. Corporate Structure), according to the guidelines and terms established by the Law to Regulate Financial Groups 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 offers:

- Banking Sector: universal banking services in Mexico and - through INB - in the state of Texas, USA.
- Long-term Savings: retirement savings funds (Afore), insurance and annuities.
- Other finance companies: leasing & factoring and warehousing services.
- Broker Dealer: capital market services and products.

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

- **Retail Bank:** specializing in individuals and small businesses providing them with products and banking services that are not specialized through our distribution channel. Among the products and services offered are: checking and savings accounts, credit cards, mortgages, car loans, payroll and personal loans.
- **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 loan and real estate portfolios acquired through public and private auctions.

### **ii. DISTRIBUTION CHANNELS**

Banorte has one of the best distribution networks in the country currently comprised of 1,088 branches and over 4,400 ATMs, a world-class Call Center, one of the most modern and secure Internet banking service as well as an innovative banking service which clients can access via mobile phones.

#### **Branch network**

In 2009, through the strategy to improve branch efficiency, the current network (1,088 branches) was consolidated by merging 51 offices and reinforcing the infrastructure with 22 new branches that were opened in Mexico City and its suburbs. As a complement, in order to standardize and improve the quality of service offered by Banorte on a national level, the 6 S quality model (5 S for order and cleanliness plus continuous improvement) was implemented during the year.

For 2010 and subsequent years, the institution will continue with its growth strategy and will focus mainly in providing services and penetrating markets where it has no presence, at the same time that it will continue reinforcing areas where it currently shows leadership.

## **ATMs**

Banorte has increased the number of ATMs in its network to 4,478, which represents an increase of 342 active units during the last year. This growth was one of the most relevant among financial institutions in Mexico. Additionally, in accordance with the technological modernization program, a large number of ATMs were upgraded with more modern equipment, improving the quality of service. This strengthens this distribution channel which currently operates 45% of the bank's transactions.

## **Acquired Business (Point of Sales – POS)**

In 2009 Banorte reached 39,000 affiliations through which 65 million annual transactions were carried out, for a total billing of Ps 44.094 billion. In this way, Banorte can offer clients efficient service with terminals using the Internet. Clients are also able to make on-site credit card sales with mobile terminals and even using electronic banking.

## **Banortel Call Center**

In 2009 Banorte achieved the best service indices with high efficiency ratios. To achieve this, diverse improvement initiatives were carried out that focused mainly in obtaining a new operation model and the installation of point technology for contact centers. Indices of desertion (89%) and waiting times (77%) decreased considerably within the year. During the period, Banortel received a total of 26.6 million calls, of which 23% were answered by an executive, demonstrating a good level of automation without sacrificing quality in service.

## **Banorte through the Internet**

The option to carry-out more than 50 transactions with a high level of security from any computer with Internet access is strongly valued by almost 400,000 Banorte clients. In 2009, 174 million transactions were carried out, which confirms the trust that our clients have in the group's technological services.

## **Innovation in mediums**

### *Banorte Movil*

Another outstanding innovation of Banorte in 2009 was the launching of a mobile strategy, named "Banorte Movil", which enables clients to perform the main electronic banking operations from a mobile phone. This tool consists of an application that is easily installed into the user's phone regardless of the model, brand, technology or service provider. In this way, Banorte provides its services to users with high range telephones (iPhone and BlackBerry) as well as those with lower ranges. In the specific case of the iPhone, a special version was created with functions and image compatible to the applications of this device.

Banorte's mobile banking has all the security elements required by authorities, offering users simple trustworthy transactions. More than 73,000 downloads were made with middle to low mobile phones and 26,000 connections using iPhones or other mobile devices with Internet access. At year end, nearly 460,000 consulting operations and approximately 60,000 monetary transactions were carried out. Before this technology was available, these transactions would have been carried out through other channels like at branch offices, ATMs or Internet banking.

### *Third Party Correspondents with Telecom-Telégrafos*

Banorte confirmed its leadership in providing the banking services that the country needs, by being the first institution to receive authorization from the National Banking and Securities Commission (CNBV) to operate as a third party correspondent. Banorte is the only bank that, as of November 19<sup>th</sup>, 2009, offers debit accounts with the Banorte Fácil product at the 1,575 offices of Telecom – Telégrafos.

The 12,000 savings accounts handled through Telecomm – Telégrafos during 2009 are part of a total of 3 million operations carried out in the year that include deposits, cash withdrawals, service payments and credit cards, as well insurance acquisition. It is important to emphasize that 36% of the transactions were carried out in areas with no banking services.

### **iii. PATENTS, LICENSES, BRANDS AND OTHER CONTRACTS**

The main registered trademark is BANORTE, since it represents the distinctive symbol of GFNorte and its subsidiaries, having been in use for 10 years since 2000 and currently under the renewal process for an additional 10 years, effective until 2020. GRUPO FINANCIERO BANORTE is another registered trademark since 1994, which is valid until 2014.

Banorte also owns the trademarks of SUMA, IMANORTE, CRÉDITO HIPOTECARIO BANORTE AND AUTOESTRENE BANORTE, which are significant within their sectors since they support the main financial products offered to the public. The trademarks are valid for 10 years starting from 2002, 2000, 2001 and 2005, respectively.

Additionally we have the trademarks for ENLACE TRADICIONAL; ENLACE DINÁMICA; ENLACE INTELIGENTE; COMO UN MEXICANO NO HAY DOS; COMO UN MEXICANO NO HAY DOS, FELICIDADES POR SER MEXICANO; which also cover important financial products that Banorte offers to the public, for a duration of 10 years starting from 2002 and 2009. And the most recent trademarks are MUJER BANORTE and AGROPECUARIO BANORTE, for 10 years as of 2005 and 2006, respectively.

On the other hand, Banorte 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)

These slogans are significant since they form 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,. They are valid for 10 years starting from 1999. The most recent commercial slogans are SIEMPRE TE DA MÁS (YOU ALWAYS GET MORE) and MUJER BANORTE, DETRÁS DE UNA GRAN MUJER HAY UN GRAN BANCO, (BANORTE WOMAN, BEHIND EVERY GREAT WOMAN IS A GREAT BANK) with duration of 10 years as of 2003 and 2005, respectively.

Each one of these property rights is protected by their 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:

- The agreement with American Express Company (Mexico), S.A. de C.V. to share Points of Sale Terminals, celebrated on December 2<sup>nd</sup>, 2006 for an indefinite length of time.
- 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 5<sup>th</sup>, 2005 and the leasing contract was signed on May 7<sup>th</sup>, 2004; with the understanding that both contracts are for indefinite periods of time.
- The agreement celebrated on May 1<sup>st</sup>, 2006 with Sertres del Norte, S.A. de C.V., for 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. The first agreement mentioned expired on April 30<sup>th</sup>, 2009, but was renewed and will expire in June 2012; and the other agreements were celebrated in accordance with the needs of the institution, with the intention that they will 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 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 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 for an indefinite period of time.
- The contract with Satélites Mexicanos S. A. de C.V., for satellite signal services was celebrated on July 31st, 2007, expiring on July 31st, 2012.
- The agreement with Libros Foráneos S.A. de C.V., providing satellite linking services for ATMs was celebrated on October 1st, 2009 for an indefinite length of time.
- 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, celebrated on August 1st, 2009 and expiring on July 31st, 2011.

With respect to the afore-mentioned contracts, there is no risk involved if the renewals are affected.

#### **iv. MAIN CLIENTS**

By March 31<sup>st</sup>, 2010 Banorte had an ample and diversified client portfolio; with the largest client representing only 2.5% of the total 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, 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 Law to Regulate the Financial Groups, 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 Law to Regulate Financial Groups; 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 Law to Regulate Financial Groups, 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 way for the losses of all and each one of these entities. In the event that the capital of the Society is not enough to cover the responsibilities of the Group's financial entities, such responsibilities will be covered first by Banco Mercantil del Norte, S. A., 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 Group 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 Law to Regulate the Financial Groups, 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 the placement of shares for the incorporation or merger referred to in Article 10 of the referred law.

The Society will be prohibited: (i) to grant loans, except for those which are part of labor benefits; (ii) to process or carry out any arrangement related to the operations of its controlled financial entities, 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 be submitted to the legal tribunals of Mexico City, Distrito Federal.

During the 2009 audited fiscal year, the Institution did not enjoy any special tax benefits, subsidies or exemptions granted by tax authorities.

## **vi. HUMAN RESOURCES**

GFNorte had 19,327 full-time and professional fee-based employees at the end of the year 2009, of which the Banking Sector makes up 79%.

<b>Sector</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
Bank	15,242	15,109	14,211
Long term savings	3,718	3,837	2,106
Other finance companies and Micro-lending	52	742	710
Broker Dealer	198	195	188
Remittance companies	101	114	133
<b>Total full-time employees</b>	<b>19,311</b>	<b>19,997</b>	<b>17,348</b>
<b>Total full-time employees &amp; salaries</b>	<b>19,327</b>	<b>20,008</b>	<b>17,361</b>

64% 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 environmental policy. Since the bank is a company operating in the service sector, it doesn't represent a significant environmental risk.

## **viii. MARKET INFORMATION**

The following demonstrates the evolution of GFNorte's market participation by subsidiaries:

<b>Financial Entity</b>	<b>Concept</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
Banking Sector	Public deposits*	12.8%	12.4%	11.9%
Broker Dealer	Equities' transactions	4.1%	6.4%	7.2%
Afore (retirement fund)	Affiliations	9.8%	9.7%	10.3%
Insurance	Issued premiums	3.2%	4.2%	4.7%
Annuities	Annuities	40.2%	52.0%	40.0%
Warehousing	Certificates	4.1%	6.4%	4.6%
Factoring	Total Portfolio	N.A.	N.A.	23.0%
Leasing	Total Portfolio	21.1%**	17.3%	12.0%

\*Source: ABM. Sample: Banamex, BBVA Bancomer, Santander Serfin, Banorte, HSBC, Scotiabank, Banregio, Bajío, Afirme, Ixe, Banco Ahorro Famsa, Bancoppel and Banco Amigo.

N.A.: Not applicable since Factoring and Leasing were merged as of February 2008.

\*\* Last available Information to November 2009.

GFNorte's attributes are its strength, service and experience, market knowledge 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 Bajío 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**

GFNorte is made up of six financial entities and it holds the following percentages of their equity:

Financial Entity	Total Equity
Banco Mercantil del Norte, S. A., multiple banking institution, Grupo Financiero Banorte.	92.72%
<ul style="list-style-type: none"> <li>• Credit Institution authorized to conduct financial operations.</li> <li>• Conducts banking and lending operations.</li> </ul>	
Arrendadora y Factor Banorte, Sociedad Anónima de Capital Variable, Sociedad Financiera de Objeto Múltiple, regulated entity, Grupo Financiero Banorte	99.99%
<ul style="list-style-type: none"> <li>• Acquires goods and/or real estate for financial leasing</li> <li>• Obtains loans and financing from credit and insurance institutions to cover liquidity needs.</li> <li>• Celebrates leasing and factoring contracts.</li> </ul>	
Almacenadora Banorte, S. A. de C. V., Organización Auxiliar del Crédito, Grupo Financiero Banorte.	99.99%
<ul style="list-style-type: none"> <li>• Storage services, keeps and conserves goods and merchandise.</li> <li>• Issues deposit certificates and pledged bonds.</li> <li>• Transforms deposited goods in order to increase their value</li> </ul>	
Seguros Banorte Generali, S. A. de C. V., Grupo Financiero Banorte.	51.00%
<ul style="list-style-type: none"> <li>• Institution that insures and re-insures individuals and corporations.</li> </ul>	
Pensiones Banorte Generali, S. A. de C. V., Grupo Financiero Banorte	51.00%
<ul style="list-style-type: none"> <li>• Acts as an insurance institution whose objective is to exclusively manage annuities derived from Social security laws.</li> </ul>	
Casa de Bolsa Banorte, S. A. de C. V., Grupo Financiero Banorte	99.99%
<ul style="list-style-type: none"> <li>• Acts as intermediary authorized to operate in the stock market, conducting transactions for the sale and purchase of securities, advise in placement of securities, securities transactions and mutual funds.</li> </ul>	

*For more information on the main business relationships with subsidiaries, see Number 4, item b) Operations with Related Parties and Conflict of Interest of this report.*

#### **x. DESCRIPTION OF MAIN ASSETS**

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

Location	Construction m <sup>2</sup>	Net book value (thousands of Ps)
Mexico-Toluca highway, Col. Cruzmanca Mexico D. F.	43,761	679,557
Av. Revolucion No. 3000, Monterrey, N. L.	40,222	339,510
Paseo de la Reforma no. 281 corner of Rio Sena 110 Mexico, D.F.	1,192	107,538
Calle Padre Mier Oriente No. 227, Monterrey, N. L.	5,810	65,028
Ave. Chapultepec corner of La Paz # 278, Guadalajara, Jalisco.	6,695	52,647

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

#### **xi. ADMINISTRATIVE, ARBITRATION AND JUDICIAL PROCESSES**

For information on Commitments and Contingencies, see Note 35 Commitments and 36 Contingencies of Point 7. ANNEXES of this report.

## **xii. REPRESENTATIVE SHARES OF COMPANY'S EQUITY**

The total subscribed and paid equity is Ps 7,064,216,418.00, represented by 252,157,233 ordinary nominative shares, Series "O", Class I, and 1,766,190,315 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 additional equity.

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 6<sup>th</sup>, 2005, an increase in the variable portion of the total equity was approved, in the amount of 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.

*See Note 28. Equity of Point 7. ANNEXES of this report.*

## **xiii. DIVIDENDS**

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

- a) September 30th, 2002, Ps 1.00 per share.
- b) October 16th, 2003, Ps 0.70 per share.
- c) October 4th, 2004, Ps 1.00 per share.
- d) October 6th, 2005, Ps 1.25 per share.
- e) October 12th, 2006, Ps 0.3748 per share.
- f) October 3rd, 2007, Ps 0.45 per share.
- g) October 6th, 2008, Ps 0.47 per share.
- h) October 5th, 2009, Ps 0.18 per share, being the first of three payments to cover the amount of Ps 0.52 per share (the amount approved by the Group's Board of Directors), and two additional dividends decreed by the Shareholders' Meeting as follows:
  - February 15th, 2010, Ps 0.17 per share.
  - April 23rd, 2010, Ps 0.17 per share.

In its session of April 30<sup>th</sup>, 2003 the Board of Directors approved a dividend payment policy stating that the Board will propose to the General Ordinary Shareholders' Meeting, the payment of a dividend of at least 15% of the net recurrent profit of the Group, provided there are no legal impediments and that market conditions and its own financial situation allow it.



# 3. FINANCIAL INFORMATION

When analyzing the information of this report it is important to consider the following:

- ✓ Figures for 2007 and 2008 are not fully comparable with those of 2009 because on April 27<sup>th</sup> and May 28<sup>th</sup>, 2009 the CNBV announced changes to accounting regulations and criteria for credit institutions and controlling financial groups. The effects of the reclassifications as a result of the retroactive application of these changes in accounting criteria are shown in Note 4 of the Audited Financial Statements.
- ✓ Certain amounts and percentages in this report have been rounded off. Consequently, the figures presented in different charts can vary slightly and it is possible that some figures which appear as totals are not an exact arithmetic sum of the figures that precede them.
- ✓ In accordance with established accounting norms, the re-expression of financial statements as of January 2008 is unnecessary, and the financial statements of previous years remain expressed in pesos of the last upgraded period, which in this case is December 2007.

## a) SELECTED FINANCIAL INFORMATION

	2009	2008	2007
Grupo Financiero Banorte net income (GFNorte) (*)	5,854	7,014	6,810
Total Assets of GFNorte (*)	567,138	577,025	287,283
Total Liabilities of GFNorte (*)	522,164	537,279	253,127
GFNorte equity (*)	44,974	39,746	34,156
GFNorte equity without minority interest (*)	41,366	37,802	32,489
<b>INFORMATION PER SHARE</b>			
Earnings per share (pesos)	2.90	3.48	3.37
Decreed dividend per share (pesos) <sup>(1)</sup>	0.52	0.47	0.45
Book value per share (pesos) (without minority interest)	20.50	18.77	16.42
Shares in circulation (millions)	2,017.8	2,014.0	2,018.3
<b>DISTRIBUTION NETWORK AND EMPLOYEES</b>			
Bank branches <sup>(2)</sup>	1,088	1,117	1,053
ATMs	4,478	4,136	3,674
Full-time employees	19,311	19,997	17,348
Full-time employees and professional services	19,327	20,008	17,361
<b>PROFITABILITY RATIOS <sup>(3)</sup></b>			
NIM before REPOS	4.3%	6.8%	7.6%
NIM adjusted for credit risks	2.8%	4.7%	6.3%
Return on assets (ROA)	1.0%	1.9%	2.6%
Return on equity (ROE)	14.9%	19.7%	22.7%
<b>OPERATIONS</b>			
Efficiency ratio <sup>(4)</sup>	52.6%	51.2%	56.3%
Operating efficiency ratio <sup>(5)</sup>	3.0%	4.3%	5.4%
Liquidity ratio	63.2%	47.1%	49.0%
<b>ASSET QUALITY INDICATORS</b>			
Past due loan ratio	2.5%	2.0%	1.5%
Reserve coverage for past due loans	122.4%	135.2%	130.9%
<b>CAPITALIZATION RATIO (BANKING SECTOR)</b>			
	16.8%	15.0%	13.8%

(\*) Millions of pesos.

(1) The dividend decreed by the Shareholders' Meeting was Ps 0.52 per share, payable in three payments. The first payment was for Ps 0.18 per share in October 2009. The second and third payments were for Ps 0.17 pesos each in February and May of 2010.

(2) Includes bank modules and excludes foreign agencies abroad and remote tellers.

(3) NIM and ROA indicators for 2008 and 2009 are not fully comparable against previous periods as a result of the reclassification of repos as titles kept to expiration within the Group's general balance sheet.

(4) Non interest expense / (total Revenues - REPOMO Margin + Loan loss provisions). Figures for 2009 are not fully comparable to previous periods because PTU was reclassified as an operating expense as of April 2009.

(5) Non interest expenses / Total Average Assets.

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

### **a. Deposits**

#### **By Business Line**

	<b>2009</b>	<b>2008</b>	<b>2007</b>
Commercial	257,364	242,185	224,644
Corporate	18,767	12,058	9,349
Government	140,333	131,088	121,865
Consumer	25,706	22,594	19,822
Financial Intermediaries	20,589	31,945	19,224

Average balances in millions of current pesos. Includes bank bonds. Government banking includes federal, state and municipal sectors.

#### **By Geographical Regions**

	<b>2009</b>	<b>2008</b>	<b>2007</b>
Mexico City - South	106,587	85,514	94,680
Mexico City - North	52,930	56,582	45,017
Northern	87,380	79,900	75,159
Central	56,230	52,020	46,276
Northwest	27,061	29,858	23,408
West	32,939	30,108	28,040
South	13,820	11,817	10,082
Peninsular	14,800	14,644	12,879
Border	14,845	15,091	12,120
Isthmus	12,646	12,842	12,222

Average balances in millions of current pesos. Includes bank bonds.

### **b. Total Loan Portfolio**

#### **By Business Line**

	<b>2009</b>	<b>2008</b>	<b>2007</b>
Commercial	44,885	48,547	39,434
Corporate	39,835	44,988	36,769
Government	41,446	27,142	16,219
Consumer	47,568	51,059	39,560
Recovery Bank	143	131	111
Affiliates	4,192	6,163	5,050
Mortgage	47,586	43,991	35,707
Credit card	13,888	17,831	14,710
Commercial Bank	44,885	48,547	39,434

Average balances in millions of current pesos. Government banking includes federal, state and municipal sectors.

## By Geographical Regions

	2009	2008	2007
Mexico City - South	33,842	37,898	32,784
Mexico City - North	22,450	23,536	15,190
North	51,556	50,608	39,394
Central	30,635	26,828	22,059
Northwest	23,437	23,883	15,524
West	19,570	18,917	15,667
South	4,870	5,504	4,388
Peninsular	11,389	10,784	7,818
Border	12,096	11,684	9,790
Isthmus	10,453	9,700	10,028

Average balances in millions of current pesos.

## c) REPORT OF RELEVANT LOANS

Financing obtained from the public investment community to December 31<sup>st</sup>, 2009:

### Obligations

#### a) Subordinated Non cumulative & Non-preferred Obligations, in US dollars Notes Due 2021 ("Tier 1 Notice"):

Date Issued: October 13, 2006  
Maturity date: October 13, 2021  
Amount Issued: US \$200 million dollars  
Coupon rate: 6.862%.

#### b) Subordinated Cumulative & Preferred Obligations, in US dollars, Notes Due 2016 ("Tier 2 Notes"):

Date Issued: October 13, 2006  
Maturity date: October 13, 2016  
Amount Issued: US \$400 million dollars  
Coupon Rate: 6.135%

#### c) 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%

#### d) 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%

#### e) 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%.

f) 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%.

Banorte is current in interest and/or capital payments in all these financial obligations.

**Banorte liabilities financed in foreign currency**

CONCEPT IN FOREIGN CURRENCY	December 2009	
	Capital (Average)	Cost
Core deposits	1,828,072	0.46%
Non-traditional deposits	600,000	6.17%
Total interbank loans	425,905	1.40%
<b>Total Deposits in Foreign Currency</b>	<b>2,853,977</b>	<b>1.80%</b>
Fobaproa Checkbook	-	-
<b>Total Resources in Foreign Currency.</b>	<b>USD \$2,853,977</b>	<b>1.80%</b>

Thousands of US dollars.

**INB liabilities financed in foreign currency**

CONCEPT IN FOREIGN CURRENCY	December 2009	
	Capital (Average)	Cost
Core deposits	1,695,060	2.17%
Total interbank loans	5,643	0.40%
<b>Total Resources in Foreign Currency</b>	<b>USD \$1,700,703</b>	<b>2.17%</b>

Thousands of US dollars.

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

Regarding the items in the Financial Statements that were re-expressed using ratios different from the Mexican Consumer Price Index, refer to the item "Recognizing the effects of inflation on financial information" in *Note 4. Principal accounting policies* of Point 7. ANNEXES of this report.

Relevant transactions not registered in the Balance Sheet or Profit and Loss Statement, do not exist.

**i. OPERATING RESULTS**

In 2009 GFNorte obtained profits of Ps 5,854 million, a (17%) YoY decline and (14%) lower than in 2007. During this period, the Banking Sector profits (92.72% through the equity participation method) reached Ps 4,786 million, (24%) less than in the previous year and contributed to 82% of the Group's profits. The Brokerage Sector reported Ps 203 million in profits, an 11% YoY increase, Other Finance Companies obtained a net income of Ps 425 million, 27% more than in 2008 and the Long Term Savings Sector reported a profit of Ps 380 million, an 8% YoY increase.

## Consolidated Income Statement of the Group

	2009	2008	2007
NII before REPOMO	23,183	22,585	17,747
+ REPOMO -Margin	-	-	(363)
<b>= NII before credit risks</b>	<b>23,183</b>	<b>22,585</b>	<b>17,384</b>
- Preventive provisions for credit risks	8,286	6,896	2,646
<b>= NII adjusted for credit risks</b>	<b>14,897</b>	<b>15,689</b>	<b>14,738</b>
+ Non interest income	9,177	8,284	7,899
<b>= Total Income</b>	<b>24,074</b>	<b>23,973</b>	<b>22,637</b>
- Administration and promotional expenses <sup>(1)</sup>	17,024	15,807	14,432
<b>= Net Result of the Operation</b>	<b>7,050</b>	<b>8,166</b>	<b>8,205</b>
- Other products and expenses, net <sup>(2)</sup>	872	2,346	1,867
<b>= Net Income before Income Tax</b>	<b>7,922</b>	<b>10,511</b>	<b>10,072</b>
- Income Tax <sup>(1)</sup>	2,581	3,645	3,780
- Deferred Income Tax, net	(536)	(245)	(487)
<b>= Income before subsidiaries</b>	<b>5,877</b>	<b>7,111</b>	<b>6,779</b>
+ Revenues from subsidiaries	313	276	357
<b>= Profit before discontinued operations</b>	<b>6,190</b>	<b>7,387</b>	<b>7,136</b>
- Uncontrolled participation	336	373	326
<b>= Total Net Income</b>	<b>5,854</b>	<b>7,014</b>	<b>6,810</b>

Millions of pesos.

(1) Due to changes in accounting criteria, as of April 2009, caused and deferred PTU is registered as a non interest expense.

Due to changes in accounting criteria, as of April 2009, recoveries of previously written-off proprietary portfolios are registered as non interest income under the heading of "Other Operating Income and Expenses".

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

### Net Interest Income

	2009	2008 <sup>(1)</sup>	2007
Interest Revenues	44,873	49,864	40,336
Interest Expenses	22,235	27,789	22,838
Loan Fees	578	510	248
Fees Paid	33	-	-
<b>Net Interest Income before REPOMO</b>	<b>23,183</b>	<b>22,585</b>	<b>17,747</b>
Average Productive Assets	537,603	332,942	233,746
<b>% Net Interest Margin (NIM)<sup>(2)</sup></b>	<b>4.3%</b>	<b>6.8%</b>	<b>7.6%</b>

Millions of pesos.

(1) In accordance with the accounting Circular 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 instruments 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 in only one occasion on the date that each institution determines during the last quarter of 2008.

(2) Net Interest Income before REPOMO divided by the average productive assets of the period.

In 2009 *Net Interest Income before Monetary Adjustments (REPOMO)* was Ps 23,183 million, a 3% YoY increase, derived from lower funding costs resulting from a 9% YoY increase in retail time deposits. This lower funding costs, coupled with the strong decline in the market interest rates, reduced interest expenses by 20% YoY, which off-set the 10% decline in interest revenues resulting from the lower interest rates and reduced loan placement.

The average annual NIM fell from 6.8% to 4.3% between 2008 and 2009 affected by the drop of 2.2 percentage points in the average market interest rates, as well as by important growth registered for performing assets at the end of 2008 as a result of the accounting regulations issued by the CNBV for the reclassification of repos. When making these figures comparable by excluding the impact from the repo reclassification, annual average NIM was 6.9% for 2009, 0.8 percentage points less than the 7.7% registered for 2008.

## Non Interest Income

	2009	2008	2007
+ Transfer of Funds	248	222	229
+ Account Management Fees	946	998	976
+ Fiduciary	254	295	270
+ Income from Acquired Real Estate Portfolios	818	734	575
+ Electronic Banking Services	1,030	1,009	944
+ Credit Card Fees	2,310	2,533	2,132
+ IPAB Fees <sup>(1)</sup>	1	1	4
+ Afore Fees	1,070	989	993
+ Other Fees Charged <sup>(2)</sup>	1,613	1,671	1,571
<b>Fees Charged for Services</b>	<b>8,291</b>	<b>8,452</b>	<b>7,693</b>
+ Transfer of Funds	21	19	17
+ Other Fees Paid	1,317	1,189	1,069
+ Expenses for Acquired Portfolios	-	-	-
<b>Fees Paid for Services</b>	<b>1,339</b>	<b>1,208</b>	<b>1,086</b>
<b>= Net Fees</b>	<b>6,953</b>	<b>7,244</b>	<b>6,607</b>
+ Foreign Exchange	875	779	506
+ Securities – Trading	522	276	459
+ Securities - Unrealized Gains	(153)	(15)	327
<b>= Trading income</b>	<b>1,244</b>	<b>1,040</b>	<b>1,292</b>
<b>Other Operating income and expenses<sup>(3)</sup></b>	<b>980</b>	<b>-</b>	<b>-</b>
<b>= Non Interest Income</b>	<b>9,177</b>	<b>8,284</b>	<b>7,899</b>

Millions of pesos.

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

(2) Includes commissions for letters of credit, operations with annuity funds, storage services, financial advisory services and trading by the Brokerage House among other services.

(3) Due to changes in accounting criteria, as of April 2009, recoveries of previously written-off proprietary portfolios are registered as non interest income under the heading of "Other Operating Income and Expenses".

The following table is a breakdown of the non-interest income by origin:

	2009	2008	2007
Services	6,134	6,509	6,028
Recovery	819	735	580
Trading	1,244	1,040	1,292
Other Operating Income and Expenses	980	-	-
<b>Non Interest Income</b>	<b>9,177</b>	<b>8,284</b>	<b>7,899</b>

Millions of pesos.

Non-interest income for 2009 reached Ps 9,177 million, an 11% YoY increase, driven by the positive impact of the reclassification of revenues from recoveries of proprietary loans to the item "Other Operating Income and Expenses" in accordance with the new accounting criteria, and to increased trading revenues:

- **Service Fees:** were Ps 6,134 million in 2009, a (6%) YoY decline due to contractions of 9% in credit card commissions and (5%) in account management fees as a result of lower volumes due to the adverse environment and regulatory dispositions requiring the elimination of some fee concepts. Fiduciary services declined by (14%) due to less business activity.
- **Portfolio Recovery:** accumulated income totaled Ps 819 million, 11% higher than in 2008, due to a 17% growth in revenues from investment projects especially during the second half of the year driven from an improvement in the economic environment.
- **Trading:** income totaled Ps 1,244 million, 20% higher than in 2008, mainly due to favorable dynamics in foreign exchange operations due to market volatility, and to a lesser degree as a result of an improvement in trading of securities.

### Non Interest Expenses

	2009	2008	2007
Personnel	6,763	6,156	5,723
Professional Fees	1,465	1,192	944
Administration and promotional expenses	4,452	4,941	4,742
Rents, Depreciations and Amortizations	1,727	1,687	1,636
Other taxes	865	894	613
Contributions to IPAB	1,073	938	774
PTU <sup>(1)</sup>	679	-	-
<b>Non interest expenses</b>	<b>17,024</b>	<b>15,807</b>	<b>14,432</b>

Millions of pesos.

- (1) Changes in accounting criteria as of April 2009, resulted in caused and deferred PTU to be registered as non interest expenses, approaches starting from April of 2009 caused PTU registers and differed in non financial expense.

In 2009, non interest expense was Ps17.024 billion, 8% higher YoY due mainly to the booking of caused and deferred PTU (employee profit sharing) as an operating expense in accordance with changes to the accounting criteria which came into effect as of April 2009; as well as a 10% increase in personnel expenses associated with the expansion program, a larger sales force in some business areas and reinforcement of back and middle office structures, as well as a 23% increase in professional fees paid related to business consulting, booking of Pronegocio expenses as part of the merger with the bank, more personnel and higher salaries linked to this recruiting régime, and more professional fees paid linked to extrajudicial recovery of the loan portfolio. Contributions to IPAB increased by 14% YoY as a result of important growth in deposits during the last 12 months, while rents, depreciations and write-offs rose 2% YoY due to the merger of the real estate companies and also of Pronegocio, as well as rents of properties related to business activities, and the impact of inflation on rents and leases for networks and rental software associated with the business. Administration and promotional expenses declined 10% YoY mainly due to the deferment of expenses linked to loan origination fees and reduced expenses related to credit card placement. Non interest expenses grew by only 2% on a comparable basis when adding PTU to expenses for 2008.

The efficiency ratio in 2009 was 52.6%, 1.4 percentage points higher than the 51.2% registered in 2008; impacted mainly by the reclassification of PTU as a non interest expense. When excluding this impact, the efficiency ratio was 50.5% for 2009.

### Loan Loss Provisions

Loan loss provisions charged to results in 2009 reached Ps 8,286 million, a 20% YoY growth derived mainly from greater requirements in credit card and commercial loans, and to a lesser degree in mortgage and payroll loans.

### Other Income and Expenses

	2009	2008	2007
+ Other income	939	1,367	800
+ Exchange Rate Results	-	-	-
+ Recoveries	525	1,806	1,857
+ REPOMO - Other income	-	-	18
+ Warehousing	975	617	160
<b>= Other Income</b>	<b>2,438</b>	<b>3,789</b>	<b>2,835</b>
- Other expenses	(608)	(833)	(413)
- Exchange Rate Results	-	-	-
- REPOMO - Other expenses	-	-	(396)
- Warehousing	(958)	(611)	(160)
<b>= Other expenses</b>	<b>(1,566)</b>	<b>(1,444)</b>	<b>(968)</b>
<b>= Other Income and Expenses, net</b>	<b>872</b>	<b>2,346</b>	<b>1,867</b>

Millions of pesos.

Other Income and Expenses in 2009 totaled Ps 872 million, 63% less YoY, due to the booking in 2008 of a non recurring gain from the sale of VISA and INDEVAL shares, and to the reclassification of income from proprietary portfolio recoveries as "Other Operating Income and Expenses" in Non Interest Income derived from the accounting criteria effective April 2009. Also, in 2008 a recovery of Income Taxes was booked as a result of changes in the accounting criteria for the deduction of loan portfolios and in the accumulation of fees for loan originations, and a reduction in reserves released and lower estimates in various items.

### Performing Loan Portfolio

	2009	2008	2007
Commercial	84,118	92,521	74,538
Consumer	74,932	74,868	63,320
Corporate	40,245	45,127	36,686
Government	38,993	26,989	17,948
<b>Subtotal</b>	<b>238,288</b>	<b>239,505</b>	<b>192,491</b>
Recovery Banking	666	794	1,147
<b>Total Performing Loans</b>	<b>238,954</b>	<b>240,298</b>	<b>193,638</b>
Total Past due loans	6,154	4,948	2,893
<b>% Past due loans</b>	<b>2.5%</b>	<b>2.0%</b>	<b>1.5%</b>

Millions of pesos.

### Performing Consumer Loan Portfolio

	2009	2008	2007
Mortgage	49,221	45,499	36,096
Car Loans	7,424	7,594	7,229
Credit cards	11,801	15,067	13,882
Payroll	6,487	6,707	6,113
<b>Total Performing Consumer Loan Portfolio</b>	<b>74,932</b>	<b>74,868</b>	<b>63,320</b>

Millions of pesos.

Performing loans decreased slightly this year from Ps 239,505 million in 2008 to Ps 238,288 million in 2009; excluding the portfolio managed by Recovery Banking. This decline was reflected mainly in the Commercial, Corporate and Credit card portfolios, offset partially by growth in the Government portfolio.



The decline in the loan portfolio's balance during the year was due to prepayments received from corporate and commercial clients and reduced credit demand in the industry due to the difficult economic environment, as well as stricter origination policies implemented by most of the financial institutions in some sectors.

Banorte has sought to offset this decline for credit across the banking industry with greater penetration in sectors that represent adequate risk adjusted profitability and less capital consumption, such as government and housing. The bank also took advantage of opportunities in the market during the year due to retrenchment by some competitors in several business segments.

## PDL Portfolio

At closing of 2009, past due loans registered a 24% YoY growth, as a consequence of deterioration in the Consumer, Commercial and Mortgage portfolios. At year end, the PDL portfolio ratio was 2.5%, 0.5 percentage points higher than in 2008. At year end, the PDL ratio for Credit cards was 12.0%, which compares favorably against the 12.4% registered in 2008, an improvement in spite of the contraction registered in the balance of the total portfolio during the year. On the other hand, at closing of 2009, the PDL ratio for Car Loans was 2.0% (vs. 2.2% in 2008); Payroll was 2.8% (vs. 2.8% in 2008); Mortgage was 2.0% (vs. 1.6% in 2008); Commercial was 4.1% (vs. 2.0% in 2008); and Corporate was 0.1% (vs. 0% in 2008) while Government remained at 0% throughout the year. In spite of the deterioration in PDL ratio during the year, in the last months of 2009 all the portfolio segments showed a stabilization or improvement in their NPL's, with the exception of the Commercial segment due to deterioration of the subsidiary in the USA.

## Deposits

	2009	2008	2007
Demand Deposits – non interest bearing	61,611	57,876	43,803
Demand Deposits – interest bearing <sup>(1)</sup>	75,977	70,481	67,303
<b>Demand Deposits<sup>(2)</sup></b>	<b>137,588</b>	<b>128,357</b>	<b>111,106</b>
Time deposits – Retail	84,808	75,085	63,639
<b>Branch Deposits</b>	<b>222,396</b>	<b>203,442</b>	<b>174,745</b>
Money Market <sup>(3)</sup>	52,646	57,454	28,780
<b>Bank Deposits</b>	<b>275,042</b>	<b>260,896</b>	<b>203,525</b>
<b>GFNorte Deposits<sup>(4)</sup></b>	<b>274,888</b>	<b>260,755</b>	<b>203,298</b>
Third Party Deposits	156,864	144,916	136,988
<b>Total Assets under Management</b>	<b>431,906</b>	<b>405,812</b>	<b>340,513</b>

Millions of pesos.

(1) Includes debit cards.

(2) As of 2004, excludes IPAB checking accounts in which collections of managed portfolios of Banpaís and Bancen are deposited in cash, retroactively for comparison. The balances of these accounts for 2007, 2008 and 2009 were Ps 9 million, Ps 14 million and Ps 20 million, respectively.

(3) Includes bank bonds. Comprised of clients and financial intermediaries.

(4) Includes eliminations between subsidiaries. Balances of these eliminations for 2007, 2008 and 2009 were Ps 227 million, Ps 142 million and Ps 154 million, respectively.

At year end, Total Deposits amounted to Ps 274.888 billion, a 5% YoY increase driven by 7% growth in Core Deposits, and a 13% increase in retail time deposits.

## 1. Banking Sector

In 2008 the **Banking Sector** (100%, including AFORE through the equity participation method) reported net income of Ps 5,132 million, a decline of (22%) YoY, due to an increase in loan loss reserves and non interest expenses as a result of accounting reclassifications, as well as reduced growth in the net interest income as a consequence of lower interest rates.

Profits for the Banking Sector declined from Ps 6,151 million in 2007 to Ps 5,132 million in 2009, the equivalent of a 17% reduction.

### Consolidated Income Statement – Banking Sector

	2009	2008	2007
<b>RESULTS</b>			
NII before credit risks	22,357	21,662	16,888
Provisions for loans and IPAB	8,181	6,722	2,588
Non interest income	7,184	6,512	5,929
Non interest expense	15,437	14,191	12,945
Other income and expenses, net	861	2,487	1,903
Profits before taxes (ISR and PTU)	6,784	9,748	9,187
Net income	5,132	6,543	6,151
<b>BALANCE SHEET</b>			
Loan portfolio	234,878	236,237	188,282
Deposits	275,062	260,911	203,534

Millions of pesos.

The Afore is not consolidated. Net results are included in Subsidiary Income by the participation method.

In 2009, Net Interest Income was Ps 22,357 million, reflecting a 3% YoY growth, resulting from lower funding costs due to a 9% annual growth in retail time deposits.

### Financial Indicators – Banking Sector

	Acumulated		
	2009	2008	2007
<b>Profitability</b>			
NIM <sup>(1)</sup>	4.3%	6.7%	7.6%
ROA <sup>(2)</sup>	0.9%	1.8%	2.4%
ROE <sup>(3)</sup>	13.7%	19.6%	22.4%
<b>Operations</b>			
Efficiency Ratio <sup>(4)</sup>	52.3%	50.4%	56.1%
Operating Efficiency Ratio <sup>(5)</sup>	2.8%	4.0%	5.1%
Liquidity Ratio <sup>(6)</sup>	63.6%	48.9%	50.7%
<b>Asset Quality</b>			
% PDL - without Fobaproa/ IPAB	2.6%	2.0%	1.5%
PDL coverage ratio	121.6%	136.1%	135.1%
<b>Growth <sup>(7)</sup></b>			
Performing loans <sup>(8)</sup>	(0.5%)	25.0%	31.2%
Demand Deposits	9.3%	16.0%	13.1%
Deposits	5.4%	28.0%	16.0%
<b>Capitalization</b>			
Net Capital / assets subject to credit risk <sup>(9)</sup>	24.4%	22.1%	19.4%
Net Capital / assets subject to credit and market risk <sup>(9)</sup>	16.8%	15.0%	13.8%

(1) NII for the quarter before annualized REPOMO / Average performing assets.

(2) Net income for the annualized period as a percentage of the quarter's total asset average (without minority interest) for the same period.

(3) Net income for the annualized period as a percentage of the quarter's average total equity (without minority interest) for the same period.

(4) Non Interest Expenses / (Total Net Income – REPOMO margin + loan provisions).

(5) Non Interest Expenses / Total Asset Average.

(6) Liquid Assets / Liquid Liabilities (Liquid Assets = cash and due from banks + negotiable instruments + titles available for sale, Liquid securities available for sale. Liquid Liabilities = demand deposits + immediate redemption loans from banks and other entities.

(7) Growth comparisons for the same period of the previous year.

(8) Does not include Fobaproa / IPAB or the portfolio managed by Recovery Banking.

(9) Banking sector ratio is included solely for information purposes.

## 2. Brokerage Sector

	2009	2008	2007
<b>Broker Dealer</b>			
Net income	203	183	288
Stockholders' Equity	1,396	1,143	1,020
Assets	5,273	1,662	1,333
AUM Portfolio	135,621	119,286	180,972

Millions of pesos.

In 2009, the **Brokerage** sector reported net income of Ps 203 million, representing an 11% YoY increase due to higher revenues in private banking, investment banking and lower growth in expenses compared to revenues. This off-set the negative impact in the P&L due to the recognition of previous fiscal years' fiscal contingencies.

## 3. Long Term Savings

	2009	2008	2007
<b>Afore</b>			
Net income	288	189	165
Total Equity	1,340	1,052	963
Assets	1,557	1,218	1,102
AUM	72,287	56,242	58,455
<b>Insurance</b>			
Net income	438	476	334
Total Equity	2,370	2,130	1,827
Assets	12,257	11,306	10,864
<b>Annuities</b>			
Net income	31	33	266
Total Equity	1,016	985	1,121
Assets	18,212	14,833	11,083

Millions of pesos.

The **AFORE** reported an accumulated Net Income of Ps 288 million in 2008 (51% correspond to Banorte), 52% higher YoY, due to a significant increase in financial revenues and containment of promotional expenses. On the other hand, at closing of 2009, the Afore had a total of 3,889,895 affiliates, with a 9.9% participation of the total affiliates in the system and a 9.8% participation of certified accounts.

**Insurance** profits for 2009 amounted to Ps 438 million (51% correspond to GFNorte), an (8%) YoY reduction, due to increased provisions for fiscal contingencies, as well as less deferred taxes.

Net Income for **Annuities** in 2009 was Ps 31 million, (51% correspond to GFNorte), 7% lower YoY, as a result of less deductions linked to inflation adjustments, as well as a reduction of deferred taxes.

## 4. Other Finance Companies

	2009	2008	2007
<b>Leasing and Factoring <sup>(1)</sup></b>			
Net Income	403	313	247
Equity	1,486	1,184	991
Total Portfolio	13,461	13,913	12,222
Past Due Loans	103	74	37

Total Assets	13,434	14,001	12,447
<b>Warehousing</b>			
Net Income	22	23	15
Equity	144	124	101
Inventories	119	165	7
Total Assets	211	321	140
<b>Bonding Company <sup>(2)</sup></b>			
Net Income	-	-	9
Equity	-	-	-
Total Assets	-	-	-

Millions of pesos.

(1) As of February 2008 Leasing and Factoring were merged.

(2) On March 30th, 2007 GFNorte announced the separation of Fianzas Banorte (bonding company), prior to its sale. Profits shown for 2007 correspond to the three months of the year that this company was still part of the Group.

As of February 2008, the leasing and factoring companies merged under a regulated Multi-purpose financial corporation (SOFOM). This merger enables, among other things, to optimize the use of capital, improve leverage capacity and create the possibility of achieving higher credit ratings for the merged entity. Results of both companies, as of 1Q08 are presented on a consolidated basis under the denomination "Arrendadora y Factor Banorte, S.A. de C.V."

**Leasing and Factoring** generated profits of Ps 403 million in 2009, 29% higher YoY, due to an increase in financial margins. At closing of 2009, the Past-Due Loan Ratio was 0.8%, while the Capitalization Ratio was 11.06%.

On November 28<sup>th</sup>, 2009 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 stockholders' equity, which totaled Ps 31,780,651. This was approved in the Extraordinary Stockholders' Meeting held on October 1, 2008.

**Warehousing** generated profits of Ps 22 million, a (2%) reduction from 2008, however the net income for 2008 was Ps 20.9 million when taking into consideration the adjustment of Ps 2.1 million for depreciation. In comparable terms, the net income for 2009 is 8% higher than for 2008, mainly due to an increase in services for the fitting of warehouses and marketing of inventories. At closing of 2009, the Capitalization Ratio was 8.67% considering Ps 1.632 billion in total assets-at-risk certificates. Also to December 31<sup>st</sup>, Almacenadora Banorte was ranked 4th among the 20 Warehousing Companies in terms of Net Income.

## 5. MicroLending Sofol

	2009	2008	2007
<b>Pronegocio</b>			
Net Income	15	(120)	(30)
Equity	-	48	51
Total Portfolio	-	269	585
Past Due Loans	-	38	112
Total Assets	-	433	653

Millions of pesos.

The Board of Directors' session held on January 29<sup>th</sup>, 2009, approved the merger of Banco Mercantil del Norte, as merging company, with Créditos Pronegocio, S. A. de C. V., as the merged entity, and as of that date, the gradual transfer was initiated of the operations - and its corresponding expense - to the bank, as well as the migration of the performing SOFOM clientele to other products. The merger agreement was celebrated on August 31<sup>st</sup>, 2009, after receiving the corresponding authorizations from the regulating authorities.

The merger process required a defined work plan to reduce the financial impact on Banorte that included the capitalization of the company during several years and the absorption of recurrent losses during several fiscal years.

The work plan concluded in December 2009, and contemplated among its objectives the closing of all branches and the reduction of the financial impact. All branches were closed at the end of September 2009 and the financial impact was reduced to nearly Ps 265 million. In the measure in that the bank continues to contain loan deterioration and recover the balance of the existing portfolio, this cost could be further reduced.

As of January 2010, the area of Asset Recovery is in charge of monitoring the recovery of the remainder of the portfolio by third parties.

## **ii. FINANCIAL SITUATION, LIQUIDITY AND CAPITAL RESOURCES**

In 2008 and 2009, GFNorte carried out diverse business strategies in order to continue demonstrating strength and to offer more competitive products in the banking sector. The most relevant events and situations are mentioned below:

### **a. Prepayment of subordinated obligations.**

On February 17<sup>th</sup>, 2009, Banco Mercantil del Norte, S. A. (Banorte) exercised its prepayment option for the \$300 million USD non-convertible subordinated obligations issued in 2004, maturing in 2014, which were registered in the Luxemburg Stock Exchange. This subordinated debt was issued in February 2004 for a 10 year term, and included a prepayment option beginning in the fifth year.

### **b. Issuance of subordinated obligations.**

In March 2009 Banorte issued subordinated obligations to strengthen its regulatory capital. The 10 year \$2,200 non-convertible preferred subordinated obligations (BANORTE 09) pay an interest rate of 28 day TIIE plus 200 basis points. The securities were rated Aaa.mx by Moody's and AA (mex) by Fitch.

### **c. International Finance Corporation's (IFC) investment in Banorte.**

The General Extraordinary Shareholders' Meeting held on October 23<sup>rd</sup>, 2009 authorized an increase of Banorte's capital and the corresponding modification to the corporate bylaws. Through this capital increase, the IFC became a shareholder of Banorte through an investment of up to USD \$150 million, which was concluded in November 2009 when 3,370,657,357 ordinary nominative Series "O" shares with a face value of US \$0.10 (ten cents) were delivered to IFC, who settled this transaction with USD \$82.3 million in cash and the capitalization of a USD \$67.7 million loan. Banorte, the IFC and the Holding Company celebrated a series of contracts in which IFC must maintain its participation in Banorte for a minimum period of five years. After this time, the IFC could sell its participation to the Holding Company, which is obligated to acquire this participation either through shares or cash.

## **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 March 31<sup>st</sup>, 2010 and December 31<sup>st</sup>, 2009, Banorte fulfilled all the reserve and liquidity coefficient requirements requested by the authority. Also, bank 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 2010.

## **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. That is to say, the bank captures 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 bank obtains through its proprietary repos' securities that qualify for this type of transaction. It also has the alternative of obtaining resources through the issuance of capital shares.

Currently, the bank 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 report.

## **Funding**

Our main and most economic funding source comes from client deposits. At December 31<sup>st</sup>, 2009, client deposits totaled Ps 274,908 million (or 96.06% of the total funding) a 5% YoY increase which was due to growth in demand deposits, as well as retail term deposits.

Repos are an important instrument 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. The bank has used repos to achieve cost efficiencies and be more competitive. At December 31<sup>st</sup>, 2009, the balance of repos registered by the bank was Ps 185,480 million, less than the Ps 192,727 million registered at closing of 2008.

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. At December 31<sup>st</sup>, 2009, total long term debt maturing in more than one year was Ps 18,168 million, less than the Ps 20,613 million registered at closing of 2008.

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 in the measure that 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 deposits of clientele 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**

Banorte's Treasury 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 authorities that supervise 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 Risk Administration manual.

## **Treasury Management**

In order to maintain a prudent strategy in asset and liability management through stable funding sources, and to 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. Access to several markets in order to diversity the 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. Maintain a balanced ratio of liquid assets to total assets.
5. Maintain a highly liquid inventory of assets to ensure the immediate availability of resources.
6. The Treasury will have the exclusive faculty to determine and propose to the Risk Policies' Committee the transfer costs of assets and liabilities.
7. On a daily basis, the International Treasury will monitor liquidity coefficient limits to ensure they meet those established by the Risk Policies' Committee and regulatory authorities

## Tax credits

The following fiscal credits are currently in litigation:

	<b>At December 31st, 2009</b>
<b>BANORTE</b>	<b>230</b>
Derivatives' financial operations	205
IMSS fees, various occupations	11
INFONAVIT fees, various occupations	14
<b>AFORE BANORTE</b>	<b>18</b>
1999 Fiscal year (330-SAT-11278)	6
2004 Fiscal year (330-SAT-VIII-6-11775)	13
<b>BROKER DEALER</b>	<b>81</b>
2001 Fiscal year (document 330-SAT-2690)	58
2003 Fiscal year (document 900 06 05-2008-11006)	23
<b>OPERADORA DE FONDOS BANORTE, S. A. DE C. V.</b>	<b>15</b>
2003 Fiscal year (document 330-SAT-VIII-5-041254)	9
2004 Fiscal year (document 900 06-02-2008-15698)	6

Millions of pesos.

## Equity and Capitalization

### **GFNorte Equity (\*)**

	<b>2009</b>	<b>2008</b>	<b>2007</b>
Paid-in Capital	11,956	11,941	11,965
Premium of Subscribed & Issued Shares	1,525	1,468	1,272
<b>Subscribed Capital</b>	<b>13,481</b>	<b>13,409</b>	<b>13,237</b>
Capital Reserves	3,154	2,720	2,452
Retained earnings	20,681	16,935	21,379
Surplus (Deficit) from Valuation of Securities Available for Sale	206	(550)	-
Results from Valuation of cash flow hedging instruments	(1,369)	-	-
Results from Conversions of Foreign Operations	(641)	1,095	-
Surplus (Deficit) in Capital Restatement	-	-	(6,380)
Permanent Share Investments	-	(2,821)	(5,009)
Net Income	5,854	7,014	6,810



<b>Earned Capital</b>	<b>27,885</b>	<b>24,393</b>	<b>19,252</b>
<b>Minority Interest</b>	<b>3,608</b>	<b>1,944</b>	<b>1,667</b>
<b>Total Equity</b>	<b>44,974</b>	<b>39,746</b>	<b>34,156</b>

Millions of pesos.

(\*) Does not include Afore.

On the other hand, the Group's equity increased from Ps 39,746 million at closing of 2008 to Ps 44,974 million at closing of 2009, mainly due to the following factors:

- 1) Greater capital reserves.
- 2) An increase in retained earnings.
- 3) Positive impact in the valuation of instruments available for sale.
- 4) A reduced impact on capital resulting from non-monetary assets derived from permanent investments in shares.
- 5) Increased minority interest due to the IFC capital investment.

The afore-mentioned off-set a negative impact from the valuation of hedging instruments, results from foreign exchange operations and lower profits generated in the last 12 months.

### Banking Sector Capitalization Ratio

	<b>Dec-09</b>	<b>Dec-08</b>	<b>Dec-07</b>
Tier 1 Capital	35,380	28,300	24,942
Tier 2 Capital	14,277	17,076	8,767
<b>Net Capital</b>	<b>49,657</b>	<b>45,376</b>	<b>33,710</b>
Credit Risk Assets	203,305	204,884	173,505
Net Capital / Credit Risk Assets	24.4%	22.1%	19.4%
<b>Total Risk Assets <sup>(1)</sup></b>	<b>296,046</b>	<b>302,279</b>	<b>244,310</b>

### Capitalization Ratio

	<b>Dec-09</b>	<b>Dec-08</b>	<b>Dec-07</b>
Tier 1	12.0%	9.4%	10.2%
Tier 2	4.8%	5.6%	3.6%
<b>Total Capitalization Ratio</b>	<b>16.8%</b>	<b>15.0%</b>	<b>13.8%</b>

Millions of pesos.

(1) Includes market and operational risks but not inter-company eliminations.

At closing of 2009, the Capitalization Ratio was 16.8% considering credit and market risks, and 24.4% considering only credit risks. Tier 1 ratio was 12.0% while Tier 2 was 4.8%. On an annual basis, the Capitalization Ratio for 2009 is superior to that registered in 2008 due to the reinvestment of profits generated during the last 12 months, the IFC investment in Banco Mercantil del Norte's capital, and the (2%) decrease in total assets at risk, which off-set the amortization of subordinated obligations in February 2009, and diverse impacts on the capital due to regulatory and market issues.

### **Cash Flow Statement**

The cash flow statement shows the cash that the institution has available at a point in time which will eventually serve to meet obligations with creditors. The structure of the cash flow statement details cash generated by operations and the use of resources for net financing and the investment program. The cash available in December 2009 was Ps 59,268 million, 9% higher than the Ps 54,396 million registered in December 2008.

#### **Cash Flow Statement for GFNorte**

	<b>2009</b>
<b>Net Income</b>	<b>\$5,854</b>
Adjustments for items not implicating cash flow:	
Loan loss provisions	8,286
Estimate for irrecoverable or difficult collection	182
Depreciation and amortization	954
Reserves	(1,786)
Caused and deferred taxes	2,045
Undistributed earnings of subsidiaries	(313)
	<b>15,222</b>
<b>OPERATING ACTIVITIES:</b>	
Changes in margin accounts	(11)
Changes in securities investments	12,312
Changes in repo debtors	144
Changes in derivatives (asset)	501
Changes in loan portfolio	(8,167)
Changes in acquired collection rights	502
Changes in benefits to receive from securitizations	364
Changes in foreclosed assets	(94)
Changes in other performing assets	(969)
Changes in deposits	15,344
Changes in loans from Banks and other institutions	(15,644)
Changes in repo creditors	(7,088)
Changes in derivatives (liability)	(717)
Changes in subordinated obligations (liability)	(2,481)
Changes in other performing liabilities	(2,365)
Changes in hedging instruments (for items related to operations)	133
<b>Net cash generated from operations</b>	<b>6,986</b>
<b>INVESTMENT ACTIVITIES:</b>	
Resources from the acquisition of property, furniture and equipment	259
Payment for the acquisition of property, furniture and equipment	(1,447)
Payment for the acquisition of subsidiaries and associates	(183)

Resources from disposition of other permanent investments	1
Payment for disposition of other permanent investments	(1)
Resources from cash dividends	135
<b>Net cash used in investment activities</b>	<b>(1,236)</b>
<b>FINANCING ACTIVITIES:</b>	
Payment of cash dividends	(364)
Payments related to the repurchase of shares	(451)
<b>Net cash generated or used from financing activities</b>	<b>(815)</b>
Net cash increase (decrease)	\$4,935
Adjustments to cash flow for variation in exchange rate	(63)
Cash and equivalents at the beginning of the period	54,396
<b>Cash and equivalents at the end of the period</b>	<b>59,268</b>

Millions of pesos.

### Changes in the cash flow of GFNorte

	<b>2008</b>
<b>OPERATING ACTIVITIES:</b>	
<b>Net Income</b>	<b>7,014</b>
Items charged to results that do not generate or require use of resources:	
Results of valuation at reasonable value	(268)
Loan loss provisions	6,896
Depreciation and amortization	1,099
Deferred taxes	(245)
Provisions for diverse obligations	24
Minority interest	373
Undistributed earnings of subsidiaries	(276)
	<b>14,617</b>
Increase or decrease of items related to operations:	
Increase in deposits	57,462
Increase in loan portfolio	(52,095)
Increase in Treasury operations	(220,239)
Decrease (increase) in operations with securities and derivatives	194,552
Increase in loans from Banks and other institutions	13,960
Increase in deferred taxes	(12)
<b>Net cash generated from operations</b>	<b>8,245</b>
<b>FINANCING ACTIVITIES:</b>	
Increase in subordinated obligations in circulation	10,403
Repurchase of shares	103
Increase in other payable accounts	1,269
Approved dividends	(949)
<b>Net cash generated in financing activities</b>	<b>10,826</b>
<b>INVESTMENT ACTIVITIES:</b>	
Acquisitions in properties, furniture and equipment, net	(1,308)

Increase in permanent investments in shares	(644)
Increase in charges and deferred loans	(1,958)
Increase in foreclosures	(478)
Increase in other receivables	(1,897)
<b>Net cash used in investment activities</b>	<b>(6,285)</b>
Increase (decrease) in cash and equivalents	12,786
Cash and equivalents at the beginning of the period	41,610
<b>Cash and equivalents at the end of the period</b>	<b>\$54,396</b>

Millions of pesos.

### GFNorte General Balance Sheet (consolidated with subsidiaries)

<b>ASSETS</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
<b>Cash and equivalents</b>	<b>59,268</b>	<b>54,396</b>	<b>41,610</b>
<b>Margin Accounts</b>	<b>18</b>	<b>6</b>	<b>-</b>
<b>Investments in Securities</b>			
Negotiable Instruments	24,459	6,076	7,754
Securities Available for Sale	11,701	11,480	10,948
Securities Held to Maturity	190,332	221,617	760
	<b>226,492</b>	<b>239,173</b>	<b>19,462</b>
<b>Repo Transactions</b>	<b>4</b>	<b>149</b>	<b>58</b>
To be negotiated	4,824	5,325	-
To be collected	1,056	2,843	-
	<b>5,880</b>	<b>8,168</b>	<b>2,302</b>
<b>Loan Portfolio</b>			
Commercial Loans			
Corporate or Commercial	117,237	126,798	98,091
Financial Entities	7,131	10,860	13,158
Government Entities	38,993	26,989	17,948
Consumer loans	25,712	29,369	27,225
Mortgages	49,881	46,282	37,216
<b>Total Performing Loans</b>	<b>238,954</b>	<b>240,298</b>	<b>193,638</b>
<b>PDL Portfolio</b>			
Commercial Loans			
Corporate or Commercial	3,163	1,703	927
Consumer loans	1,942	2,499	1,109
Mortgages	1,049	746	858
<b>Total PDLs</b>	<b>6,154</b>	<b>4,948</b>	<b>2,894</b>
<b>Total loan portfolio</b>	<b>245,108</b>	<b>245,246</b>	<b>196,532</b>
(-) Preventive provisions for Loan Losses	7,535	6,690	3,786

<b>Net Loan Portfolio</b>	<b>237,573</b>	<b>238,556</b>	<b>192,746</b>
<b>Acquired Collection Rights</b>	<b>2,548</b>	<b>3,049</b>	<b>3,660</b>
<b>Total Credit Portfolio, net</b>	<b>240,121</b>	<b>241,605</b>	<b>196,406</b>
<b>Benefits to receive in securitization operations</b>	<b>432</b>	<b>796</b>	<b>-</b>
<b>Other Accounts Receivable, net</b>	<b>11,324</b>	<b>9,514</b>	<b>7,617</b>
<b>Inventories</b>	<b>119</b>	<b>165</b>	<b>7</b>
<b>Foreclosed Assets, net</b>	<b>928</b>	<b>863</b>	<b>385</b>
<b>Real Estate, Furniture and Equipment, net</b>	<b>8,622</b>	<b>8,429</b>	<b>8,098</b>
<b>Permanent investments</b>	<b>3,036</b>	<b>2,559</b>	<b>2,590</b>
<b>Net deferred taxes and employee profit sharing</b>	<b>1,411</b>	<b>471</b>	<b>214</b>
<b>Other assets, deferred charges and intangibles</b>	<b>9,483</b>	<b>10,731</b>	<b>8,534</b>
<b>TOTAL ASSETS</b>	<b>567,138</b>	<b>577,025</b>	<b>287,283</b>

Millions of pesos.

<b>LIABILITIES</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
<b>Core Deposits</b>			
Demand Deposits	137,581	128,350	111,080
Time Deposits	137,327	132,419	92,227
	<b>274,908</b>	<b>260,769</b>	<b>203,307</b>
<b>Interbank loans &amp; Other loans</b>			
Immediate Redemption	21	1,245	871
Short Term	13,385	24,803	11,056
Long Term	7,562	10,635	10,796
	<b>20,968</b>	<b>36,683</b>	<b>22,723</b>
<b>Securities assigned for settlement</b>	<b>159</b>	<b>-</b>	<b>10</b>
<b>Repo Creditor Transactions</b>	<b>185,480</b>	<b>192,727</b>	<b>515</b>
<b>Collateral sold or pledged as guarantee</b>	<b>2</b>	<b>2</b>	<b>-</b>
<b>Derivatives</b>			
To be negotiated	4,553	5,269	-
To be collected	3,822	5,477	-
	<b>8,375</b>	<b>10,746</b>	<b>2,435</b>
<b>Other Accounts Payable</b>			
Income tax	617	374	2,212
Employee profit sharing	676	898	-
Creditors for operations	2,224	2,405	-
Other creditors and accounts payable	8,968	10,716	10,888
	<b>12,485</b>	<b>14,393</b>	<b>13,100</b>
<b>Subordinated Obligations in Circulation</b>	<b>18,168</b>	<b>20,613</b>	<b>10,210</b>
<b>Deferred loans and prepayments</b>	<b>1,619</b>	<b>1,346</b>	<b>827</b>
<b>TOTAL LIABILITIES</b>	<b>522,164</b>	<b>537,279</b>	<b>253,127</b>
<b>TOTAL EQUITY</b>			
<b>Contributed Capital</b>			
Paid-in Capital	11,956	11,941	11,965
Premium of Subscribed & Issued Shares	1,525	1,468	1,272
	<b>13,481</b>	<b>13,409</b>	<b>13,237</b>

<b>Earned Capital</b>			
Capital Reserves	3,154	2,720	2,452
Retained Earnings	20,681	16,935	21,379
Results from Valuation of Securities Available for Sale	206	(550)	-
Results from Valuation of cash flow hedging instruments	(1,369)	-	-
Results from Conversions of Foreign Operations	(641)	1,095	-
Deficit in Capital Restatement	-	-	(6,380)
Results of Non Monetary Fixed Assets	-	(2,821)	(5,009)
Net Income	5,854	7,014	6,810
	<b>27,885</b>	<b>24,393</b>	<b>19,252</b>
<b>Minority Interest</b>	<b>3,608</b>	<b>1,944</b>	<b>1,667</b>
<b>TOTAL EQUITY</b>	<b>44,974</b>	<b>39,746</b>	<b>34,156</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>567,138</b>	<b>577,025</b>	<b>287,283</b>

Millions of pesos.

### **iii. INTERNAL CONTROL**

The companies that comprise GFNorte have an internal control system “Sistema de Control Interno” (SCI), that was structured in accordance with the limits established by its Board of Directors and which meets the requirements set by the regulatory authorities.

The internal control system’s mission is to cooperate in the function of appropriate internal controls in operations and in information generation and registration. 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.
- B. General Management and the areas that support it in regards to control are: the integral risk management (Unidad de Administración Integral de Riesgos (UAIR), Legal and Controllershship departments which are responsible for maintaining appropriate levels of control and risk in the Group’s operations.
- C. Internal Audit, External Audit and Commissary (as of 4Q06, the commissary only applies to GFNorte’s subsidiaries) as entities providing additional support to monitor the internal control system’s operations and to provide reasonable assurance of the reliability of the information generated.
- D. Documents that establish the general control criteria which must be followed in the operation and registration of transactions, in the use of human resources, materials and technology; in the use, security, opportunity and dependability of the information; and in the due execution of the external and internal norms, as well as a Code of Conduct that establishes the conduct of all consultants, officials or employees of the Group in the realization of their duties.
- E. Policy and procedure manuals that establish the norms for operations carried out by the Institution and outline the control points that must be observed, as well as those responsible for its execution.

During 2009, activities related to the strengthening of controls, risk evaluation and management, the establishment and monitoring of controls, and the assurance of quality information continued to be developed. Some of the more important include:

- A. The Internal Control System is regulated by Corporate Governance's basic documents: Objectives and Limits of Internal Control, the Code of Conduct, and the General Policies for the use of Human Resources and Materials; which in accordance with external regulation, were reviewed and presented to the Audit and Corporate Practices' Committee and later on to the Board of Directors for their ratification in October 2009.
- B. The different Corporate Governance Committees have received the necessary financial, economic and accounting and/or legal information corresponding to each case, to make the appropriate decisions.
- C. The Business Continuity Plan (BCP) was consolidated and reinforced, highlighting among other activities, the implementation of alternate operation centers "Centros de Operación Alterno" (COAs), which allow operations to continue in contingencies where there is a power or communication failure and/or property damage. Likewise, norms were set to act in the event of a widespread epidemic of influenza.
- D. Activities have been developed geared to the reinforcement of the technological systems, analysis and the prevention of frauds of credit cards, debit cards, checks and electronic channels.
- E. Manuals of policies and procedures have been kept updated regarding changes in external regulation, new products and changes to institutional procedures or improvements in internal controls and were provided to personnel opportunely.
- F. Follow-up of improvements resulting from observations made by different SCI members was also maintained.
- G. Requirements made by the Supervising Authorities were fulfilled, as well as the delivery of information required by external regulations.
- H. 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 verdict of the Financial Statements for the 2009 fiscal year.

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#### **e) CRITICAL ACCOUNTING ESTIMATES**

Do not apply, as critical accounting estimates do not exist.

## 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 presents.

As of the 2005 fiscal year, the firm of Galaz, Yamazaki, Ruiz Urquiza, S. C. audited the financial statements and for the last 3 exercises previous to 2005, audits were done by the firm of PricewaterhouseCoopers, S. C. Neither office has 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 2009, GFNorte hired a firm of external auditors for a total cost of Ps 228,000 with 100% of this cost corresponding to the auditing services for the financial statements.

### b) OPERATIONS WITH RELATED PARTIES AND CONFLICTS OF INTEREST

Transactions between the company and related parties are explained in detail in Note 25. Transactions and balances with subsidiary companies and associates of Point 7. ANNEXES of this report.

In GFNorte's Banking Sector, 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-09	Dec-08	Dec-07
Portfolio Art. 73	\$7,362	\$8,216	\$5,041
Portfolio Art. 73/ 50% of Basic Capital	46.2%	53.8%	26.7% <sup>(1)</sup>

(1) Represents 75% of the basic capital in accordance with regulations in effect as of December 31st, 2007.

On **March 31<sup>st</sup>, 2010**, the total portfolio of performing loans under Article 73 of the Law of Credit Institutions, was Ps 7,465 million (including Ps 541 million in loan obligations, which are registered in memorandum accounts), representing 3.4% of the total loan obligations (excluding the balance of CC, ADE, FOPYME and FINAPE). Of the total related loans, Ps 2,454 million were loans granted to clients linked to members of the Board of Directors; Ps 1,379 million to clients linked to shareholders; and Ps 3,632 were linked to companies related to GFNorte.

The related loans were granted under market conditions and rated in accordance with the same policies, procedures and qualification 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 qualify the Debtor in the commercial loan portfolio. 94% 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 loan portfolio for individuals and corporations at closing of March 2010 was 42.2% of the limit set by Banco de Mexico (Central bank), which is the equivalent of 50% of the basic part of net capital.



**On December 31, 2009**, the total portfolio of related party loans under Article 73 of the Law of Credit Institutions, was Ps 7,362 million (including Ps 596 million in loan obligations, which are registered in memorandum accounts), representing 3.3% of the total loan obligation (excluding the balance of CC, ADE, FOPYME and FINAPE). Of the total related loans, Ps 2,508 million were loans granted to clients linked to members of the Board of Directors; Ps 1,223 were granted to clients linked to shareholders and Ps 3,631 million were linked to companies related to GFNorte.

Related parties loans have been granted under 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. 93.7% 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 2009 was 46.2% 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 (belonging or not to the financial sector), cannot exceed 50% for the years of 2009 and 2008, and 75% for 2007, of the basic part of their net capital. On December 31<sup>st</sup> of 2009, 2008 and 2007, loans granted to related parties were Ps 7,362, Ps 8,216 and Ps 5,041 respectively, showing percentages that represent 46%, 54% and 27% respectively, of the limits established in the Law of Credit Institutions.

On December 31<sup>st</sup> of 2009, 2008 and 2007, the Holding Company's participation in the equity of its consolidated subsidiaries, is as follows:

	<b>2009</b>	<b>2008</b>	<b>2007</b>
Banco Mercantil del Norte, S. A. and Subsidiaries	92.72%	97.06%	97.06%
Casa de Bolsa Banorte, S. A. de C. V.	99.99%	99.99%	99.99%
Arrendadora y Factor Banorte, S. A. de C. V.	99.99%	99.99%	99.99%
Almacenadora Banorte, S. A. de C. V.	99.99%	99.99%	99.99%

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

<b>Institution</b>	<b>Income</b>			<b>Accounts Receivable</b>		
	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
Seguros Banorte Generali, S. A. de C. V.	\$598	\$613	\$587	\$9	\$19	\$22
<b>Total</b>	<b>\$598</b>	<b>\$613</b>	<b>\$587</b>	<b>\$9</b>	<b>\$19</b>	<b>\$22</b>

Millions of pesos.

Institution	Expenses			Accounts Payable		
	2009	2008	2007	2009	2008	2007
Seguros Banorte Generali, S. A. de C. V.	\$101	\$300	\$310	\$5	\$24	\$8
<b>Total</b>	<b>\$101</b>	<b>\$300</b>	<b>\$310</b>	<b>\$5</b>	<b>\$24</b>	<b>\$8</b>

Millions of pesos.

### Sale of portfolios among related parties (nominal values)

In February of 2003 Banorte sold Ps 1,925 million from its proprietary portfolio (with interest) to the Sólida subsidiary for Ps 378 million. Of this transaction, Ps 1,891 million correspond to past due loans and Ps 64 million to performing loans. The operation was carried out based on August 2002 figures, which is why the final amount, which affected the balance sheet of February 2003, was Ps 1,856 million, taking into consideration collections carried out as from August 2002. As well as the portfolio sold, a total of Ps 1,577 million in credit reserves related to the same were transferred.

In Document 601-II-323110 of November 5<sup>th</sup>, 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 2008 and 2009:

Type of Portfolio	Pesos			Foreign currency in Ps			Total		
	Aug 02	Dec 08	Dec 09	Aug 02	Dec 08	Dec 09	Aug 02	Dec 08	Dec 09
<b>Performing Loans</b>									
Commercial	\$5	\$-	\$-	\$5	\$-	\$-	\$10	\$-	\$-
Mortgages	54	34	27	-	-	-	54	34	27
<b>Total</b>	<b>59</b>	<b>34</b>	<b>27</b>	<b>5</b>	<b>-</b>	<b>-</b>	<b>64</b>	<b>34</b>	<b>27</b>
<b>Past Due Loans</b>									
Commercial	405	367	361	293	116	110	698	483	471
Consumer	81	72	72	-	-	-	81	72	72
Mortgage	1,112	393	350	-	-	-	1,112	393	350
<b>Total</b>	<b>1,598</b>	<b>832</b>	<b>783</b>	<b>293</b>	<b>116</b>	<b>110</b>	<b>1,891</b>	<b>948</b>	<b>893</b>
<b>Total Portfolio</b>	<b>\$1,657</b>	<b>\$866</b>	<b>\$810</b>	<b>\$298</b>	<b>\$116</b>	<b>\$110</b>	<b>\$1,955</b>	<b>\$982</b>	<b>\$920</b>
<b>Credit Reserves <sup>(1)</sup></b>									

Commercial	326	355	349	246	116	110	572	471	459
Consumer	77	72	72	-	-	-	77	72	72
Mortgage	669	369	336	-	-	-	669	369	336
<b>Total Reserves</b>	<b>\$1,072</b>	<b>\$796</b>	<b>\$757</b>	<b>\$246</b>	<b>\$116</b>	<b>\$110</b>	<b>\$1,318</b>	<b>\$912</b>	<b>\$867</b>

Millions of 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 2009 and 2008.

On December 31<sup>st</sup>, 2009 and 2008, the integration of Banorte's loan portfolio without subsidiaries, including the loan portfolio sold to Solid, was as follows:

Type of Portfolio	Pesos		Foreign currency in Ps		Total	
	Dec 09	Dec 08	Dec 09	Dec 08	Dec 09	Dec 08
Commercial Loans	\$133,823	\$129,995	\$11,316	\$15,377	\$145,139	\$145,372
Consumer Loans	25,525	29,116	-	-	25,525	29,116
Mortgages	47,378	43,784	-	-	47,378	43,784
<b>Performing Loans</b>	<b>206,726</b>	<b>202,895</b>	<b>11,316</b>	<b>15,377</b>	<b>218,042</b>	<b>218,272</b>
Commercial Loans	2,583	1,738	150	153	2,733	1,891
Consumer Loans	2,014	2,570	-	-	2,014	2,570
Mortgages	1,151	1,098	-	-	1,151	1,098
<b>Past Due Loans</b>	<b>5,748</b>	<b>5,406</b>	<b>150</b>	<b>153</b>	<b>5,898</b>	<b>5,559</b>
<b>Total Portfolio</b>	<b>212,474</b>	<b>208,301</b>	<b>11,466</b>	<b>15,530</b>	<b>223,940</b>	<b>223,831</b>
Credit Reserves	7,425	6,950	384	285	7,809	7,235
<b>Net Portfolio</b>	<b>\$205,049</b>	<b>\$201,351</b>	<b>\$11,082</b>	<b>\$15,245</b>	<b>\$216,131</b>	<b>\$216,596</b>
<b>PDL Reserves</b>					<b>132.40%</b>	<b>130.15%</b>
<b>% of PDL</b>					<b>2.63%</b>	<b>2.48%</b>

Millions of pesos.

## c) MANAGERS AND SHAREHOLDERS

### Board of Directors

The Board of Directors is comprised of 15 Proprietary Shareholders and their respective alternates.

The Board of Directors named for the fiscal year 2010 by the Annual General Ordinary Shareholders' Meeting of April 23<sup>rd</sup>, 2010 is made up of the following members:

Name	Position	With the company since	Professional Background	Relationship
Don Roberto González Barrera	President Shareholder	October 1993	<ul style="list-style-type: none"> <li>• President of the Board of Directors of Grupo Maseca.</li> <li>• President of the Board of Directors of Banco Mercantil del Norte, S. A.</li> </ul>	Father of Bertha González Moreno, Juan González Moreno and Roberto González Moreno
Don Rodolfo Barrera Villarreal	Vice-president Shareholder	October 1993	<ul style="list-style-type: none"> <li>• Vicepresident of the Board of Directors of Banco Mercantil del Norte, S. A.</li> <li>• President of the Board of Directors of Grupo Quimmco, S. A. de C. V.</li> </ul>	Father of Jesús L. Barrera Lozano
Don Juan González Moreno	Shareholder	April 2004	<ul style="list-style-type: none"> <li>• Director of Special Projects of Mission Food (Grupo Maseca).</li> </ul>	Son of Don Roberto González Barrera and brother of Doña Bertha González Moreno and Don Juan González Moreno
Don José G. Garza Montemayor	Shareholder	October 1993	<ul style="list-style-type: none"> <li>• CEO of Productos Laminados de Monterrey, S. A. de C. V.</li> </ul>	
Don David Villarreal Montemayor	Shareholder	October 1993	<ul style="list-style-type: none"> <li>• Owner of Artefactos Laminados, S. A.</li> </ul>	
Don Francisco Alcalá de León	Independent	April 2001	<ul style="list-style-type: none"> <li>• President of Frajal Consultores, S. C.</li> </ul>	
Don Eduardo Livas Cantú	Shareholder Related	April 1999	<ul style="list-style-type: none"> <li>• Independent Advisor</li> </ul>	Brother of Don Alfredo Livas Cantú
Don Eugenio Clariond Reyes Retana	Independent	April 2001	<ul style="list-style-type: none"> <li>• President of Ejecutivo de Grupo IMSA, S. A. de C. V.</li> </ul>	Brother of Don Benjamín Clariond Reyes-Retana
Don Herminio Blanco Mendoza	Independent	April 2005	<ul style="list-style-type: none"> <li>• President and CEO of Soluciones Estratégicas.</li> <li>• Member of the Board of Directors of Banco Latinoamericano de Exportaciones, Bladex.</li> <li>• Member of the Board of Directors of Cydsa, S. A.</li> <li>• Advisor to Mr. Lakshmi Mittal (President of the Board of Directors and CEO of Mittal Steel).</li> </ul>	
Don Manuel Aznar Nicolín	Independent	Marzo de 2007	<ul style="list-style-type: none"> <li>• Partner at the offices of Kuri Breña, Sanchez Ugarte, Corcuera y Aznar, S. C.</li> </ul>	

Name	Position	With the company since	Professional Background	Relationship
Don Jacobo Zaidenweber Cvulich	Independent	October 1993	<ul style="list-style-type: none"> <li>• President of the bilateral Committee Mexico-USA of C.E.M.A.I.</li> <li>• Member of the Board of Directors of C.O.E.C.E</li> </ul>	
Don Alejandro Valenzuela del Río	Shareholder Related	Octubre 2007	<ul style="list-style-type: none"> <li>• CEO of Grupo Financiero Banorte, S. A. B. de C.V.</li> <li>• Managing Director of Treasury and Investor Relations of Grupo Financiero Banorte, S. A. B. de C. V.</li> <li>• Managing Director of Institutional Relations of Grupo Financiero Banorte, S. A. de C. V.</li> </ul>	
Don Isaac Hamui Mussali	Independent	April 2002	<ul style="list-style-type: none"> <li>• CEO of Inmobiliaria IHM, S. A. de C.V.</li> </ul>	
Everardo Elizondo Almaguer	Independent	April 2010	<ul style="list-style-type: none"> <li>• Professor of Microeconomy at Instituto Tecnológico y de Estudios Superiores de Monterrey (ÍTEMS)</li> <li>• Deputy Governor of the Bank of Mexico</li> </ul>	
Doña Patricia Armendáriz Guerra	Independent	April 2009	<ul style="list-style-type: none"> <li>• CEO of Credipyme, S. A. de C. V.</li> <li>• President of Consultoria Internacional</li> </ul>	
Doña Bertha González Moreno	Alternate Shareholder	April 1999	<ul style="list-style-type: none"> <li>• CEO of Patronato de Cerralvo A. B. P.</li> </ul>	Daughter of Roberto González Barrera and sister of Juan González Moreno and Roberto González Moreno
Don Jesús L. Barrera Lozano	Alternate Shareholder	April 2002	<ul style="list-style-type: none"> <li>• CEO of Grupo Quimmco, S. A. de C. V.</li> </ul>	Son of Don Rodolfo Barrera Villarreal
Don Javier Martínez Abrego	Alternate Shareholder	October 1993	<ul style="list-style-type: none"> <li>• President of the Board of Directors of Motocicletas y Equipos, S. A. de C. V.</li> </ul>	
Don Javier Márquez Diez Canedo	Alternate Related	April 2009	<ul style="list-style-type: none"> <li>• Director of Risk Management of Banorte, S.A</li> </ul>	
Don Carlos Chavarría Garza	Alternate Shareholder	April 2003	<ul style="list-style-type: none"> <li>• CEO of Corporativo de Grupo Transregio, S.A.</li> </ul>	
Don Luis Manuel Merino Villasante	Alternate Independent	April 2009	<ul style="list-style-type: none"> <li>• CEO of Cocreaciones, Consultores y Editores, S. A de C. V</li> </ul>	
Don Alfredo Livas Cantu	Alternate Related	April 2006	<ul style="list-style-type: none"> <li>• President of Praxis Financiera, S. C.</li> </ul>	Brother of Don Eduardo Livas Cantú
Don Benjamín Clariond Reyes Retana	Alternate Independent	April 2005	<ul style="list-style-type: none"> <li>• Director of the IMSATEL Division of Grupo IMSA, S. A. de C. V.</li> </ul>	Brother of Don Eugenio Clariond Reyes-Retana
Don Simón Nizri Cohen	Alternate Independent	October 1993	<ul style="list-style-type: none"> <li>• Founding member of the Board of Directors of Textiles Unidos, TISAMEX, Industrias Eureka, Bordados Fénix, Alto Acabado, S. A. de C. V.</li> <li>• Founding member of the Board of Directors of Hilados Mary, Organización Kadima, Terpel, Diseños Logar, S.A. de C.V.</li> </ul>	
Don César Verdes Quevedo	Alternate Independent	April 2004	<ul style="list-style-type: none"> <li>• Financial Advisor to Casa de Bolsa Banorte, S. A. de C. V. (Brokerage House)</li> <li>• CEO of Operadora Cever, S. A.</li> <li>• CEO of Grupo Automotriz Cever, S. A.</li> </ul>	
Don Isaac Becker	Alternate	April 2002	<ul style="list-style-type: none"> <li>• President of Becker e Hijos, S. A. de</li> </ul>	

Kabacnik	Independent		C.V. and of Bechtel, S. A. de C. V.	
Name	Position	With the company since	Professional Background	Relationship
Don Sergio García Robles Gil	Alternate Related	April 2006	• Chief Financial Officer of Grupo Financiero Banorte S. A. B. de C. V.	
Miguel A. Quiros Pérez	Alternate Independent	April 2010	• Federal Judiciary Council • Member of the Information Access & Transparency Committee of the Federal Judiciary Council	

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 Groups 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 or disposition 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 of 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 Comisión Nacional Bancaria (National Banking and Securities Commission) of general character.

I) Group's Financial statements..

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 the following at the General Shareholders' Meeting held at the end of each fiscal year: 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 to commit to in arbitration;
  - b) To come between and to 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 structure, organization, integration, 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.

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## Shareholders

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Don Roberto González Barrera exercises control over the Group.

Board Members and the main officials in the Group with over 1% shareholding participation is distributed as follows, according to the shareholder listings prepared for Annual Ordinary General Shareholders' Meeting held on April 23<sup>rd</sup>, 2010.

BOARD MEMBERS	No. of SHARES
Don Roberto González Barrera*	342,918,218
Don José Gpe. Garza Montemayor together with Doña Irma Graciela Montemayor de Garza	45'728,000
Don David Villarreal Montemayor, representing Doña Alicia Montemayor de Villarreal	44'825,700
Don Carlos Chavarría Garza together with Doña Magdalena García Garza	20,824,716
Don Javier Martínez Ábrego	31,503,400

\*Includes the participation of his children Doña Bertha Gonzalez Moreno and Don Juan Antonio Gonzalez Moreno with 44,211,777 and 6,744,361 shares, respectively.

The names of the 10 main shareholders of GFNorte, according to the shareholder listings prepared for the Annual Ordinary General Shareholders' Meeting held on April 23<sup>rd</sup>, 2010 are:

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Roberto González Barrera  
 Bertha Alicia González Moreno  
 Gruma S. A. B. de C. V.  
 Irma Graciela Montemayor de Garza  
 Alicia Rebeca Montemayor de Villarreal  
 Magdalena García Garza  
 Javier Martínez Ábrego  
 SSB OM01 Client Omnibus A (on behalf of third parties)  
 JPM Chase Bank Treaty A/C (on behalf of third parties)  
 JP Morgan Lux SL Account (on behalf of third parties)  
 JPMorgan Chase Bank SL A/C No 2 (on behalf of third parties)

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The participation of Gruma, S.A.B. de C.V., registered for the GFNorte's General Ordinary Shareholders' Meeting held on April 23<sup>rd</sup>, 2010 was 8.79%.

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## Support committees for GFNorte's Board of Directors

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The established support Committees for the Board of Directors of GFNorte are Management Committee, the Audit and Corporate Practices' Committee and the Risk Policies' Committee, and are made up of Board members with officers of the Group involved in some of them. It is the Board's responsibility to authorize the by-laws of the committees and to evaluate their management on an annual basis.

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## MANAGEMENT COMMITTEE

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**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 President of the Board of Directors calls the sessions.

**Comprised of:**

Roberto Gonzalez Barrera	President of the Board of Directors	President
Alejandro Valenzuela del Rio	CEO of GFNorte	Coordinator
Alfredo Eduardo Thorne Vetter	Chief Corporate & Investor Relations Officer	
Jesús O. Garza Martínez	Managing Director Retail Banking	
Manuel Sescosse Varela	Managing Director Government Banking	
Sergio García Robles Gil	Chief Financial Officer	

**Quorum:** four members must be present always including the Board of Directors' President and the Chief Executive Officer of GFNorte.

Decisions are adopted with unanimous votes of those present.

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## AUDIT AND CORPORATE PRACTICES' COMMITTEE

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### Objective:

To support GFNorte's Board of Directors in monitoring, 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 Shareholder Meetings.

### Integration and Meetings:

The Audit and Corporate Practices' Committee 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 Audit and Corporate Practices' Committee 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 Audit and Corporate Practices' Committee 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 swing vote in the event of a tie.

Francisco Alcalá de León	Independent Shareholder Board Member	President
Hermínio Blanco Mendoza	Independent Shareholder Board Member	Member
Manuel Aznar Nicolín	Independent Shareholder Board Member	Member
Patricia Armendáriz Guerra	Independent Shareholder Board Member	Member
Isaias Velázquez González	Secretary without vote	

The Audit and Corporate Practices' Committee 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 its own 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:

#### I. Regarding Corporate Practices:

- 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.

## II. Regarding Audit:

- 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 Audit and Corporate Practices' Committee 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 Banco Mercantil del Norte:
  1. Name 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 allotted to the incentive plan to be purchased by the Trust.
  4. Interpret, manage, modify and if the case, to propose the termination of the incentive plan to the Board of Directors of Banorte.
  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 finding 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 Audit and Corporate Practices' Committee 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.

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## **RISK POLICIES' COMMITTEE**

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**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 the Board of Directors' approval:
  - 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 by the Diario Oficial (second section) on December 2<sup>nd</sup>, 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 Oficial (second section) on December 2<sup>nd</sup>, 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 Oficial (second section) on December 2<sup>nd</sup>, 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. On a quarterly basis, the risk exposure assumed by the Group and the possible negative impact, non-observance of established exposure limits and risk tolerance levels.
- 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 the knowledge of all personnel involved in risk taking, 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:**

Eduardo Livas Cantú (President)	Board Member Shareholder
Francisco Alcalá de León	Board Member Shareholder
Manuel Aznar Nicolás	Board Member Shareholder
Alejandro Valenzuela del Río	CEO of GFNorte
Fernando Solís Soberón (BAP)	Managing Director Long Term Savings
Gerardo Zamora Nañez (A y F)	Executive Director Leasing, Factoring & Warehousing
Ricardo Acevedo de Garay	Managing Director Brokerage
Javier Marquez Diez Canedo (Secretary)	Managing Director Risk Management
Aurora Cervantes Martínez (Invited) (without vote)	Managing Director Legal
Jesus O. Garza Martínez (Invited) (without vote)	Managing Director of Banking
Sergio García Robles Gil (Invited) (without vote)	CFO
Luis Fernando Orozco Mancera (Invited) (without vote)	Managing Director Recovery Banking
Alfredo Eduardo Thorne Vetter (Invited) (without vote)	Chief Corporate & Investor Relations Officer
Manuel Sescosse Varela (Invited) (without vote)	Managing Director Government
	Managing Director Audit

**Quorum:** two Shareholder Board Members, the CEO of GFNorte and the Committee Secretary.

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

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### Support Committees to GFNorte's General Management

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There are several committees which support GFNorte General Management's work, which identify, 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:

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#### OPERATIONS COMMITTEE

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**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.

**Comprised of:**

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Alejandro Valenzuela del Rio (President)	CEO of GFNorte
Sergio García Robles Gil (Coordinator)	CFO of GFNorte
Fausto José Hernández Pintado (Secretary)	Executive Director Strategic Planning
Alfredo Eduardo Thorne Vetter	Chief Corporate & Investor Relations Officer
Jesús Oswaldo Garza Martínez	Managing Director Retail Banking
Manuel Sescosse Varela	Managing Director Government Banking
Alejandro Garay Espinosa	Managing Director Corporate Services
Carla Juan Chelala	Managing Director Marketing

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**Quorum:** five members must be present and the President of the Committee must always be present.

- The Committee coordinator will be responsible to convene sessions, coordinate topics to be addressed and record the minutes of the topics and resolutions of each session.
- All members of this Committee have a voice and a vote in the topics addressed.
- Sponsors of projects or any other officers who present a topic, especially at the request of the Committee, can also be invited to participate with a voice but no vote.
- Resolutions will be made by a majority of votes of those present, while the President of this Committee will hold the deciding vote in the event of tie as well as the right to veto.

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#### TECHNOLOGY AND INVESTMENT COMMITTEE

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**Mission:** To be GFNorte's highest organ in charge of approving and prioritizing the portfolios of investment projects, as well as budgetary assignments.

**Reach:** 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.

**Comprised of:**

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Alejandro Valenzuela del Rio (President)	CEO of GFNorte
Sergio García Robles Gil (Coordinator)	CFO of GFNorte
Fausto José Hernández Pintado (Secretary)	Executive Director Strategic Planning
Alfredo Eduardo Thorne Vetter	Chief Corporate & Investor Relations Officer
Jesús Oswaldo Garza Martínez	Managing Director Retail Banking
Alejandro Garay Espinosa	Managing Director Corporate Services
Prudencio Frigolet Gómez	Managing Director Technology
Javier Beltrán Cantú	Executive Director Material Resources

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**Quorum:** five Board members and the President of the Committee must always be present.

- The Secretary of the Committee will responsible for the roll call, coordination of topics to be discussed and the elaboration of the minutes with the resolutions of each session.
- All the members of this committee have a voice and vote in the topics under discussion.
- Invited sponsors of projects or any other officer who presents a topic, especially at the request of the Committee, have a voice but no vote.
- Members can name a substitute to represent them in case of not being able to attend, nonetheless the substitute has a voice but no vote, and does not count as part of the quorum.
- Resolutions will be adopted by a majority of votes of those present, the President of this Committee will have the quality vote in case of a tie and the right to veto.

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**SECURITY COMMITTEE**

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**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, integral 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.

**Comprised of:**

**Member Shareholders**

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Aurora Cervantes Martínez (President)	Managing Director of Legal Affairs
Alejandro Garay Espinosa	Managing Director Corporate Services
José Daniel Oviedo Tobías	Managing Director Audit
Jesús Oswaldo Garza Martínez	Managing Director Retail Banking
Prudencio Frigolet Gómez	Managing Director Technology
Roel Mariano Pérez Martínez (Secretary Coordinator)	Sub-Director Special Affairs Complaint Department
Luis Gerardo Valdés Manzano	Executive Director of Human Resources

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**Quorum:** The four members who must always be present are the representatives of Legal, Audit and Controllershship.

- The Security Committee's Secretary Coordinator is responsible to convene sessions, coordinate agenda topics and record the minutes of the meetings and resolutions of each session.
- Only the member shareholders are entitled to a voice and vote on topics in the agenda.
- Members who are unable to attend can name an alternate to attend in their place in which case, the alternate will have a voice and vote and will count as part of the quorum.
- In the absence of the President and his/her alternate, the representative of Audit will act as presiding President.
- Resolutions will be adopted by a majority of votes of those present; the Security Committee President will have the vote of quality in the event of a tie and the right to veto.

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**CENTRAL CREDIT COMMITTEE**

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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 sporadically.

The Central Credit Committee convenes every fifteen days. The Credit Committees supporting it convene with the same frequency, or if needed, on a weekly basis or more frequently as required.

#### Comprised of:

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Alejandro Valenzuela del Río *	Coordinator
Javier Márquez Diez Canedo	Coordinator Alternate (without vote)
Luis Fernando Orozco Mancera ***	Coordinator Alternate
Aurora Cervantes Martínez	
José Armando Rodal Espinosa	
Sergio García Robles Gil	
Jesús O. Garza Martínez	
Manuel Sescosse Varela	
Alfredo Thorne Vetter	
Rafael Hinojosa Cárdenas ***	
Director Territorial **	
Carlos Arnold Ochoa	Secretary
Heleodoro Ruíz Santos	Alternate (without vote)
Audit Representative	(without vote)

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\* Has the ability to veto.

\*\* The Territorial Director's participation will be rotated according to the following geographical logistics: North, South, Northwest, Peninsula, Mexico City North, Mexico City South, West, Central, Border and Isthmus.

\*\*\* In dealing with loan applications for group with authorized investment projects, has a voice without vote.

**Quorum:** Four voting members. Of those four, at least two cannot be members of the National Loan Committee who participated in the recommendation of the case to the Central Loan Committee and at least one officer should be able to authorized Lines of Credit and one to authorize Staff Loans.

In absence of the Coordinator, Alternate Coordinator or Secretary, any other member can assume these positions defining the member and position at the beginning of the session.

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#### CENTRAL CREDIT RECOVERY COMMITTEE

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**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.

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.

**Comprised of:**

Luis Fernando Orozco Mancera	Coordinator
Sergio García Robles Gil	Coordinator
Javier Márquez Diez Canedo	Coordinator
Aurora Cervantes Martínez	Coordinator
Rafael Hinojosa Cárdenas	Coordinator
Carlos Arnold Ochoa	Coordinator
Rafael Flores Birrichaga	
Mario A. Barraza Barrón	
Mario Rodríguez Santacruz	
Carlota Hinojosa Salinas	Secretary without vote
José Luis Garza González	Without vote

**Quorum:** For Recovery issues, four members, two of whom must be Coordinators and at least two members who do not pertain to the areas of Portfolio Recovery or Property Sales. For Property Sales' issues, the required quorum is three members, of whom one must be a Coordinator and at least two members who do not pertain to the areas of Portfolio Recovery or Property Sales. In the event of a divided decision, for either issue, but never with more than two votes against, the signature of the General Director of GFNorte is required.

**ASSETS AND LIABILITIES COMMITTEE**

**Functions:**

1. Maintain and increase the productivity of the Bank through managing 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.

**Frequency of sessions:** Meetings are held at least once a month; the Secretary is responsible to coordinate the agenda and convene sessions.

**Comprised of:**

Alejandro Valenzuela del Río	CEO of GFNorte	with veto power
Carlos Arciniega Navarro	Executive Director Treasury	Coordinator & Secretary
Alfredo Eduardo Thorne Vetter	Chief Corporate & Investor Relations Officer	
Jesús O. Garza Martínez	Managing Director Retail Banking	
José Armando Rodal Espinosa	Managing Director Corporate & Middle Market Banking	

Sergio García Robles Gil	CFO of GFNorte	
Alejandro Garay Espinosa	Managing Director Corporate Services	
Javier Márquez Diez Canedo	Managing Director Risk Administration	
Ricardo Acevedo de Garay	Managing Director Brokerage House	
Adán Peña Guerrero	Executive Director Market Risk Management	
Benjamín Vidargas Rojas	Executive Director Prevention and Control	
Audit Representative		(without vote)

**Quorum:** four voting members of which at least two should be from the area of Businesses.

- In the absence of the Coordinator, any one of the members with voice and vote may be named as the Coordinator by agreement of those present.
- In the absence of any other member, a alternate may be named to take the member's place, although the alternate will have a voice, he/she will have no vote and will not count as part of the quorum.
- Decisions will be adopted by a majority vote of those present.

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## MONEY MARKET AND TREASURY COMMITTEE

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### Functions:

1. Analysis of the national and international environment.
2. Definition of the portfolio's investment strategy within the authorized parameters by the Board of Directors, or by the corresponding Risk Policies' Committee.
3. Revision and evaluation of the portfolios.
4. Approval of investment strategies and trading of financial instruments.
5. Intervention in abnormal risk circumstances.
6. Revision of financial instruments' liquidity parameters.

**Frequency of sessions:** must be held on a weekly basis and the agenda and roll call is coordinated by the Secretary of the Committee.

### Comprised of:

Carlos Arciniega Navarro	Executive Director Treasury	Coordinator
Ricardo Acevedo de Garay	Managing Director Brokerage House	
Fernando Solís Soberón	Managing Director Long Term Savings	
Alfredo Eduardo Thorne Vetter	Chief Corporate & Investor Relations Officer	
Alejandro Aguilar Ceballos	Executive Director Money Market	
Ignacio Saldaña Paz	Director BAP Investments	
Bruno Grebe Martínez	Executive Director of Capital Markets	
David Treviño Martínez	Director of Foreign Exchange	
Andrea Crisanaz	Managing Director Insurance & Annuities	
Andrea Battini	Technical Director of Individuals - Long Term Savings	
Adán Jorge Peña Guerrero	Executive Director Market Risk	(without vote)
Heleodoro Ruíz Santos	Executive Director Credit Risk Management	(without vote)
Roberto Esteban García González	Responsible for Long Term Savings Investments	(without vote)
Alfonso García Martínez	Long Term Savings Comptroller	(without vote)
Benjamín Vidargas Rojas	Executive Director Control & Prevention	(without vote)
Arturo Monroy Ballesteros	Executive Director Investment Bank	(without vote)

Audit Representative		(without vote)
Jacaranda Nava Villarreal	Director Structuring & Derivatives	Secretary

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**Quorum:** four voting members

- Approval: by a majority of votes.
- Scope: investments in proprietary portfolios of the bank and Brokerage House.
- In the absence of the Coordinator, any one of the members with voice and vote may be named as the Coordinator by agreement of those present.
- In the absence of any other member, an alternate may be named to take the member's place, although the alternate will have a voice, he/she will have no vote and will not count as part of the quorum.
- In the event of no quorum, the session should only be of an informative nature.
- Decisions are adopted by a majority vote of those present.

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## COMMUNICATIONS AND CONTROL COMMITTEE

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### Functions:

1. Submit for 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 Credit Institutions Law.
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., 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 emitted 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 Secretary of Treasury and Public Credit.
6. To rule on operations that should be reported to the Secretary of Treasury and Public Credit, through the National Bank and Securities Commission, considered as unusual or worrisome, in the terms established in the general dispositions referred to in Article 115 of the Credit Institutions Law;
7. Approve the training programs for the personnel of Banco Mercantil del Norte, S. A., related to 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.

**Comprised of:**

<b>Members</b>		<b>Alternates</b>
Jorge Eduardo Vega Camargo (President)	Executive Director of Comptrolling	Fernando Castrejón Hernández
Concepción G. Borjón Shears	Executive Director Branch Management & Clients	David Francisco Galicia
Jesús Valdés Fernández	Director Operational Risk Management	Javier Márquez Diez Canedo
Aurora Cervantes Martínez	Managing Director of Legal Affairs	Octavio Ruiz Chapa
Carlos Ávila López	Executive Director Operations	Manuel Anglés Hernández
Alberto Raúl Guerra Rodríguez <sup>(1)</sup>	Executive Director Development in the USA	Normando Rojas Morgan <sup>(1)</sup>
Enrique Alvarado Cruz <sup>(2)</sup>	Sub Director Operations	Luis Gerardo Moreno Santos <sup>(2)</sup>
Rodrigo Ruiz Treviño <sup>(3)</sup>	Executive Director of Administrative Comptrolling	Roxana Gutierrez <sup>(3)</sup>
José Luis Garza González (Permanent Invitation)	Executive Director Audit (without vote)	César A. Garza Escareño
José Salvador Lozano Arizpe (Secretary)	Director of Regulatory Compliance	Mario A. Moreno Rostro

(1) Banco Mercantil del Norte, S. A.

(2) Arrendadora y Factor Banorte, S. A. de C. V.

(3) Sólida Administradora de Portafolios, S. A. de C. V.

**Quorum:** four voting members

- Special Invitation to: Benjamín Vidargas Rojas.
- If unable to attend, members can name an alternate to attend in their place.

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## **FIDUCARY BUSINESS COMMITTEE**

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**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.

**Frequency of sessions:** the committee will convene on a monthly basis, with the possibility of holding extraordinary sessions upon the request of any member.

**Comprised of:**

<b>Members</b>	<b>Alternates</b>
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Aurora Cervantes Martínez (Coordinator)	Managing Director of Legal Affairs	José Luis Lozano Aguilar (without vote)
Javier Márquez Diez Canedo	Managing Director of Risk Management	Jesús Valdés Fernández (without vote)
Jesús O. Garza Martínez	Managing Director Retail Banking	Andrés Aymes Ansoleaga (without vote)
Manuel Sescosse Varela	Managing Director of Government Banking	David Alberto Salazar Vite (without vote)
José Armando Rodal Espinosa	Managing Director Corporate & Middle Market Banking	
José Luis Garza González	Executive Director of Audit	Silvia Lázaro Lázaro (without vote)
Héctor Ávila Flores	Executive Director of Fiduciary	
Pablo de la Garza Dávila (Secretary)	Technical Director of Fiduciary	

**Quorum:** for Medium Risk, three member shareholders, with the signatures of the Managing Director of Business and the Executive Director of Fiduciary or Managing Director of Legal Affairs.

For High Risk, three member shareholders, with the signatures of the Managing Director of Business and the Managing Director of Risk Management.

For Restricted Risk, four member shareholders with the signatures of the Managing Director of Business, the Managing Director of Risk Management and the Managing Director of Legal Affairs.

- The decisions will be made by the unanimous vote of those present.
- Alternates can only act in the absence of the corresponding member shareholder in which case they will have a vote, except the alternate for Audit who will remain without a vote.

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## INVESTMENT PROJECTS COMMITTEE

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**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. 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.

**Comprised of:**

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Alejandro Valenzuela del Río (President)	CEO of GFNorte
Luis Fernando Orozco Mancera (Coordinator)	Managing Director of Asset Recovery
Sergio García Robles Gil (Coordinator)	CFO of GFNorte
Javier Márquez Diez Canedo	Managing Director of Risk Management
Alfredo Eduardo Thorne Vetter	Chief Corporate & Investor Relations Officer
Aurora Cervantes Martínez	Managing Director of Legal Affairs
José Armando Rodal Espinosa	Managing Director Corporate & Middle Market Banking
Rafael Hinojosa Cardenas	Executive Director Investment Projects
Rafael Flores Birrichaga	Executive Director Legal B. Recovery
Jesús Martínez Celis Saldaña (Secretary / without vote)	Executive Director of Planning
Audit Representative (without vote)	

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**Quorum:** three members with vote, with the President of the Committee being one of them.

- The Committee's decisions must be unanimous by the members making up the quorum.
- The opinion of the specialized areas of insurance and mortgage are needed in cases which apply.

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**INTEGRITY COMMITTEE**

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**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.

**Comprised of:**

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Javier Márquez Diez Canedo (Coordinator)	Managing Director of Risk Management
Prudencio Frigolet Gómez	Managing Director of Technology
Jesús O. Garza Martínez	Managing Director Retail Banking

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José Luis Lozano Aguilar	Executive Director of Legal Affairs
Jorge Vega Camargo	Executive Director of Comptrolling
Luis Gerardo Valdés Manzano	Executive Director of Human Resources
Héctor Abrego Pérez	Executive Director of Electronic Channels
Heleodoro Ruiz Santos	Executive Director of Credit Risk Management
Francisco García Dayo (without vote)	Director of Auditoria de Information Technology
Alberto Vega Balderas (permanent invitation)	Sub Director of Risk Management BAP
Rafael Antillón Cantú (permanent invitation)	Director of Computer Security
Jesús Valdés Fernández (Secretary)	Director of Operational Risk Management

**Quorum:** four members

- Members who cannot attend a session will not send alternates unless they must present a specific topic. In this case, the alternate will only remain in the session during his presentation.
- With the exception of those permanently invited, any other invited person must be convened as required and will remain in the sessions during the time of his presentation.
- The sessions and agreements must be recorded, and these records must be detailed and signed by each of the participants.

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## COMMITTEE OF INVESTMENTS IN FINANCIAL INSTRUMENTS

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### Functions:

1. Analysis of the national and international economic environment.
2. Definition of the investment portfolio strategy within the parameters authorized by the Board of Directors or the corresponding Risk Policies' Committee.
3. Revision and evaluation of the portfolios.
4. Approval of the investment strategies and the purchase and sale of financial instruments.
5. Intervention in abnormal risk situations.
6. Review of financial instruments' liquidity parameters according to the characteristics of each product and portfolio.

**Frequency of the sessions:** meetings should be held on a weekly basis, and the agenda and roll call will be coordinated by the Committee's Secretary.

### Comprised of:

Ricardo Acevedo de Garay (Coordinator)	Managing Director of Brokerage House
Fernando Solís Soberón	Managing Director of Long Term Savings
Ricardo Gómez Dena	Executive Director of Fixed Income Mutual Funds
José Dayan Abadi	Executive Director of Equities' Mutual Funds
Carlos Arciniega Navarro	Executive Director of Treasury
Alfredo Eduardo Thorne Vetter	Chief Corporate & Investor Relations Officer
Ignacio Saldaña Paz	Director of Long Term Savings Investments
David Treviño Martínez	Director of Foreign Exchange
Luis Alfredo Martínez Villegas	Director of Mutual Funds & Long Term Savings
Marcelo Guajardo Vizcaya (without vote)	Executive Director of Private Banking
Adán Jorge Peña Guerrero (without vote)	Executive Director of Market Risk
Heleodoro Ruíz Santos (without vote)	Executive Director of Credit Risk
Roberto Esteban García González (without vote)	Responsible for BAP Investments
Benjamín Vidargas (without vote)	Executive Director of Control and Prevention
Audit Representative (without vote)	
Manuel González Graff (Secretary) (without vote)	Director of Debt Portfolio Management

**Quorum:** four voting members.

- In the Coordinator's absence, one of the members with voice and vote must be designated as such by agreement of those present.
- In the absence of any other member, an alternate can be named as a replacement; this alternate will have a voice but no vote, and will not count as part of the quorum.
- In case of not fulfilling the quorum, the session will only be for information purposes.
- Decisions must be adopted by a majority vote of those attending.

### Main Officers to December 2009

Name	Years with the company	Current Position	Age	Level of Education	Main executive at other companies
Alejandro Valenzuela del Río	6.5	CEO of GFNorte	48	PhD in Economics	EADS
Jesús Oswaldo Garza Martínez	10.8	Managing Director Retail Banking	53	Masters in Financial Administration	BBV, Casa de Bolsa Probursa and Valores Finamex
Manuel Fernando Sescosse Varela	17.2	Managing Director Government Banking	57	Degree in Business Administration	Bancen Multiva, Casa de Bolsa Probursa, Impresiones Sesvar and Sescosse Hnos. Constructores
Antonio Emilio Ortiz Cobos	13.0	Managing Director of Corporate & Middle Banking	58	Masters in Economy	Bancomext and Citibank
Luis Fernando Orozco Mancera	6.3	Managing Director of Asset Recovery	55	Masters in Business Administration	Citibank Mexico
Fernando Solís Soberón	2.8	Managing Director of Long Term Savings	48	Masters and Doctorate in Economy	Grupo Nacional Provincial, Grupo Bal, CONSAR, Comisión Nacional de Seguros y Fianzas
Carlos I. Garza*	3.1	Managing Director of Banorte USA	52	Public Accountant and Auditor	Texas State Bank, Mc Allen State Bank, City of Mc Allen, Mc Allen – Hidalgo Bridge Board and Anzalduas Bridge Board
Sergio García Robles Gil	15.5	CFO of GFNorte	49	Masters in Business Administration	Fina Consultores
Ricardo Acevedo de Garay	21.4	Managing Director of Brokerage House	53	Public Accountant	Afin Casa de Bolsa
Alejandro Garay Espinosa	1.1	Managing Director of Administration	47	Attorney at Law	Banco de México
Prudencio Frigolet Gómez	22.3	Managing Director of Technology	50	MBA	Banca Quadrum, Hidelbrando, BBV Probursa, Casa de Bolsa Probursa and Culliet Mexicana
Aurora Cervantes Martínez	13.8	Managing Director of Legal Affairs	45	Attorney at Law and Degree in Social Sciences	Procuraduría General de la República (Attorney General of the Republic)
Carla Juan Chelala	2.5	Managing Director of Marketing	40	Masters in Marketing and Advertising	Grupo Financiero HSBC

Román Martínez Méndez	15	Managing Director of Audit	72	Public Accountant and Auditor	Gruma
Alfredo Eduardo Thorne Vetter	0.1	Chief Corporate & Investor Relations Officer	54	Masters in Philosophy	JPMorgan Chase Bank, World Bank
<b>Name</b>	<b>Years with the company</b>	<b>Current Position</b>	<b>Age</b>	<b>Level of Education</b>	<b>Main executive at other companies</b>
Javier Márquez Diez Canedo	1.1	Managing Director of Risk Management	69	Doctorate in Math Sciences	Fobaproa, Ixe/Fimsa Casa de Bolsa, ITAM, Operadora de Bolsa
Sergio Deschamps Ebergenyi	12.4	Territorial Director of North	56	Degree in Business Administration	Banca Serfin
Carlos Eduardo Martínez González	11.0	Territorial Director of Mexico City South	46	Degree in Business Administration	Grupo Financiero Serfin, Operadora de Bolsa, S. A., Casa de Bolsa Banorte
Juan Carlos Cuéllar Sánchez	25.0	Director Territorial Mexico City North	47	MBA	
Juan Manuel Faci Casillas	11.1	Territorial Director of West	44	Degree in Business Administration	Banco Santander Mexicano
Alfonso Páez Martínez	12.2	Territorial Director of Central	44	MBA	Casa de Bolsa Abaco and Casa de Bolsa Probusa
Roberto Francisco Ayala Ramos	10.9	Territorial Director of Border	50	Masters in Administration and Finance	Bancrecer, Banco del Atlántico, Banco Mexicano Somex
Héctor Guijarro Ávila	16.2	Territorial Director of Isthmus	47	Degree in Public Accounting and Finance	Partido Revolucionario Institucional (political party)
Juan A. de la Fuente Arredondo	21.7	Territorial Director of Northeast	61	Public Accountant	Banca Confía and Banamex
Alberto Salvador López	7.9	Territorial Director of Peninsula	46	Degree in Actuary	Seguros Bancomer, S. A., Banca Promex, Banco del Atlántico
Jorge Luis Molina Robles	16.0	Territorial Director of South	53	Civil Engineer	Government of the state of Chiapas

\* Carlos I. Garza is employed by INB since 1995.

At closing of December 2009:

- Lic. Antonio Emilio Ortiz Cobos acted as Managing Director of Corporate and Middle Banking, position now occupied by Ing. Armando Rodal Espinoza.
- Lic. Juan Antonio de la Fuente Arredondo acted as Director Territorial Northwest, position now occupied by Lic Arturo Valdés Villaseñor.
- The created position of Chief Corporate Officer is held by Lic. Alfredo Eduardo Thorne Vetter.
- The created positions of Territorial Director in the Border is held by Lic. Roberto Francisco Ayala Fields and Territory Director of Isthmus held by Lic. Héctor Cobble Ávila, due to the formation of two new territories.

## Compensations and benefits

The total amount of compensation and benefits provided in 2009 for the Board of Directors and main officials of GFNorte was approximately Ps 154 million.

Compensations and benefits are as follows:

- **Fixed Compensation:** Salary.

- **Annual Bonus Plan for 2009:**

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.

In case the budget estimates are 100% fulfilled, the annual bonus for business areas executives' (Under directors and Managerial levels), is equivalent to 5.2 months' salary; and for eligible staff personnel (Under director and Managerial levels) it is the equivalent to 4.4 months' salary. For executive personnel of business areas (Director Level) full compliance with annual bonus objective is equivalent to 5.8 months' salary, while for eligible staff personnel (Director Level) it is the equivalent of 4.7 months' salary.

- **Long Term Incentive Plans:**

Share Options:

The long term outline for incentives, which is designated by the Compensation Committee, consists of assigning Directors 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 calculated by the difference between the strike price originally determined by the trust and the share's exercise price at the moment of exercising those rights.

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

Restricted Shares:

This long term incentive plan consists of assigning to the designated managers by the Assignment Committee a stock package through a trust, being entitled to 100% in a term of 2 or 3 years, depending on that specified at the moment it is assigned. Participants will be entitled to exercise a part of the package every year (the same amount each time), receiving a bonus in order to buy the shares at the assigned price. These contracts are carried out on the dates established for their validity is, which is also 2 or 3 years in accordance with assignment instructions.

At the moment, share plans currently in effect are those dated March 2009 and July 2009.

- **Vacations:** From 10 to 30 working days depending on 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 of salary (as of November 1<sup>st</sup>, 2005). In the event of accidental death, the compensation would double, prior verification by the insurance company.
- **Pension and Retirement:** The institution has two types of plans: one of defined benefits (Traditional and Special), and the other of defined contribution (Asegura Tu futuro).

**Ensure Your Future:** Established as of January 1<sup>st</sup>, 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 each employee upon termination of their labor relationship. This plan has an "initial individual contribution"(only for employees hired prior to January 1<sup>st</sup>, 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 51 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 monitoring, and the CEO to be responsible for conducting and managing 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 net worth or give privileges to a determined group of shareholders. Its general functions include: approve the policies for the use of the company's net worth, 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-rated 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.

Just recently, Créditos Pronegocio S. A. de C. V. was also spun-off from Grupo Financiero Banorte, for 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.

It is important to note that both the Law to Regulate Financial Groups and the Stock Market Law establish the following requisites for the acquisition and 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 business 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 authoritative 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.

Regulations related to General Ordinary Shareholders' Meetings established by the Law of Mercantile Societies apply to include and vote on resolutions of Special Assemblies to resolve specific matters related to "L" series shares.

To include 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. The Company, item b. Description of the Business, section xii of this document: Representative Shares of Equity.

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 at closing of 2009 1,591,444 ADRs were in circulation. The depository bank is Bank of New York Mellon.

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 10<sup>th</sup>, 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".

These prices include the stock dividend payment made in November 24, 2005 of 3 new shares for each previous share.

### Performance of the stock at closing of the last 5 fiscal years:

Date	Maximum	Minimum	Close	P/VL*	P/U**	Volume
12/30/2005	22.50	21.80	22.28	2.19	7.86	785,800
12/29/2006	42.37	42.20	42.25	3.15	14.31	1,508,000
12/31/2007	46.16	44.70	45.08	2.75	13.36	391,100
12/31/2008	25.00	24.28	24.88	1.33	9.87	508,300
12/31/2009	48.10	46.50	47.84	2.33	16.16	2,191,300

**Quarterly performance of the stock for the last 2 fiscal years:**

Date	Maximum	Minimum	Close	P/VL*	P/U**	Volume
03/31/2008	46.29	44.59	46.14	2.75	12.01	6,964,300
06/30/2008	48.81	47.66	48.47	2.67	13.62	3,540,300
09/30/2008	35.16	34.50	34.92	1.89	8.73	6,031,700
12/31/2008	25.00	24.28	24.88	1.33	9.87	508,300
03/31/2009	19.05	18.65	18.83	0.98	5.88	11,767,400
06/30/2009	32.60	31.50	32.05	1.66	12.33	3,084,100
09/30/2009	48.00	44.20	45.19	2.28	15.91	6,430,700
12/31/2009	48.10	46.50	47.84	2.33	16.16	2,191,300
03/31/2010	54.99	53.51	54.57	2.62	17.49	5,735,600

**Monthly performance of shares during the last 6 months:**

Date	Maximum	Minimum	Close	P/VL*	P/U**	Volume
10/30/2009	43.89	41.02	43.31	2.18	15.25	6,239,500
11/30/2009	47.60	44.00	44.75	2.25	15.76	8,603,300
12/31/2009	48.10	46.50	47.84	2.33	16.16	2,191,300
01/29/2010	43.80	42.60	43.01	2.10	14.53	9,020,400
02/26/2010	48.00	47.21	47.78	2.33	16.14	5,148,800
03/31/2010	54.99	53.51	54.57	2.62	17.49	5,735,600

\*P/BV = Price to Book Value Multiple.

\*\*P/EU = Price to Earnings Multiple.

Source: Casa de Bolsa Banorte. The indicators were calculated using figures from the date of this report.

**c) MARKET MAKER**

Does not apply to GFNorte, since it is not a market maker, for either the Equity Market or Derivatives Instruments.

## 6. 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.

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

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Ing. Sergio Garcia Robles Gil  
Chief Financial Officer

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Lic. Aurora Cervantes Martinez  
Managing Director of Legal Affairs

The undersigned hereby solemnly swears that the financial statements contained in the present annual report were audited with the accepted audit norms. I also declare that, within the scope of the work carried out, I have no knowledge of any relevant financial information that has been either omitted or falsified in this annual report or that it contains information that could mislead investors.

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C. P. C. Carlos A. Garcia Cardoso  
External Auditor

# 7. ANNEXES

## a) AUDIT AND CORPORATE PRACTICES' COMMITTEE REPORT

Monterrey, N.L., March 26th, 2010.

### 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 2009 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.; Casa de Bolsa Banorte, S.A. de C.V.; Arrendadora y Factor Banorte, S.A. de C.V.; Créditos Pronegocio S.A. de C.V.; Seguros Banorte Generali, S.A. de C.V.; Banorte Generali, S.A. de C.V. AFORE; Sólida Administradora de Portafolios, S.A. de C.V. and Inter National Bank.

### I. With regard to audit:

a) With regard to the status of the Internal Control System (SCI) of GFNorte and its relevant entities Internal; 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 CEO's.
2. The final audit reports of Internal Accounting Controls of Banco Mercantil del Norte, S.A., Casa de Bolsa Banorte, S.A. de C.V. and Banorte Generali, S. A. de C.V. AFORE and the Internal Control reports of revisions made by the External Auditor, follow-up to corrective measures undertaken derived from areas of opportunity detected and identified in these reports; as well as the verdict of the financial statements of GFNorte and its subsidiaries, were reviewed by this Committee.
3. Observations regarding control deficiencies or deviations of GFNorte and its subsidiaries are presented on a regular basis by Internal Audit during this Committee's sessions, including the relevant entities and follow-ups of the corrective measures undertaken.
4. Reports on inspection visits by qualified supervisors and follow-up on the implementation of the pertinent corrective measures.
5. Comptroller reports of Banco Mercantil del Norte, S.A.; of Casa de Bolsa Banorte S.A. de C.V. and of Creditos Pronegocio S.A. de C.V.; as well as Comptroller reports of Seguros Banorte Generali S.A. de C.V., and Banorte Generali, S.A. AFORE.

Important to highlight was the signing of a Formal Agreement with the Office of Comptroller of Currency (OCC), an organism that regulates and supervises Inter National Bank (INB), through which commitments were assumed to strengthen its processes of loan portfolio administration, handling of critical assets, and revision of loans, as well as the establishment of a program to ensure adequacy of reserves for loans and leases, and the formulation of a strategic plan. Authority requirements have been fulfilled within the established terms and they have been followed up on a permanent basis. The effects of these measures will take several quarters to show a clear improvement in INB's situation.

Taking the previous elements into consideration, and as a result of the surveillance work carried out by this Committee in sessions throughout the year with the participation of the equally responsible SCI entities, such as External Audit, Internal Audit and Comptrollership, we are able to state that the SCI of GFNorte and 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.

- b) It can be reported that no significant possible non-fulfillment of operation policies and accounting registrations were detected; 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.
- c) Regarding the performance evaluation of the corporation providing external audit services, it can be reported that the firm of Galaz, Yamazaki, Ruiz Urquiza, S. C. (member of Deloitte Touche Tohmatsu) has provided the highest caliber of service in the execution of its duties and in its relationship with management and the Committee, as well as the Auditor responsible by applying focus points and work methodologies in accordance with the best international practices that adequately fulfill 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 it should be noted that their results and opinions do not present discrepancies with management.

- d) With respect to the additional services for the audit of financial statements, performed by the External Auditor, we can inform that these services were hired during the fiscal year to prepare a diagnosis of the execution of applicable norms and better practices related to corporate governance encompassing the different government bodies of GFNorte and its subsidiaries.

The Board of Directors approved this Committee's proposal to hire these services, after verifying that no conflict of interest existed; and which were applied during 2009. Other independent experts were hired to evaluate the quality of important loan portfolio clients and to evaluate the scope of Internal Audit revisions on aspects of Technology Information.

- e) A revision of the financial statements of GFNorte and its subsidiaries for the fiscal year ending December 31st, 2009 was carried out; as well as the External Auditor's final report before its release; with the participation of management, the External Auditor, Internal Audit and the Comptrollership, 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 2009 fiscal year were diverse modifications that resulted as a consequence of changes in applicable regulations, which are detailed in Note 4 "Main Accounting Policies" of GFNorte's financial statements, which also contain detailed explanations of these changes.
- 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 the system of anonymous accusations denominated "Ethics Point". Reports received through this channel are directed to the members of this Committee and diverse managers of the organization for their attention. This Committee follows up on the resolution of such accusations.
- h) No resolutions of Shareholders' Meetings or Board of Directors' sessions requested a follow-up to the agreements adopted by them from this Committee.
- i) Among other activities carried out by the Committee are the revision of results and recommendations of independent experts hired to evaluate the quality of important loan portfolio clients and the coverage of Internal Audit on the critical aspects of information technology. The methodology was revised used by the branches for self-evaluation of its operative risk and of execution, the methodology for the individual rating of the loan portfolio and the methodology of Internal Loan Audit to revise the selective credit. Attention has also been paid to recommendations resulting from a diagnosis of the corporate government.

## II. With regard to Corporate Practices:

- a) With respect to observations regarding the performance of relevant officers, we can report that management has defined the relevant officers of GFNorte and its subsidiaries which include those officials of diverse subsidiaries that by specific regulation applicable to them, require that the respective authority must be informed of their recruitment.

With regard to the performance of relevant managers during the 2009 fiscal year, there were no cases which fell outside of established policies and procedures.

- b) For operations with related parties, this Committee verified that as of December 31<sup>st</sup>, 2009, the amount of loans granted to related individuals or entities was Ps 7,364 million, less than the limit set by the corresponding regulation, and that operations requiring approval by the Board of Directors in accordance with the applicable regulation were approved. Inter-company operations were carried out at market prices, which were verified by the External Auditor in the revisions conducted.

We can also report that during the 2009 fiscal year there were no unusual or recurring operations, or for a relevant amount that required approval from the Board of Directors.

- c) Management has defined the appointment policies and integral compensation packages for relevant officers which include: (i) a fixed compensation; (ii) a bonus plan based mainly on achieving the estimated profit of that business; and (iii) a long term incentive plan consisting of stock options available to some Directors in accordance with programs approved by this Committee.
- d) Finally, we can report that during the 2009 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 – GFNorte Audit and Corporate Practices Committee

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**b) COMMISSARY REPORT**

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Does not apply, due to the removal of this figure in terms of the Stock Market Law.



## **c) AUDITED FINANCIAL STATEMENTS**

**Galaz, Yamazaki, Ruiz Urquiza, S. C.**  
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### **VERDICT OF THE INDEPENDENT AUDITORS TO THE BOARD OF DIRECTORS AND SHAREHOLDERS OF GRUPO FINANCIERO BANORTE, S. A. B. DE C. V.:**

February 19th, 2010

We have examined the consolidated balance sheets of Grupo Financiero Banorte, S. A. B. de C. V. and Subsidiaries (the Financial Group) to December 31<sup>st</sup> of 2009 and 2008 and their respective consolidated result statements and variations in equity for the same periods, cash flows for the year ending December 31<sup>st</sup>, 2009 and changes in the financial situation for the year ending December 31<sup>st</sup>, 2008. Said Financial Statements are the responsibility of the Financial Group's Administration. Our responsibility consists of expressing an opinion on the same based on our audits.

Our examinations were conducted in accordance with the audit norms generally accepted in Mexico, which require that the audit is planned and carried out in such a way to ensure reasonable assurance that the financial statements do not contain important errors and that they were prepared in accordance with the accounting criteria established by the National Banking and Securities Commission (the Commission). The audit consists of an examination based on selective tests, of evidence supporting the figures and disclosures in the financial statements; it also includes evaluation of the accounting criteria used, of the significant estimates made by the Administration and the presentation of the financial statements grouped together. We consider that our examinations provide a reasonable basis to sustain our opinion.

The Financial Group's operations are described in Note 1 of the financial statements. In the Note 4 the accounting criteria are described as established by the Commission in the applicable "Dispositions of general character applicable to the credit institutions", which the Financial Group uses to prepare the financial information, as well as the modifications to the accounting criteria that came into effect in 2009, some of which were applied in a prospective way, affecting the comparability with figures of 2008. In Note 5 the main differences between the accounting criteria established by the Commission and the Mexican norms of financial information commonly applied in the preparation of financial statements for other types of unregulated societies. As explained in Note 12, in August 2009, the Commission issued modifications to the rating methodology of the Consumer portfolio, allowing institutions to recognize, charged to equity, the initial accumulated financial effect derived from the application of the portfolio rating methodology to corresponding operations with credit card or to constitute in a term of 24 months, the total accumulated amount. The Financial Group recognized the effect of this change in methodology, charged to results of previous fiscal years in the equity, which totaled Ps 683 million pesos, net of deferred taxes.

In our opinion, the afore-mentioned consolidated financial statements reasonably present, in all the important aspects, the financial situation of Grupo Financiero Banorte, S. A. B. de C. V. and Subsidiaries to December 31<sup>st</sup>, 2009 and 2008, the results of operations and the variations in equity for the period mentioned, cash flows for the year ending December 31<sup>st</sup>, 2009 and changes in the financial situation for the year ending December 31<sup>st</sup>, 2008, in accordance with the accounting criteria stipulated by the Commission.

Galaz, Yamazaki, Ruiz Urquiza, S.C.  
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**GRUPO FINANCIERO BANORTE, S. A. B. DE C. V. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**AS OF DECEMBER 31, 2009 AND 2008**  
(In million of Mexican pesos)

<b>ASSETS</b>	<b>2009</b>	<b>2008</b>
<b>CASH AND CASH EQUIVALENTS</b>	<b>Ps. 59,268</b>	<b>Ps. 54,396</b>
<b>MARGIN SECURITIES</b>	<b>18</b>	<b>6</b>
<b>INVESTMENTS IN SECURITIES</b>		
Trading securities	24,459	6,076
Available for sale securities	11,701	11,480
Held to maturity securities	190,332	221,617
	<b>226,492</b>	<b>239,173</b>
<b>DEBTOR BALANCES UNDER REPURCHASE AND RESALE AGREEMENTS</b>	<b>4</b>	<b>149</b>
<b>DERIVATIVES FINANCIAL INSTRUMENTS</b>		
For trading purposes	4,824	5,325
For hedging purposes	1,056	2,843
	<b>5,880</b>	<b>8,168</b>
<b>PERFORMING LOAN PORTFOLIO</b>		
Commercial loans		
Business loans	117,237	126,798
Financial Institutions' Loans	7,131	10,860
Government loans	38,993	26,989
Consumer loans	25,712	29,369
Mortgage loans	49,881	46,282
<b>TOTAL PERFORMING LOAN PORTFOLIO</b>	<b>238,954</b>	<b>240,298</b>
<b>PAST-DUE LOAN PORTFOLIO</b>		
Commercial loans		
Business loans	3,163	1,703
Consumer loans	1,942	2,499
Mortgage loans	1,049	746
<b>TOTAL PAST-DUE LOAN PORTFOLIO</b>	<b>6,154</b>	<b>4,948</b>
<b>LOAN PORTFOLIO</b>	<b>245,108</b>	<b>245,246</b>
(Minus) Allowance for loan losses	(7,535)	(6,690)
<b>LOAN PORTFOLIO, net</b>	<b>237,573</b>	<b>238,556</b>
<b>ACQUIRED COLLECTION RIGHTS</b>	<b>2,548</b>	<b>3,049</b>
<b>TOTAL LOAN PORTFOLIO, net</b>	<b>240,121</b>	<b>241,605</b>
<b>RECEIVABLES GENERATED BY SECURITIZATIONS</b>	<b>432</b>	<b>796</b>
<b>OTHER ACCOUNTS RECEIVABLE, net</b>	<b>11,324</b>	<b>9,514</b>
<b>MERCHANDISE INVENTORY</b>	<b>119</b>	<b>165</b>
<b>FORECLOSED ASSETS, net</b>	<b>928</b>	<b>863</b>
<b>PROPERTY, FURNITURE AND FIXTURES, net</b>	<b>8,622</b>	<b>8,429</b>
<b>PERMANENT STOCK INVESTMENTS</b>	<b>3,036</b>	<b>2,559</b>
<b>DEFERRED TAXES, net</b>	<b>1,411</b>	<b>471</b>
<b>OTHER ASSETS</b>		
Other assets, deferred charges and intangible assets	9,483	10,731
<b>TOTAL ASSETS</b>	<b>Ps. 567,138</b>	<b>Ps. 577,025</b>

**MEMORANDUM ACCOUNTS (Note 34)**

These balance sheets, consolidated with those of the financial entities and other companies that form part of the Financial Group and are susceptible to consolidation, were prepared according to accounting principles applicable to Financial Service Holding Companies issued by the Mexican National Banking and Securities Commission according to article 30 of the Law of Financial Institutions. Such principles are consistently applied in the financial statements, which are presented according to sound practices and applicable legal and administrative provisions and reflect all the operations conducted by the Financial Group, its financial service subsidiaries and the other companies that form part of the Financial Group and are consolidated as of the balance sheet dates above. The stockholders' equity amounts to Ps. 7,000 (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.

<b>LIABILITIES</b>	<b>2009</b>	<b>2008</b>
<b>DEPOSITS</b>		
Demand deposits	\$Ps. 137,581	\$Ps. 128,350
Time deposits	\$	\$
General public	\$134,141	\$118,740
Money market	\$3,186	\$13,679
	<b>\$274,908</b>	<b>\$260,769</b>
<b>INTERBANK AND OTHER LOANS</b>		
Demand loans	\$21	\$1,245
Short-term loans	\$13,385	\$24,803
Long-term loans	\$7,562	\$10,635
	<b>\$20,968</b>	<b>\$36,683</b>
<b>ASSIGNED SECURITIES PENDING SETTLEMENT</b>	<b>\$159</b>	<b>\$-</b>
	\$	\$
<b>CREDITOR BALANCES UNDER REPURCHASE AND RESALE AGREEMENTS</b>	<b>\$185,480</b>	<b>\$192,727</b>
<b>COLLATERAL SOLD OR PLEDGED</b>		
Repurchase or resale agreements (creditor balance)	<b>2</b>	<b>2</b>
<b>DERIVATIVES FINANCIAL INSTRUMENTS</b>	\$	\$
For trading purposes	\$4,553	\$5,269
For hedging purposes	\$3,822	\$5,477
	<b>\$8,375</b>	<b>\$10,746</b>
	\$	\$
<b>OTHER ACCOUNTS PAYABLE</b>	\$	\$
Income tax	\$617	\$374
Employee profit sharing	\$676	\$898
Creditors from settlements of transactions	\$2,224	\$2,405
Sundry debtors and other payables	\$8,968	\$10,716
	<b>\$12,485</b>	<b>\$14,393</b>
<b>SUBORDINATED DEBENTURES</b>	<b>\$18,168</b>	<b>\$20,613</b>
<b>DEFERRED CREDITS AND ADVANCED COLLECTIONS</b>	<b>\$1,619</b>	<b>\$1,346</b>
<b>TOTAL LIABILITIES</b>	<b>\$522,164</b>	<b>\$537,279</b>
<b>STOCKHOLDERS' EQUITY</b>		
<b>PAID-IN CAPITAL</b>		
Common stock	\$11,956	\$11,941
Additional paid-in capital	\$1,525	\$1,468
	<b>\$13,481</b>	<b>\$13,409</b>
<b>OTHER CAPITAL</b>		
Capital reserves	\$3,154	\$2,720
Retained earnings from prior years	\$20,681	\$16,935
Result from valuation of securities available for sale	\$206	\$(550)
Result from valuation of instruments for cash flow hedging	\$(1,369)	\$-
Cumulative foreign currency translation adjustment	\$(641)	\$1,095
Effect of holding non-monetary assets	\$-	\$(2,821)
Net income	\$5,854	\$7,014
	<b>\$27,885</b>	<b>\$24,393</b>
<b>NONCONTROLLING INTEREST</b>	<b>\$3,608</b>	<b>\$1,944</b>
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<b>\$44,974</b>	<b>\$39,746</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$Ps. 567,138</b>	<b>\$Ps. 577,025</b>

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Executive Director Controller

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Executive Director Accounting and Tax

**GRUPO FINANCIERO BANORTE, S. A. B. DE C. V. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**  
**FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**  
(In million of Mexican pesos)

	<b>2009</b>	<b>2008</b>
Interest income	Ps. 45,451	Ps. 50,417
Interest expense	(22,268)	(27,789)
<b>NET INTEREST INCOME</b>	<b>23,183</b>	<b>22,628</b>
Provision for loan losses	(8,286)	(6,896)
<b>NET INTEREST INCOME AFTER ALLOWANCE FOR LOAN LOSSES</b>	<b>14,897</b>	<b>15,732</b>
Commission and fee income	8,291	8,535
Commission and fee expense	(1,338)	(1,208)
Brokerage revenues	1,244	1,039
Other revenues	980	746
	<b>9,177</b>	<b>9,112</b>
<b>NET OPERATING REVENUES</b>	<b>24,074</b>	<b>24,844</b>
Administrative and promotional expenses	(17,024)	(16,687)
<b>OPERATING INCOME</b>	<b>7,050</b>	<b>8,157</b>
Other income	2,438	2,997
Other expenses	(1,566)	(1,523)
	<b>872</b>	<b>1,474</b>
<b>INCOME BEFORE INCOME TAX</b>	<b>7,922</b>	<b>9,631</b>
Current income tax	(2,581)	(2,765)
Deferred income taxes, net	536	245
	<b>(2,045)</b>	<b>(2,520)</b>
<b>INCOME BEFORE EQUITY IN EARNINGS OF UNCONSOLIDATED SUBSIDIARIES AND ASSOCIATED COMPANIES</b>	<b>5,877</b>	<b>7,111</b>
Equity in earnings of unconsolidated subsidiaries and associated companies	313	276
<b>INCOME BEFORE NONCONTROLLING INTEREST</b>	<b>6,190</b>	<b>7,387</b>
Noncontrolling interest	(336)	(373)
<b>NET INCOME</b>	<b>Ps. 5,854</b>	<b>Ps. 7,014</b>

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

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

The attached notes are an integral part of these consolidated statements of income.

Dr. Alejandro Valenzuela del Río  
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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, 2009 AND 2008**  
(In million of Mexican pesos)

	PAID-IN CAPITAL		OTHER CAPITAL			
	Common stock	Additional paid-in capital	Capital reserves	Retained earnings from prior years	Result from valuation of available for sale securities	Result from valuation of cash flow hedging instruments
<b>Balances, January 1, 2008</b>	<b>Ps. 11,965</b>	<b>Ps. 1,272</b>	<b>Ps. 2,452</b>	<b>Ps. 21,279</b>	<b>Ps. -</b>	<b>Ps. -</b>
<b>TRANSACTIONS APPROVED BY STOCKHOLDERS</b>						
Issuance (repurchase) of shares	(24)	199	(72)	-	-	-
Transfer of prior year's result	-	-	-	6,810	-	-
Creation of reserves as per General Stockholders' meeting on April 29, 2008	-	-	340	(340)	-	-
Dividend declared at the General Stockholders' meeting on October 6, 2008	-	-	-	(949)	-	-
<b>Total transactions approved by stockholders</b>	<b>(24)</b>	<b>199</b>	<b>268</b>	<b>5,521</b>	<b>-</b>	<b>-</b>
<b>COMPREHENSIVE INCOME</b>						
Net income	-	-	-	-	-	-
Effect of subsidiaries	-	(3)	-	(30)	(550)	-
Result from valuation of cash flow hedging instruments	-	-	-	-	-	-
Changes in accounting principles (NIF B-10)	-	-	-	(9,835)	-	-
<b>Total comprehensive income</b>	<b>-</b>	<b>(3)</b>	<b>-</b>	<b>(9,865)</b>	<b>(550)</b>	<b>-</b>
Noncontrolling interest	-	-	-	-	-	-
<b>Balances, December 31, 2008</b>	<b>11,941</b>	<b>1,468</b>	<b>2,720</b>	<b>16,935</b>	<b>(550)</b>	<b>-</b>
<b>TRANSACTIONS APPROVED BY STOCKHOLDERS</b>						
Issuance (repurchase) of shares	15	(328)	83	-	(221)	-
Transfer of prior year's result	-	-	-	7,014	-	-
Creation of reserves as per General Stockholders' meeting on April 30, 2009	-	-	351	(351)	-	-
Dividend declared at the General Stockholders' meeting on October 5, 2009	-	-	-	(364)	-	-
<b>Total transactions approved by stockholders</b>	<b>15</b>	<b>(328)</b>	<b>434</b>	<b>6,299</b>	<b>(221)</b>	<b>-</b>
<b>COMPREHENSIVE INCOME</b>						
Net income	-	-	-	-	-	-
Result from valuation of available for sale securities	-	-	-	-	592	-
Effect of subsidiaries, affiliates and mutual funds	-	(5)	-	(47)	-	-
Effect of the acquisition of the remaining 30% of the subsidiary INB	-	-	-	-	-	-
Result from valuation of cash flow hedging instruments	-	-	-	-	-	209
Application of the effect of holding non-monetary assets	-	(4)	-	(1,640)	385	(1,578)
Change in credit card loan rating methodology (net of deferred taxes)	-	-	-	(683)	-	-
<b>Total comprehensive income</b>	<b>-</b>	<b>(9)</b>	<b>-</b>	<b>(2,370)</b>	<b>977</b>	<b>(1,369)</b>
Noncontrolling interest	-	394	-	(183)	-	-
<b>Balances, December 31, 2009</b>	<b>Ps. 11,956</b>	<b>Ps. 1,525</b>	<b>Ps. 3,154</b>	<b>Ps. 20,681</b>	<b>Ps. 206</b>	<b>(Ps. 1,369)</b>

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

The attached notes are an integral part of these consolidated statements of changes in stockholders' equity.

	Cumulative foreign currency translation adjustment	Insufficiency in restated stockholders' equity	Effect of holding non-monetary assets	Net income	Total majority interest	Noncontrol -ling interest	Total stockholders' equity
<b>Balances, January 1, 2008</b>	Ps. -	(Ps. 6,380)	(Ps. 5,009)	Ps. 6,810	Ps. 32,389	Ps. 1,667	Ps. 34,056
<b>TRANSACTIONS APPROVED BY STOCKHOLDERS</b>							
Issuance (repurchase) of shares	-	-	-	-	103	-	103
Transfer of prior year's result	-	-	-	(6,810)	-	-	-
Creation of reserves as per General Stockholders' meeting on April 29, 2008	-	-	-	-	-	-	-
Dividend declared at the General Stockholders' meeting on October 6, 2008	-	-	-	-	(949)	-	(949)
<b>Total transactions approved by stockholders</b>	-	-	-	<b>(6,810)</b>	<b>(846)</b>	-	<b>(846)</b>
<b>COMPREHENSIVE INCOME</b>							
Net income	-	-	-	7,014	7,014	-	7,014
Effect of subsidiaries	1,095	-	-	-	512	-	512
Result from valuation of cash flow hedging instruments	-	-	(1,267)	-	(1,267)	-	(1,267)
Changes in accounting principles (NIF B-10)	-	6,380	3,455	-	-	-	-
<b>Total comprehensive income</b>	<b>1,095</b>	<b>6,380</b>	<b>2,188</b>	<b>7,014</b>	<b>6,259</b>	-	<b>6,259</b>
Noncontrolling interest	-	-	-	-	-	277	277
<b>Balances, December 31, 2008</b>	<b>1,095</b>	-	<b>(2,821)</b>	<b>7,014</b>	<b>37,802</b>	<b>1,944</b>	<b>39,746</b>
<b>TRANSACTIONS APPROVED BY STOCKHOLDERS</b>							
Issuance (repurchase) of shares	-	-	-	-	(451)	-	(451)
Transfer of prior year's result	-	-	-	(7,014)	-	-	-
Creation of reserves as per General Stockholders' meeting on April 30, 2009	-	-	-	-	-	-	-
Dividend declared at the General Stockholders' meeting on October 5, 2009	-	-	-	-	(364)	-	(364)
<b>Total transactions approved by stockholders</b>	-	-	-	<b>(7,014)</b>	<b>(815)</b>	-	<b>(815)</b>
<b>COMPREHENSIVE INCOME</b>							
Net income	-	-	-	5,854	5,854	-	5,854
Result from valuation of available for sale securities	-	-	-	-	592	-	592
Effect of subsidiaries, affiliates and mutual funds	(54)	-	-	-	(106)	-	(106)
Effect of the acquisition of the remaining 30% of the subsidiary INB	(1,698)	-	-	-	(1,698)	-	(1,698)
Result from valuation of cash flow hedging instruments	-	-	-	-	209	-	209
Application of the effect of holding non-monetary assets	16	-	2,821	-	-	-	-
Change in credit card loan rating methodology (net of deferred taxes)	-	-	-	-	(683)	-	(683)
<b>Total comprehensive income</b>	<b>(1,736)</b>	-	<b>2,821</b>	<b>5,854</b>	<b>4,168</b>	-	<b>4,168</b>
Noncontrolling interest	-	-	-	-	211	1,664	1,875
<b>Balances, December 31, 2009</b>	<b>(Ps. 641)</b>	<b>Ps. -</b>	<b>Ps. -</b>	<b>Ps. 5,854</b>	<b>Ps. 41,366</b>	<b>Ps. 3,608</b>	<b>Ps. 44,974</b>

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**GRUPO FINANCIERO BANORTE, S. A. B. DE C. V. AND SUBSIDIARIES**  
**CONSOLIDATED CASH FLOW STATEMENT**  
**FOR THE YEAR ENDED DECEMBER 31, 2009**  
(In million of Mexican pesos)

	<b>2009</b>
<b>Net Income</b>	<b>\$Ps. 5,854</b>
Items not requiring (generating) resources:	
Provision for loan losses	8,286
Provision for uncollectible or doubtful accounts receivable	182
Depreciation and amortization	954
Other provisions	(1,786)
Current and deferred income tax	2,045
Equity in earnings of unconsolidated subsidiaries and associated companies	(313)
	<b>15,222</b>
<b>OPERATING ACTIVITIES:</b>	
Changes in margin securities	(11)
Changes in investments in securities	12,312
Changes in debtor balances under repurchase and resale agreements	144
Changes in asset position of derivatives financial instrument	501
Change in loan portfolio	(8,167)
Changes in acquired loan portfolios	502
Changes in securitization transaction receivables	364
Change in foreclosed assets	(94)
Change in other operating assets	(969)
Change in deposits	15,344
Change in interbank and other loans	(15,644)
Change in creditor balances under repurchase and sale agreements	(7,088)
Change in liability position of derivatives financial instrument	(717)
Change in subordinated debentures	(2,481)
Change in other operating liabilities	(2,365)
Change in hedging instruments related to operations	133
<b>Net operating activity cash flows</b>	<b>6,986</b>
<b>INVESTMENT ACTIVITIES:</b>	
a. Proceeds on disposal of property, furniture and fixtures	259
b. Acquisition of property, furniture and fixtures	(1,447)
c. Acquisition of subsidiaries and associated companies	(183)
d. Sale of other permanent investments	1
e. Acquisition of other permanent investments	(1)
f. Dividends received	135
<b>Net investing activity cash flows</b>	<b>(1,236)</b>
<b>FINANCING ACTIVITIES:</b>	
Dividends paid	(364)
Repurchase of shares	(451)
<b>Net financing activity cash flows</b>	<b>(815)</b>
g. Net increase in cash and cash equivalents	4,935
h. Adjustments to cash flows from variation in the foreign exchange rate	(63)
i. Cash and cash equivalents at the beginning of the year	54,396
<b>j. Cash and cash equivalents at the end of the year</b>	<b>Ps. 59,268</b>

This statement of cash flows, consolidated with those of the financial entities and other companies that form part of the Financial Group and are susceptible to consolidation, was prepared according to accounting principles applicable to Financial Service Holding Companies issued by the Mexican National Banking and Securities Commission according to Article 30 of the Law of Financial Institutions. Such principles are consistently applied in the financial statements, which are presented according to sound practices and applicable legal and administrative provisions and reflect all the operations conducted by the Financial Group, its financial service subsidiaries and the other companies that form part of the Financial Group and are consolidated as of the dates above. The accompanying Consolidated Statement of Cash Flows has been approved by the Board of Directors in accordance with the responsibility assigned to them. The attached notes are an integral part of this consolidated statement of cash flows.

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**GRUPO FINANCIERO BANORTE, S. A. B. DE C. V. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION**  
**FOR THE YEAR ENDED DECEMBER 31, 2008**  
(In million of Mexican pesos)

		<b>2008</b>
<b>OPERATING ACTIVITIES:</b>		
Net Income		<b>\$Ps. 7,014</b>
Items not requiring (generating) resources:		
Fair value adjustments of financial instruments		\$(268)
Provision for loan losses		\$6,896
Depreciation and amortization		\$1,099
Deferred taxes		\$(245)
Provisions for other obligations		\$24
Noncontrolling interest		\$373
Equity in earnings of subsidiaries and associated companies		\$(276)
		<b>14,617</b>
Changes in operating accounts:		
Increase in deposits		\$57,462
Increase in loan portfolio		(52,095)
Increase from treasury transactions		\$(220,239)
Decrease in transactions with securities or derivatives financial instruments		\$194,552
Increase in bank and other loans		\$13,960
Increase in deferred taxes		(12)
<b>Net resources generated by operating activities</b>		<b>\$8,245</b>
<b>FINANCING ACTIVITIES:</b>		
k. Increase in subordinated debentures		\$10,403
l. Issuance of shares		\$103
Increase in other payables		\$1,269
m. Dividends paid		\$(949)
<b>Net resources generated by financing activities</b>		<b>\$10,826</b>
<b>INVESTMENT ACTIVITIES:</b>		
n. Acquisition of property, furniture and fixtures, net	o.	(1,308)
p. Increase in permanent stock investments		\$(644)
q. Increase in deferred charges and credits		\$(1,958)
r. Increase in foreclosed assets		\$(478)
Increase in other accounts receivable		\$(1,897)
<b>Net resources used in investment activities</b>		<b>\$(6,285)</b>
s. Net increase in cash and cash equivalents	t.	12,786
u. Cash and cash equivalents available at the beginning of the year	v.	41,610
<b>w. Cash and cash equivalents available at the end of the year</b>	<b>x.</b>	<b>Ps. 54,396</b>

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

The accompanying Consolidated Statement of Changes in Financial Position has been approved by the Board of Directors in accordance with the responsibility assigned to them.

The attached notes are an integral part of this consolidated statement of changes in financial position.

Dr. Alejandro Valenzuela del Río  
Chief Executive Officer

Ing. Sergio García Robles Gil  
Managing Director - CFO

C.P. Román Martínez Méndez  
Managing Director - Audit

Lic. Jorge Eduardo Vega Camargo  
Executive Director Controller

C.P.C. Nora Elia Cantú Suárez  
Executive Director Accounting and Tax

**GRUPO FINANCIERO BANORTE, S. A. B. DE C. V. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**  
(In million of Mexican pesos, except exchange rates)

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**1 – ACTIVITY AND REGULATORY ENVIRONMENT**

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Grupo Financiero Banorte, S. A. B. de C. V. (the Financial Group) is 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 Mexican Financial Group Law, 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 and its subsidiaries are regulated, depending on their activities, by the Commission, the Mexican National Insurance and Bond Commission, the Mexican National Retirement Savings Systems Commission (the Commissions), the Mexican Central Bank (Banco de México) and other applicable laws and regulations.

The main activity of the Financial Group's subsidiaries is to carry out financial transactions that include the rendering of full-banking services, securities brokerage activities, management of retirement funds, leasing, the purchase and sale of uncollected invoices and notes, rendering of general warehousing services, annuities (pensions) and providing life and casualty insurance.

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

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

The Financial Group's consolidated financial statements have been approved by the Board of Directors at their January 28, 2010 meeting in accordance with the responsibility assigned to them.

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**2 – SIGNIFICANT EVENTS DURING THE YEAR**

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**d. Prepayment of subordinated debentures**

On February 17, 2009 Banco Mercantil del Norte, S. A. (Banorte) exercised the prepayment option on its USD 300 million non-convertible subordinated debentures issued in 2004 scheduled to mature in 2014, which were registered on the Luxembourg Stock Exchange. This subordinated debt was issued in February 2004 with a 10-year term and included a prepayment option as of the fifth year.

**e. Merger of Créditos Pronegocio, S. A. de C. V. (Pronegocio)**

At the Extraordinary Stockholders' Meeting held on April 30, 2009, the merger of Banorte, as the merging entity, and Pronegocio (subsidiary of the Financial Group), as the merged entity, was approved. The final merger agreement was executed on August 31, 2009, after having received the corresponding authorizations by the regulating authorities. Said merger was completed in September 2009.

#### **f. Acquisition of the remaining 30% of INB**

On April 1, 2009, Banorte announced the completion of the purchase transaction of the remaining 30% of the shares of INB Financial Corp. ("INB"), holding company of "Inter National Bank" based in Texas in the United States of America. This acquisition concludes the original plan established in January 2006, when Banorte acquired 70% of Inter National Bank's shares through its subsidiary Banorte USA Corporation, which held that percentage from December 31, 2008 until April 1, 2009. The cost of acquiring the remaining 30% was USD 146.6 million, which Banorte covered using its own resources. This acquisition did not impact Banorte's regulatory capitalization ratio. The effect on Banorte was reflected as an increase in the investment in its subsidiary Banorte USA Corporation.

#### **g. Issuance of subordinated debentures**

In March 2009, Banorte issued subordinated debentures to strengthen its regulatory capital. The issuance of Ps. 2,200 in preferred non-convertible subordinated debentures (BANORTE 09) with a 10-year maturity will pay an interest rate equivalent to the 28-day Interbank Equilibrium Interest Rate (TIIE) + 2%. Moody's rated the securities with Aaa.mx and Fitch with AA (mex).

#### **h. International Finance Corporation's (IFC) Investment in Banorte**

Banorte's Extraordinary Stockholders' Meeting held on October 23, 2009 approved both an increase in its ordinary stockholders' equity and a modification to its corporate bylaws to complete the IFC's investment of up to USD 150 million in Banorte's capital. The investment was finalized in November 2009 by providing the IFC 3,370,657,357 ordinary nominative "O" Series shares with a nominal value of Ps. 0.10 (ten cents). The IFC settled this operation with USD 82.3 million in cash and the capitalization of a credit of USD 67.7 million. Banorte, the IFC and the Financial Group celebrated a series of agreements that obligate the IFC to maintain its participation in Banorte for at least five years. After five years the IFC could sell its participation to the Financial Group, which would be obligated to purchase it either by exchanging it with shares of the Financial Group or paying it in cash, depending on the Financial Group's choice and convenience.

#### **i. Afore Banorte Generali, S. A. de C. V. asset acquisitions (AFORE Banorte)**

In June 2009, AFORE Banorte acquired the retirement fund management and investment business from AFORE IXE for Ps. 258. This transaction involved transferring a portfolio of 312,489 clients, which represents Ps. 5,447 in managed assets.

Furthermore, in August 2009, AFORE Banorte acquired AFORE Ahorra Ahora's management rights over a portfolio of 367,660 clients, which represents Ps. 1,138 in managed assets. The amount paid for this operation was Ps. 19.

Additionally, in December 2009, AFORE Banorte acquired AFORE Argos' management rights over a portfolio of over 22 thousand clients, which represents managed assets of approximately Ps. 600. The acquisition cost was Ps. 17.

These operations were approved by the respective Boards of Directors, Government Board of the Mexican National Commission for the Retirement Savings System and the Federal Competition Commission.

These acquisitions position AFORE Banorte as the fourth largest Afore in Mexico, in terms of number of affiliates.

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### 3 – BASIS OF PRESENTATION

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#### Monetary unit of the financial statements

The financial statements and notes as of December 31, 2009 and 2008 and for the years then ended include balances and transactions in Mexican pesos of purchasing power of such dates.

#### Consolidation of financial statements

The accompanying consolidated financial statements include those of the Financial Group and its subsidiaries mentioned below. All significant intercompany balances and transactions have been eliminated in consolidation.

As of December 31, 2009 and 2008, the Financial Group's consolidated subsidiaries and its equity ownership is as follows:

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	2009	2008
Banco Mercantil del Norte, S. A. and subsidiaries	92.72%	97.06%
Casa de Bolsa Banorte, S. A. de C. V.	99.99%	99.99%
Arrendadora y Factor Banorte, S. A. de C. V.	99.99%	99.99%
Almacenadora Banorte, S. A. de C. V.	99.99%	99.99%

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#### Conversion of financial statements of Banorte USA, Corporation and Subsidiaries (indirect foreign subsidiary)

In order to consolidate the financial statements of Banorte USA, they are first adjusted in the recording and functional currency (U.S. dollar) to conform to the accounting criteria established by the Commission. The financial statements are then converted to 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 rate for stockholders' equity, and c) weighted average rate 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 statements of income, in accordance with the accounting practices established by the Commission. In 2009 and 2008, comprehensive income includes the net income of the year, the result from valuation of available for sale securities, the effect of subsidiaries, the effect of acquiring the remaining 30% of INB, the result from valuation of cash flow hedging instruments and the change in credit card loan rating methodology.

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### 4 – SIGNIFICANT ACCOUNTING POLICIES

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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 Scheme of the Set of Accounting Criteria Applicable to Banking Institutions", prescribed by the Commission, the Institutions' accounting will adhere to Mexican Financial Reporting Standards (NIF), defined by the Mexican Board for Research and Development of Financial Reporting Standards (CINIF), except when the Commission deems it necessary to apply a specific accounting standard or Circular, considering the fact that financial institutions perform specialized operations.

### **Changes in accounting policies**

On September 1, 2008, the Commission issued a resolution that modifies the "General Provisions Applicable to Banking Institutions" thereby replacing accounting Circular C-1, "Recording and Cancellation of Financial Assets", and C-2, "Securitization Operations", and adding accounting Circular C-5, "Consolidation of Special Purpose Entities." These provisions went into effect on January 1, 2009.

Additionally, on April 27, 2009, the Commission issued a resolution that modifies the "General Provisions Applicable to Banking Institutions" thereby updating all accounting criteria. These provisions went into effect on April 28, 2009.

The principle changes in the accounting policies that apply to the Financial Group are explained below:

- Circular B-2, "Investments in securities", introduces the concept of amortized cost for the valuation of held to maturity securities; it considers the loss of value due to the deterioration of securities available for sale and held to maturity; such loss must be recorded in the results of operations. It allows reclassifying held to maturity securities as available for sale, provided there is no intention or capability of holding them to maturity. The Commission's expressed authorization is required to reclassify to securities held to maturity or from trading to securities available for sale. The result of selling the securities is recorded as the result of a purchase and sale agreement instead of a valuation result. Furthermore, the transaction costs of acquiring securities will be recorded according to the category; in the case of securities for trading they will be recorded in the results of operations, and in the cases of securities available for sale and held to maturity, they will be recognized as part of the investment cost.
- Circular B-5, "Derivatives and hedging transactions", establishes the recognition of purchase and sale transaction agreements as embedded derivatives. Assets and liabilities valued at their fair value through results may be considered hedging items. Tests of effectiveness are required for hedging in all cases, with the ineffective portion of the hedge recorded in the results of operations. The presentation of these items in the balance sheet is modified. Furthermore, the transaction costs associated with the acquisition of derivatives financial instruments must be recorded directly in the results of the period in which they were incurred.
- Circular B-6, "Loan portfolio", indicates that the annual credit card fees charged by banking institutions, the fees for unused credit lines, as well as their associated costs and expenses, must all be amortized during a 12 month period. Costs and expenses associated with the initial granting of the credit are recorded as a deferred expense to be amortized as interest expense over the same period in which the fee income is recorded. This applies only to those costs and expenses that are considered incremental. These changes will be applied prospectively given the practical impossibility of their determination for prior years.
- According to Circular C-2, "Securitization transactions," as of January 1, 2009, securitizations must meet the requirements set forth in Circular C-1, "Recognition and derecognition of financial assets", in order to be considered as a sale. Otherwise, the securitized assets shall remain on the balance sheet, and the resulting liability must be recorded. On the other hand, an entity shall consolidate a special purpose entity (EPE) created on or after January 1, 2009, when the economic substance of the relationship indicates that the EPE is controlled by the entity.
- A cash flow statement must be presented prospectively instead of a statement of changes in financial position; as a result, a statement of cash flows and a statement of changes in financial position for the years ended December 31, 2009 and 2008, respectively, are presented. Employee profit sharing (PTU) should be recorded in 2009 as part of operating expenses and not as part of income taxes. In general, the financial

statement structure is changed, and there are more disclosure requirements in various concepts, mainly concerning derivatives financial instruments and related parties.

- On August 12, 2009, the Commission issued a resolution modifying the “General Provisions applicable to Banking Institutions”, which modifies the consumer loan rating methodology to show the expected loss in these operations based on the current environment.

This new methodology requires separating the consumer loan portfolio into two groups: those that refer to credit card operations and those that do not. The consumer loan portfolio that does not include credit card operations will consider the number of unpaid billing periods established by the Financial Group as well as the probability of nonpayment and the severity of the loss according to percentages established by the Commission. If this portfolio has collateral or means of payment in favor of the Financial Group, the covered balance will be considered to have zero unpaid periods for provisioning purposes.

Regarding credit card related consumer loans, such portfolio shall be provisioned and rated on a loan-by-loan basis taking into consideration the probability of nonpayment, the severity of the loss and the exposure to nonpayment. If there are less than 10 consecutive delinquent payments at the calculation date, the severity of the loss will be considered as 75%; if there are 10 or more, it will be 100%. Exposure to nonpayment is determined by applying a formula that considers both the total balance of the creditor's debt and the credit limit. In the case of inactive accounts, a provision equivalent to 2.68% of the credit limit must be constituted.

The resulting effect of applying the revised consumer loan rating method for credit card operations is shown in Note 12.

### Retrospective application of the changes in accounting principles

As a result of the accounting changes described above, the 2008 financial statements reflect the effects of the reclassifications derived from such changes in order to make them comparable to the 2009 financial statements.

The 2008 items that have been retrospectively reclassified and their effects are:

<b>ITEMS OF THE CONSOLIDATED BALANCE SHEET</b>			
<b>ASSETS</b>	<b>As reported</b>	<b>As adjusted</b>	<b>Change</b>
CASH AND CASH EQUIVALENTS	Ps.54,402	Ps.54,396	(Ps.6)
MARGIN SECURITIES	-	6	6
INVESTMENTS IN SECURITIES	239,969	239,173	(796)
RECEIVABLES GENERATED BY SECURITIZATIONS	-	796	796
<b>TOTAL ASSETS</b>	<b>577,025</b>	<b>577,025</b>	<b>-</b>
<b>LIABILITIES</b>			
OTHERS ACCOUNT PAYABLE:			
Income tax	1,272	374	(898)
Employee profit sharing	-	898	898
Creditors from settlements of transactions	-	2,405	2,405
Sundry debtors and other payables	13,121	10,716	(2,405)
<b>TOTAL OTHER ACCOUNTS PAYABLE</b>	<b>Ps.14,393</b>	<b>Ps.14,393</b>	<b>Ps.-</b>

<b>ITEMS OF THE CONSOLIDATED STATEMENTS OF INCOME</b>	<b>As reported</b>	<b>As adjusted</b>	<b>Change</b>
Interest income	Ps.50,416	Ps.50,417	Ps.1
Brokerage revenues	1,040	1,039	(1)
Other revenues	-	746	746
Administrative and promotional expenses	(15,807)	(16,687)	(880)
Other income	3,789	2,997	(792)
Other expenses	(1,569)	(1,523)	46
Current income tax	(3,645)	(2,765)	880
<b>NET INCOME</b>	<b>Ps.7,014</b>	<b>Ps.7,014</b>	<b>Ps.-</b>

The significant accounting policies followed by the Financial Group are described below:

### **Recognition of the effects of inflation in financial information**

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

The cumulative Mexican inflation over the three years prior to 2009 and 2008 was 15.03% and 11.26%, respectively. Therefore, the Mexican economy is considered as non-inflationary according to the NIF B-10 definition. As of January 1, 2008, the Financial Group is no longer adjusting for the effects of inflation. However, assets, liabilities and stockholders' equity as of December 31, 2009 and 2008 include the restatement effects recorded up until December 31, 2007.

Until December 31, 2007, such recording resulted mainly in inflationary gains or losses on non-monetary and monetary items, which are shown in the financial statements under "Insufficiency in Restated Stockholders' Equity" and "Effect of Holding Non-Monetary Assets".

The Mexican inflation rates for the years ended December 31, 2009 and 2008, were 3.72% and 6.39%, respectively.

### **Cash and cash equivalents**

Cash and cash equivalents are stated at nominal value, except for coined precious metals, which are stated at fair value at the end of the period. Funds available in foreign currency are valued at the exchange rate published by Banco de México at the balance sheet date.

### **Trading securities**

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

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

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

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



## **Available for sale securities**

Securities Available for sale are debt or equity securities that are neither classified as trading nor held to maturity, therefore they represent a residual category, that is, they are purchased with an intention different from that of the trading or held to maturity securities.

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

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

## **Held-to-maturity securities**

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

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

### General valuation standards

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

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

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

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

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

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

An impairment loss on a security is recorded against the year's results if there is objective evidence of such impairment as a result of one or more events, occurring after the initial recording of the security, that have had an impact on the estimated future cash flows that can be reliably determined. The effect of recording the impairment of securities is shown in Note 7.

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

### **Customer repurchase agreements (repos)**

This is a transaction by which the purchaser acquires ownership of credit instruments for a sum of money and is obligated to transfer the property of another amount of instruments 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, by which the Financial Group, acting as the purchaser, provides cash as financing in exchange for financial assets that serve as guarantee in the event of noncompliance.

On the repurchase agreement transaction contract date, the Financial Group, acting as the seller, records the cash income, 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 its balance sheet 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 Institution is authorized to perform two types of transactions involving derivatives financial instruments:

Transactions to hedge the Financial Group's opened 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 derivatives 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 derived from transactions involving derivatives financial instruments occurs when these transactions are entered into, regardless of the respective settlement or the delivery date.

#### Forward and futures contracts

Forward and futures contracts with trading purposes establish an obligation to buy or sell a financial asset or an underlying at a future date in the quantity, quality and prices pre-established in the contract. Futures contracts are recorded initially by the Financial Group in the 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 to receive and/or deliver the underlying, as well as the right and obligation to receive and/or deliver the cash equivalent to the underlying, object of the contract.

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

In the case of trading transactions, their balance represents the difference between the fair value of the contract and the established "forward" price.

#### Options 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: buy options (calls) and sell options (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 in the income statement under "Trading" thereby affecting the corresponding account's balance.

#### Swaps

These are two-party contracts by 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 be received or granted according to the estimated future 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 with regards to hedge contracts is to protect the Financial Group's balance sheet and stockholders' equity by anticipating interest rate and exchange rate fluctuations.

For hedging derivatives financial instruments, the Financial Group applies in all cases the cash flow hedging method and the accumulated compensation method to measure effectiveness. Both methods are approved by current accounting standards. The results of ineffective hedging are recorded in the year's results.

The Financial Group documents hedging transactions from the moment the derivatives instruments are designated as hedging transactions. A file for each transaction is created in order to have documented proof as per Circular B-5 paragraph 71, which establishes conditions for using 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 a counter-account an asset or liability account called "derivatives financial instruments". The portion determined as ineffective is measured through retrospective tests, and when they result in over-hedging, they are immediately recognized in current earnings.
  - b. The effective hedging instrument component stated in stockholders' equity associated with the hedged item is adjusted to equal the lower (in absolute terms) of these items:
    - i. The accumulated gain or loss of the hedging instrument from its inception.
    - ii. The accumulated change in the fair value (present value) of the expected future cash flows of the item hedged from the beginning of the transaction.

#### Valuation method

As the derivatives products transacted are considered 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.

## Operation strategies

### *Trading*

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

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

### *Hedging*

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

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

## Embedded derivatives

Identified embedded derivatives are separated from the host contract for valuation purposes and are treated as derivatives when they meet the features set forth in Circular B-5 paragraph 22. The main embedded derivatives recognized by the Financial Group are from service and leasing contracts established in US dollars.

## **Loan portfolio**

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

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

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

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

The fees charged for the initial granting of loans will be recorded as a deferred credit, which will be amortized as interest income using the straight-line method over the loan's contractual term, except those originating from revolving loans, which are amortized over a 12-month period.

Annual credit card fees, whether the first or renewal, are recorded as a deferred credit and amortized over a 12-month period against the year's results in the commission and fee income line item.

The costs and expenses associated with the initial granting of the credit 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 that 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.

### **Allowance for loan losses**

#### *Application of portfolio rating provisions*

The loan portfolio is rated according to the rules issued by the SHCP and the methodology established by the Commission. Internal methodologies may be used providing they are authorized by the Commission.

In the case of consumer and mortgage loans, the Financial Group applies the general provisions applicable to credit institutions in rating the loan portfolio as issued by the Commission on August 12, 2009 and December 2, 2005, respectively. The Financial Group uses the internal methodology authorized by the Commission for classifying commercial loans.

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

On November 27, 2008, the Commission issued Document 111-2/26121/2008, which renews for a two-year period, as of December 1, 2008, the authorization for such internal loan rating methodology.

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

Derived from the acquisition of INB in 2006, Banorte 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.

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

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

<b>Risk criteria</b>	<b>Risk factors</b>
1. Financial risk	1. Financial structure and payment capability 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.

<b>CIR Banorte</b>	<b>Risk level description</b>	<b>Commission equivalent</b>	<b>classification</b>
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 and loans under 900 thousand UDIS to state and municipal governments and their decentralized agencies, mortgage loans and consumer loans, the Financial Group applied the general provisions applicable to credit institutions for classifying the loan portfolio as issued by the Commission.

### **Acquired loan portfolios**

This balance is represented by the acquisition cost of the various loan asset packages acquired by the Financial Group, which are subsequently valued by applying one of the three following methods:

Cost recovery method – Payments received are applied against the acquisition cost of the loan portfolio until the balance equals zero. Recoveries in excess of the acquisition cost are recognized in current earnings.

Interest method –The result of multiplying the acquired portfolio's outstanding balance by the estimated yield is recorded in current earnings. Differences between the Financial Group's collection estimates and actual collections are reflected prospectively in the estimated yield.

Cash basis method –The amount resulting from multiplying the estimated yield times the amount actually collected is recorded in the income statement, provided it is not greater than the amount obtained by the interest method. The difference between the recorded amount and the amount collected reduces the outstanding portfolio balance, once the entire initial investment has been amortized. Any subsequent recovery will be recorded in the income statement.

For its portfolios valued using the interest method, the Financial Group evaluates 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 effective. The expected cash flow estimate is considered as "highly effective" if the result of dividing the sum of the flows actually collected by the sum of the expected cash flows is between 0.8 and 1.25 when such effectiveness is evaluated.

### **Securitizations involving transfer of ownership**

Using securitization transactions involving the transfer of ownership in mortgage and government loans, the Financial Group transfers those financial assets through a trust so that said trust may issue publically available securities through an intermediary. The securities represent the right to the yield on the securitized portfolio and, as compensation the Financial Group receives cash and a receipt, which grants it the right over the trust's cash flow remnants after paying the holders for their certificates. This receipt is recorded at its fair value under "Receivables generated by securitizations."

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

### **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 remainder of the accounts receivable balances is reserved at 90 calendar days from their 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 expenses", is restated using the replacement cost at the time of the sale prior to 2008.

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

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

## Foreclosed assets, net

Foreclosed property or property received as payments in kind are recorded at the lower of their cost or fair value reduced by 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 estimates, is higher than that of the foreclosed property, the difference is recorded in the period's results under "Other revenues".

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

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

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

I. In the case of collection rights and personal property, the provisions referred to by the preceding paragraph must be treated as follows:

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

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

II. Investments in securities must be valued in accordance with the provisions of the Commission's accounting Circular B-2, using annual audited financial statements and monthly financial information of the investee.

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:

<b>Real estate property reserves</b>	
<b>Time elapsed as of award date or receipt as payment in kind (months)</b>	<b>Reserve percentage</b>
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, 2009, there are no reserves in addition to those created by the percentage applied based on the accounting criteria that could indicate realization problems with the values of the foreclosed properties.

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

### **Property, furniture and fixtures**

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

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

### **Permanent stock investments**

The Financial Group recognizes its investments in associated companies 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. 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, net" line.

### **Intangible assets**

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. The amortizable amount of the intangible asset is assigned on a systematic basis during its estimated useful life. Intangible assets with indefinite lives are not amortized, and their value is subject to annual impairment tests.

### **Goodwill**

The Financial Group records goodwill when the total fair value of the acquisition cost and the noncontrolling interest is greater than the fair value of the net assets of the acquired business, pursuant to NIF B-7 "Business acquisitions". As goodwill is considered an intangible asset with an indefinite life, it is subject to impairment tests at least annually according to NIF C-15, "Impairment in the value of long-lived assets and their disposal". No indicators of impairment of goodwill have been identified as of December 31, 2009.

### **Deposits**

Liabilities derived from deposits, including promissory notes, are recorded at their procurement or placement cost plus accrued interest, determined according to the number of days elapsed at each monthly close, and charged to results as incurred.

### **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 the direct national and foreign bank loans obtained by loan bids with Banco de México and development fund financing. Furthermore, this includes discounted portfolio loans from funds provided by banks specializing in financing economic, productive or development activities.

### **Provisions**

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

### **Employee retirement obligations**

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

### Defined benefit plan

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

The balance at the beginning of each period of actuarial gains and losses derived from pension plans exceeding 10% of the greater amount between the defined benefits obligation and plan assets are amortized in future periods against the period's results.

The Financial Group applies the provision of NIF D-3, "Employee benefits", 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

In January 2001 the Financial Group provided a voluntary defined contribution pension plan to participating employees who were hired before such date. The participating employees are those hired as of this date as well as those hired prior to such date who enrolled voluntarily. This pension plan is invested in a diversified mutual fund, which is included in "Other assets".

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

The initial payment to the defined contribution plan for past services was financed with funds established originally for the defined benefit plan that was extinguished early 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 equivalents is the FIX exchange rate published by Banco de México. Exchange fluctuations are recorded in the results of operations.

#### **Interest on outstanding subordinated debentures**

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

#### **Transfer of financial assets**

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

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## **5 - MAIN DIFFERENCES WITH MEXICAN FINANCIAL REPORTING STANDARDS (MFRS)**

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The consolidated financial statements have been prepared in conformity with the accounting practices prescribed by the Commission, which, in the following instances, differ from MFRS commonly applied in the preparation of financial statements for other types of unregulated entities:

- The consolidated financial statements do not include the insurance and annuities sector subsidiaries. MFRS require that all controlled subsidiaries be consolidated, regardless of the sector to which they belong.
- The costs associated with credit originations until April 2009 were recorded in the income statement as incurred. According to MFRS, the costs should be identified with the income they generate in the same period regardless of the date they are incurred.
- Sundry debtors not collected within the contract term (under 60 days in the case of unidentified debtors, and 90 calendar days in the case of identified debtors, other than collection rights, items associated with the loan portfolio and loans to employees), must be fully reserved with the effects recognized in current earnings, regardless of whether the Financial Group may recover them, as established by MFRS.
- The contribution or managed margin accounts (delivered and received) with financial derivatives instruments listed in liquid markets (stock exchanges) or traded over the counter are presented under the heading of "Margin Securities" instead of presenting them under the heading of "Derivatives financial instruments", as established by MFRS.
- When loans are classified as past-due, interest is not recorded, and the related accrued interest is reflected in memorandum accounts. When such interest is collected, it is recognized directly in the period's results. MFRS require recording the accrued interest and recognizing the corresponding reserve.
- The cumulative effect of applying the consumer loan rating methodology for credit card operations was charged against retained earnings from prior years with the Commission's expressed authorization. MFRS require that they be charged against the period's result.
- Only trading securities may be transferred to another category with the Commission's expressed authorization. MFRS allow transfers if the financial instrument is in a non-liquid market and certain requirements are met.
- The new accounting standards associated with the consolidation of special purpose entities and securitization transactions in effect as of January 1, 2009, as well as the recognition and cancellation of financial assets in effect as of October 14, 2008, are applied prospectively, and the effects of previous operations are not modified as required by MFRS.

## 6 - CASH AND CASH EQUIVALENTS

As of December 31, 2009 and 2008, this line item was composed as follows:

	<b>2009</b>	<b>2008</b>
Cash	Ps. 9,415	Ps. 8,419
Banks	45,949	40,004
Other deposits and available funds	3,904	5,973
	<b>Ps. 59,268</b>	<b>Ps. 54,396</b>

On December 31, 2009, "Other deposits and available funds" include Ps. 1,598 for funds due to be received in 24 and 48 hours, and Ps. 35 in gold and silver coins. In 2008, it included Ps. 2,441 for funds due to be received in 24 and 48 hours, and Ps. 25 in gold and silver coins.

The exchange rate used for the conversion of gold and silver coins (centenarios and Troy ounces, respectively) was Ps. 14,627.95 and Ps. 239.89, per unit, respectively, in 2009 and Ps. 12,296.12 and Ps. 173.46, per unit, respectively, in 2008.

"Banks" is represented by cash in Mexican pesos and US dollars converted at the exchange rate issued by Banco de México of Ps.13.0659 and Ps. 13.8325 as of December 31, 2009 and 2008, respectively and is made up as follows:

	Mexican pesos		Denominated in US dollars		Total	
	2009	2008	2009	2008	2009	2008
Call money	Ps. 2,447	Ps. 3,184	Ps. 653	Ps. -	Ps. 3,100	Ps. 3,184
Deposits with foreign credit institutions	-	-	15,928	6,866	15,928	6,866
Domestic banks	370	503	-	-	370	503
Banco de México	26,510	29,405	41	46	26,551	29,451
	<b>Ps. 29,327</b>	<b>Ps. 33,092</b>	<b>Ps. 16,622</b>	<b>Ps. 6,912</b>	<b>Ps. 45,949</b>	<b>Ps. 40,004</b>

As of December 31, 2009 and 2008, the Financial Group had made monetary regulation deposits of Ps. 26,342 and Ps. 26,394, respectively.

As of December 31, 2009 and 2008, the total sum of restricted cash and cash equivalents is Ps. 33,289 and Ps. 35,476, 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 0.167% and 0.086% in USD and 4.5% and 8.25% in pesos, as of December 31, 2009 and 2008, respectively.

## 7 - INVESTMENTS IN SECURITIES

### a. Trading securities

As of December 31, 2009 and 2008, trading securities are as follows:

	2009			2008	
	Acquisition cost	Accrued interest	Valuation increase (decrease)	Book value	Book value
CETES	Ps. 925	Ps. -	Ps. 1	Ps. 926	Ps. -
Bonds	519	1	-	520	-
Development bonds	3,136	2	(2)	3,136	-
Savings protection bonds (BPAS)	9,472	27	(5)	9,494	102
Bank securities	9,990	-	4	9,994	5,847
Commercial paper	-	-	-	-	123
Securitization certificates	259	1	-	260	-
Treasury notes	65	-	-	65	-
Futures	-	-	-	-	4
Investment funds	64	-	-	64	-
	<b>Ps. 24,430</b>	<b>Ps. 31</b>	<b>(Ps. 2)</b>	<b>Ps. 24,459</b>	<b>Ps. 6,076</b>

During 2009 and 2008, the Financial Group recognized under "Brokerage revenues" a loss and a profit of (Ps. 17) and Ps. 109, respectively, for the fair value valuation of these instruments.

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

As of December 31, 2009, these investments mature as follows (stated at their acquisition cost):

	From 1 to 179 days	More than 2 years	Total
CETES	Ps. 925	Ps. -	Ps. 925
Bonds	519	-	519
Development bonds	3,136	-	3,136
Saving protection bonds (BPAS)	9,472	-	9,472
Bank securities	9,990	-	9,990
Securitization certificates	259	-	259
Treasury notes	-	65	65
Investment funds	64	-	64
	<b>Ps. 24,365</b>	<b>Ps. 65</b>	<b>Ps. 24,430</b>

**b. Available for sale securities**

As of December 31, 2009 and 2008, available for sale securities were as follows:

	2009				2008
	Acquisition cost	Accrued interest	Valuation increase (decrease)	Book value	Book value
US Government bonds	Ps. 6,387	Ps. 26	Ps. 190	Ps. 6,603	Ps. 6,227
UMS	342	12	7	361	516
Bonds	2,624	34	60	2,718	3,708
VISA	-	-	-	-	96
MASTER CARD	-	-	35	35	21
BMV Shares	234	-	(15)	219	144
EUROBONDS	978	17	(54)	941	564
PEMEX bonds	781	8	35	824	204
	<b>Ps. 11,346</b>	<b>Ps. 97</b>	<b>Ps. 258</b>	<b>Ps. 11,701</b>	<b>Ps. 11,480</b>

As of December 31, 2009 and 2008 there are Ps. 2,489 and Ps. 4,001, respectively, in restricted trading securities.

As of December 31, 2009, these investments mature as follows (stated at their acquisition cost):

	From 1 to 179 days	More than 1 year	Total
US Government bonds	Ps. -	Ps. 6,387	Ps. 6,387
UMS	-	342	342
Bonds	2,624	-	2,624
Shares	-	234	234
EUROBONDS	-	978	978
PEMEX bonds	-	781	781
	<b>Ps. 2,624</b>	<b>Ps. 8,722</b>	<b>Ps. 11,346</b>



### c. Held to maturity securities

As of December 31, 2009 and 2008, held to maturity securities are as follows:

#### Medium and long-term debt instruments:

	2009			2008
	Acquisition cost	Accrued interest	Book value	Book value
Government bonds- support program for Special Federal Treasury Certificates	Ps. 722	Ps. 3	Ps. 725	Ps. 690
Government bonds	604	27	631	655
Development bonds	33,078	49	33,127	33,062
Saving protection bonds (BPAS)	103,257	502	103,759	124,868
UMS	2,405	65	2,470	2,609
UDIBONOS	3	-	3	3
Separable securitization certificates	26	1	27	33
Bank securities	25,912	93	26,005	31,557
US Government bonds	12	-	12	13
PEMEX bonds	4,897	94	4,991	5,463
Private securitization certificates	18,509	73	18,582	21,770
CETES	-	-	-	3
Structured notes	-	-	-	520
Other debt instruments	-	-	-	349
Subordinated securities	-	-	-	22
	<b>Ps. 189,425</b>	<b>Ps. 907</b>	<b>Ps. 190,332</b>	<b>Ps. 221,617</b>

As of December 31, 2009 and 2008, there are Ps. 175,369 and Ps. 200,973, respectively, in restricted trading securities associated mainly with repurchase operations.

As of December 31, 2009, these investments mature as follows (stated at their acquisition cost):

	From 1 to 179 days	More than 2 years	Total
Government bonds- support program for Special Federal Treasury Certificates	Ps. -	Ps. 722	Ps. 722
Government bonds	-	604	604
Development bonds	33,078	-	33,078
Saving protection bonds (BPAS)	103,257	-	103,257
UMS	-	2,405	2,405
UDIBONOS	-	3	3
Separable securitization certificates	-	26	26
Bank securities	25,912	-	25,912
US Government bonds	-	12	12
PEMEX bonds	-	4,897	4,897
Private securitization certificates	18,509	-	18,509
	<b>Ps. 180,756</b>	<b>Ps. 8,669</b>	<b>Ps. 189,425</b>

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.

The fair value of the collateral given in derivatives transactions as of December 31, 2009 and 2008, is as follows:

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

		2008		
		Fair value in millions		
Type of collateral:	Instrument category	Pesos	USD	Euros
Cash	-	Ps. 160	238	-
ITS BPAS	Held to maturity	176	-	-
UMS	Held to maturity	-	189	-
PEMEX bonds	Held to maturity	-	366	20
UMS	Available for sale	-	22	-
Bank Bonds	Available for sale	-	299	-
		<b>Ps. 336</b>	<b>1,114</b>	<b>20</b>

As of December 31, 2009 and 2008, the Financial Group had no instruments received as collateral.

As of December 31, 2009 and 2008, interest income was Ps. 14,174 and Ps. 5,862, respectively.

As of December 31, 2009, accrued interest income from impaired instruments was Ps. 13.

The amount recorded for the impairment of available for sale and held to maturity securities as of December 31, 2009 and 2008 was:

Concept	2009	2008
Available for sale securities	Ps. 81	Ps. -
Held to maturity securities	59	-
	<b>Ps. 140</b>	<b>Ps. -</b>

## 8 - CREDITOR BALANCES UNDER REPURCHASE AND RESALE AGREEMENTS

As of December 31, 2009 and 2008, the debtor and creditor balance in repurchase transactions consist of:

### Acting as seller of securities

Instrument	2009	2008			
		Asset position	Liability position		
	Creditor repurchase agreement	Value of securities receivable	Creditor repurchase agreement	Debit difference	Credit difference
CETES	Ps. 697	Ps. -	Ps. 3	Ps. -	Ps. 3
Development bonds	36,159	3,987	37,085	-	33,098
Bonds 182	-	-	5	-	5
Bonds IPAB	654	-	351	-	351
Quarterly IPAB bonds	86,513	7,102	106,967	1	99,866
Semi-annual IPAB bonds	25,587	26,970	51,252	1	24,283
7-year bonds	-	-	2	-	2
10-year bonds	625	627	1,275	-	648
20-year bonds	491	-	5	-	5
UDIBONOS	1	-	-	-	-
10-year UDIBONDS	3	-	4	-	4
<b>Government securities</b>	<b>150,730</b>	<b>38,686</b>	<b>196,949</b>	<b>2</b>	<b>158,265</b>
Promissory notes	5,055	537	537	-	-
CEDES	9,035	716	10,985	-	10,269
CEBUR Bank	7,628	-	8,892	-	8,892
<b>Bank securities</b>	<b>21,718</b>	<b>1,253</b>	<b>20,414</b>	<b>-</b>	<b>19,161</b>
Private paper	9,114	-	11,428	-	11,428
CEBUR government short term	2,481	-	-	-	-
Mortgage certificates	212	-	-	-	-
CEBUR government Securitization certificates	1,200	-	3,602	-	3,602
	25	-	269	-	269
<b>Private securities</b>	<b>13,032</b>	<b>-</b>	<b>15,299</b>	<b>-</b>	<b>15,299</b>
	<b>Ps. 185,480</b>	<b>Ps. 39,939</b>	<b>Ps. 232,662</b>	<b>Ps. 2</b>	<b>Ps. 192,725</b>

With the Financial Group acting as the vendor, accrued premiums were charged to the results of operations up to December 31, 2009 and 2008, total Ps. 13,434 and Ps. 18,320, respectively.

During 2009 and 2008, the period of repurchase transactions entered into by the Financial Group in its capacity as vendor ranged from 1 to 177 days.

Acting as securities purchaser

Instrument	2009				2008			
	Repurchase agreement from debtors	Received, sold collateral in repurchase	Debit difference	Credit difference	Liability position	Asset position		
					Value of securities deliverable	Re-purchase agreement from debtors	Debit difference	Credit difference
CETES	Ps. 400	Ps. 400	Ps. -	Ps. -	Ps. 1,667	Ps. 1,667	Ps. -	Ps. -
Development bonds	7,113	7,114	1	2	3,992	3,987	5	-
Quarterly IPAB bonds	1	-	1	-	6,014	5,992	22	-
Semi-annual IPAB bonds	390	390	-	-	25,865	25,751	115	1
7-year bonds	-	-	-	-	1,248	1,248	-	-
10-year bonds	221	219	2	-	1,193	1,194	2	3
20-year bonds	73	73	-	-	4,001	4,001	-	-
10-year UDIBONDS	1,120	1,120	-	-	-	-	-	-
<b>Government securities</b>	<b>9,318</b>	<b>9,316</b>	<b>4</b>	<b>2</b>	<b>43,980</b>	<b>43,840</b>	<b>144</b>	<b>4</b>
Promissory notes	1,785	1,785	-	-	-	-	-	-
CEDES	-	-	-	-	568	565	3	-
<b>Bank securities</b>	<b>1,785</b>	<b>1,785</b>	<b>-</b>	<b>-</b>	<b>568</b>	<b>565</b>	<b>3</b>	<b>-</b>
	<b>Ps. 11,103</b>	<b>Ps. 11,101</b>	<b>Ps. 4</b>	<b>Ps. 2</b>	<b>Ps. 44,548</b>	<b>Ps. 44,405</b>	<b>Ps. 147</b>	<b>Ps. 4</b>

With the Financial Group acting as the purchaser, accrued premiums were charged to the results of operations up to December 31, 2009 and 2008, total Ps. 2,173 and Ps. 2,521, respectively.

During 2009 and 2008, the period of repurchase transactions entered into by the Financial Group in its capacity as purchaser ranged from 1 to 21 days.

By December 31, 2009, the amount of goods corresponding to the guarantees given and received in repurchasing transactions that involved the transfer of property totaled Ps. 120 and Ps. 4, respectively, and by December 31, 2008, the totals were Ps. 179 in guarantees given and Ps. 14 in guarantees received.

## 9 - DERIVATIVES FINANCIAL INSTRUMENTS

The transactions entered into by the Financial Group involving derivatives financial instruments correspond mainly to futures, swap and option contracts. These transactions are done to hedge various risks and for trading purposes.

As of December 31, 2009, 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, 2009 and 2008, the positions of the Financial Group's derivatives financial instruments held for trading purposes are as follows:

Asset position	2009		2008	
	Nominal amount	Asset position	Nominal amount	Asset position
<b>Futures</b>				
TIIIE-rate futures	Ps. 600	Ps. -	Ps. 1,500	Ps. -
<b>Forwards</b>				
Foreign currency forwards	3,454	313	1,892	40
<b>Options</b>				
Foreign currency options	283	2	-	-
Interest rate options	8,485	126	9,683	76
<b>Swaps</b>				
Interest rate swaps	194,317	2,612	173,097	1,999
Exchange rate swaps	7,377	1,771	9,829	3,210
<b>Total trading</b>	<b>214,516</b>	<b>4,824</b>	<b>196,001</b>	<b>5,325</b>
<b>Options</b>				
Interest rate options	24,200	188	24,200	179
<b>Swaps</b>				
Interest rate swaps	27,648	8	19,298	10
Exchange rate swaps	9,996	860	10,474	2,654
<b>Total hedging</b>	<b>61,844</b>	<b>1,056</b>	<b>53,972</b>	<b>2,843</b>
<b>Total position</b>	<b>Ps. 276,360</b>	<b>Ps. 5,880</b>	<b>Ps. 249,973</b>	<b>Ps. 8,168</b>

Liability position	2009		2008	
	Nominal amount	Liability position	Nominal amount	Liability position
<b>Futures</b>				
TIIIE-rate futures	Ps. 600	Ps. -	Ps. 1,500	Ps. -
<b>Forwards</b>				
Foreign currency forwards	2,825	88	129	46
<b>Options</b>				
Foreign currency options	287	2	67	2
Interest rate options	9,168	71	10,827	64
<b>Swaps</b>				
Interest rate swaps	194,340	2,713	173,114	2,024
Exchange rate swaps	7,322	1,679	9,774	3,133
<b>Total trading</b>	<b>214,542</b>	<b>4,553</b>	<b>195,411</b>	<b>5,269</b>
<b>Swaps</b>				
Interest rate swaps	27,650	980	19,298	663
Exchange rate swaps	4,146	2,842	7,479	4,814
<b>Total hedging</b>	<b>31,796</b>	<b>3,822</b>	<b>26,777</b>	<b>5,477</b>
<b>Total position</b>	<b>Ps. 246,338</b>	<b>Ps. 8,375</b>	<b>Ps. 222,188</b>	<b>Ps. 10,746</b>

The hedging instruments operated and main underlyings are as follows:

Forwards	Options	Swaps	Cross Currency Swaps (CCS)
Fx-USD	Fx-USD	TIIIE 28	TIIIE 28
	TIIIE 28	TIIIE 91	TIIIE 91
		CETES 91	Libor
		Libor	

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

Transactions for hedging purposes have maturities from 2010 to 2018 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, 2009, is USD 704,841 thousand and EUR 20,255 thousand, and as of December 31, 2008 total USD 876,379 thousand and EUR 20,110 thousand. Futures transactions are made through recognized markets, and as of December 31, 2009 they represent 0.85% of the nominal amount of all the derivatives' operations contracts; the remaining 99.15% correspond to option and swap transactions in OTC markets.

As of December 31, 2009 and 2008, the collateral was comprised mainly of cash, CETES, ITS BPAS, PEMEX bonds, UMS bonds and bank bonds restricted under the categories of trading, held to maturity and available for sale securities. The restriction maturity date for this collateral is from 2010 to 2018. Their fair value is shown in Note 7 c).

As of December 31, 2009 and 2008, the Financial Group had no instruments received as collateral in derivatives transactions.

As of December 31, 2009 and 2008, the net income on financial assets and liabilities associated with derivatives was Ps. 200 and Ps. 256, 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. 4.

As of December 31, 2009 and 2008, 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 TIIIE rate Caps and Swaps.
- Recorded liabilities in Mexican pesos using TIIIE rate Swaps.
- Recorded liabilities in foreign currency using Cross Currency Swaps.
- Recorded assets in foreign currency using Cross Currency Swaps.

As of December 31, 2009, there are 25 files related to hedging transactions. Their effectiveness ranges between 85% and 100%, well within the range established by the accounting standards in effect (80% to 125%). Furthermore, there is no overhedging on any of the derivatives, so as of December 31, 2009, there are no ineffective portions that the Financial Group has to record in earnings.

The following are the Financial Group's hedged cash flows as of December 31, 2009, expected to occur and affect earnings:

<b>Concept</b>	<b>Up to 3 months</b>	<b>More than 3 months and up to 1 year</b>	<b>More and 1 and up to 5 years</b>	<b>More than 5 years</b>
Forecasted funding	Ps. 261	Ps. 837	Ps. 5,464	Ps. 483
Liabilities in Mexican pesos	90	309	1,389	19
Liabilities denominated in USD	-	240	4,160	-
Assets denominated in USD	278	1,991	4,368	9,328
Assets denominated in Euros	-	23	445	-
	<b>Ps. 629</b>	<b>Ps. 3,400</b>	<b>Ps. 15,826</b>	<b>Ps. 9,830</b>

As of December 31, 2009 and 2008, Ps. 1,404 and Ps. 1,746, respectively, were recognized in other comprehensive income in stockholders' equity. Furthermore, Ps. 127 and Ps. 51, respectively, were reclassified from stockholders' equity to results.

Trading and hedging derivatives: the loan risk is minimized by 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.

## 10 - LOAN PORTFOLIO

As of December 31, 2009 and 2008, the loan portfolio by loan type is as follows:

	<b>Performing portfolio</b>		<b>Past-due portfolio</b>		<b>Total</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
Commercial loans						
Denominated in domestic currency						
Commercial	Ps. 90,189	Ps. 93,123	Ps. 2,325	Ps. 1,482	Ps. 92,514	Ps. 94,605
Rediscounted portfolio	4,831	6,129	-	-	4,831	6,129
Denominated in USD						
Commercial	21,471	27,041	838	221	22,309	27,262
Rediscounted portfolio	746	505	-	-	746	505
<b>Total commercial loans</b>	<b>117,237</b>	<b>126,798</b>	<b>3,163</b>	<b>1,703</b>	<b>120,400</b>	<b>128,501</b>
Loans to financial institutions	7,131	10,860	-	-	7,131	10,860
Consumer loans						
Credit card	11,801	15,067	1,610	2,140	13,411	17,207
Other consumer loans	13,911	14,302	332	359	14,243	14,661
Mortgage loans	49,881	46,282	1,049	746	50,930	47,028
Government loans	38,993	26,989	-	-	38,993	26,989
	<b>121,717</b>	<b>113,500</b>	<b>2,991</b>	<b>3,245</b>	<b>124,708</b>	<b>116,745</b>
<b>Total loan portfolio</b>	<b>Ps. 238,954</b>	<b>Ps. 240,298</b>	<b>Ps. 6,154</b>	<b>Ps. 4,948</b>	<b>Ps. 245,108</b>	<b>Ps. 245,246</b>

As of December 31, 2009, the deferred balance of fees is Ps. 1,521, and the amount recorded in results was Ps. 584. Furthermore, the deferred balance of costs and expenses associated with the initial loan origination is Ps. 167, and the amount recorded in results was Ps. 33. The average term over which the deferred fee balance and the costs and expenses will be recorded is equivalent to the average term of the portfolio balance.

The average terms of the portfolio's main balances are: a) commercial, 5.4 years; b) financial institutions, 3.8 years; c) mortgage, 17.7 years; d) government loans, 9.3 years; and e) consumer, 2.4 years.

During the periods ended on December 31, 2009 and 2008, the balance of fully reserved past-due loans that was written off was Ps. 8,278 and Ps. 3,400, respectively.

On December 31, 2009 and 2008, revenues from recoveries of previously written-off loan portfolios was Ps. 848 and Ps. 687, respectively.

The loan portfolio grouped into economic sectors as of December 31, 2009 and 2008, is shown below:

	2009		2008	
	Amount	Reserve percentage	Amount	Reserve percentage
Private (companies and individuals)	Ps. 120,400	49.12%	Ps. 128,501	52.40%
Financial institutions	7,131	2.91%	10,860	4.43%
Credit card and consumer	27,654	11.28%	31,868	12.99%
Mortgage	50,930	20.78%	47,028	19.18%
Government	38,993	15.91%	26,989	11.00%
	<b>Ps. 245,108</b>	<b>100%</b>	<b>Ps. 245,246</b>	<b>100%</b>

## Loan support programs

### Special accounting consideration of various support programs granted during the influenza outbreak

Given the negative impact of the decline in economic activity due to the actions taken by the federal and local authorities in the face of the influenza outbreak in Mexico during 2009, the Financial Group decided to support the affected economic entities and sectors with various programs carried out in two phases:

#### I. Emergency SMEs support plan, consisting of:

- 3-month deferment of principal payment for affected companies and businesses especially in Mexico City, State of Mexico and San Luis Potosi.
- 6-month principal deferment including 3-month interest deferment for the companies affected in the tourist regions of the Mayan Riviera, Nayarit, Jalisco and Baja California Sur.

As a result of the above, the Commission issued a special accounting standard in document number 100/014/2009 on May 8, 2009, authorizing the Financial Group to not consider as restructured loans those in effect on March 31, 2009, whose principal and interest payments were deferred, as per Circular B-6 paragraph 24, "Loan Portfolio", and to keep them as performing loans for the term stated in the plan.

#### II. Housing, car, credit card and consumer loan support consisting of:

- Principal and interest payment deferment for up to 4 months for mortgage loans.
- Principal and interest payment deferment for up to 3 months for car and consumer loans.
- 3-month minimum payment deferment for credit card loans.



In that regard, the Commission issued a special accounting standard in document number 100/021/2009 on June 12, 2009, applicable as of the document date and up to the term according to the borrowers' support program for mortgage, car, credit card, personal and payroll loans whose payment source corresponds to the Mayan Riviera, Nayarit Riviera, Mazatlan and Los Cabos. This special standard authorizes the Financial Group to:

- a) Loans subject to renewal be considered as performing when the renewal takes place without applying the requirement established in Circular B-6 paragraph 52 and 53, "Loan Portfolio", consisting on the need for the borrower to settle all the accrued interest as per the terms and conditions originally agreed and 25% of the original loan amount. The above is applicable to performing loans as of April 15, 2009, as per paragraph 8 of Circular B-6.

The authorization is not applicable to loans participating in the Bank Debtor Support Programs set forth by the Federal Government and Banks.

- b) Performing loans granted a principal and interest deferment will not be considered as restructured as per Circular B-6 paragraph 24 and can be maintained as performing loans for the deferment term. Therefore, those loans are considered performing loans in order to determine the allowance for loan losses.

If such special standards had not been authorized, the Financial Group would have presented the following loan amounts in the December 31, 2009 balance sheet:

#### PERFORMING LOAN PORTFOLIO

Commercial loans	
Business loans	Ps. 116,589
Loans to financial institutions	7,131
Government loans	38,993
Consumer loans	25,711
Mortgage loans	49,881
<b>TOTAL PERFORMING LOAN PORTFOLIO</b>	<b>238,305</b>

#### PAST-DUE LOAN PORTFOLIO

Commercial loans	
Business loans	3,867
Consumer loans	1,943
Mortgage loans	1,049
<b>TOTAL PAST-DUE LOAN PORTFOLIO</b>	<b>6,859</b>

<b>LOAN PORTFOLIO</b>	<b>245,164</b>
(Minus) Allowance for loan losses	7,750
<b>LOAN PORTFOLIO, net</b>	<b>237,414</b>
<b>ACQUIRED COLLECTION RIGHTS</b>	<b>2,548</b>
<b>TOTAL LOAN PORTFOLIO, net</b>	<b>Ps. 239,962</b>

Moreover, the period's net income would have been Ps. 5,597 as a result of an additional Ps. 215 in allowance for loan losses and a Ps. 42 reduction in interest income from the suspension of accrued interest derived from transferring loans to the past-due portfolio that would have been created without providing this support to borrowers.

As of December 31, 2009, the renewed commercial loans amounted to Ps. 704.

## Policies and procedures for granting loans

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

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

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

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

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

Procedures have also been implemented to ensure that amounts related to the past-due portfolio are timely transferred and recorded in the books and records and those loans with recovery problems are properly and promptly identified.

Pursuant to the Commission's Circular B-6, "Loan Portfolio", distressed portfolio is defined as the commercial loans which, based on the current information and facts as well as on the loan revision process, are very unlikely to be fully recovered (both principal and interest) pursuant to the original terms and conditions. The performing and past-due portfolios are susceptible to be identified as a distressed portfolio. The commercial loan rating D and E risk degrees are as follows:

	2009	2008
Distressed portfolio	Ps. 1,373	Ps. 1,774
Total rated portfolio	253,660	254,495
Distressed portfolio/total rated portfolio	0.54%	0.70%

The Financial Group's Treasury Department is the central unit responsible for balancing resource requirements and eliminating the interest rate risk derived from fixed rate transactions through the use of hedging and arbitrage strategies.

## 11 - LOANS RESTRUCTURED IN UDIS

The loans restructured in UDIS correspond to mortgage loans. The balance on December 31, 2009 and 2008 is detailed below:

	2009	2008
Performing portfolio	\$Ps. 542	\$Ps. 622
Current accrued interest	2	2
Past-due portfolio	14	35
Past-due accrued interest	1	1
	<b>\$Ps. 559</b>	<b>\$Ps. 660</b>

## 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:

Risk category	2009				
	Required allowances for losses				Total
	Loan portfolio	Commercial portfolio	Consumer portfolio	Mortgage portfolio	
Exempt portfolio	Ps. 56	Ps. -	Ps. -	Ps. -	Ps. -
Risk A	58,169	-	63	159	222
Risk A1	106,990	495	-	-	495
Risk A2	57,118	520	-	-	520
Risk B	6,269	-	102	184	286
Risk B1	5,700	74	266	-	340
Risk B2	8,249	84	509	-	593
Risk B3	2,579	269	-	-	269
Risk C	2,494	-	795	132	927
Risk C1	1,404	301	-	-	301
Risk C2	803	380	-	-	380
Risk D	2,592	245	1,356	264	1,865
Risk E	1,272	1,008	272	-	1,280
Unclassified	(35)	-	-	-	-
	<b>Ps. 253,660*</b>	<b>Ps. 3,376</b>	<b>Ps. 3,363</b>	<b>Ps. 739</b>	<b>Ps. 7,478</b>
<b>Less: recorded allowance</b>					<b>7,535</b>
<b>Additional allowance</b>					<b>\$Ps. 57</b>

Risk category	2008				
	Required allowances for losses				Total
	Loan portfolio	Commercial portfolio	Consumer portfolio	Mortgage portfolio	
Exempt portfolio	Ps. 76	Ps. -	Ps. -	Ps. -	Ps. -
Risk A	54,333	-	61	148	209
Risk A1	109,400	494	-	-	494
Risk A2	58,784	562	-	-	562
Risk B	5,800	-	107	168	275
Risk B1	17,034	49	353	-	402
Risk B2	1,834	58	183	-	241
Risk B3	1,277	140	-	-	140
Risk C	2,109	-	938	90	1,028
Risk C1	358	74	-	-	74
Risk C2	231	95	-	-	95
Risk D	1,738	204	835	190	1,229
Risk E	1,608	1,501	101	-	1,602
Unclassified	(87)	-	-	-	-
	<b>Ps. 254,495*</b>	<b>Ps. 3,177</b>	<b>Ps. 2,578</b>	<b>Ps. 596</b>	<b>Ps. 6,351</b>
<b>Less: recorded allowance</b>					<b>6,690</b>
<b>Additional allowance</b>					<b>\$Ps. 339</b>

\*The sum of the rated loan portfolio includes Ps. 5,114 and Ps. 5,991 in loans granted to subsidiaries whose balance was eliminated in the consolidation process as of December 31, 2009 and 2008, respectively.

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

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

As of December 31, 2009 and 2008, the estimated allowance for loan losses is determined based on portfolio balances at those dates. As of December 31, 2009 and 2008, the allowance for loan losses includes a reserve for 100% of delinquent interest owed.

As of December 31, 2009 and 2008, the allowance for loan losses represents 122% and 135%, 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, 2009 and 2008.

### **Credit card rating**

#### Modification of the credit card consumer loan rating methodology

On August 12, 2009 the Commission issued a resolution to the General Criteria for Banking Institutions modifying the applicable revolving consumer loan rating so that the allowance for loan loss parameters may reflect, based on the current situation, the expected 12-month loss from credit cards.

Consequently, the Financial Group decided to record the initial cumulative financial effect derived from applying the aforementioned criteria as per temporary article two section I against the results of previous periods. This effect was recorded in September 2009.

The Financial Group recorded the aforementioned effect with a charge of Ps. 1,102 to "Retained earnings from prior years" in stockholders' equity and a credit for the same amount to the "Allowance for loan losses". Furthermore, the corresponding deferred tax asset of Ps. 419 was also recorded through "Retained earnings from prior years" in stockholders' equity.

If the aforementioned effect had been recorded in the results of 2009, the affected items and amounts that the Financial Group would have recorded in the balance sheet and statement of income would be:

<b><u>Balance sheet</u></b>		<b>Effect</b>	<b>Would be presented</b>
<b>Stockholders' equity:</b>			
Retained earnings from prior years	Ps. 20,681	Ps. 683	Ps. 21,364
Controlling interest net income	5,854	(683)	5,171
<b>Total stockholders' equity</b>	<b>Ps. 44,974</b>	<b>Ps. -</b>	<b>Ps. 44,974</b>
<b><u>Statements of income</u></b>			
Provision for loan losses	8,286	1,102	9,388
<b>Financial margin after allowance for loan losses</b>	<b>14,897</b>	<b>(1,102)</b>	<b>13,795</b>
Deferred income taxes (net)	(536)	(419)	(955)
<b>Net income</b>	<b>Ps. 5,854</b>	<b>(Ps. 683)</b>	<b>Ps. 5,171</b>

## Rollforward of allowance for loan losses

A rollforward of the allowance for loan losses is detailed below:

	2009	2008
Balance at the beginning of the year	Ps. 6,690	Ps. 3,786
Increase charged to results	8,208	6,835
Reserve release	-	(16)
Debt forgiveness and write-offs	(8,464)	(4,085)
Valuation in foreign currencies and UDIS	(19)	108
Rebates granted to housing debtors	(46)	(74)
Created with profit margin (UDIS Trusts)	59	48
Benefits from FOPYME and FINAPE programs	-	(3)
Recognized against retained earnings from prior years	1,136	103
Other	(29)	(12)
<b>Year-end balance</b>	<b>Ps. 7,535</b>	<b>Ps. 6,690</b>

As of December 31, 2009, the net amount of preventive loan loss reserves charged to the income statement totals Ps. 8,282 and is comprised of Ps. 8,286 directly credited to the estimate and Ps. 4 charged to other operating expenses. As of December 31, 2008, the net amount of preventive loan loss reserves charged to the income statement totals Ps. 6,883 and is comprised of Ps. 6,896 directly credited to the estimate and Ps. 13 charged to other operating expenses.

## 13 - ACQUIRED PORTFOLIOS

As of December 31, 2009 and 2008, the acquired portfolios are comprised as follows:

	2009	2008	Valuation Method
Bancomer III	Ps. 125	Ps. 141	Cash Basis Method
Bancomer IV	456	561	Cash Basis Method
Bital I	171	229	Cash Basis Method
Bital II	72	82	Cash Basis Method
Banamex Mortgage	302	330	Cash Basis Method
GMAC Banorte	66	95	Cash Basis Method
Serfin Comercial I	92	127	Cash Basis Method
Serfin Comercial II	105	94	Interest Method
Serfin Mortgage	160	197	Cash Basis Method
Santander	70	73	Interest Method (Commercial); Cash Basis Method (Mortgage)
Banorte Mortgage	196	234	Interest Method
Meseta	-	47	Cash Basis Method
Vipesa	-	6	Cash Basis Method
Goldman Sachs	145	183	Cash Basis Method
Confia I	80	93	Cost Recovery Method
Banorte Sólida Comercial	35	40	Cost Recovery Method
Solida Mortgage	473	517	Interest Method
	<b>Ps. 2,548</b>	<b>Ps. 3,049</b>	

As of December 31, 2009, the Financial Group recognized income from credit asset portfolios of Ps. 718, together with the respective amortization of Ps. 448, the effects of which were recognized under the "Other income" heading in the consolidated income statement. For the year ended December 31, 2008, the Financial Group recognized income of Ps. 1,156, together with the respective amortization of Ps. 546.

Since 2008, mortgage loans that are amortized under the interest method are evaluated jointly as a sector given the features that they commonly share. The loan grouping is made pursuant to the current regulations.

The Financial Group performs an analysis based on events or information to estimate the amount of expected cash flows to determine the estimated rate of return used in applying the valuation method for the amortization of the receivable. If the analysis demonstrates that the expected future cash flows will decrease, it will make an estimate for non-recoverability or difficult collection against the year's results for the amount that such expected cash flows are lower than the book value of the receivable.

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

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

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#### **14 - OTHER ACCOUNTS RECEIVABLE, NET**

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As of December 31, 2009 and 2008, the other accounts receivable balance is as follows:

	<b>2009</b>	<b>2008</b>
Loans to officers and employees	Ps. 1,134	Ps. 1,162
Debtors from liquidation settlement	2,706	2,643
Real property portfolios	1,183	982
Fiduciary rights	4,104	3,083
Sundry debtors in Mexican pesos	1,182	1,284
Sundry debtors in foreign currency	928	86
Other	380	386
	<b>11,617</b>	<b>9,626</b>
Allowance for doubtful accounts	(293)	(112)
	<b>Ps. 11,324</b>	<b>Ps. 9,514</b>

The real property portfolios include Ps. 300 corresponding 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.

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#### **15 - FORECLOSED ASSETS, NET**

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As of December 31, 2009 and 2008, the foreclosed assets balance is as follows:

	<b>2009</b>	<b>2008</b>
Personal property	Ps. 67	Ps. 71
Real property	1,230	1,100
Goods pledged for sale	14	26
	<b>1,311</b>	<b>1,197</b>
Allowance for losses on foreclosed assets	(383)	(334)
	<b>Ps. 928</b>	<b>Ps. 863</b>

## 16 - PROPERTY, FURNITURE AND FIXTURES, NET

As of December 31, 2009 and 2008, the property, furniture and fixtures balance is as follows:

	2009	2008
Furniture and fixtures	Ps. 5,207	Ps. 4,902
Property intended for offices	5,272	5,396
Installation costs	2,750	2,407
	<b>13,229</b>	<b>12,705</b>
Less - Accumulated depreciation and amortization	(4,607)	(4,276)
	<b>Ps. 8,622</b>	<b>Ps. 8,429</b>

The depreciation recorded in the results of 2009 and 2008 was Ps. 997 and Ps. 945, respectively.

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

	Useful Life
Transportation equipment	4 years
Computer equipment	4.7 years
Furniture and fixtures	10 years
Real estate	From 4 to 99 years

## 17 - PERMANENT STOCK INVESTMENTS

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

	Share %	2009	2008
Seguros Banorte Generali, S. A. de C. V.	51%	Ps. 1,209	Ps. 1,086
Fondo Solida Banorte Generali, S. A. de C. V., SIEFORE	99%	719	558
Pensiones Banorte Generali, S. A. de C. V.	51%	518	503
Banorte Investment funds	Various	121	114
Controladora Prosa, S. A. de C. V.	19.73%	49	60
Servicio Pan Americano de Protección, S. A. de C. V.	8.50%	115	97
Transporte Aéreo Técnico Ejecutivo, S. A. de C. V.	45.33%	72	89
Fideicomiso Marhnos (Sólida)	100%	156	-
Others	Various	77	52
		<b>Ps. 3,036</b>	<b>Ps. 2,559</b>

The Financial Group exercises significant influence over its affiliates valued under the equity method by means of its representation on the board of directors or equivalent administrative body, as well as by means of significant intercompany transactions.

## 18 - DEFERRED TAXES, NET

The tax reported by the Financial Group is calculated based on the current tax result of the year and enacted tax regulations. However, due to temporary differences between accounting and tax balance sheet accounts, the Financial Group has recognized a recoverable net deferred tax asset of Ps.1,411 and Ps.471 as of December 31, 2009 and 2008, respectively, as detailed below:

	2009			2008		
	Temporary differences	Deferred effect		Temporary differences	Deferred effect	
		ISR	PTU		ISR	PTU
<u>Temporary Differences - Assets</u>	\$	\$	\$	\$	\$	\$
Allowance for loan losses	Ps. 315	Ps. 110	Ps. -	Ps. 196	Ps. 68	Ps. -
Unrealized loss (gain) on securities available for sale	(190)	(67)	-	78	22	-
Tax loss carryforwards	118	42	-	111	38	-
State tax on deferred assets	6	2	-	-	-	-
Surplus preventive allowances for credit risks over the net tax limit	4,757	1,332	476	936	262	94
Excess of tax over book value of foreclosed and fixed assets	1,132	308	52	1,160	317	69
PTU	775	232	77	896	252	90
Other assets	1,422	427	135	1,308	363	121
<b>Total assets</b>	<b>Ps. 8,335</b>	<b>Ps. 2,386</b>	<b>Ps. 740</b>	<b>Ps. 4,685</b>	<b>Ps. 1,322</b>	<b>Ps. 374</b>
<u>Temporary Differences - Liabilities</u>						
Excess of book over tax value of fixed assets and expected expenses	Ps.16	Ps.4	Ps.-	Ps.4	Ps.1	Ps.-
Unrealized capital gain from special allowance	125	38	-	87	24	-
ISR payable on UDI trusts	145	40	-	139	39	-
Portfolios acquired	2,302	655	111	2,083	583	100
Capitalizable project expenses	528	159	53			
Reversal of sales costs	16	4	-	18	5	-
Contribution to pension fund	1,500	420	150	1,000	280	100
Other	260	81	-	302	93	-
<b>Total liabilities</b>	<b>Ps. 4,892</b>	<b>Ps. 1,401</b>	<b>Ps. 314</b>	<b>Ps. 3,633</b>	<b>Ps. 1,025</b>	<b>Ps. 200</b>
<b>Net accumulated asset</b>	<b>Ps. 3,443</b>	<b>Ps. 985</b>	<b>Ps. 426</b>	<b>Ps. 1,052</b>	<b>Ps. 297</b>	<b>Ps. 174</b>
<b>Deferred tax, net</b>			<b>Ps. 1,411</b>			<b>Ps. 471</b>

As discussed in Note 27, as of December 31, 2009, the applicable income tax rate was 28%, and it will be 30% for 2010 to 2012 and 29% for 2013. Pursuant to the provisions of NIF D-4, "Income Taxes", and INIF 8, "Effects of the Business Flat Tax", based on financial forecasts, the Administration adjusted their balances based on the rates likely to be in effect at the time of their recovery. Additionally, it made forecasts for the IETU and compared it to ISR, and concluded that the Financial Group and its subsidiaries will continue to pay ISR. Thus no change was made to the deferred tax calculations.

Derived from consolidating Banorte USA, a net amount of Ps. 2 million was added to deferred taxes determined at a rate of 35% as per the tax law of the USA. 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.



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## 19 - OTHER ASSETS

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As of December 31, 2009 and 2008, other assets are as follows:

	2009	2008
Plan assets held for employee pension plans	Ps. 4,255	Ps. 3,482
Other amortizable expenses	2,200	2,352
Accumulated amortization of other expenses	(93)	(480)
Goodwill	3,121	5,377
	<b>Ps. 9,483</b>	<b>Ps. 10,731</b>

As of December 31, 2009, goodwill was Ps. 3,121 and was comprised of the following: Ps. 29 for the purchase of Banorte Generali, S. A. de C. V., AFORE; Ps. 2,838 for the purchase of INB and Ps. 254 for the purchase of Uniteller. As of December 31, 2008, the goodwill was Ps. 5,377 and was comprised as follows: Ps. 32 for the purchase of Banorte Generali, S. A. de C. V., AFORE; Ps. 3,001 for the purchase of INB; Ps. 2,082 for the purchase option program for the remaining 30% of INB shares and Ps. 262 for the purchase of Uniteller. As mentioned in Note 4, goodwill is not amortized and is subject to annual impairment tests. No impairment to goodwill value was detected by December 31, 2009 and 2008.

As a result of the acquisition discussed in Note 2 c., Banorte recorded a reduction of goodwill and other accounts payable in the amount of Ps.2,082. This amount represented the value of the option agreement to purchase the remaining 30% of INB's shares, which was originally recorded as goodwill as authorized by the Commission. MFRS requires recording this type of transaction as the acquisition of a noncontrolling interest, which is a transaction among stockholders.

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## 20 - DEPOSITS

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### 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 2009 and 2008 the Financial Group generated a liquidity requirement of USD 755,917 thousand and USD 412,843 thousand, respectively, and held investments in liquid assets of USD 1,230,740 thousand and USD 661,95 thousand, representing a surplus of USD 474,823 thousand and USD 249,116 thousand, respectively.

### Deposits

The liabilities derived from traditional deposits are comprised as follows:

	2009	2008
<b>Immediately due and payable deposits</b>		
<b>Checking accounts earning no interest:</b>		
Cash deposits	Ps. 59,334	Ps. 56,247
Checking accounts in US dollars for individual residents of the Mexican border	662	573
Demand deposits accounts	4,142	3,433
<b>Checking accounts earning interest:</b>		
Other bank checking deposit	35,395	35,471
Savings accounts	268	234
Checking accounts in US dollars for individual residents of the Mexican border	2,055	2,166
Demand deposits accounts	35,705	30,212
IPAB checking accounts	20	14
	<b>Ps. 137,581</b>	<b>Ps. 128,350</b>

	2009	2008
<b>Time deposits</b>		
<b>General public:</b>		
Fixed-term deposits	25,711	20,681
Over-the-counter investments	49,156	43,436
Promissory note with interest payable at maturity (PRLV) primary market for individuals	57,819	53,270
PRLV primary market for business entities	1,195	1,056
Foreign resident deposits	83	78
Provision for interest	177	219
	<b>134,141</b>	<b>118,740</b>
<b>Money market:</b>		
Fixed-term deposits	459	188
Over the counter promissory notes	1,430	12,323
Provision for interest	1,297	1,168
	<b>3,186</b>	<b>13,679</b>
	<b>137,327</b>	<b>132,419</b>
	<b>Ps. 274,908</b>	<b>Ps. 260,769</b>

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:**

Foreign exchange	2009				2008			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Mexican pesos and UDIs	0.99%	0.73%	0.60%	0.59%	0.90%	0.96%	1.04%	1.13%
Foreign currency	0.05%	0.04%	0.03%	0.03%	0.38%	0.27%	0.26%	0.04%
<u>Banorte USA</u>								
Demand deposits accounts	0.19%	0.09%	0.12%	0.13%	0.43%	0.28%	0.25%	0.19%
Money market	1.47%	1.30%	1.06%	1.04%	2.79%	1.88%	2.06%	1.66%

**Time deposits:**

Foreign exchange	2009				2008			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
<u>General public</u>								
Mexican pesos and UDIs	5.68%	4.45%	3.55%	3.50%	5.34%	5.32%	5.82%	6.16%
Foreign currency	0.91%	0.79%	0.90%	0.79%	2.35%	1.48%	1.75%	2.42%
Money market	8.59%	7.54%	5.72%	6.61%	8.05%	7.89%	8.39%	8.81%
Banorte USA	3.84%	3.56%	3.19%	2.95%	4.82%	4.53%	4.36%	4.07%

As of December 31, 2009 and 2008, the terms at which these deposits are traded are as follows:

	2009			Total
	From 1 to 179 days	From 6 to 12 months	More than 1 year	
<b>General public:</b>				
Fixed-term deposits	Ps. 15,740	Ps. 6,972	Ps. 2,999	Ps. 25,711
Over the counter investments	49,105	51	-	49,156
PRLV primary market for individuals	57,337	418	64	57,819
PRLV primary market for business entities	1,170	25	-	1,195
Foreign resident deposits	20	20	43	83
Provision for interest	162	13	2	177
	<b>123,534</b>	<b>7,499</b>	<b>3,108</b>	<b>134,141</b>
<b>Money market:</b>				
Fixed-term deposits	-	-	459	459
Over the counter promissory notes	-	-	1,430	1,430
Provision for interest	-	11	1,286	1,297
	-	<b>11</b>	<b>3,175</b>	<b>3,186</b>
	<b>Ps. 123,534</b>	<b>Ps. 7,510</b>	<b>Ps. 6,283</b>	<b>Ps. 137,327</b>
	2008			Total
	From 1 to 179 days	From 6 to 12 months	More than 1 year	
<b>General public:</b>				
Fixed-term deposits	Ps. 12,643	Ps. 4,400	Ps. 3,638	Ps. 20,681
Over the counter investments	43,361	75	-	43,436
PRLV primary market for individuals	52,902	330	38	53,270
PRLV primary market for business entities	1,021	26	9	1,056
Foreign resident deposits	29	28	21	78
Provision for interest	201	18	-	219
	<b>110,157</b>	<b>4,877</b>	<b>3,706</b>	<b>118,740</b>
<b>Money market:</b>				
Fixed-term deposits	-	-	188	188
Over the counter promissory notes	7,972	3,000	1,351	12,323
Provision for interest	32	48	1,088	1,168
	<b>8,004</b>	<b>3,048</b>	<b>2,627</b>	<b>13,679</b>
	<b>Ps. 118,161</b>	<b>Ps. 7,925</b>	<b>Ps. 6,333</b>	<b>Ps. 132,419</b>

## 21 - INTERBANK AND OTHER LOANS

The loans received from other banks as of December 31, 2009 and 2008 are as follows:

	Mexican pesos		Denominated in US dollars		Total	
	2009	2008	2009	2008	2009	2008
<b>Immediately due:</b>						
Domestic banks (Call money)	Ps. 21	Ps. -	Ps. -	Ps. 1,245	Ps. 21	Ps. 1,245
	<b>21</b>	<b>-</b>	<b>-</b>	<b>1,245</b>	<b>21</b>	<b>1,245</b>
<b>Short-term:</b>						
Banco de México	-	11,123	1,964	-	1,964	11,123
Commercial banking	204	350	220	1,670	424	2,020
Development banking	6,233	4,755	1,593	2,421	7,826	7,176
Public trusts	2,801	3,602	314	514	3,115	4,116
Other agencies	-	-	-	121	-	121
Provision for interest	54	228	2	19	56	247
	<b>9,292</b>	<b>20,058</b>	<b>4,093</b>	<b>4,745</b>	<b>13,385</b>	<b>24,803</b>
<b>Long-term:</b>						
Commercial banking	895	1,081	1,439	3,533	2,334	4,614
Development banking	1,553	1,335	319	7	1,872	1,342
Public trusts	3,236	3,664	116	139	3,352	3,803
Other agencies	-	-	-	876	-	876
Provision for interest	-	-	4	-	4	-
	<b>5,684</b>	<b>6,080</b>	<b>1,878</b>	<b>4,555</b>	<b>7,562</b>	<b>10,635</b>
	<b>Ps. 14,997</b>	<b>Ps. 26,138</b>	<b>Ps. 5,971</b>	<b>Ps. 10,545</b>	<b>Ps. 20,968</b>	<b>Ps. 36,683</b>

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

The average interest rates are shown below:

	2009				2008			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
<b>Foreign exchange</b>								
<u>Call money</u>								
Mexican pesos and UDIS	7.52%	5.53%	4.53%	4.46%	7.44%	7.48%	7.99%	8.17%
<u>Other bank loans</u>								
Mexican pesos and UDIS	7.61%	6.51%	5.66%	5.48%	7.25%	7.17%	7.17%	8.41%
Foreign currency	3.00%	2.04%	1.30%	0.92%	5.33%	4.52%	4.51%	6.62%

Banorte USA liabilities accrue interest at an average rate of 4.49% and 1.43% as of December 31, 2009 and 2008, respectively. Moreover, the Arrendadora y Factor Banorte, S. A. de C. V. loans accrue an average interest rate of 6.46% and 9.21% in Mexican pesos and 2.86% and 4.44% in U.S. dollars by December 31, 2009 and 2008, respectively.

## 22 - SUNDRY CREDITORS AND OTHER PAYABLES

As of December 31, 2009 and 2008, the balance of sundry creditors and other payables is as follows:

	2009	2008
Cashier and certified checks and other negotiable instruments	Ps. 796	Ps. 830
Provision for employee retirement obligations	2,773	2,505
Provisions for sundry obligations	2,291	4,510
Other	3,108	2,871

**23 - EMPLOYEE RETIREMENT OBLIGATIONS**

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

The amount of current and projected benefits as of December 31, 2009 and 2008, related to the defined benefit pension plan, seniority premiums and retiree medical coverage, determined by independent actuaries, is analyzed below:

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

	2008			Total
	Pension plan	Seniority premiums	Medical services	
Projected benefit obligation (PBO)	(Ps. 728)	(Ps. 136)	(Ps. 1,318)	(Ps. 2,182)
Fund market value	947	226	1,357	2,530
<b>Funded status</b>	<b>219</b>	<b>90</b>	<b>39</b>	<b>348</b>
Transition asset (obligation)	32	(13)	328	347
Unrecognized prior service cost	2	(3)	-	(1)
Unrecognized actuarial losses	207	2	203	412
<b>Net projected asset (liability)</b>	<b>Ps. 460</b>	<b>Ps. 76</b>	<b>Ps. 570</b>	<b>Ps. 1,106</b>

The Financial Group has a net prepayment (net prepaid asset) of Ps. 4 generated by transferring personnel from Sólida Administradora de Portafolios, S. A. de C. V. (Sólida) to Banorte. Moreover, as of December 31, 2009, a separate fund amounting to Ps. 3,143, (Ps. 2,530 in 2008) 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, 2009 and 2008, the net periodic pension cost is as follows:

	2009	2008
Service cost	Ps. 95	Ps. 81
Interest cost	197	181
Expected return on plan assets	(274)	(216)
<b>Amortizations of unrecognized items:</b>		
Transition obligation	86	87
Effects of curtailment and reduction of obligations	-	1
Variations in assumptions	27	25
<b>Net periodic pension cost</b>	<b>Ps. 131</b>	<b>Ps. 159</b>

The rates used in the calculation of the projected benefit obligation and return on plan assets as of December 31, 2009 and 2008, are shown below:

<b>Concept</b>	<b>2009</b>	<b>2008</b>
	<b>Nominal</b>	<b>Nominal</b>
Discount rate	9.25%	9.25%
Rate of wage increase	4.50%	4.50%
Rate of increase in costs and expenses of other postretirement benefits	5.57%	5.57%
Long-term inflation rate	3.50%	3.50%
Expected long-term rate of return on plan assets of the Banorte Brokerage House	10.25%	10.25%
Expected long-term rate of return on plan assets	10.0%	9.75%

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

<b>Concept</b>	<b>2009</b>	<b>2008</b>
Defined and projected benefit obligations	(Ps. 158)	(Ps. 156)
<b>Funded status</b>	<b>(158)</b>	<b>(156)</b>
Transition obligation	62	83
<b>Net projected liability</b>	<b>(Ps. 96)</b>	<b>(Ps. 73)</b>

For the years ended December 31, 2009 and 2008, the net periodic pension cost is as follows:

<b>Concept</b>	<b>2009</b>	<b>2008</b>
Service cost	Ps. 27	Ps. 25
Interest cost	12	11
Transition obligation	21	21
Variations in assumptions	8	(2)
<b>Net periodic pension cost</b>	<b>Ps. 68</b>	<b>Ps. 55</b>

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

The labor obligations derived from the defined contribution pension plan do not require an actuarial valuation as established in NIF D-3, because the cost of this plan is equivalent to the Financial Group's contributions made to the plan. Moreover, this pension plan maintains a fund as of December 31, 2009 and 2008, equivalent to Ps. 1,140 and Ps. 958, respectively, which is recorded under "Other assets" and is equivalent to the recorded plan liability.

## 24 - SUBORDINATED DEBENTURES

As of December 31, 2009 and 2008, the subordinated debentures in circulation are as follows:

	2009	2008
Senior subordinated, nonconvertible debentures, maturing in January 2014, denominated in US dollars, at an interest rate of 5.875%, payable semiannually with a final principal payment at maturity (10-year term).	Ps. -	Ps. 4,150
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).	5,226	5,533
Nonpreferred subordinated nonconvertible debentures (Q BANORTE 08 debentures), maturing in February 2018, 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, interest at the 28-day TIIE rate plus 0.77%.	2,750	2,750
Preferred subordinated nonconvertible debentures, BANORTE 09 debentures maturing in March 2019, interest at the 28-day TIIE rate plus 2%, payable in 130 periods of 28 days each.	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).	2,613	2,766
Preferred subordinated nonconvertible debentures, Q BANORTE 08-U maturing in February 2028, interest at a 4.95% annual rate.	1,941	1,871
Subordinated debentures, maturing in June 2034, denominated in US dollars, at an interest rate of 2.75%.	135	143
Preferred subordinated debentures maturing in April 2034, denominated in US dollars, at an interest rate of 2.72%.	135	143
Accrued interest.	168	257
	<b>Ps. 18,168</b>	<b>Ps. 20,613</b>

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. 8 and Ps. 15 in 2009 and 2008, respectively.

## 25 - TRANSACTIONS AND BALANCES WITH SUBSIDIARIES AND ASSOCIATED COMPANIES

The balances and transactions with subsidiaries and associated companies as of December 31, 2009 and 2008, are as follows:

Institution	Revenues		Accounts receivable	
	2009	2008	2009	2008
Seguros Banorte Generali, S. A. de C. V.	Ps. 598	Ps. 613	Ps. 9	Ps. 19

  

Institution	Expenses		Accounts payable	
	2009	2008	2009	2008
Seguros Banorte Generali, S. A. de C. V.	Ps. 101	Ps. 300	Ps. 5	Ps. 24

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

Pursuant to article 73 of the LIC (Credit Institutions Law), the loans granted by Banorte to any related party cannot exceed 50% of the basic portion of their net capital. For the years ended December 31, 2009 and 2008, the amount of the loans granted to related parties is Ps. 7,362 and Ps. 8,216, respectively, representing 46.2% and 54%, respectively, of the limit established by the LIC.

## Loan portfolio sales

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

In February 2003 Banorte sold Ps. 1,925 of its own portfolio (with interest) to its subsidiary Sólida at a price of Ps. 378. Of this transaction, Ps. 1,891 related to past-due amounts and Ps. 64 to the current 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 2008 and 2009:

Type of portfolio	Mexican pesos			Foreign currency			Total		
	Aug 02	Dec 08	Dec 09	Aug 02	Dec 08	Dec 09	Aug 02	Dec 08	Dec 09
<b>Performing portfolio</b>									
Commercial	Ps.5	Ps.-	Ps.-	Ps.5	Ps.-	Ps.-	Ps.10	Ps.-	Ps.-
Mortgage	54	34	27	-	-	-	54	34	27
<b>Total</b>	<b>59</b>	<b>34</b>	<b>27</b>	<b>5</b>	<b>-</b>	<b>-</b>	<b>64</b>	<b>34</b>	<b>27</b>
<b>Past-due portfolio</b>									
Commercial	405	367	361	293	116	110	698	483	471
Consumer	81	72	72	-	-	-	81	72	72
Mortgage	1,112	393	350	-	-	-	1,112	393	350
<b>Total</b>	<b>1,598</b>	<b>832</b>	<b>783</b>	<b>293</b>	<b>116</b>	<b>110</b>	<b>1,891</b>	<b>948</b>	<b>893</b>
<b>Total portfolio</b>	<b>Ps.1,657</b>	<b>Ps.866</b>	<b>Ps.810</b>	<b>Ps.298</b>	<b>Ps.116</b>	<b>Ps.110</b>	<b>Ps.1,955</b>	<b>Ps.982</b>	<b>Ps.920</b>
<b>Allowance for loan losses<sup>(1)</sup></b>									
Commercial	326	355	349	246	116	110	572	471	459
Consumer	77	72	72	-	-	-	77	72	72
Mortgage	669	369	336	-	-	-	669	369	336
<b>Total allowance for loan losses</b>	<b>Ps.1,072</b>	<b>Ps.796</b>	<b>Ps.757</b>	<b>Ps.246</b>	<b>Ps.116</b>	<b>Ps.110</b>	<b>Ps.1,318</b>	<b>Ps.912</b>	<b>Ps.867</b>

(1) Allowances required based on the classification methodology applied in Banorte that maintained a 99.99% equity interest in Sólida during 2009 and 2008.



As of December 31, 2009 and 2008, the composition of the Banorte's loan portfolio, including the loan portfolio sold to Sólida, is as follows:

Type of portfolio	Mexican pesos		Foreign currency		Total	
	Dec 09	Dec 08	Dec 09	Dec 08	Dec 09	Dec 08
Comercial loans	Ps. 133,823	Ps. 129,995	Ps. 11,316	Ps. 15,377	Ps. 145,139	Ps. 145,372
Consumer loans	25,525	29,116	-	-	25,525	29,116
Mortgage loans	47,378	43,784	-	-	47,378	43,784
<b>Performing portfolio</b>	<b>206,726</b>	<b>202,895</b>	<b>11,316</b>	<b>15,377</b>	<b>218,042</b>	<b>218,272</b>
Comercial loans	2,583	1,738	150	153	2,733	1,891
Consumer loans	2,014	2,570	-	-	2,014	2,570
Mortgage loans	1,151	1,098	-	-	1,151	1,098
<b>Past-due portfolio</b>	<b>5,748</b>	<b>5,406</b>	<b>150</b>	<b>153</b>	<b>5,898</b>	<b>5,559</b>
<b>Total portfolio</b>	<b>212,474</b>	<b>208,301</b>	<b>11,466</b>	<b>15,530</b>	<b>223,940</b>	<b>223,831</b>
Allowance for loan losses	7,425	6,950	384	285	7,809	7,235
<b>Net portfolio</b>	<b>Ps. 205,049</b>	<b>Ps. 201,351</b>	<b>Ps. 11,082</b>	<b>Ps. 15,245</b>	<b>Ps. 216,131</b>	<b>Ps. 216,596</b>
<b>Allowance for loan losses</b>					<b>132.40%</b>	<b>130.15%</b>
<b>% of past-due portfolio</b>					<b>2.63%</b>	<b>2.48%</b>

## 26 - INFORMATION BY SEGMENT

To analyze the financial information of the Financial Group, the data of the most representative segments as of December 31, 2009 and 2008 is presented.

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

	2009	2008
<b>Banking Sector:</b>		
Net income	Ps.5,132	Ps.6,543
Stockholders' equity	40,348	35,526
Total portfolio	234,878	236,236
Past-due portfolio	6,051	4,836
Allowance for loan losses	(7,358)	(6,582)
Total net assets	548,560	562,433
<b>Brokerage Sector:</b>		
Net income	203	183
Stockholders' equity	1,396	1,143
Portfolio balance	135,621	119,286
Total net assets	5,273	1,662
<b>Long Term Savings Sector:</b>		
Net income	772	579
Stockholders' equity	4,727	4,216
Total net assets	32,026	27,789
<b>Other Finance Companies Sector:</b>		
Net income	425	336
Stockholders' equity	1,631	1,308
Total portfolio	13,461	13,913
Past-due portfolio	103	74
Allowance for loan losses	(177)	(79)
Total net assets	Ps. 13,645	Ps. 14,322

b. The trading results for the years ended December 31, 2009 and 2008, are as follows:

	2009	2008
<b>Valuation results</b>		
Trading securities	(Ps. 17)	Ps. 109
Repurchase or resale agreement	(156)	49
Derivatives financial instruments	20	(172)
<b>Total valuation results</b>	<b>(153)</b>	<b>(14)</b>
<b>Purchase-sale results</b>		
Trading securities	318	25
Available for sale securities	23	(178)
Derivatives financial instruments	180	428
<b>Total securities purchase sale</b>	<b>521</b>	<b>275</b>
Spot foreign currency	731	712
Foreign currency forwards	154	48
Foreign currency futures	(1)	1
Foreign currency valuation	(20)	6
Minted metals purchase and sales	4	5
Minted metals valuation	8	6
<b>Total foreign currency purchase and sale</b>	<b>876</b>	<b>778</b>
<b>Total purchase and sale results</b>	<b>1,397</b>	<b>1,053</b>
<b>Total trading results</b>	<b>Ps. 1,244</b>	<b>Ps. 1,039</b>

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

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

Economic sector	2008				
	Geographical location				
	North	Central	West	South	Total
Agriculture	Ps. 2,576	Ps. 1,317	Ps. 571	Ps. 737	Ps. 5,201
Mining	58	20	11	30	119
Manufacturing	8,502	5,159	1,879	874	16,414
Construction	6,819	6,215	870	971	14,875
Public utilities	48	154	2	1	205
Commerce	13,870	9,345	3,477	6,359	33,051
Transportation	1,464	6,724	126	201	8,515
Financial services	9,319	13,385	242	1,713	24,659
Communal social services	2,904	3,728	1,651	822	9,105
Business groups	22	56	2	23	103
Public administration and services	14,668	8,382	1,626	2,413	27,089
International organization services	1	-	-	-	1
INB	-	-	-	-	15,618
Credit card	-	-	-	-	15,067
Consumer	-	-	-	-	14,053
Mortgage	-	-	-	-	43,750
Other	-	-	-	-	47
Arrendadora y Factor Banorte	-	-	-	-	12,194
Créditos Pronegocio	-	-	-	-	232
<b>Performing loan portfolio</b>	<b>Ps. 60,251</b>	<b>Ps. 54,485</b>	<b>Ps. 10,457</b>	<b>Ps. 14,144</b>	<b>Ps. 240,298</b>

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

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

Economic sector	2008				
	Geographical location				
	North	Central	West	South	Total
Agriculture	Ps. 30	Ps. 80	Ps. 16	Ps. 19	Ps. 145
Mining	4	2	1	6	13
Manufacturing	72	129	57	43	301
Construction	24	73	4	23	124
Commerce	214	206	95	122	637
Transportation	19	14	9	10	52
Financial services	2	11	-	3	16
Communal social services	39	31	13	33	116
Business groups	-	1	-	-	1
INB	-	-	-	-	225
Credit card	-	-	-	-	2,140
Consumer	-	-	-	-	359
Mortgage	-	-	-	-	705
Other	-	-	-	-	2
Arrendadora y Factor Banorte	-	-	-	-	74
Créditos Pronegocio	-	-	-	-	38
<b>Past-due loan portfolio</b>	<b>Ps. 404</b>	<b>Ps. 547</b>	<b>Ps. 195</b>	<b>Ps. 259</b>	<b>Ps. 4,948</b>

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

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

Product	2008							
	Geographical location							
	Monterrey	Mexico City	West	Northwest	Southeast	Treasury and other	Foreign	Total
Non-interest bearing checking accounts	Ps. 14,364	Ps. 18,134	Ps. 5,506	Ps. 6,334	Ps. 7,625	Ps. 72	Ps. -	Ps. 52,035
Interest-bearing checking accounts	7,550	21,108	2,546	6,157	7,554	145	-	45,060
Savings accounts	1	1	-	-	1	-	-	3
Current account in pesos and preestablished	3,392	4,275	1,328	2,236	2,247	149	-	13,627
Non-interest bearing demand deposits, USD	585	480	69	957	227	1	3,507	5,826
Interest bearing demand deposits, USD	2,390	1,634	359	2,136	242	-	4,792	11,553
Savings accounts in USD	-	-	-	-	-	-	231	231
Over the counter promissory notes	11,852	22,783	5,671	5,570	8,450	1,387	-	55,713
Time deposits, USD	2,199	3,804	1,677	1,595	931	18	10,535	20,759
Money desk customers	14,949	15,738	4,987	3,531	3,918	23	-	43,146
Financial intermediaries	-	-	-	-	-	12,802	-	12,802
FOBAPROA checking accounts bearing interest	14	-	-	-	-	-	-	14
<b>Total deposits</b>	<b>Ps. 57,296</b>	<b>Ps. 87,957</b>	<b>Ps. 22,143</b>	<b>Ps. 28,516</b>	<b>Ps. 31,195</b>	<b>Ps. 14,597</b>	<b>Ps. 19,065</b>	<b>Ps. 260,769</b>

## 27 - TAX ENVIRONMENT

The Financial Group was subject to ISR and IETU in 2009 and in 2008.

### Income tax

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

### Book to tax reconciliation

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

### PTU

The Financial Group 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 17.0% and 16.5% for 2009 and 2008, respectively, and 17.5% as of 2010. The Asset Tax Law was repealed upon enactment of LIETU; however, under certain circumstances, assets 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, 2009, the Financial Group has no recoverable asset taxes.

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## 28 - STOCKHOLDERS' EQUITY

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At the Stockholders' Ordinary General Meetings held on April 30 and October 5, 2009, the following resolutions were adopted, among others:

- To transfer the profits from 2008 equal to Ps. 6,663 to earnings from prior years, and increase the legal reserve by Ps. 351.
- Declare cash dividends of Ps. 364, equivalent to Ps. 0.180045 Mexican pesos per share.

The Financial Group's stockholders common stock as of December 31, 2009 and 2008 is comprised as follows:

	Number of shares with a nominal value of Ps. 3.50	
	2009	2008
"O" Series	2,017,847,548	2,013,997,548

	Historical Amounts	
	2009	2008
"O" Series	Ps. 7,000	Ps. 6,986
Restatement in Mexican pesos of December 2007	4,956	4,955
	Ps. 11,956	Ps. 11,941

### Restrictions on profits

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

The Financial Group's net profit is subject to the requirement that at least 5% of net income of each year be transferred to the legal reserve until the reserve equals 20% of capital stock at par value. The legal reserve may not be distributed to the stockholders during the life of the Financial Group, except in the form of a share dividend. As of December 31, 2009, the legal reserve is Ps. 2,444 and represents 20% of paid-in capital.

### 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, 2009 sent to Banco de México to review is shown below.

The capitalization ratio of Banorte as of December 31, 2009 was 16.77% of total risk (market and credit), and 24.42% 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):

<b>Net capital as of December 31, 2009</b>	
<b>Stockholders' equity</b>	<b>Ps. 40,340</b>
<b>Subordinated debentures and capitalization instruments</b>	<b>4,615</b>
Deduction of investment in securitized instruments	161
Deduction of investments in shares of financial entities	6,235
Deduction of investments in shares of non-financial entities	2,941
Deduction of intangibles and deferred expenses or costs	237
<b>Basic capital</b>	<b>35,381</b>
Debentures and capitalization instruments	13,283
Allowance for loan losses	1,155
Deduction of investment in securitized instruments	161
<b>Complementary capital</b>	<b>14,277</b>
<b>Net capital</b>	<b>Ps. 49,658</b>

Characteristics of the subordinated debentures:

<b>Concept</b>	<b>Issuance amount</b>	<b>Maturity</b>	<b>Basic capital proportion</b>	<b>Complementary capital proportion</b>
Complementary capital debentures 2006	Ps.5,297	13/10/2016	0%	100%
Basic capital debentures 2006	Ps.2,652	13/10/2021	100%	0%
Basic capital debentures 2008	Ps.3,008	27/02/2018	65%	35%
Complementary capital debentures 2008	Ps.1,971	15/02/2028	0%	100%
Complementary capital debentures 2008-2	Ps.2,759	15/06/2018	0%	100%
Complementary capital debentures 2009	Ps.2,211	18/03/2019	0%	100%

Assets subject to risk are detailed below:

#### **Assets subject to market risk**

<b>Concept</b>	<b>Positions weighted by risk</b>	<b>Capital requirement</b>
Transactions in Mexican pesos with nominal interest rate	Ps. 51,847	Ps. 4,148
Transactions with debt instruments in Mexican pesos with variable interest rates	10,879	870
Transactions in Mexican pesos with real interest rates or denominated in UDIS	1,985	159
Transactions in UDIS or with yields referenced to the National Consumer Price Index (INPC)	5	-
Transactions in Mexican pesos with nominal interest rates	3,294	263
Exchange transactions	1,607	129
<b>Total</b>	<b>Ps. 69,617</b>	<b>Ps. 5,569</b>



## Assets subject to credit risk

Concept	Assets weighted by risk	Capital requirement
Group III (weighted at 10%)	Ps. 1	Ps. -
Group III (weighted at 20%)	6,336	507
Group III (weighted at 23%)	409	33
Group III (weighted at 50%)	2,261	181
Group III (weighted at 57.5%)	370	30
Group IV (weighted at 20%)	6,669	533
Group V (weighted at 10%)	14	1
Group V (weighted at 20%)	6,100	488
Group V (weighted at 50%)	3,813	305
Group V (weighted at 150%)	3,659	293
Group VI (weighted at 50%)	6,050	484
Group VI (weighted at 75%)	5,134	411
Group VI (weighted at 100%)	51,313	4,105
Group VII (weighted at 20%)	776	62
Group VII (weighted at 50%)	17	1
Group VII (weighted at 100%)	55,269	4,421
Group VII (weighted at 115%)	7,022	562
Group VII (weighted at 150%)	506	40
Group VIII (weighted at 125%)	2,070	166
Group IX (weighted at 100%)	31,849	2,548
<b>Sum</b>	<b>189,638</b>	<b>15,171</b>
For permanent shares, furniture and real property, and advance payments and deferred charges	13,667	1,093
<b>Total</b>	<b>Ps. 203,305</b>	<b>Ps. 16,264</b>

Assets subject to credit risk:

Concept	Assets weighted by risk	Capital requirement
<b>Total</b>	<b>Ps. 23,124</b>	<b>Ps. 1,850</b>

## 29 - FOREIGN CURRENCY POSITION

As of December 31, 2009 and 2008, 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. 13.0659 and Ps. 13.8325 per USD 1.00, respectively, as shown below:

	Thousands of US dollars	
	2009	2008
Assets	5,497,623	5,179,560
Liabilities	5,166,587	4,894,904
<b>Net asset position in US dollars</b>	<b>331,036</b>	<b>284,656</b>
<b>Net asset position in Mexican pesos</b>	<b>Ps. 4,325</b>	<b>Ps. 3,938</b>

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### 30 - POSITION IN UDIS

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As of December 31, 2009 and 2008, the Financial Group holds certain assets and liabilities denominated in UDIS, converted to Mexican pesos based on the current equivalency of Ps. 4.340166 and Ps. 4.184316, per UDI, respectively, as shown below:

	Thousands of UDIS	
	2009	2008
Assets	207,824	152,453
Liabilities	544,676	548,366
<b>Net (liability) asset position in UDIS</b>	<b>(336,852)</b>	<b>(395,913)</b>
<b>Net asset (liability) position in Mexican pesos</b>	<b>(Ps. 1,462)</b>	<b>(Ps. 1,657)</b>

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### 31 - EARNINGS PER SHARE

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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, 2009 and 2008 are shown below:

	2009			2008
	Net Income	Weighted share average	Earnings per share	Earnings per share
Net income per share	Ps. 5,854	2,017,132,134	Ps. 2.9021	Ps. 3.4775

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### 32 - MANAGEMENT RISK (unaudited)

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#### Authorized bodies

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

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

The CPR is composed of regular members of the Board of Directors, the CEO of the Financial Group, the Managing of Comprehensive Risk Management, the Managing Director of Long Term Savings, and the Managing Director of the Brokerage House, as well as the Managing Director of Internal Audits, who has voice but not vote.

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

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

2. Approve and review at least once a year:
  - The specific limits for discretionary risks, as well as tolerance levels for nondiscretionary risks
  - The methodology and procedures to identify, measure, oversee, limit, control, report and disclose the different kinds of risks to which the Financial Group is exposed
  - The models, parameters and scenarios used to perform the valuation, measurement and control of risks proposed by the Comprehensive Risk Management Unit
3. Approve:
  - The methodologies for identification, valuation, measurement and control of risks of the new operations, products and services which the Financial Group intends to introduce into the market
  - The corrective measures proposed by the Comprehensive Risk Management Unit
  - The manuals for comprehensive risk management
4. Appoint and remove the person responsible for the Comprehensive Risk Management Unit, who is ratified by the Board of Directors.
5. Inform the Board, at least every quarter, of the exposure to risk and its possible negative effects, as well as follow up on limits and tolerance levels.
6. Inform the Board of the corrective measures implemented.

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

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

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

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

- Credit risk management;
- Market risk and liquidity management;
- Operational risk management; and
- Risk policy management.

The Financial Group currently has methodologies for managing risk in its different phases, such as credit, market, liquidity and operating risk.

The primary objectives of the DGAR are summarized as follows:

- Provide the different business areas with clear rules that facilitate their understanding so as to minimize risks and ensure that they are within the parameters established and approved by the Board of Directors and the Risk Policy Committee.
- Establish mechanisms that provide for follow-up on risk-taking within the Financial Group, ensuring that they are preventive as much as possible, and supported by advanced systems and processes.
- Standardize risk measurement and control.
- Protect the Financial Group's capital against unexpected losses from market movements, credit losses and operating risks.
- Develop valuation methods for the different types of risks.
- Establish procedures for portfolio optimization and loan portfolio management.

The Financial Group has segmented risk assessment and management into the following headings:

Credit risk: volatility of revenues due to the creation of provisions for impairment of credits and potential credit losses due to nonpayment by a borrower or counterpart.

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

Liquidity risk: potential loss derived from the impossibility of renewing debts or contracting others under normal conditions for the Financial Group, due to the anticipated or forced sale of assets at unusual discounts to meet its obligations.

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

### **Credit risk**

Credit risk is the risk that the customers, issuers or counterparts will not comply with their payment obligations; therefore, adequate risk management is essential to maintain a high quality loan portfolio.

The Financial Group management credit risk 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 stockholders by means of efficient credit risk management.
- Define and constantly update the regulatory framework for credit risk management.
- Comply with the credit risk management reporting requirements established by the relevant authorities.
- Perform risk management in accordance with best practices; implementing models, methodologies, procedures and systems based on the latest international advances.

### **Individual credit risk**

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

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

Individual risk for the corporate portfolio is identified, measured and controlled by means of the Target Markets, the Risk Acceptance Criteria and the Banorte Internal Risk Rating (CIR Banorte).

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

The Target Markets are activities selected by region and economic activity - supported by economic studies and portfolio behavior analyses- in which the Financial Group wishes to place credits.

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

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

The CIR Banorte is in line with the "General Regulations Applicable to the Classification Methodology for the Loan Portfolio of Credit Institutions" issued by the Commission on December 2, 2005. The CIR Banorte has been certified by the Commission and by an international external auditor since 2001.

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

### **Portfolio credit risk**

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

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

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

Apart from considering loan exposure, the methodology takes into account the probability of default, the recovery level associated with each customer and the sorting of the borrowers based on the Merton model. The probability of default is the probability that a borrower will not comply with its debt obligation to the Financial Group on the terms and conditions originally agreed. The probability of default is based on the transition matrixes which the Financial Group calculates as of the migration of the borrowers to different risk classification levels. The recovery level is the percentage of the total exposure that is expected to be recovered if the borrower defaults on its obligations. The sorting of the borrowers based on the Merton model is intended to tie the future behavior of the borrower to credit and market factors on which, using statistical techniques, the borrower's "credit health" depends.

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

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

As of December 31, 2009, the total portfolio of the Financial Group is Ps. 223,019. The expected loss represents 2.4% and the unexpected loss represents 3.9% of the total operating portfolio. The average expected loss was 2.5% for the period between October and December 2009. As of December 31, 2008, the Financial Group's total operating portfolio is Ps. 222,849. The expected loss represents 2.6% and the unexpected loss represents 4.4% of the total operating portfolio. The average expected loss was 2.4% for the period between October and December 2008.

### **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 counterpart. Credit quality is assigned by means of a rating obtained by an internal methodology, external rating evaluations or a combination of both. Additionally, there are maximum operating parameters depending on the type of issuer or counterpart, rating and operation type.

Analysis policies include the type of information and variables considered to analyze operations with financial instruments when they're presented for their authorization by the corresponding committee, including information about the issuer or counterpart, financial instrument, operation destination and market information.

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

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

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

- 1) The probability of delinquency by the issuer, issue or counterpart; expressed as a percentage between 0% and 100%. The higher the rating, the lower the probability of delinquency and vice versa.
- 2) The severity of the loss with respect to the operation's total in the event of noncompliance, expressed as a percentage between 0% and 100%. The better the sureties or credit structure, the lower the severity of the loss and vice versa.

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

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

As of December 31, 2008, the investment in securities exposure to credit risk is Ps. 236,192, of which 99.8% has a rating greater than or equal to A-(mex) on the local scale. This places them in investment grade and the three main issuers other than the Federal Government, Semi-Private agencies and Domestic Financial Institutions represent 24% of the basic capital as of September 2008. 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 2008 has a rating of at least A+(mex) as is made up of: Bancomer Ps. 16,126; Pemex Ps. 8,977; Banco Inbursa Ps. 5,551; Sociedad Hipotecaria Federal Ps. 5,002; Banobras Ps. 4,707; Securitization of State and Municipal Governments Ps. 4,498, and HSBC Ps. 2,616.

For derivatives, the exposure is (Ps. 2,835), of which 98.9% is rated at least A-(mex) on the local scale, which places them at an investment grade and the three main counterparts represent 8% of the basic capital as of September 2008.

### **Risk diversification**

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

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

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

<b>Basic capital as of September 30, 2009</b>	<b>Ps. 31,844</b>
<b>I. Financing whose individual amount represents more than 10% of basic capital:</b>	
<u>Credit transactions</u>	
Number of financings	1
Amount of financings taken as a whole	4,532
% in relation to basic capital	14%
<u>Money market transactions</u>	
Number of financings	1
Amount of financings taken as a whole	4,321
% in relation to basic capital	14%
<u>Overnight transactions</u>	
Number of financings	1
Amount of financings taken as a whole	5,618
% in relation to basic capital	18%
<b>II. Maximum amount of financing with the three largest debtors and common risk groups</b>	<b>Ps. 15,945</b>

### **Market risk**

#### Value at risk

The exposure to market risk is determined through the calculation of the Value at Risk ("VaR"). The meaning of the VaR under this method is the potential day loss that 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 insure that unforeseen volatiles are considered in the main risk factors that affect such portfolios.

Such methodology is applied to all financial instrument portfolios within and beyond the scope of the Financial Group, including money market and treasury transactions, capital, foreign-exchange and derivatives held for trading and hedging purposes, which are exposed to variations in their value due to changes in the risk factors affecting their market valuation (domestic and foreign interest rates, exchange rates and indexes, among others).

The average VaR for the portfolio of financial instruments was Ps. 2,584 for the last quarter 2009.

	4Q08	1Q09	2Q09	3Q09	4Q09
VaR Banorte*	Ps. 2,430	Ps. 2,357	Ps. 2,861	Ps. 3,123	Ps. 2,584
Banorte net capital***	43,248	44,198	45,949	46,898	49,679
VaR / net capital Banorte	5.62%	5.33%	6.23%	6.66%	5.20%

\* 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 2009:

Risk factor	VaR
Domestic interest rate	Ps. 2,582
Foreign interest rate	648
Exchange rate	122
Capital	131
Total VaR	Ps. 2,584

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

### Operations with derivatives products

The one-day individual VaR that the Financial Group has for each type of trading and hedging derivatives for the fourth quarter of 2009 was:

Trading derivatives	4Q08	4Q09
<b>Futures</b>		
MEXDER rate futures	Ps. -	Ps. -
<b>Exchange rate derivatives</b>		
Forwards	2	15
Options	1	-
<b>Interest Rate options</b>	6	4
<b>Swap options</b>	-	2
<b>Swaps</b>		
TIIE swaps	19	12
LIBOR swaps	-	2
Cross currency exchange rate swaps	212	207
<b>Total trading derivatives</b>	<b>Ps. 240</b>	<b>Ps. 242</b>



<b>Hedging derivatives</b>	<b>4Q08</b>	<b>4Q09</b>
<b>Swaps</b>		
Cross currency exchange rate swaps for portfolio hedging in USD	Ps. 10	Ps. 8
Cross currency exchange rate swaps for obligations hedging in USD	179	145
Cross currency exchange rate swaps for bonds hedging in USD	305	304
TIIE swaps for obligations hedging in Mexican pesos	30	63
TIIE swaps for promissory note hedging in Mexican pesos	139	265
Rate operations for portfolio hedging at a fixed rate	40	59
<b>Total hedging derivatives</b>	<b>Ps. 703</b>	<b>Ps. 844</b>

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. 21. This means that under normal condition, 99 days out of every 100 the maximum potential loss is Ps. 21 in one day.

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

### Investments in securities

The one-day individual VaR that the Financial Group has for each type of securities for the fourth quarter of 2009 was:

<b>Trading securities</b>	<b>4Q08</b>	<b>4Q09</b>
Variable rate government bonds	Ps. -	Ps. 7
Fixed rate government bonds	-	2
Bank bonds	2	3
Securitization certificates	36	37
Capital	8	13
US treasury bonds	-	3
PEMEX Eurobonds	5	28
UMS	12	12
Bank eurobonds	110	107
Private company eurobonds	18	11
<b>Total</b>	<b>Ps. 191</b>	<b>Ps. 223</b>

<b>Securities at maturity</b>	<b>4Q08</b>	<b>4Q09</b>
Variable rate government bonds	Ps. 108	Ps. 92
Fixed rate government bonds	2	4
Securitization certificates	40	42
CEDES	1	4
Bank bonds	3	-
PEMEX eurobonds	140	157
UMS	52	89
Zero coupon bank bonds	11	11
Private company eurobonds	3	4
<b>Total</b>	<b>Ps. 360</b>	<b>Ps. 403</b>

To calculate the VaR for each of the types of securities listed, the non-parametric historic simulation method is applied to a 99% level of confidence and a one-day horizon. For instance, the Value at Risk for trading UMS is Ps. 12. This means that under normal condition, 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 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.

As a result of Backtesting during 2009, the following three events showed losses that exceeded the one-day VaR calculations:

Event date	Affected risk factor
February 19, 2009	Interest rate increase
February 20, 2009	Interest rate increase
February 26, 2009	Interest rate increase

### Sensitivity analysis and tests under extreme conditions

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

#### Sensitivity for derivatives transactions

Sensitivity analysis on derivative transactions is carried out as follows:

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

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

Trading derivatives	+100 bp domestic rates	+100 bp foreign rates	+5% exchange rate
<b>Futures</b>			
MEXDER rate futures	(Ps. 1)	Ps. -	Ps. -
<b>Exchange rate derivatives</b>			
Forwards	(1)	1	(26)
<b>Interest Rate options</b>	(22)	-	-
<b>Swap options</b>	(2)	-	-
<b>Swaps</b>			
TIIE swaps	30	-	-
LIBOR swaps	-	-	1
Cross currency exchange rate swaps	(146)	194	(270)
<b>Total trading derivatives</b>	<b>(Ps. 142)</b>	<b>Ps. 195</b>	<b>(Ps. 295)</b>

	+100 bp domestic rates	+100 bp foreign rates	+5% exchange rate
<b>Hedging derivatives</b>			
<b>Swaps</b>			
Cross currency exchange rate swaps for portfolio hedging in USD	(Ps. 1)	Ps. 2	(Ps. 13)
Cross currency exchange rate swaps for obligations hedging in USD	51	(71)	252
TIIE swaps for obligations hedging in Mexican pesos	162	-	-
TIIE swaps for promissory note hedging in Mexican pesos	562	-	-
Rate operations for portfolio hedging at a fixed rate	64	-	-
<b>Total hedging derivatives</b>	<b>Ps. 838</b>	<b>(Ps. 69)</b>	<b>Ps. 239</b>

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

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

#### Sensitivity for securities transactions

Sensitivity analysis on securities transactions is carried out as follows:

- Estimate gain or loss of the securities valuation in the event of:
  - A parallel change of +100 basis points of domestic interest rates.
  - A parallel change of +100 basis points of foreign interest rates.
  - A 5% devaluation in the MXP/USD and MXP/EUR exchange rate.
  - A change of +5 basis points in government bond surcharges.
  - A change of +50 basis points in sovereign risk.

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

	+100 bp domestic rates	+100 bp foreign rates	+5% exchange rate	+5 bp sur- charges	+50 bp sove- reign risk
<b>Trading securities</b>					
Variable rate government bonds	(Ps. 13)	Ps. -	Ps. -	(Ps. 14)	Ps. -
Fixed rate government bonds	(8)	-	-	-	-
Securitization certificates	(7)	-	-	-	-
Promissory note payable upon maturity	(4)	-	-	-	-
US treasury bonds	-	(8)	6	-	-
PEMEX eurobonds	-	(33)	48	-	(19)
UMS	-	(7)	21	-	(3)
Bank eurobonds	-	(126)	195	-	-
Private company eurobonds	-	(6)	19	-	-
<b>Total</b>	<b>(Ps. 32)</b>	<b>(Ps. 180)</b>	<b>Ps. 289</b>	<b>(Ps. 14)</b>	<b>(Ps. 22)</b>

<b>Securities at maturity</b>	<b>+100 bp domestic rates</b>	<b>+100 bp foreign rates</b>	<b>+5% exchange rate</b>	<b>+5 bp surcharges</b>	<b>+50 bp sovereign risk</b>
Variable rate government bonds	(Ps. 170)	Ps. -	Ps. -	(Ps. 154)	Ps. -
Fixed rate government bonds	(16)	-	-	-	-
Securitization certificates	(32)	-	-	-	-
Zero coupon government bonds	(1)	-	-	-	-
Promissory note payable upon maturity	(4)	-	-	-	-
CEDES	(1)	-	-	-	-
PEMEX eurobonds	-	(214)	280	-	(109)
UMS	-	(132)	154	-	(67)
Zero coupon bank bonds	(1)	(44)	-	-	-
Private company eurobonds	-	(3)	2	-	-
<b>Total</b>	<b>(Ps. 225)</b>	<b>(Ps. 393)</b>	<b>Ps. 436</b>	<b>(Ps. 154)</b>	<b>(Ps. 176)</b>

In the event of any of above scenarios, the losses or gains of the operations with trading securities and securities at maturity will directly impact the Financial Group's results.

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

#### **Liquidity and balance sheet risk**

In order to provide a measurement of liquidity risk in the Financial Group and provide follow-up consistently, the Financial Group relies on the use of financial ratios, which include the liquidity ratio (current assets/liquid liabilities). Liquid assets include cash and cash equivalents, trading securities and available for sale securities. By the same token, liquid liabilities include immediate demand deposits, immediate demand interbank loans and short-term loans. The liquidity ratio at the end of the fourth quarter of 2009 is 63.9%, while the average during the quarter is 71.0%, as shown below:

	<b>End of quarter</b>				
	<b>4Q08</b>	<b>1Q09</b>	<b>2Q09</b>	<b>3Q09</b>	<b>4Q09</b>
Liquid assets	Ps. 72,557	Ps. 73,101	Ps. 90,359	Ps. 85,221	Ps. 91,931
Liquid liabilities	147,498	143,671	142,566	136,930	143,834
Liquidity ratio	49.2%	50.9%	63.4%	62.2%	63.9%

	<b>Average</b>				
	<b>4Q08</b>	<b>1Q09</b>	<b>2Q09</b>	<b>3Q09</b>	<b>4Q09</b>
Liquid assets	Ps. 64,453	Ps. 60,386	Ps. 74,492	Ps. 83,046	Ps. 92,729
Liquid liabilities	127,061	125,844	129,632	127,571	130,575
Liquidity ratio	50.7%	48.0%	57.5%	65.1%	71.0%

#### 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:

<b>Net position</b>			
<b>Gap</b>	<b>Asset position</b>	<b>Liability position</b>	<b>Net</b>
1 month	Ps. 271	(Ps. 289)	(Ps. 18)
3 months	3	-	3
6 months	2	(12)	(10)
1 year	5	(247)	(242)
2 years	655	(70)	585
3 years	1	(40)	(39)
4 years	166	(259)	(93)
5 years	460	(411)	49
7 years	361	(709)	(348)
10 years	4	(1,051)	(1,047)
15 years	6	-	6
20 years	8	(12)	(4)
> 20 years	3	(13)	(10)
<b>Total</b>	<b>Ps. 1,945</b>	<b>(Ps. 3,113)</b>	<b>(Ps. 1,168)</b>

### **Operational risk**

As of January 2003, the Financial Group established a formal operational risk department denominated "Operational Risk Management Department" as part of its Risk Management Strategy.

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

Operating 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 insure that the existing operational risks and the required controls are duly identified, evaluated and aligned with the organization's risk strategy; and c) to insure 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 Controllershship Department to promote effective Internal Control that defines the proper procedures and controls to mitigate operational risk. The Internal Audit Department follows up on compliance.

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

### II. Quantitative and qualitative measuring tools

#### Operating losses database

To record operating loss events, a system has been developed internally known as the "Operating Loss and Events Capture System" (SCERO). This system enables the central information supplier areas to directly record such events online, which are classified by type of event in accordance with the following categories (in line with the Basle II Agreement proposals):

Types of events	Description
Internal fraud	Losses derived from actions intended to defraud, illegally seize ownership or evade the regulations, law or policies of the Institution (excluding diversity/discrimination events) involving at least one internal party.
External fraud	Losses derived from actions taken by third parties intended to defraud, illegally seize ownership or evade the law.
Labor relations and job safety	Losses derived from actions inconsistent with laws or employment, health or safety agreements, or which result in the payment of claims for damages to personnel or diversity/discrimination claims.
Customers, products and business practices	Losses derived from negligence or unintentional breaches which prevent compliance with professional obligations with customers (including trust and adaptation requirements or due to the nature or design of a product.
Natural disasters and other events	Losses due to damage or harm to physical assets due to natural disasters or other events.
Business incidences and system failures	Losses derived from incidences in the business and system failures.
Process execution, delivery and management	Losses derived from errors in transaction processing or in process management, as well as relations with counterparties and suppliers.

This historical database provides the statistics of the operating events experienced by the Financial Group in order to be able to determine the respective trends, frequency, impact and distribution. Furthermore, the database will serve to calculate capital requirements for advanced models in the future.

### Legal and tax contingencies database

For the recording and follow-up of legal, administrative and tax issues that may arise from adverse unappealable ruling, an internal system called “Legal Risk Issues Monitoring System” (SMARL) was developed. This system enables the central data supplying areas to record such events directly and on-line, which are then classified by company, sector and legal issue, among others.

As part of the Financial Group's legal risk management initiative, legal and tax contingencies are estimated by the attorneys that process the issues based on an internal methodology. This makes it possible to create the necessary book reserve to face such estimated contingencies.

### Risk management model

The Financial Group and its subsidiaries 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, operating risk management is now an institutional policy defined and supported by senior management.

To perform operating risk management, each of the operating risks involved in the processes must be identified in order to analyze them. In this regard, the risks identified by Regulations Control are recorded in a risk matrix and processed to eliminate or mitigate them (trying to reduce their severity or frequency) and to define the tolerance levels, as applicable. A new Operating Risk Management Model and the technology tool for its implementation are currently being developed.

### **III. Calculating capital requirement**

On November 23, 2007, the Official Gazette of the Federation published the operating risk capitalization rules that set forth a basic model, which is calculated and reported periodically to the authorities.

### **IV. Information and reporting**

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

### **Technology risk**

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

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

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

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

### Legal risk

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

The legal risk must be measured as an inherent part of operating risk in order to understand and estimate its impact. Therefore, those legal issues which result in actual operating losses in the SMARL system are recorded in the SCERO in accordance with a predetermined classification.

Based on the statistics of the current legal issues and real loss events, the Financial Group can identify specific legal or operating risks, which are analyzed in order to eliminate or mitigate them in an attempt to reduce or limit their future occurrence or impact.

## 34 - MEMORANDUM ACCOUNTS

	2009	2008
Bank customers (current accounts)	Ps. 4	Ps. 74
Settlement of customer transactions	(80)	35
Customer valuables received in custody	134,480	118,537
Customer repurchase agreements	35,680	35,688
Customer call options transactions	-	274
Managed trusts	4,641	2,378
	<b>Ps. 174,725</b>	<b>Ps. 156,986</b>
Other contingent assets and liabilities	Ps.273	Ps.266
Credit commitments	2,272	2,793
Deposits of assets	1,632	3,006
Financial Group securities delivered into custody	-	886
Financial Group government securities held in custody	-	101
Assets in trusts or under mandate	112,942	90,469
Managed assets in custody	158,547	131,886
Investment banking transactions on account of third parties (net)	74,646	84,615
Collateral received by the institution	33,464	31,567
Collateral received and sold or given as a pledge by the entity	43,165	-
Past-due loan portfolio accrued and uncollected interest	198	137
	<b>Ps. 427,139</b>	<b>Ps. 345,726</b>
Securities to be received in repurchase agreements	Ps.-	Ps.39,939
Less: Creditor repurchase and resale agreement	-	(40,176)
	<b>Ps.-</b>	<b>(Ps.237)</b>
Repurchase agreement from debtors	Ps.-	Ps.35,054
Less: Securities to be received in repurchase agreements	-	(34,908)
	<b>Ps. -</b>	<b>Ps. 146</b>



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## **35 - COMMITMENTS**

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As of December 31, 2009 and 2008, the Financial Group had the following contingent obligations and commitments:

- Other contingent obligations and opening of credits totaling Ps. 2,545 (Ps. 3,059 in 2008), which are recorded in memorandum accounts.
- Certain real property and operating equipment are leased. Total property lease payments for the periods ended December 31, 2009 and 2008, were Ps. 197 and Ps. 159, respectively.

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## **36 - CONTINGENCIES**

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As of December 31, 2009, there are lawsuits filed against the Financial Group in civil and business court cases. However, the Financial Group's attorneys consider that the claims filed are unsubstantiated and, in the event of an adverse ruling, they would not significantly impact the Financial Group's consolidated financial position. A reserve of Ps. 77 is recorded for such contentious matters.

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## **37 - SAVINGS PREVENTIVE AND PROTECTION MECHANISM**

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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 2009 and 2008, the amount of contributions to the IPAB payable by Banorte for fees amounted to Ps. 1,073 and Ps. 938, respectively.