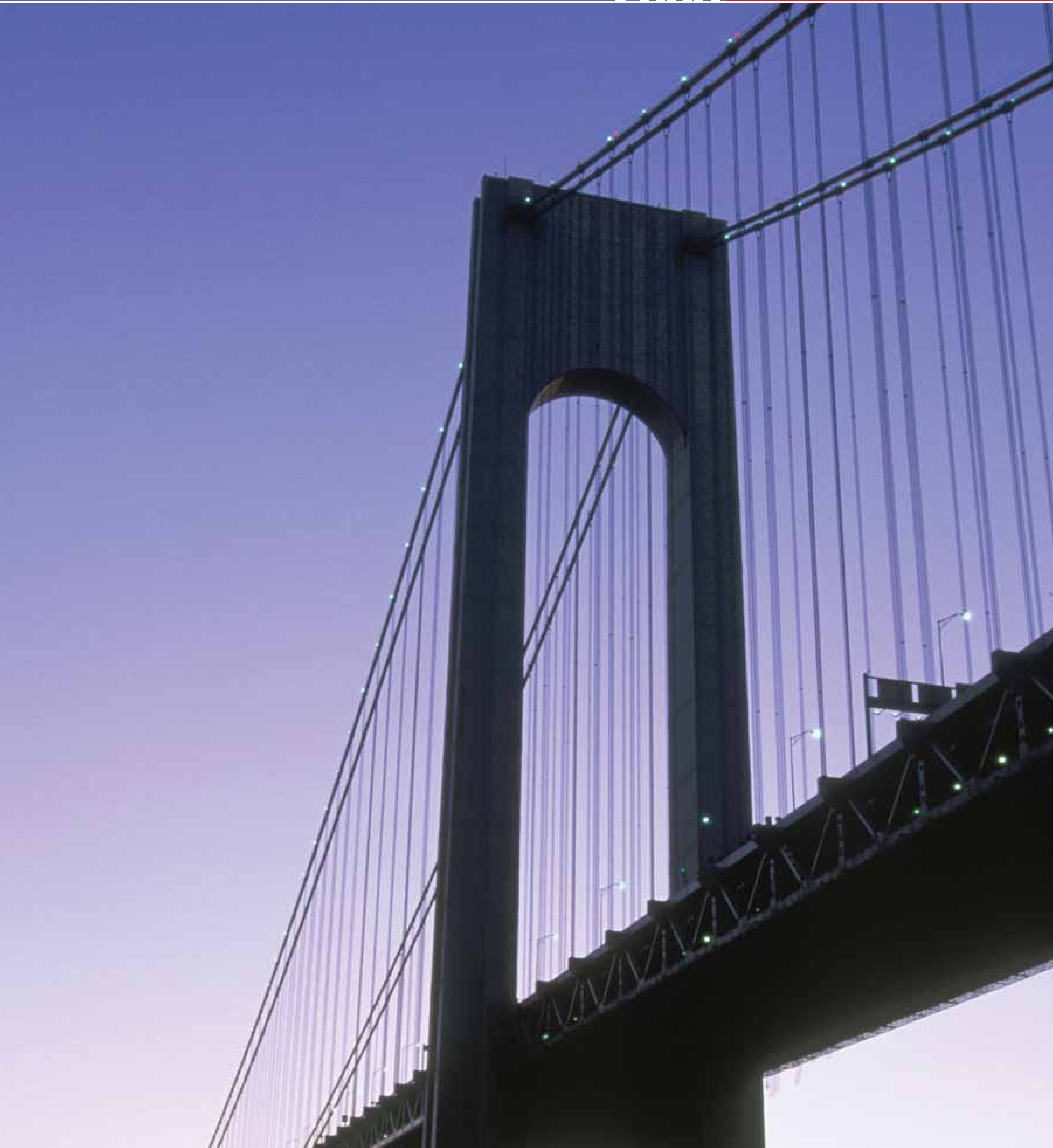
annual report 2006

GRUPO FINANCIERO BANORTE



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Mexico City, March 31, 2007.

To the Board of Directors and General Shareholders' Meeting of Grupo Financiero Banorte, S. A. de C. V.

In accordance with Article 14 Bis 3 section V point a) of the Securities Market Law; and Article 33 section I point a) of the Sole Circular Letter of the Issuers of the National Banking and Securities Commission, the Audit Committee is required to submit an annual report on its activities, which mentions the most significant accounting policies adopted in drafting the Company's financial statements. As instructed by the Board of Directors of Grupo Financiero, the Audit Committee has fulfilled its purpose of providing support to the Board in strengthening the Internal Control System, reviewing the updating of the objectives and guidelines related to operating procedures in accordance with the Institution's strategies and aims, with the functions and responsibilities of its social bodies, with the process of issuing the financial information and complying with the applicable regulations, in its role as a communications channel between the internal and external auditors.

As Chairman of the Committee and, on behalf of the same, I would like to inform you of the main activities carried out over the course of the fiscal year ended December 31, 2006.

I. Five scheduled ordinary monthly meetings were convened, in January, February, April, July and October and three extraordinary meetings took place, in March, June, July, September (2 meetings) and November and the resolutions reached and activities carried out therein were entered into minutes, which are in the possession of Management.

II. The following were submitted to the Board of Directors:

1. The Audit Committee's Report on the status of the Internal Control System, in April.

2. A report on the implications of the new Securities Market Law, in October.

III. The following were submitted to the Board of Directors for its approval:

1. The Code of Conduct, the Organizational Structure (to the 2nd level) and the General Policies for Human and Material Resources; and the updated Audit Committee Regulation, all of which the Board approved in its meeting of January 26.

2. The confirmation of the firm Galaz, Yamazaki, Ruiz Urquiza, S. C., a member of Deloitte Touche Tohmatusu, as the Company's external auditors for fiscal 2006. The evaluation of the scope of work and conditions of engagement was carried out by the Committee in June and July and the signature on the report was approved by the Board during its July 27 meeting.

3. The updating of the Code of Conduct, the General Guidelines for Internal Control and the General Policies for Human and Material Resources were all approved by the Board in its October 26 meeting.

IV. In support thereof, the Board of Directors effected the following:

1. Approved the changes to the internal control aspects in the operating manual, as a result of updating regulations to comply with the law, regulations and new internal control guidelines.

2. Ensured the independence of the Internal Auditing area, since this area reports to the Board through the Audit Committee; ascertained its effectiveness, the quality of its review programs and the timely execution of the same, assessing its performance.

3. Reviewed the reports of the inspection visits made by the competent supervising authorities; reported the results of the same to the Board and followed up the implementation of the pertinent recommendations and corrective measures.

4. Reviewed the principal observations made by Internal and External Auditing, the Authorities, the Group and the Banking, Brokerage and Long-Terms Savings Sectors, including the review of the Risk Management System, and followed up the corrective measures taken, reporting the relevant matters to the Board.

5. Evaluated the performance of the external auditors, their auditor's report and the other report or reports they prepared in compliance with the regulations in effect.

6. This year the Committee's functions include the duty of evaluating the performance of the Controllership, which we carried out in April and included in our report to the Board of that same month.

7. Reviewed the Internal Control System as related to the process of issuing financial information, providing support to us for the external or internal auditors' work. The Accounting Internal Control documentation process was also reviewed.

8. Participated in the review and discussion of the Financial Statements as of December 31, 2006 corresponding to the Financial Group and Banorte and Subsidiaries, which are the responsibility of Management, as well as the external auditors' report and related notes. With respect to the accounting policies and criteria followed by the Company, of special note were the recognition of the effects of inflation, the preventive reserve for credit risks, the treatment of the loan assets portfolios and goodwill. Based on our review; as well as the internal auditors' quarterly reports, we are in a position to state that: a) the accounting policies are adequate and sufficient in accordance with the applicable laws and regulations; b) they are applied on a consistent basis, and c) they provide reasonable support for the financial information submitted by Management. Due to the foregoing, we recommend that the Board grant its approval.

9. The internal and external auditors' reports on operations with related parties do not reveal any transactions that should be reported.

10. Communications and coordination were maintained with the General Direction and the Audit Committees of the Brokerage and Long-Term Savings Sectors, comprised of the members of the respective Boards of Directors.

V. We maintain an on-going review process of the advances achieved in strengthening the Internal Control System, in conformity with the plan established by management.

Very truly yours,

Francisco J. Alcalá de León
Chairman of the Audit and Company Practices Committee

Monterrey, N. L., February 26, 2007.

To the Shareholders' Meeting of Grupo Financiero Banorte, S. A. de C. V.:

In my capacity as Examiner and in compliance with the provisions of Article 166 of the General Law for Mercantile Companies and the By-laws of Grupo Financiero Banorte, S. A. de C. V. (the Holding Company), I hereby issue my report to you on the exactness, sufficiency and fairness of the individual and consolidated financial information which the Board of Directors has submitted to you, in relation to the Holding Company's performance for the year ended December 31, 2006.

I have been presents at the Shareholders' Meetings and the Sessions of the Board of Directors to which I have been summoned to attend and have obtained from the directors and management all the information on operations, the documentation and records which I considered necessary to examine. My review was conducted in accordance with generally accepted auditing standards.

As explained in Notes 1 and 5 to the consolidated financial statements, the Holding Company's operations, as well as the financial information requirements it must meet, are regulated by the National Banking and Securities Commission in circular letters it issues on accounting to this end, as well as on general and particular letter rulings that govern the accounting entries of certain transactions and other applicable laws. Note 4 describes the main differences between the accounting practices required by the Commission and the Mexican Financial Information Standards generally used in preparing financial statements for other types of non regulated companies.

As mentioned in Note 29 to the consolidated financial statements, the Extraordinary General Shareholders' Meeting held on December 13, 2006, among other matters, agreed to modify the Holding Company's by-laws, to adapt them to the provisions of the new Securities Market Law. With the entry into effect of the new Securities Market Law, it is established that corporations with stock registered in the National Securities Registry, which represents their capital stock, acquire the character of securities corporations, so that the business name of "Grupo Financiero Banorte," must now be followed by the words "Variable Capital Securities Corporation" or the abbreviation of S. A. B. de C. V., however, this modification is in the process of being approved by the Ministry of Finance.

In my opinion, the accounting and information criteria and policies followed by the Holding Company and considered by management in preparing the individual and consolidated financial information submitted by the same to this Meeting, are adequate and sufficient and were applied on a consistent basis with the preceding fiscal year. Therefore, the financial information presented by management exactly, sufficiently and fairly reflects the financial position of Grupo Financiero Banorte, S. A. de C. V. as of December 31, 2006 and the results of its operations, changes in stockholders' equity and changes in the financial position for the year then ended, in conformity with the accounting practices established by the Commission.

Ernesto González Dávila, C. P. A.
Examiner

Deloitte.
Galaz, Yamazaki, Ruiz Urquiza, S. C.
Lázaro Cárdenas 2321 Poniente, PB
Residencial San Agustín, 66260
Garza García, N. L., México

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February 26, 2007.

To the Board of Directors and Stockholders of Grupo Financiero Banorte, S. A. de C. V.

We have audited the accompanying consolidated balance sheets of Grupo Financiero Banorte, S. A. de C. V. (the Financial Group) as of December 31, 2006 and 2005, and the related consolidated statements of income, changes in stockholders' equity and changes in financial position for the years then ended. These consolidated financial statements are the responsibility of the Financial Group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Mexico, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and that they are prepared in conformity with the accounting practices prescribed by the Mexican National Banking and Securities Commission (the "Commission"). An audit consists of examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes assessing the accounting practices used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As explained in Notes 1 and 6 to the accompanying consolidated financial statements, the Commission regulates the operations of the Financial Group and its financial reporting requirements through accounting circulars and general and specific purpose official letters that regulate the recording of transactions and other applicable laws. Note 4 describes the differences between the accounting practices prescribed by the Commission and Mexican Financial Reporting Standards, commonly applied in the preparation of financial statements for other types of unregulated entities in Mexico.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Grupo Financiero Banorte, S. A. de C. V. as of December 31, 2006 and 2005, and the results of their operations, changes in their stockholders' equity and changes in their financial position for the years then ended in conformity with the accounting practices prescribed by the Commission.

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

C. P. C. Carlos A. García Cardoso
Recorded in the General Administration of
Federal Fiscal Audit No. 04919

balance sheets

GRUPO FINANCIERO BANORTE, S. A. DE C. V. AND SUBSIDIARIES
CONSOLIDATED AS OF DECEMBER 31, 2006 AND 2005 (IN MILLIONS OF MEXICAN PESOS OF PURCHASING POWER OF DECEMBER 31, 2006)

ASSETS	2006	2005
Cash and cash equivalents	**Ps 43,403**	**Ps 40,403**
Securities:		
Trading securities	15,015	9,369
Available-for-sale securities	6,254	141
Held-to-maturity securities	4,403	12,815
	25,672	**22,325**
Securities and derivative financial instruments:		
Debtor balances under repurchase and resale agreements	25	162
Derivative financial instruments	19	488
	44	**650**
Current loan portfolio:		
Commercial loans	80,293	60,264
Loans to financial institutions	2,373	2,046
Consumer loans	20,718	16,157
Mortgage loans	27,798	24,772
Government loans	10,784	15,849
FOBAPROA or IPAB loans	-	169
Total current loan portfolio	**141,966**	**119,257**
Past-due loan portfolio:		
Commercial loans	730	699
Consumer loans	609	429
Mortgage loans	721	799
Total past-due loan portfolio	**2,060**	**1,927**
Total loan portfolio	**144,026**	**121,184**
Allowance for loan losses	3,533	3,195
Loan portfolio, net	**140,493**	**117,989**
Credit asset portfolio	**3,618**	**3,367**
Other receivables, net	**5,639**	**2,901**
Foreclosed assets, net	**316**	**465**
Property, furniture and equipment, net	**6,646**	**5,918**
Permanent stock investments	**3,164**	**2,319**
Deferred taxes, net	**-**	**420**
Other assets:		
Other assets, deferred charges and intangible assets	**5,442**	**1,346**
TOTAL ASSETS	**Ps 234,437**	**Ps 198,103**

Ing. Luis Peña Kegel
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 Controlling

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

BANORTE

LIABILITIES	2006	2005
Deposits:		
Demand deposits	Ps 95,401	Ps 79,206
Time deposits:		
General public	69,591	56,595
Money market	4,545	7,358
	169,537	**143,159**
Bank and other loans:		
Demand loans	988	2,671
Short-term loans	5,903	5,769
Long-term loans	9,959	11,945
	16,850	**20,385**
Securities and derivative financial instruments:		
Creditor balances under repurchase and resale agreements	235	347
Derivative financial instruments	2	465
	237	**812**
Other payables:		
Income taxes and employee profit sharing	1,277	1,773
Sundry creditors and other payables	7,449	4,786
	8,726	**6,559**
Subordinated debentures	**11,367**	**4,744**
Deferred taxes, net	**144**	**-**
Deferred credits	**71**	**75**
TOTAL LIABILITIES	**206,932**	**175,734**

STOCKHOLDERS' EQUITY	2006	2005
Paid-in capital:		
Common stock	11,580	11,581
Additional paid-in capital	1,794	1,790
	13,374	**13,371**
Other capital:		
Capital reserves	2,062	1,741
Retained earnings from prior years	15,816	10,916
Insufficiency in restated stockholders' equity	(6,147)	(6,147)
Valuation of permanent stock investments	(4,967)	(4,489)
Net income	5,959	5,957
	12,723	**7,978**
Minority interest in stockholders' equity	**1,408**	**1,020**
TOTAL STOCKHOLDERS' EQUITY	**27,505**	**22,369**
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**Ps 234,437**	**Ps 198,103**

MEMORANDUM ACCOUNTS (NOTE 36)

"These balance sheets, consolidated with those of the financial entities and other companies that form part of the financial group and are susceptible to consolidation, were prepared according to Accounting Principles applicable to Financial Group Holding Companies issued by the National Banking and Securities Commission according to article 30 of the Law of Financial Institutions, of general and mandatory observance, consistently applied, reflecting the operations conducted by the Holding company, the financial entities and the other companies that form part of the Financial Group and are susceptible to consolidation as of the date above, which were carried out and valued according to sound practices and applicable legal and administrative dispositions."

"As of December 31, 2006, the historical Capital stock amounted to Ps 7,064."

"The accompanying Consolidated Balance Sheets have been approved by the Board of Directors under the accountability of the signors."

statements of income

GRUPO FINANCIERO BANORTE, S. A. DE C. V. AND SUBSIDIARIES

CONSOLIDATED FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005 (IN MILLIONS OF MEXICAN PESOS OF PURCHASING POWER OF DECEMBER 31, 2006)

	2006	2005
Interest income	Ps 35,480	Ps 36,792
Interest expense	(20,626)	(22,841)
Monetary position loss, net	(336)	(153)
Financial margin	**14,518**	**13,798**
Provision for loan losses	(1,530)	(1,505)
Financial margin after provision for loan losses	**12,988**	**12,293**
Commission and fee income	7,588	6,905
Commission and fee expense	(1,528)	(1,560)
Brokerage revenues	1,716	1,080
	7,776	**6,425**
Net operating revenues	**20,764**	**18,718**
Administrative and promotional expenses	(12,458)	(11,579)
Operating income	**8,306**	**7,139**
Other income	1,086	3,021
Other expenses	(885)	(1,936)
	201	**1,085**
Income before income taxes and employee profit sharing	**8,507**	**8,224**
Current income taxes and employee profit sharing	2,923	2,382
Deferred income taxes and employee profit sharing	213	(25)
	3,136	**2,357**
Income before equity in earnings of subsidiaries and associated companies	**5,371**	**5,867**
Equity in earnings of subsidiaries and associated companies	797	419
Income before minority interest	**6,168**	**6,286**
Minority interest	(209)	(329)
NET INCOME	**Ps 5,959**	**Ps 5,957**

"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 Group Holding Companies issued by the National Banking and Securities Commission according to article 30 of the Law of Financial Institutions, of general and mandatory observance, consistently applied, reflecting all of the revenues and expenses derived from the operations conducted by the Holding Company, the financial entities and the other companies that form part of the Financial Group and are susceptible to consolidation as of the date above, which were carried out and valued according to sound practices and applicable legal and administrative provisions."

"The accompanying Consolidated Statements of Income have been approved by the Board of Directors under the accountability of the signors."

Ing. Luis Peña Kegel
Chief Executive Officer

Ing. Sergio García Robles Gil
Managing Director - CFO

Lic. Jorge Eduardo Vega Camargo
Executive Director Controlling

C. P. Román Martínez Méndez
Managing Director - Audit

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

statements of changes in stockholders' equity

GRUPO FINANCIERO BANORTE, S. A. DE C. V. AND SUBSIDIARIES

CONSOLIDATED FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005 (IN MILLIONS OF MEXICAN PESOS OF PURCHASING POWER OF DECEMBER 31, 2006)

	PAID-IN CAPITAL			
	Common stock	Additional paid-in capital	Capital reserves	Retained earnings
BALANCES, JANUARY 1, 20005	**Ps 6,026**	**Ps 1,790**	**Ps 1,619**	**Ps 14,465**
Transactions approved by stockholders:				
Issuance (repurchase of shares)	1	-	(18)	-
Transfer of prior years' result	-	-	-	2,809
Creation of reserves as per General Stockholders' Meeting on April 28, 2005	-	-	140	(140)
Dividend decreed as per General Stockholders' Meeting on October 6, 2005	-	-	-	(664)
Increase in capital stock as per General Stockholders' Meeting on October 6, 2005	5,554	-	-	(5,554)
Total transactions approved by stockholders	**5,555**	**-**	**122**	**(3,549)**
Comprehensive income entries:				
Net income	-	-	-	-
Result from holding nonmonetary assets	-	-	-	-
Total comprehensive income	**-**	**-**	**-**	**-**
Minority interest	-	-	-	-
BALANCES, DECEMBER 31, 2005	**11,581**	**1,790**	**1,741**	**10,916**
Transactions approved by stockholders:				
Issuance (repurchase of shares)	(1)	4	27	-
Transfer of prior years' result	-	-	-	5,957
Creation of reserves as per General Stockholders' Meeting on April 28, 2006	-	-	294	(294)
Dividend decreed as per General Stockholders' Meeting on October 6, 2006	-	-	-	(763)
Total transactions approved by stockholders	**(1)**	**4**	**321**	**4,900**
Comprehensive income entries:				
Net income	-	-	-	-
Result from holding nonmonetary assets	-	-	-	-
Total comprehensive income	**-**	**-**	**-**	**-**
Minority interest	-	-	-	-
BALANCES, DECEMBER 31, 2006	**Ps 11,580**	**Ps 1,794**	**Ps 2,062**	**Ps 15,816**

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BANORTE

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Executive Director Accounting

	OTHER CAPITAL					
	Issuficiency in restated stockholders' equity	Valuation of permanent stock investments	Net income	Total majority interest	Total minority interest	Total stockholders' equity
	Ps (6,147)	**Ps (3,952)**	**Ps 2,809**	**Ps 16,610**	**Ps 937**	**Ps 17,547**
	-	-	-	(17)	-	(17)
	-	-	(2,809)	-	-	-
	-	-	-	-	-	-
	-	-	-	(664)	-	(664)
	-	-	-	-	-	-
	-	**-**	**(2,809)**	**(681)**	**-**	**(681)**
	-	-	5,957	5,957	-	5,957
	-	(537)	-	(537)	-	(537)
	-	**(537)**	**5,957**	**5,420**	**-**	**5,420**
	-	-	-	-	83	83
	(6,147)	**(4,489)**	**5,957**	**21,349**	**1,020**	**22,369**
	-	-	-	30	-	30
	-	-	(5,957)	-	-	-
	-	-	-	-	-	-
	-	-	-	(763)	-	(763)
	-	**-**	**(5,957)**	**(733)**	**-**	**(733)**
	-	-	5,959	5,959	-	5,959
	-	(478)	-	(478)	-	(478)
	-	**(478)**	**5,959**	**5,481**	**-**	**5,481**
	-	-	-	-	388	388
	Ps (6,147)	**Ps (4,967)**	**Ps 5,959**	**Ps 26,097**	**Ps 1,408**	**Ps 27,505**

"These statements of changes in shareholder'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 Group Holding Companies issued by the National Banking and Securities Commission according to article 30 of the Law of Financial Institutions, of general and mandatory observance, consistently applied, reflecting all of the movements in equity accounts derived from the operations, conducted by the Holding Company, the financial entities and the other companies that form part of the Financial Group and are susceptible to consolidation as of the date above, which were carried out and valued according to sound practices and applicable legal and administrative provisions."

"The accompanying Consolidated Statements of Changes in Stockholder's Equity were approved by the Board of Directors under the accountability of the signors."

statements of changes in financial position

GRUPO FINANCIERO BANORTE, S. A. DE C. V. AND SUBSIDIARIES

CONSOLIDATED FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005 (IN MILLIONS OF MEXICAN PESOS OF PURCHASING POWER OF DECEMBER 31, 2006)

	2006	2005
Operating activities:		
Net income	Ps 5,959	Ps 5,957
Items not requiring (generating) resources:		
Allowance for loan losses	1,530	1,505
Depreciation and amortization	888	988
Deferred taxes	213	(25)
Minority interest	209	329
Provisions for sundry obligations	(45)	1,942
Equity in earnings of associated companies and affiliates	(797)	(419)
Valuation effects on financial instruments	170	(45)
	8,127	**10,232**
Changes in operating assets and liabilities:		
Increase in deposits	26,378	5,526
Increase in treasury transactions (investment securities)	(3,517)	(951)
Decrease in bank and other loans	(3,535)	(4,306)
Increase in credit asset portfolio	(251)	(1,062)
Increase in loan portfolio	(24,034)	(10,839)
Decrease in deferred taxes	350	331
Increase in securities and derivative financial instruments:	31	131
Increase (decrease) of other receivables and payables, net	(526)	842
Net resources used in operating activities	**(5,104)**	**(10,328)**
Financing activities:		
Subordinated debentures	6,623	(198)
Issuance (repurchase) of shares	30	(17)
Dividends paid	(763)	-
Common stock	-	(663)
Resources generated by (used in) financing activities	**5,890**	**(878)**
Investing activities:		
Decrease (increase) in foreclosed assets	149	(74)
Increase in permanent stock investments	(348)	(671)
Increase (decrease) in deferred charges and credits	(4,387)	103
Acquisition of property, furniture and equipment, net of disposals	(1,327)	(177)
Resources used in investing activities	**(5,913)**	**(819)**
Increase (decrease) in funds available	3,000	(1,793)
Funds available at the beginning of the year	40,403	42,196
FUNDS AVAILABLE AT THE END OF THE YEAR	**Ps 43,403**	**Ps 40,403**

"These statements 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, were prepared according to Accounting Principles applicable to Financial Group Holding Companies issued by the National Banking and Securities Commission according to article 30 of the Law of Financial Institutions, of general and mandatory observance, consistently applied, reflecting all of the origins and applications of cash derived from the operations conducted by the Holding Company, the financial entities and the other companies that form part of the Financial Group and are susceptible to consolidation as of the date above, which were carried out and valued according to sound practices and applicable legal and administrative dispositions."

"The accompanying Consolidated Statements of Changes in Financial Position have been approved by the Board of Directors under the accountability of the signors."

Ing. Luis Peña Kegel
Chief Executive Officer

Ing. Sergio García Robles Gil
Managing Director - CFO

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Executive Director Accounting

1. ACTIVITIES AND REGULATORY ENVIRONMENT

Grupo Financiero Banorte, S. A. de C. V. (the "Financial Group") is authorized by the Mexican Treasury Department (SHCP) to operate as a financial group 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 by the previously 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 (CONSAR), Banco de México and other applicable laws.

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, the purchase and sale of uncollected invoices and notes, rendering of general warehousing services and providing life insurance and casualty insurance.

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

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

As stated in Note 29, at the Extraordinary Stockholders' Meeting held on December 13, 2006, it was resolved, among other things, to change the Financial Group's name from Grupo Financiero Banorte, S. A. de C. V. to Grupo Financiero Banorte, S. A. B. de C.V. due to a requirement of the Mexican securities law issued on June 28, 2006. This new law requires every company that is listed on the Bolsa Mexicana de Valores, S. A. de C. V. ("BMV" Mexican Stock Exchange) to include "Bursátil" (publicly traded) in their legal name or use the letter "B" after S. A. However, authorization of this modification is still pending approval by the SHCP, and therefore the Financial Group's legal name will remain the same until such approval is obtained.

2. SIGNIFICANT EVENTS DURING THE YEAR

a) Merger of financial institutions

During the Extraordinary Stockholders' Meetings held on August 17, 2006 at the Financial Group and on August 16, 2006 at Banco del Centro, S. A., Institución de Banca Múltiple ("Bancen") and Grupo Financiero Banorte, S. A., Institución de Banca Múltiple (Banorte), the merger of Bancen and Banorte was approved, whereby the former was the merging entity and the latter the merged entity. The merger became effective for accounting and tax purposes as of August 1, 2006.

The merger was approved by the Commission and the SHCP, who awarded its authorization by means of Document No. UBA/118/2006 dated August 24, 2006.

The merger agreements were inscribed in the Public Register of Property and Commerce on August 28, 2006 and immediately went into effect. As these entities are wholly-owned by the Financial Group, the effects of the merger did not have an impact on the consolidated financial position or results of operations.

b) Acquisition of INB Financial Corporation

In November 2006, Banorte, through its subsidiary Banorte USA Corporation - an entity constituted in the United States of America, completed the purchase of 70% of the outstanding equity shares of INB Financial Corporation (INB), which in turn is the holder of Inter National Bank, a banking institution based in Texas. This transaction was approved by the SHCP in Mexico and the Federal Reserve Board in the United States of America.

Banorte paid USD 259 million for this acquisition with its own funds and concurrently entered into an option to purchase the remaining 30% of the outstanding INB Financial Corporation shares from the minority interest subject to certain conditions. In addition, the minority interest has an option to sell the remaining 30% of the outstanding INB Financial Corporation subject to certain conditions.

As of December 31, 2006, INB's total assets are USD 1,472 million, deposits total USD 1,363 million, investment securities are USD 352 million, and it has a total loan portfolio of USD 788 million.

The Financial Group's preliminary purchase price allocation resulted in the recognition of goodwill of Ps 2,267 and intangible assets of Ps 154, which are included as "Other assets, deferred charges and intangibles" in the consolidated balance sheet. Banorte intends to exercise the purchase option for the remaining 30% of INB's outstanding shares, in accordance with the provisions in the acquisition documents. As prescribed by the Commission, Banorte has recorded a contingent liability for the expected future disbursement that resulted in the recognition of Ps 1,208 as additional goodwill, which is included in the Ps 2,267 mentioned previously. The liability will be valued at each reporting date by applying a formula agreed to by both parties in the acquisition documents.

c) Issuance of subordinated debentures

At the General Extraordinary Shareholders' Meeting held on October 2, 2006, Banorte's shareholders approved the issuance of two tranches of subordinated debentures. On October 13, 2006, the issuance of the aforementioned subordinated debenture was completed as follows:

- A principal sum of USD 200 million in non-preferred subordinated debentures maturing in 2021, with a 6.826% interest rate.
- A principal sum of USD 400 million in preferred subordinated debentures maturing in 2016, with a 6.135% interest rate.

d) UMS bond securization

In accordance with a modification in its investment strategy, Banorte, during the first quarter of 2006, reclassified its position of United Mexican States (“UMS”) bonds from “held-to-maturity securities” to “available-for-sale securities", which amounted to Ps 7,505. As a result of this reclassification, Ps 67 was recorded as an adjustment to the Financial Group's stockholders' equity as a result of the market value adjustment due to the available-for-sale classification, which was recorded in accordance with cicular B-2, Investments in Securities.

As a result of the transfer of securities between the aforementioned categories, an internal reclassification was made for the derivative financial instruments that covered Banorte's previous position, represented by 32 cross currency swap derivative financial instruments that changed from a variable position with interest rates denominated in Mexican pesos to a fixed exposition in US dollar interest rates. The reclassification resulted in a change of category for Banorte's derivative financial instruments, from “hedges of held-to-maturity securities” to “hedges of available-for-sale securities”.

Banorte sold a portion of its position in UMS bonds to a trust for Ps 4,910. The Ps 4,910 was obtained through the issuance of certified preferred securities (“certificados bursátiles preferentes”) by the trust that trade on the Mexican Stock Exchange.The Company recognized a gain on the sale of the UMS securities of Ps 169, net of a realized loss of Ps 12, which had previously been recorded in other comprehensive income in the statement of stockholders' equity. In addition, Banorte purchased a majority of the securities and subsequently entered into collateralized repurchase agreements.

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Banorte accounted for this operation as a sale in accordance with positions issued by the Commission, which regulates these types of transactions. If Banorte had not entered into collateralized repurchase agreements, the transaction would have been accounted for as a securitized loan.

e) Mortgage loan securization

In December 2006 Banorte entered into a securitization transaction for a portion of its mortgage loan portfolio with the support of the Sociedad Hipotecaria Federal - ((“SHF”) Federal Mortgage Agency). Banorte was authorized to sell up to Ps 10,000 of mortgage loans. It transferred mortgage loans valued at Ps 2,068 to a trust (the “Trust”, a qualifying special purpose entity) that was formed prior to the execution of this agreement for the sole purpose of buying and selling accounts receivable and is designed to be bankruptcy remote. The Trust issued two series of certified preferred securities (“certificados bursátiles preferentes”) that trade on the Mexican Stock Exchange. The Trust will continue in existence for five years, when the holders of the securities will be reimbursed for their initial investment to the Trust. S&P, Fitch and Moodys gave this transaction the highest possible rating, AAA.

Banorte obtained Ps 2,048 in cash from the Trust and recorded a retained interest of Ps 20 as a result of the transaction. The retained interest was recorded as “available-for-sale securities”, which are valued in conformity with the Commission's criteria.

f) Mortgage loan portfolio transferred to FOVISSSTE

In November 2006, Banorte addressed the requirement submitted by the Instituto de Seguridad y Servicios Sociales de los Trabajadores del Estado (“ISSSTE”, or Social Security Institute for State Employees) and granted to ISSSTE's affiliated agency, Fondo de Vivienda del ISSSTE (“FOVISSSTE”), the rights and control of over 37,124 loans.

As Banorte does not consolidate FOVISSSTE and accounts for its investment under the equity method, the effect in Banorte's financial statements was a reduction of Ps 2,677 in mortgage loans, as well as a decrease of Ps 2,040 in liabilities resulting from the funds obtained to provide such loans.

3. BASIS OF PRESENTATION

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, 2006 and 2005, the Financial Group's consolidated subsidiaries and its ownership percentage is as follows:

	2006	2005
Banco Mercantil del Norte, S. A.	97.06%	96.11%
Banco del Centro, S. A.	-	99.99%
Casa de Bolsa Banorte, S. A. de C. V.	99.99%	99.99%
Arrendadora Banorte, S. A. de C. V.	99.99%	99.99%
Factor Banorte, S. A. de C. V.	99.99%	99.99%
Almacenadora Banorte, S. A. de C. V.	99.99%	99.99%
Créditos Pronegocio, S. A. de C. V.	99.99%	99.99%

Conversion of financial statements of Banorte USA Corporation and subsidiaries ("Banorte USA")

The financial statements of Banorte USA are prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP"). In order to consolidate the financial statements of Banorte USA, which operates independently of Banorte, the Financial Group converted Banorte USA's financial statements from US GAAP into the accounting practices prescribed by the Commission. The financial statements were restated for inflation of the United States of America to express amounts in purchasing power of the US dollar as of the most recent year-end. All assets, liabilities, revenues, costs and expenses were then translated into Mexican pesos using the closing exchange rate in effect at the most recent balance sheet date presented. Translation effects are presented in stockholders' equity.

4. MAIN DIFFERENCES WITH MEXICAN FINANCIAL REPORTING STANDARDS

As of June 1, 2004, the function of establishing and issuing Mexican Financial Reporting Standards ("MFRS") became the responsibility of the Mexican Board for Research and Development of Financial Reporting Standards ("CINIF"). CINIF decided to rename the accounting principles generally accepted in Mexico ("Mexican GAAP"), previously issued by the Mexican Institute of Public Accountants ("IMCP"), as Mexican Normas de Información Financiera (Mexican Financial Reporting Standards). As of December 31, 2005, eight Series A standards had been issued (NIF A-1 to NIF A-8), representing the Conceptual Framework, intended to serve as the supporting rationale for the development of such standards, and as a reference to resolve issues arising in practice; NIF B-1, Accounting Changes and Corrections of Errors, was also issued. The Series A NIFs and NIF B-1 went into effect as of January 1, 2006.

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

- The Financial Group's consolidated financial statements include the financial statements of its subsidiaries engaged in the financial sector and those of the subsidiaries that render complementary services. MFRS requires that all controlled subsidiaries be consolidated, regardless of the sector to which they belong.

- Repurchase and resale agreements are recorded as purchase and sale transactions, based on their form rather than their substance (financing), and the present value of the price thereof at maturity is reflected in the statements of income, instead of recording the agreed-upon premium on a straight-line basis as required by MFRS.

- Commission revenues in the Retirement Funds Manager (Afore) are recorded as collected. MFRS requires that commissions be recognized as they are earned.

- In 2006 a Ps 58 reserve for foreclosed assets was created, which was recognized directly in retained earnings within stockholders' equity. Under MFRS, this adjustment would have been recorded in current year earnings.

- Sundry debts that are not recovered within 60 or 90 days, depending on their nature, are charged to the statement of income, regardless of whether they may be recovered by the Financial Group.

- Commissions on granting credits and commissions on rendering services are recorded in the income statement when collected, rather than when earned as under MFRS.

- Bulletin C-10, Derivative Financial Instruments and Hedging Activities, went into effect as of January 1, 2005, and its content differs from the criteria established by the Commission for the treatment of such instruments. These differences are, among others:

    - Under MFRS, derivative financial instruments are recorded at fair value, regardless of the purpose for which they are held. The accounting criteria of the Commission establish that derivative financial instruments held for hedging purposes are recorded using the same treatment as for the primary position being hedged; i.e., as accrued or at fair value.

- The Commission's accounting criteria establishes that financial derivatives held for hedging purposes should be offset with the primary position being hedged, whereas MFRS require they be presented separately in the balance sheet.

- MFRS establishes specific rules for the identification of embedded derivative instruments within an entity's contracts. When an embedded derivative is identified and the host contract has not been stated at fair value and adequate elements for its valuation exist, the embedded derivative is segregated from the host contract, stated at fair value and classified as trading or designated as a financial instrument for hedging. The Commission's accounting criteria does not require such segregation from the host contract nor for the instrument to be stated at fair value.

• The contribution or managed margin accounts (delivered and received), when financial derivative instruments listed in standardized markets (stock exchanges) and off-market are traded, are recorded under the heading of ”Funds available” and “Sundry creditors and other payables”, respectively, instead of presenting them under the heading of “Derivative financial instruments”, as established by MFRS.

• Foreclosed assets are considered as monetary assets, in accordance with the Commission's criteria, while MFRS consider them as non-monetary assets.

• The effect derived from the 2004 modification of the allowance for loan losses and foreclosed assets, which amounts to Ps 540, was recognized directly in retained earnings within stockholders' equity. Under MFRS, this adjustment would have been recorded in current year earnings.

• Under MFRS, transfers to or from financial instruments classified as trading to other categories are not allowed, which for purposes of the Commission's accounting criteria would be allowed with its prior authorization.

5. NEW ACCOUNTING PRINCIPLES

On September 15, 2006, the Federal Gazette of the Federation issued modifications or changes to the accounting practices established by the Commission for credit institutions, and which became effective as of January 1, 2007. These provisions dictate that financial services holding companies shall follow the accounting guidelines established by MFRS issued by the CINIF, except when the Commission determines that it is necessary to apply a specific rule or accounting criterion taking into account that financial institutions enter specialized transactions.

The most significant changes affecting the Financial Group are as follows:

• Companies that are not part of the financial services industry will be consolidated for financial reporting purposes.

• Foreclosed assets should be considered as non-monetary items and should, therefore, be updated for inflation as of January 1, 2007 without considering any cumulative effects.

• Without exception, all derivative financial instruments should be recorded at fair value in accordance with Bulletin C-10. In addition, the Financial Group will be required to apply all of the requirements established by Bulletin C-10 as it disclosed in Note 4.

6. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies of the Financial Group are in conformity with practices prescribed by the Commission's accounting circulars, and other general and specific purpose official letters issued for such purposes, 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. Although these estimates are based on management's best knowledge of current events, actual results may differ.

Recognition of the effects of inflation in financial information

The Financial Group restates its consolidated financial statements to Mexican peso purchasing power of the most recent balance sheet date presented. Accordingly, the consolidated financial statements of the prior year that are presented for comparative purposes, have also been restated to Mexican pesos of the same purchasing power and, therefore, differ from those originally reported in the prior year.

To recognize the effects of inflation in terms of purchasing power of the most recent balance sheet presented, the following procedures are applied:

To the balance sheet accounts

Real estate property is restated based on a factor derived from the value of Investment Units (UDIs), taking values determined by independent appraisers as the basis for their valuation.

Furniture and fixtures are restated based on a factor derived from the value of the UDI from their acquisition date to the most recent balance sheet presented.

Foreclosed assets are considered to be monetary items, and therefore these assets are not restated for the effects of inflation, but are included in the calculation of the monetary position result.

Investments in shares are valued based on the equity method as described as follows: The difference between the restatement of the balance at the beginning of the period using the restatement factor derived from the value of the UDI and the increase or decrease from the equity in earnings is reflected as a result from holding nonmonetary assets.

Contributed capital and retained earnings, as well as other non-monetary items, are restated using a factor derived the value of the UDI from the date of contribution or when earned. Contributed and earned capital is restated taking May 1992 as the base month for restatement.

To the accounts of the statement of income

Revenues and expenses that affect or are derived from a monetary item (funds available, financial instruments, loan portfolio, deposits, etc.), and those derived from current operations (commissions, tariffs and administrative and promotional expenses) are restated from the month in which they occur to the most recent balance sheet presented, using a factor derived from the value of the UDI.

Depreciation for the year is calculated on restated values based on the estimated useful lives determined by independent appraisers.

Monetary position result, which represents the erosion of purchasing power of monetary items caused by inflation, is calculated by applying the inflation factor derived from the value of the UDI to the monthly net monetary position and is restated using the factor discussed above at the most recent balance sheet presented. Gains (losses) result from maintaining a net monetary liability (asset) position, respectively.

To the accounts of the statements of changes in financial position

The statement of changes in financial position presents the changes in constant pesos, starting from the financial position of the previous balance sheet presented, restated to pesos at the most recent balance sheet presented.

Comprehensive income

Represents changes in stockholders' equity during the year, for concepts 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. Other comprehensive income items primarily consist of the result from holding nonmonetary assets, the result from the valuation of available-for-sale securities and the conversion effects of foreign entities.

Cash and cash equivalents

Funds available are stated at nominal value. Coins or foreign currencies are stated at fair value based on exchange rates at the most recent balance sheet date presented. Funds available in foreign currency are valued at the exchange rate published by Banco de México at the most recent balance sheet date presented.

Trading securities

Trading securities represent debt instruments and equity securities owned by the Financial Group, from which it intends to obtain profits by participating in the market. They are stated at fair value, which is determined by the price vendor contracted by the Financial Group, in conformity with the following guidelines:

Debt securities

- Applying market values.
- If the market value cannot be obtained from a reliable source or it is not representative, the market prices of similar instruments or prices calculated based on formal valuation techniques are used.
- When the fair value of the securities cannot be determined, they are recorded at the most recent fair value or acquisition cost, recording accrued interest and, if applicable, the necessary adjustments to state the securities' decrease in value.

Equity securities

- Applying market values.
- If the market value cannot be obtained from a reliable source or it is not representative, the fair value will be determined based on the equity method of accounting described in Bulletin B-8, Consolidated and Combined Financial Statements and Permanent Stock Investments, or, in rare cases, based on the acquisition cost restated by a factor derived for the value of UDI.
- When the fair value of the securities cannot be determined, they are recorded at the most recent fair value or at acquisition cost, which should approximate the adjusted net realizable value.

Changes in the fair value of trading securities are recorded in current earnings.

Available–for–sale securities

Available-for-sale securities are debt or equity securities acquired for a purpose other than obtaining profits from trading them in the market or holding them to maturity. They are valued in the same way as trading securities, with unrealized gains and losses recognized in stockholders' equity, net of their monetary position result. The monetary position loss associated with these securities is recorded in the results of operations.

Held–to–maturity securities

Held-to-maturity securities consist of debt instruments whose payments can be determined and with known maturities exceeding 90 days, which are acquired with the intent to hold them to maturity. They are initially recorded at acquisition cost and include accrued interest. Accrued interest is recorded in the statement of income using the straight-line method.

If sufficient evidence exists that a security represents a high credit risk and/or its estimated value decreases, the book value could be modified based on the net realizable value determined by using formal valuation techniques, with a charge to results recorded in the year of the write-down.

Transfers of securities within these categories must be approved by the Commission.

Repurchase agreements

Represent the temporary purchase or sale of certain financial instruments in exchange for an established premium with the obligation to resell or repurchase such securities in the future.

When the Financial Group acts as the vendor of securities, the net position represents the difference between the fair value of the securities covered by the repurchase agreement (asset position) which, in turn, represents the securities to be received through the transaction, valued according to the investment valuation methods established for trading securities, and at the present value of the price at maturity (liability position).

When the Financial Group acts as the purchaser of securities, the net position represents the difference between the present value of the price at maturity (asset position) and the fair value of the securities received under the repurchase agreement (liability position) are valued according to the method discussed in the preceding paragraph.

The debit or credit balance resulting from transactions involving repurchase agreements is presented under assets or liabilities in the consolidated balance sheet under the heading "Securities and derivative financial instruments".

For repurchase transactions entered into for periods exceeding three business days, a guarantee must be provided to mitigate market and counterparty risks. Guarantees received for repurchase transactions not involving the transfer of ownership are recognized in memoranda accounts and are considered as restricted assets.

Derivative financial instruments

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

Transactions to hedge the Financial Group's exposed position

Such transactions involve purchasing or selling derivative financial instruments to mitigate the risk resulting from a given transaction or group transactions.

Transactions entered into for trading purposes

The Financial Group enters into such transactions as a market participant for reasons other than to hedge its exposed position.

For hedging transactions, offsetting asset and liability positions and the deferred charge or credit are presented net of the primary position being hedged, while transactions entered into for trading purposes are recorded as separate assets or liabilities.

When entering into transactions involving derivative financial instruments, the Financial Group's internal policies and procedures require an assessment and risk exposure regarding the financial institution acting as the counterparty to the transaction and that it be authorized by the Bank of Mexico to enter into this type of transaction. Before entering into these types of transactions with corporate customers, a precautionary credit line must be granted by the Credit Risk Committee or liquid guarantees given through a securitized collateral contract. Transactions entered into with medium and small sized companies and individuals provide for liquid guarantees established in securitized collateral contracts.

The recognition or cancellation of assets and/or liabilities derived from transactions involving derivative financial instruments occurs when these transactions are entered into to, regardless of the respective settlement or delivery date of the goods.

Forward and futures contracts

The balance of these transactions entered into for trading purposes represents the difference between the fair value of the contract and the established "forward" price. Asset and liability positions are individually offset; a resulting debit balance is presented as an asset under the “Derivative financial instruments” heading, while a credit balance is presented as a liability under the same heading.

Option contracts

The balance of these transactions entered into for trading purposes is stated at fair value and recorded as an asset or liability under the "Derivative financial instruments" heading.

These instruments are stated at their fair value with changes in their fair value recognized in results of operations.

Swaps

The balance of these transactions entered into for trading purposes represents the difference between the fair value of the asset and liability positions. Balances are presented as assets or liabilities under the “Derivative financial instruments” heading.

Loss sharing with the Bank Savings Protection Fund (FOBAPROA)

As discussed in Note 12, according to the regulations established by the Commission, the Financial Group fully recognizes the shared losses generated by its participation in FOBAPROA loan portfolio cash flows.

During 2006 and 2005, the Financial Group recognized reserves in its results of operations of Ps 31 and Ps 82, respectively, for the shared loss and incentive arrangements derived from its participation in FOBAPROA portfolio cash flows.

Loan portfolio

Represents the balance of amounts effectively granted to borrowers plus uncollected accrued interest minus prepaid interest received. The total loan portfolio balance is presented net of the allowance for loan losses.

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

- Single payment loans upon the maturity of principal and interest, 30 calendar days after maturity.
- Loans involving a single principal payment upon maturity, but with periodic interest payments, total principal and interest payment 30 and 90 calendar days after maturity, 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 60 or more days have elapsed following maturity.
- Overdrawn customer checking accounts are considered as part of the past-due portfolio when such situations arise.

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

Loan commissions are recognized as income when collected.

Restructured past-due loans are not considered in the current portfolio until evidence of sustained payment is obtained; this occurs when financial 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 new portfolio classification provisions
The loan portfolio is classified 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 financial institutions in classifying the loan portfolio as issued by the Commission on December 2, 2005 and the internal methodology authorized by the Commission for classifying commercial loans.

The Provisions also establish general methodologies for the classification and calculation of allowances for each type of loan, while also permitting financial institutions to classify and calculate allowances based on internal methodologies, when previously approved by the Commission.

As of June 2001, the Financial Group has the Commission's approval to apply its own methodology, called Internal Risk Classification (CIR Banorte) to commercial loans equal to or greater than 900 thousand UDIs in order to classify the debtor. Loan classification and reserve allowance are determined based on the rules set by the Commission. This methodology is explained later in this note.

- The commercial loan portfolio classification procedure requires that financial institutions apply the established methodology (general or internal) based on quarterly information for the periods ending in March, June, September and December of each year, while also recording the allowances determined at the close of each period in their financial statements. Furthermore, during the month following each quarterly close, financial institutions must apply the respective classification to any loan utilized at the close of the immediately preceding quarter, based on the outstanding balance in effect on the last day of the aforementioned months. Similarly, the recovery of loan portfolio amounts that have been previously written-off must be applied to the allowance for loan losses instead of to results of the year.

- As a result of the acquisition of INB, the Financial Group applied its loan classification methodologies to INB's loan portfolio, confirming the risk designation and adjusting the allowance for loan losses, derived from applying such methodologies.

On December 14, 2006, the Commission issued Document No. 111-1/524348/2006, which extends for a two-year period, starting on December 1, 2006, the Financial Group's internal loan classification methodology.

Commercial loans equal to or greater than 900 thousand UDIs are classified according to the following criteria:

- Debtor's credit quality.
- In relation to the value of the collateral or the value of the assets in trusts or in programs commonly known as “structured”, 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 sector.

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

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

Risk criteria	Risk factors
1. Financial risk	1. Financial structure and payment capability
	2. Financing sources
	3. Management and decision-making
	4. Quality and timeliness of financial information
2. Industry risk	5. Position 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 homologated with the risk designation established by the Commission.

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

For the commercial loans under 900 thousand UDIs, loans to state and municipal governments and their decentralized agencies, mortgage loans and consumer loans, the Financial Group applied the general provisions applicable to financial institutions for classifying the loan portfolio as issued by the Commission.

Credit asset portfolio

The loan portfolio acquired is comprised of the acquisition cost of different loan packages acquired by the Financial Group; i.e., amounts effectively paid by the Financial Group to obtain rights to the cash flows generated by these portfolios.

Furthermore, during the first three months following its acquisition of loan portfolios, the Financial Group capitalizes the respective interest and monetary results derived from financing contracted to acquire such portfolio packages.

On November 12, 2004, the Commission issued Document No. DGSIF “A” -601-II-96066, which establishes the accounting treatment applicable to portfolio acquisitions and loan settlements through payments in kind and/or the awarding of acquired portfolio goods.

Consequently, as the Commission and the CINIF have not issued a specific accounting standard, and based on the supplemental procedures established by the Commission's accounting circular A-3, Supplemental Application of Accounting Treatments, the accounting treatment applicable to portfolio acquisitions is Statement of Position (“SOP”) 03-3, Accounting for Certain Loans or Debt Securities Acquired in a Transfer, issued by the American Institute of Certified Public Accountants (“AICPA”).

These standards establish that the proper treatment to be applied is a collection right, so the transferred loan should be recorded at the sale price.

The Financial Group's management has the policy of amortizing portfolio investments made prior to December 15, 2004, within a maximum eight-year period as of the original acquisition date.

Furthermore, portfolio investments acquired after December 15, 2004, are amortized within a period not exceeding seven years in the case of mortgage loans, or five years for commercial loans.

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Other accounts receivable and payable

Amounts involving the sundry debtors of the Financial Group that are not recovered within 60 or 90 days following their initial recognition (depending on whether the balances are identified or not), are included in the allowance for loan losses, regardless of their likelihood of recovery.

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.

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. The Financial Group's management did not identify any indicators that impairment exists.

Foreclosed property or property received as payments in kind, net

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

If the book value of the loan exceeds that of the foreclosed property, the difference is recognized by canceling the allowance for loan losses when such assets are awarded. If the book value of the loan is lower than the value of the foreclosed property, the latter must be adjusted to match the loan's book value.

The book value must only be modified when there is evidence that the net realizable value is lower than the recorded book value. The adjustments resulting from these estimates are applied to the results of the year as they arise.

When recognizing the effects of inflation in financial information, foreclosed property is considered to be a monetary item.

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 procedure:

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

Personal property reserves

Time elapsed as of awarding or 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 real property foreclosed or received as payment in kind or awarded, based on the accounting criteria established by the Commission.

II. Investments in securities must be valued in accordance with the provisions of the Commission's accounting circular B-2, Investments in Securities, using annual audited financial statements and monthly reports of the entity in which the investment is held.

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

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

Real property reserves

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

The amount of the reserves to be created will be the result of applying the reserve percentage determined under the preceding table to the awarding 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.

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.

In conformity with the accounting practices established by the Commission, the initial effect of recognizing these reserves, net of the tax effects, was charged to the retained earnings, in stockholders' equity. During 2006, the Commission required the Financial Group to record an adjustment of Ps 58 to retained earnings related to such effects.

Property, furniture and fixtures

Are recorded at acquisition cost, restated as explained earlier in this Note.

Depreciation is calculated using the straight-line method based on the useful lives of the assets as estimated by Financial Group's management.

Permanent stock investments

The Financial Group recognizes its unconsolidated investments in subsidiaries and associated companies using the equity method, based on the book values shown in the most recent financial statements of such entities.

Income taxes, tax on assets and employee statutory profit-sharing

Provisions for income taxes (ISR) and employee statutory profit-sharing (PTU) are recorded in the results of the year in which they are incurred. Deferred income tax assets and liabilities are recognized for temporary differences resulting from comparing the accounting and tax bases of assets and liabilities plus any future benefits from tax loss carryforwards.

The net effect of the aforementioned items is presented in the consolidated balance sheet under the "Deferred taxes, net" heading.

Deferred ISR assets are reduced by any benefits about which there is uncertainty as to their realizability.

Deferred PTU is derived from temporary differences between the accounting result and income for PTU purposes and is recognized only when it can be reasonably assumed that such difference will generate a liability or benefit, and there is no indication that circumstances will change in such a way that the liabilities will not be paid or benefits will not be realized.

Tax on assets paid that is expected to be recovered is recorded as prepaid income tax and presented in the balance sheet under the "Other accounts receivable, net" heading.

Intangible assets

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

Goodwill

Goodwill represents the excess of cost over the fair value of the subsidiary and associated company shares as of the date of acquisition. It is restated using the NCPI and at least once a year is subject to impairment tests. No impairment of goodwill was recorded in 2006.

Deposits

Liabilities derived from deposits, including promissory notes with liquid yields upon maturity, 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.

Provisions

Are recognized when the Financial Group has a current obligation that results from a past event, are probable 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 fromlseverance payments and seniority premiums payable to employees that cease to render their services under certain circumstances.

The Financial Group records a liability for both seniority premiums and medical services after retirement, which are recognized as costs over employee years of service and are calculated by independent actuaries using the projected unit credit method at net discount rates as established by Bulletin D-3, Labor Obligations.

Accordingly, the liability is being accrued which, at present value, will cover the obligation from benefits projected to the estimated retirement date of the Company's current employees, as well as the obligation related to retired personnel.

As of January 1, 2005, the Financial Group adopted the new provision of Bulletin D-3 related to 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. The transition obligation is being recognized over the employees' expected service lives. Through December 31, 2004, severance payments were charged to results when the liability was determined to be payable.

Foreign currency transactions

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 published by Banco de México in effect at the balance sheet date. Exchange fluctuations are recorded in the results of operations.

Interest from outstanding subordinated debentures

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

Excess (or insufficiency) in restated stockholders' equity

Represents the accumulated monetary position result through the initial restatement.

Contributed capital restatement effects

Contributed and earned capital is restated by using a factor derived from the UDI.

Transfer of financial assets

In those transactions where the Financial Group can act as the assignor or assignee, as applicable, possession of financial assets is obtained such that the ownership of such assets may or may not be transferred. Transactions involving the transfer of ownership of financial assets establish that the assignor has effectively lost control of the assets being transferred, with the related effects subsequently recognized in the financial statements.

Securitization

Through this type of transaction, the Financial Group seeks to sell and transfer certain financial assets to a securitization vehicle, which in turn issues securities for sale to public investors representing rights to the yields or proceeds derived from the sale of the transferred assets. The Financial Group as the assignor can receive cash, securities or derivative financial instruments as payment.

However, if the assignor does not transfer ownership of the financial assets, i.e., if it retains the direct risk associated with such assets, the transaction is considered to be a financing securitization, whereby the payment made to the assignor is guaranteed by assets for which the latter assumes the related risk. Accordingly, the assignor cannot derecognize such transferred assets from its financial statements and recognizes them as restricted assets held as collateral, with a corresponding increase in the liability in the consolidated balance sheet.

7. CASH AND CASH EQUIVALENTS

As of December 31, 2006 and 2005, this line item was composed as follows:

	Mexican pesos		US dollars converted to MXP		Total	
	2006	2005	2006	2005	2006	2005
Cash	Ps 6,554	Ps 5,202	Ps 711	Ps 622	Ps 7,265	Ps 5,824
Deposits with foreign credit institutions	-	-	6,806	4,666	6,806	4,666
Domestic banks	328	210	-	8	328	218
Deposits with Banco de México	25,771	26,853	7	2	25,778	26,855
Call money	368	1,563	-	-	368	1,563
Other deposits and available funds	2,858	1,277	-	-	2,858	1,277
	Ps 35,879	**Ps 35,105**	**Ps 7,524**	**Ps 5,298**	**Ps 43,403**	**Ps 40,403**

On November 25, 2005, Telefax Circular 22/2005 issued by Banco de México became effective, eliminating monetary regulation deposits established according to applicable provisions at that date, which were intended to regulate money market liquidity surpluses. Furthermore, the Circular established a new monetary regulation deposit for all financial institutions for an unlimited period, on which interest is payable every 28 days and is accrued beginning on December 5, 2005, the date of the first deposit. As of December 31, 2006 and 2005, the Financial Group had made monetary regulation deposits of Ps 25,771 and Ps 26,853, respectively.

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As of December 31, 2006 and 2005, the total sum of restricted cash and cash equivalents is Ps 28,532 and Ps 27,923, respectively.

8. INVESTMENTS IN SECURITIES

a) Trading securities

As of December 31, 2006 and 2005, trading securities are as follows:

	2006				2005
	Acquisition cost	Accrued interest	Valuation increase (decrease)	Book value	Book value
Government bonds	Ps (440)	Ps -	Ps 1	Ps (439)	Ps -
Government CBIC	23	4	-	27	-
CETES	(127)	1	-	(126)	934
Bank securities	15,004	118	(4)	15,118	6,002
Commercial paper	371	-	11	382	1,942
Saving Protection Bonds (BPAS)	(730)	-	1	(729)	125
Treasury bonds	54	-	-	54	-
UMS	(23)	-	-	(23)	-
Securitization certificates	624	5	12	641	328
BREMS	50	-	-	50	1
Shares listed in the International Quotation System (SIC)	2	-	-	2	8
Futures guarantees	1	-	-	1	1
Investment funds	57	-	-	57	27
Hedging swaps	-	-	-	-	1
	Ps 14,866	**Ps 128**	**Ps 21**	**Ps 15,015**	**Ps 9,369**

The following financial terms noted above are defined as follows:

CBIC - Highway Indemnification Securities
CETES - Treasury Certificates
BREMS - Monetary Regulation Bonds

During 2006 and 2005, the Financial Group recognized a valuation effect for the net amount of Ps 17 and Ps (12), respectively, in the results of operations related to its trading securities.

As of December 31, 2006, these investments mature as follows (stated at their acquisition cost):

	From 1 to 179 days	From 6 to 12 months	From 1 to 2 years	More than 2 years	Total
Government bonds	Ps (441)	Ps -	Ps -	Ps 1	Ps (440)
Government CBIC	23	-	-	-	23
CETES	(127)	-	-	-	(127)
Bank securities	14,898	-	-	106	15,004
Commercial paper	371				371
BPAS	(730)	-	-	-	(730)
Treasury bonds	-	-	-	54	54
UMS	-	-	-	(23)	(23)
Securitization certificates	460	-	-	164	624
BREMS	-	50	-	-	50
Futures guarantees	1	-	-	-	1
SIC	2	-	-	-	2
Investment funds	57	-	-	-	57
	Ps 14,514	**Ps 50**	**Ps -**	**Ps 302**	**Ps 14,866**

b) Available–for–sale securities

As of December 31, 2006 and 2005, available-for-sale securities were as follows:

	2006				2005
	Acquisition cost	Accrued interest	Valuation increase (decrease)	Book value	Book value
U.S. Government bonds	Ps 3,879	Ps 15	Ps (80)	Ps 3,814	Ps -
UMS	1,649	70	52	1,771	-
Treasury bonds	218	1	(3)	216	-
Bonds	68	-	-	68	-
Structured notes	108	-	-	108	-
Subordinated securities	21	-	-	21	-
Bank securities	805	13	(19)	799	112
CYDSA, S. A. de C. V. shares	19	-	19	38	29
Hedging swaps	(452)	(47)	(82)	(581)	-
	Ps 6,315	**Ps 52**	**Ps (113)**	**Ps 6,254**	**Ps 141**

During December 2006, the Financial Group cancelled, directly to retained earnings, the monetary position result and result of restatement from prior years of Ps 112 related to the valuation generated by available-for-sale securities.

c) Held-to-maturity securities

As of December 31, 2006 and 2005, held-to-maturity securities were as follows:

Medium and long-term debt instruments:

	2006			2005
	Acquisition cost	Accrued interest	Book value	Book value
Government bonds- support program for Special Federal Treasury Certificates	Ps 606	Ps 7	Ps 613	Ps 604
Fiduciary rights	9	-	9	26
UMS	-	-	-	9,137
U.S. Government bonds	10	-	10	-
PEMEX bonds	3,964	39	4,003	4,089
Strip and MYRA bonds	59	-	59	127
Hedging swaps	(268)	(23)	(291)	(1,168)
	Ps 4,380	**Ps 23**	**Ps 4,403**	**Ps 12,815**

As of December 31, 2006, these investments mature as follows:

	From 1 to 179 days	From 6 to 12 months	From 1 to 2 years	More than 2 years	Total
Government bonds- support program for Special Federal Treasury Certificates	Ps -	Ps -	Ps -	Ps 606	Ps 609
Fiduciary rights	-	-	-	9	9
US Government bonds	-	-	-	10	10
PEMEX bonds	-	-	-	3,964	3,964
Strip and Myra bonds	-	-	-	59	59
Hedging swaps	(15)	-	(38)	(215)	(268)
	Ps (15)	**Ps -**	**Ps (38)**	**Ps 4,433**	**Ps 4,380**

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9. TRANSACTIONS INVOLVING SECURITIES AND DERIVATE FINANCIAL INSTRUMENTS:

As of December 31, 2006 and 2005, transactions involving securities and derivative financial instruments were as follows:

a) Debtor and creditor balances derived from repurchase transactions

Acting as seller of securities:

	2006				2005			
	Asset position	Liability position			Asset position	Liability position		
Instrument	Value of securities receivable	Creditor repurchase agreement	Debit difference	Credit difference	Value of securities receivable	Creditor repurchase agreement	Debit difference	Credit difference
CETES	Ps 3,507	Ps 3,507	Ps -	Ps -	Ps 1,115	Ps 1,115	Ps -	Ps -
Development bonds	850	850	-	-	-	-	-	-
Bonds 182	107	107	-	-	450	449	1	-
Bonds IPAB	18,667	18,667	2	2	46,537	46,616	8	87
Quarterly IPAB bonds	120,497	120,586	12	101	76,081	76,221	45	185
Semiannual IPAB bonds	535	536	-	1	1,031	1,041	-	10
BREMS	2,105	2,104	1	-	38,622	38,623	3	4
5-year bonds	3,167	3,167	-	-	8,592	8,596	-	4
7-year bonds	148	148	-	-	3	3	-	-
10-year bonds	4,060	4,067	1	8	4,096	4,098	2	4
20-year bonds	17,520	17,529	1	10	123	122	1	-
PACFARAC	300	300	-	-	-	-	-	-
UDIBONOS	370	370	-	-	-	-	-	-
10-year UDIBONDS	74	74	-	-	15	15	-	-
Government securities	**171,907**	**172,012**	**17**	**122**	**176,665**	**176,899**	**60**	**294**
Promissory notes	4,797	4,798	-	1	3,848	3,848	-	-
CEDES	11,170	11,248	-	78	14,464	14,471	1	8
Bank acceptances	5	5	-	-	8	8	-	-
Bank securities	**15,972**	**16,051**	**-**	**79**	**18,320**	**18,327**	**1**	**8**
Private paper	4,814	4,839	-	25	25,550	25,565	1	16
CEBUR government	3,019	3,018	1	-	3,745	3,745	-	-
CEBUR Bank	2,380	2,382	-	2	25,529	25,546	1	18
Securitization certificates	279	279	-	-	-	-	-	-
Private securities	**10,492**	**10,518**	**1**	**27**	**54,824**	**54,856**	**2**	**34**
Total	**Ps 198,371**	**Ps 198,581**	**Ps 18**	**Ps 228**	**Ps 249,809**	**Ps 250,082**	**Ps 63**	**Ps 336**

With the Financial Group acting as the vendor, accrued premiums were charged to the results of operations in the amount of Ps 15,175 (Ps 18,459 in 2005).

During 2006 and 2005, the period of repurchase transactions entered into by the Financial Group in its capacity as vendor ranged from 3 to 91 days.

Acting as securities purchaser:

	2006				2005			
	Liability position	Asset position			Liability position	Asset position		
Instrument	Value of securities receivable	Repurchase agreement from debtors	Debit difference	Credit difference	Value of securities receivable	Repurchase agreement from debtors	Debit difference	Credit difference
CETES	Ps 1,448	Ps 1,448	Ps -	Ps -	Ps 677	Ps 677	Ps -	Ps -
Development bonds	850	850	-	-	-	-	-	-
Bonds 182	-	-	-	-	445	445	-	-
Bonds IPAB	500	500	-	-	9,362	9,315	48	1
Quarterly IPAB bonds	6,622	6,622	5	5	12,632	12,609	25	2
Semiannual IPAB bonds	-	-	-	-	418	418	-	-
BREMS	2,074	2,075	-	1	8,978	8,978	-	-
5-year bonds	3,160	3,161	-	1	8,545	8,546	5	6
7-year bonds	145	145	-	-	-	-	-	-
10-year bonds	6	6	-	-	2,335	2,331	4	-
20-year bonds	527	527	-	-	109	109	-	-
UDIBONOS	370	370	-	-	-	-	-	-
PICFARAC	300	300	-	-	-	-	-	-
Government securities	**16,002**	**16,004**	**5**	**7**	**43,501**	**43,428**	**82**	**9**
Promissory notes	2,525	2,525	-	-	2,353	2,353	-	-
CEDES	765	763	2	-	3,778	3,776	2	-
Bank securities	**3,290**	**3,288**	**2**	**-**	**6,131**	**6,129**	**2**	**-**
Private paper	-	-	-	-	23,471	23,458	15	2
CEBUR government	226	226	-	-	948	948	-	-
Private securities	**226**	**226**	**-**	**-**	**24,419**	**24,406**	**15**	**2**
Total	**Ps 19,518**	**Ps 19,518**	**Ps 7**	**Ps 7**	**Ps 74,051**	**Ps 73,963**	**Ps 99**	**Ps 11**

With the Financial Group acting as the purchaser, accrued premiums were recognized in the results of operations in the amount of Ps 2,490 (Ps 5,566 in 2005).

During 2006 and 2005, the period of repurchase transactions entered into by the Financial Group in its capacity as purchaser ranged from 3 to 28 days.

b) Transactions entered into involving derivative financial instruments

The transactions entered into by the Financial Group involving derivative financial instruments include swap and option contracts. These transactions are entered into to hedge various risks and for trading purposes.

Trading transactions are stated based on their fair market values; similarly, the effect derived from their market value adjustment is recorded in the results of the year.

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Management's policy with regards to hedge contracts is to protect the Financial Group's individual balances and stockholders' equity by anticipating interest rate movements.

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

- *Interest rate swaps:*
  The Financial Group's accounting model is intended to hedge cash flows, whereby interest rate hedges are entered into and not adjusted to fair market value as they are adjusted based on the accrued interest as stated in the contracts.

- *Foreign currency swaps:*
  The Financial Group's accounting model is intended to hedge cash flows, whereby foreign exchange hedges are entered into, but not adjusted to fair market value.

- *Interest rate options and swaptions:*
  As of December 31, 2006, the Financial Group has evaluated the effectiveness of transactions entered into involving derivative financial instruments for hedging purposes and has concluded that they are highly effective.

As of December 31, 2006 and 2005, the positions of the Financial Group's derivative financial instrument held for trading purposes are as follows:

2006

Swaps:	Receivable flows	Deliverable flows	Net flows
Interest rate	**Ps 1,449**	**Ps 1,443**	**Ps 6**

Foreign currency forward contracts:	Purchase	Sale	Net
Market value	Ps 275	Ps 328	Ps 603
Contract price	281	321	602
Net position	**Ps (6)**	**Ps 7**	**Ps 1**

Call options:	Initial premium	Fair value adjustment	Premium fair value
Interest rate	Ps 9	Ps (1)	Ps 8
Swaptions	1	3	4
Net position	**Ps 10**	**Ps 2**	**Ps 12**
Net asset position			**Ps 19**

Put options:	Initial premium	Fair value adjustment	Premium fair value
Interest rate	Ps (15)	Ps 13	Ps 2
Swaptions	-	-	-
Net position	**Ps (15)**	**Ps 13**	**Ps 2**
Net liability position			**Ps 2**

2005			
Swaps for trading porposes:	Receivable flows	Deliverable flows	Net flows
Interest rate	**Ps 414**	**Ps 377**	**Ps 37**

Foreign currency forward contracts:	Purchase	Sale	Net
Market value	Ps 10	Ps (34)	Ps (24)
Contract price	(11)	35	24
Net position	**Ps (1)**	**Ps 1**	**Ps -**

Call options:	Initial premium	Fair value adjustment	Premium fair value
Interest rate	Ps 197	Ps 1	Ps 198
Indexes	257	(6)	251
Swaptions	1	1	2
Net position	**Ps 455**	**Ps (4)**	**Ps 451**
Net asset position			**Ps 488**

Put options:	Initial premium	Fair value adjustment	Premium fair value
Interest rate	Ps 187	Ps 4	Ps 191
Indexes	263	(5)	258
Swaptions	11	5	16
Net position	**Ps 461**	**Ps 4**	**Ps 465**
Net liability position			**Ps 465**

Swaps designated as hedging

2006						
	Underlying	Receivable contract value	Deliverable contract value	Receivable flows	Deliverable flows	Net position
TIIE/IRS (Interest rate swap)		Ps 11,138	Ps 11,137	Ps 36	Ps 47	Ps (10)
MXP-US/CSF (Cross Currency Swap - US Dollar fixed rate)		10,597	10,818	162	61	(120)
TIIE	EU/CS	1,508	2,060	7	45	(590)
TIIE	US/CS	3,518	3,736	13	29	(234)
		Ps 26,761	**Ps 27,751**	**Ps 218**	**Ps 182**	**Ps (954)**

Options designated as hedging

2006				
Instrument	Underlying	Reference amount	Premium paid/received	Fair value
Purchases	TIIE/CAP (European Swaption- Physical delivery)	Ps 24,230	Ps 29	Ps (29)
	TIIE/OSE-F	16,500	29	(29)
		Ps 40,730	**Ps 58**	**Ps (58)**

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Forwards designated as hedging

	2006		
	Purchase	Sale	Net
Market value	Ps -	Ps 2,754	Ps 2,754
Contract price	-	2,800	2,800
Net position	**Ps -**	**Ps 46**	**Ps 46**

Swaps designated as hedging

	2005				
Underlying	Receivable contract value	Deliverable contract value	Receivable flows	Deliverable flows	Net position
TIIE/IRS (Interest rate swap)	Ps 13,881	Ps 13,880	Ps 54	Ps 61	Ps (6)
USLI/IRS	911	911	13	14	(1)
IMPL - US/CS	2,275	2,755	23	61	(518)
TIIE - EU/CS	1,376	1,432	7	54	(103)
TIIE - US/CS	9,940	10,396	70	231	(617)
TIIE - US/BS	2,216	2,292	3	6	(79)
	Ps 30,599	**Ps 31,666**	**Ps 170**	**Ps 427**	**Ps (1,324)**

Options designated as hedging

	2005			
	Underlying	Reference amount	Premium paid/received	Fair value
Purchases	TIIE/CAP (European Swaption- Physical delivery)	Ps 1,375,990	Ps 131	Ps 7
	TIIE/OSE-F	10,937	20	(19)
		Ps 1,386,927	**Ps 151**	**Ps (12)**
				Ps 139
Sales	TIIE/CAP (European Swaption- Physical delivery)	1,359,324	102	31
		1,359,324	**102**	**31**
				Ps 133

Transactions entered into for hedging purposes have maturities from 2007 to 2018 and are intended to mitigate the financial risk derived from long-term loans offered by the Financial Group at fixed 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, 2006, is USD 76,262 thousand. In the case of interest rate swaps, the collateral value as of December 31, 2006, is USD 482,507 thousand represented by debt instruments.

10. LOAN PORTFOLIO

As of December 31, 2006 and 2005, the loan portfolio by loan type is as follows:

	Current portfolio		Past-due portfolio		Total	
	2006	2005	2006	2005	2006	2005
Commercial loans:						
Denominated in domestic currency	Ps 62,030	Ps 52,570	Ps 609	Ps 620	Ps 62,639	Ps 53,190
Commercial	53,913	44,176	609	619	54,522	44,795
Rediscounted portfolio	8,117	8,394	-	1	8,117	8,395
Denominated in USD	18,263	7,694	121	79	18,384	7,773
Commercial	18,255	7,674	121	79	18,376	7,753
Rediscounted portfolio	8	20	-	-	8	20
Total commercial loans	**80,293**	**60,264**	**730**	**699**	**81,023**	**60,963**
Loans to financial institutions	2,373	2,046	-	-	2,373	2,046
Consumer loans	20,718	16,157	609	429	21,327	16,586
Credit card	9,482	6,486	359	221	9,841	6,707
Other consumer loans	11,236	9,671	250	208	11,486	9,879
Mortgage loans	27,798	24,772	721	799	28,519	25,571
Government loans	10,784	15,849	-	-	10,784	15,849
FOBAPROA or IPAB loans	-	169	-	-	-	169
	61,673	**58,993**	**1,330**	**1,228**	**63,003**	**60,221**
Total	**Ps 141,966**	**Ps 119,257**	**Ps 2,060**	**Ps 1,927**	**Ps 144,026**	**Ps 121,184**

The loans granted grouped into economic sectors as of December 31, 2006 and 2005 are shown below:

	2006		2005	
	Amount	Concentration percentage	Amount	Concentration percentage
Private (companies and individuals)	Ps 80,972	56.22%	Ps 60,958	50.30%
Financial institutions	2,374	1.65%	2,046	1.69%
Credit card and consumption	21,327	14.81%	16,586	13.69%
Mortgage	28,519	19.80%	25,571	21.10%
Federal Government loans	10,784	7.48%	15,849	13.08%
FOBAPROA or IPAB loans	-	0.0%	169	0.14%
Other past-due loans	50	0.03%	5	0.00%
	Ps 144,026	**100.00%**	**Ps 121,184**	**100.00%**

Loan support programs

The Financial Group participates in different loan support programs established by the Federal Government and Mexican Bankers' Association, as detailed below:

a. Support Program for Housing Loan Debtors and the Agreement on Benefits for Housing Loan Debtors.

b. Agreement on Agrarian and Fishery Sector Financing (FINAPE).

c. Agreement on the Financial Support and Promotion of Micro, Small and Medium Companies (FOPYME).

d. Additional Benefits Program for Housing Loan Debtors - FOVI-type Housing Loans.

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Furthermore, in December 1998, the Federal Government and Banking Sector published a new and definitive debtor support plan known as "Punto Final", which, as of 1999, replaced the benefits formerly granted by Housing Loan Debtor support programs. In the case of FOPYME and FINAPE, these support plans were replaced in 1999 and 2000, respectively, and beginning in 2001 the benefits established by original support programs continued to be applied.

The "Punto Final" plan defines housing loan discounts, which are determined based on the outstanding loan balance recorded at November 30, 1998, without considering late payment charges. In the case of FOPYME and FINAPE loans, the discount is applied to payments and the discount percentage is determined based on the recorded loan balance at July 31, 1996, regardless of whether the balance has been subsequently modified.

The Support Program for Business Loan Debtors (FOPYME) concluded on October 1, 2006, as established in document 112-6/524549/2006.

In the case of borrowers participating in the above programs, the amount of principal and accrued interest denominated in pesos is converted to the initial UDI value; interest is then set at an agreed-upon reference rate.

The trusts administering each of the aforementioned UDI programs issued long-term fiduciary securities to the Federal Government with fixed and variable interest rates depending on the characteristics of each trust (this interest rate must be less than that collected from borrowers). Similarly, the Financial Group received federal bonds known as "Special CETES" from the Federal Government, which are tied to the CETES interest rate.

These federal bonds will mature based on the fiduciary securities issued by the trust to the Federal Government. Loan payments received by the trust are used to pay the principal and interest of the fiduciary securities; at the same time, the Federal Government executes a transaction for the same amount to pay the principal and accrued interest on the Special CETES.

In the event of noncompliance with the payment obligations established for the restructured loans under the UDI trusts, a portion of the fiduciary securities and Special CETES will generate interest at a rate equivalent to the UDI value. This characteristic was included in October 2002 to reflect the fact that the UDI programs were created to support debtors in compliance with their agreements. The Financial Group continues to manage and evaluate the risk derived from any possible credit loss related to the programs. If a particular loan is fully reserved, fiduciary securities will continue to generate interest at regular rates.

Commission regulations require that the Financial Group consolidate the balances of trusts holding restructured loans in UDIs, so as to reflect the operating fund, which consists of an interest rate swap contracted with the Federal Government.

As of December 31, 2006 and 2005, the balances of the respective trust balances are made up as follows:

	2006	2005
Banks	Ps 13	Ps 18
Government securities	3	4
Current loan portfolio	870	1,212
Past-due loan portfolio	309	402
Accrued interest on loans	6	3
Past-due accrued interest	12	15
Allowance for loan losses	(548)	(697)
Total assets	**Ps 665**	**Ps 957**
Investment in trusts assets	Ps 630	Ps 930
Deferred tax liabilities	35	27
Total liabilities	**Ps 665**	**Ps 957**

Policies and procedures for granting loans

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

I. Business Management (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 timely identified.

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

11. LOANS RESTRUCTURED IN UDIs

As of December 31, 2006 and 2005, the total amount of the loan portfolio restructured in UDIs is as follows:

	2006	2005
Current portfolio	Ps 870	Ps 1,212
Current accrued interest	6	3
Past-due portfolio	309	402
Past-due accrued interest	12	15
	Ps 1,197	**Ps 1,632**

12. FOBAPROA - IPAB TRANSACTIONS

As part of the measures implemented to offset the economic crisis that arose at the end of 1994, in December 1998, the Mexican Congress enacted the Bank Savings Protection Law, which went into effect on January 20, 1999, and established the creation of IPAB to replace FOBAPROA, for the sole purpose of administering transactions entered into under "Portfolio Capitalization and Acquisition Programs" (PCCC).

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The Bank Savings Protection Law enacted on January 20, 1999, established an option for banks that had participated in the PCCC to exchange their FOBAPROA promissory notes for IPAB promissory notes under similar conditions.

In June 2002, IPAB notified banks participating in the PCCC of its intention to adopt certain procedures and conditions that would be applicable to them regarding the mechanism under which FOBAPROA promissory notes would be exchanged for their IPAB counterparts.

IPAB is also required to apply a series of preventive measures to avoid financial problems that could be faced by financial credit institutions, while ensuring such institution's compliance with their depositors.

In exchange for the portfolio assigned to FOBAPROA, promissory notes were issued to the Financial Group with 10-year maturities as of the transaction date. The Financial Group maintained its obligation to share 29%, 25% and 0% of the loss suffered by FOBAPROA derived from the portfolio transferred to Trusts 1989-0, 1990-4 and 1991-2, respectively. Consequently, these percentages have been maintained in the new trusts created under the contract to exchange FOBAPROA promissory notes for IPAB obligations, which was executed on July 12, 2004.

As payment for these transactions FOBAPROA-IPAB collection rights have been recognized, which, at December 31, 2005 and 2005, are composed as follows:

Transactions	2005
Trust 1990-4	Ps 1,804
Trust 1991-2	14
Cash flows owed to IPAB	(15)
Shared loss and incentive arrangement	(1,635)
	Ps 168

The characteristics of each of the aforementioned IPAB obligations are detailed below:

Promissory note	Period	Expiration	Rate	Interest paid
Trust 1989-0	10 years	2005	CETES 91 days - 1.35%	Capitalizable
Trust 1990-4	10 years	2006	CETES 91 days - 1.35%	Capitalizable
Trust 1991-2	10 years	2006	CETES 91 days	Capitalizable

IPAB payment obligations and instruments have the same characteristics in terms of their duration and interest rates as FOBAPROA promissory notes. Similarly, the loss sharing percentages and the incentive arrangement established in the contracts originally executed with FOBAPROA have been maintained.

During 2005, the Management, Object Identity, Existence, Legitimacy and Legality (GEL) audits were concluded, which resulted in an adjustment of Ps 100 with regards to the accounts receivable from IPAB.

Moreover, as of July 21, 2005, IPAB made advance payment on the principal of the instruments it was responsible for. The weekly payments were Ps 400, between the cited date and up to November 3, 2005, including a discount for Ps 48, agreed to in the New Program Contract, derived from the current value valuation of IPAB's obligation at the moment of the advance payment. As of November 10, 2005 and up to December 8, 2005, the advance payments were for lower amounts. The total amount of the net advance payment of the described discounts received during 2005 totaled Ps 6,970.

Finally, in conformity with the agreements set forth in the New Program contract signed between IPAB and the Financial Group in July 2004, in June 2006 all the promissory note balances were paid in full, granting the parties ample releases from any commitment or obligation with monetary effects from the new program.

13. SALE OF IPAB-BANCRECER PORTFOLIO TO BANCO JP MORGAN, S. A., INSTITUCIÓN DE BANCA MÚLTIPLE, JP MORGAN GRUPO FINANCIERO, DIVISIÓN FIDUCIARIA (BANCO JP MORGAN)

On December 22, 2004, the IPAB-Bancrecer Promissory Note (loan contract executed between IPAB and Banco de México to capitalize Bancrecer) was sold for the amount of Ps 45,940 (face value) to a Trust (the "Trust") held by JP Morgan Bank, through which the Financial Group transferred its ownership of interest collection and capital amortization rights to enable the issuance of Securitization Certificates (BANORCB 04) with a value of Ps 45,940 (face value). These instruments, which were issued for a five-year period, accrue interest at the average daily Interbank Equilibrium Interest Rate (TIIE) plus 0.40 basis points, to be paid monthly, with principal to be paid in one lump-sum.

IPAB made prepayments during 2005 and 2006 in the amount of Ps 21,000 and Ps 24,940, respectively, thereby paying the Trust the past-due loans in advance, while the latter prematurely settled the entirety of the Securitization Certificates.

14. 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:

	2006				
		Required allowances for losses			
	Loan portfolio	Commercial portfolio	Consumer portfolio	Mortgage portfolio	Total
Exempt portfolio	Ps 385	Ps -	Ps -	Ps -	Ps -
Risk A	44,602	-	94	90	184
Risk A1	51,823	241	-	-	241
Risk A2	35,369	323	-	-	323
Risk B	3,611	-	119	77	196
Risk B1	7,992	135	-	-	135
Risk B2	1,835	93	-	-	93
Risk B3	828	88	-	-	88
Risk C	606	-	209	46	255
Risk C1	311	70	-	-	70
Risk C2	84	34	-	-	34
Risk D	829	37	394	158	589
Risk E	509	237	57	213	507
Unclassified	(14)	-	-	-	-
Hedging swaps	(50)	-	-	-	-
	Ps 148,720	**Ps 1,258**	**Ps 873**	**Ps 584**	**Ps 2,715**
Recorded allowance					3,533
Additional allowance					**Ps 818**

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	2005				
		Required allowances for losses			
	Loan portfolio	Commercial portfolio	Consumer portfolio	Mortgage portfolio	Total
Exempt portfolio	Ps 1,366	Ps -	Ps -	Ps -	$ -
Risk A	39,834	-	71	76	147
Risk A1	40,641	201	-	-	201
Risk A2	29,273	276	-	-	276
Risk B	4,860	-	122	107	229
Risk B1	6,140	153	-	-	153
Risk B2	401	23	-	-	23
Risk B3	287	43	-	-	43
Risk C	539	-	168	52	220
Risk C1	177	41	-	-	41
Risk C2	146	58	-	-	58
Risk D	797	52	293	217	562
Risk E	517	264	36	213	513
Unclassified	(18)	-	-	-	-
Hedging swaps	(46)	-	-	-	-
	Ps 124,914	**Ps 1,111**	**Ps 690**	**Ps 665**	**2,466**
Recorded allowance					3,195
Additional allowance					**Ps 729**

The total portfolio balance used as the basis for the classification above includes amounts related to irrevocable loans, letters of credit and guarantees, which are recorded in memorandum accounts.

As of December 31, 2006 and 2005, the estimated allowance for loan losses is determined based on portfolio balances at those dates. As of December 31, 2006 and 2005, the allowance for loan losses includes a reserve for 100% of delinquent interest owed.

As of December 31, 2006 and 2005, the allowance for loan losses represents 172% and 166%, 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, 2006.

Rollforward of allowance for loan losses

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

	2006	2005
Balance at the beginning of the year	Ps 3,195	Ps 2,949
Increase charged to results	1,438	1,361
Cancellation of reserves	(19)	-
Debt forgiveness and write-offs	(1,542)	(1,183)
Valuation in foreign currencies and UDIs	33	10
Rebates granted to housing debtors	(102)	(120)
Created with profit margin from UDI trusts	22	39
Advantages from FOPYME and FINAPE programs	(1)	(3)
Recovery of loans	452	272
Acquisition of INB Financial Corp.	198	-
Other	(13)	(48)
Restatement effects	(128)	(82)
Year-end balance	**Ps 3,533**	**Ps 3,195**

For the year ended December 31, 2006, the total allowance for loan losses recorded as an expense in operations totaled Ps 1,530. This total is made up primarily of Ps 1,438 credited directly to the allowance, Ps 22 related to the UDI trusts, Ps 40 for restatement effects and Ps 30 from recognizing shared losses with the IPAB, due to the punto-final program.

15. CREDIT ASSET PORTFOLIO

As of December 31, 2006 and 2005, the credit asset portfolio is made up as follows:

	2006	2005
Bancrecer I	Ps 189	Ps 285
Bancomer II	1	10
Bancomer III	182	207
Bancomer IV	803	869
Bital I	362	420
Bital II	123	168
Banamex Mortgage	415	452
Confia III	100	119
GMAC Banorte	205	344
Real property trusts	127	143
Serfin Commercial I	217	-
Serfin Commercial II	97	-
Serfin Mortgage	304	-
Real property Banpais	296	-
Real property Bancen	96	-
Serfin	-	216
GMAC Bancen	-	6
Santander	101	128
Total	**Ps 3,618**	**Ps 3,367**

For the year ended December 31, 2006, the Financial Group recognized income from credit asset portfolios of Ps 1,608, together with the respective amortization of Ps 787, the effects of which were recognized under the "Commissions and tariffs collected" and "Commissions and tariffs paid" headings, respectively, in the consolidated statement of income. For the year ended December 31, 2005, the Financial Group recognized income of Ps 677, together with the respective amortization of Ps 482.

16. OTHER ACCOUNTS RECEIVABLE, NET

As of December 31, 2006 and 2005, the other accounts receivable balance is as follows:

	2006	2005
Loans to officers and employees	Ps 1,110	Ps 1,138
Operating liquidation receivable	3,688	860
Sundry debtors	849	718
Taxes receivable	52	155
Others	48	124
	5,747	**2,995**
Allowance for doubtful accounts	(108)	(94)
	Ps 5,639	**Ps 2,901**

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17. FORECLOSED ASSETS, NET

As of December 31, 2006 and 2005, the foreclosed assets balance is as follows:

	2006	2005
Personal property	Ps 101	Ps 137
Real property	545	464
Goods pledged for sale	40	242
	686	**843**
Less: Allowance for losses on foreclosed assets	(370)	(378)
	Ps 316	**Ps 465**

18. PROPERTY, FURNITURE AND FIXTURES, NET

As of December 31, 2006 and 2005, the property, furniture and fixtures balance is as follows:

	2006	2005
Furniture and equipment	Ps 3,620	Ps 2,880
Office furniture	5,005	4,833
Installation costs	1,498	1,417
	10,123	**9,130**
Less: Accumulated depreciation and amortization	(3,477)	(3,212)
	Ps 6,646	**Ps 5,918**

19. PERMANENT STOCK INVESTMENTS

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

	2006	2005
Sólida Administradora de Portafolios, S. A. de C. V.	Ps 761	Ps 655
Seguros Banorte Generali, S. A. de C. V.	792	626
Siefore Banorte Generali, S. A. de C. V., SIEFORE	633	479
Pensiones Banorte Generali, S. A. de C. V.	481	170
Fianzas Banorte, S. A. de C. V.	139	111
Banorte investment funds	105	81
Controladora PROSA, S. A. de C. V.	53	50
Bolsa Mexicana de Valores, S. A. de C. V.	38	32
Servicio Pan Americano de Protección, S. A. de C. V.	31	27
Bancen investment funds	-	18
Others	131	70
	Ps 3,164	**Ps 2,319**

As of December 31, 2006 and 2005, the investment in shares of Servicio Pan Americano de Protección, S. A. de C. V. is presented net of an impairment reserve of Ps 77.

20. DEFERRED TAXES, NET

The tax incurred by the Financial Group is calculated based on the tax result of the year and current enacted tax regulations. However, due to temporary differences affecting the recognition of revenues and expenses for accounting and tax purposes and differences between accounting and tax balance sheet accounts, the Financial Group has recognized a net deferred tax liability of Ps 144 in 2006 and a net deferred tax asset of Ps 420 in 2005, as detailed:

	2006					
	Temporary differences	Deferred effect ISR	Deferred effect PTU	Temporary differences	Deferred effect ISR	Deferred effect PTU
Temporary differences - assets:						
Allowance for loan losses	Ps 125	Ps 42	Ps -	Ps 61	Ps 17	Ps -
Tax loss carryforwards	-	-	-	434	122	-
Shared FOBAPROA losses	-	-	-	1,635	474	-
Recoverable asset tax (IMPAC)	2	2	-	2	2	-
Unrealized loss on available-for-sale securities	80	28	-	-	-	-
Excess of tax over book basis of foreclosed assets and fixed assets	688	192	68	882	247	86
PTU incurred in 2006	611	171	-	672	195	-
Other assets	622	175	59	546	158	52
Total assets	**2,128**	**610**	**127**	**4,232**	**1,215**	**138**
Temporary differences - liabilities						
Excess of book over tax basis of fixed assets and prepaid expenses	943	264	44	631	280	27
Unrealized capital gain from investments in SIEFORES	131	37	-	91	27	-
Payable ISR on UDI trusts	126	35	-	93	27	-
Portfolios acquired	944	264	94	1,411	409	141
Costs of sales reversal from Almacenadora Banorte	51	14	-	65	18	-
Treasury shares	-	-	-	1	-	-
Other liabilities	377	123	6	14	4	-
Total liabilities	**2,572**	**737**	**144**	**2,306**	**765**	**168**
Net asset (liability)	**Ps (444)**	**Ps (127)**	**Ps (17)**	**Ps 1,926**	**Ps 450**	**Ps (30)**
Net deferred tax			**Ps (144)**			**Ps 420**

As disclosed in Note 28, in accordance with Mexican tax law, the Company is subject to ISR and IMPAC. In 2004, 2005 and 2006, the tax rate was 33%, 30% and 29%, respectively, and as of 2007, the tax rate will be 28%. To determine deferred ISR at December 31, 2006 and 2005, the Company applied the different tax rates to temporary differences according to their estimated dates of reversal.

The Provisions issued by the Commission in 2004 establish that financial institutions can recognize the accrued financial effect derived from the initial application of the changes in enacted rates in retained earnings within stockholders' equity. In accordance with the Commission's requirements established in their Official Letter No. DGSIF "A"-601-II-50011 issued on February 24, 2005, the Financial Group recognized a deferred income tax benefit of Ps 161 derived from the reserve created for holding foreclosed assets with a credit to retained earnings within stockholders' equity.

As a result of consolidating Banorte USA, the Financial Group recognized a net amount of Ps 24 in deferred taxes determined at a rate of 35% as per local tax provisions in the United States of America.

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21. OTHER ASSETS

As of December 31, 2006 and 2005, other assets are as follows:

	2006	2005
Plan assets held for employee pension plans	Ps 2,006	Ps 1,765
Provision for employee retirement obligations	(1,905)	(1,672)
Other amortizable expenses	2,962	1,639
Accumulated amortization of other amortizable expenses	(1,488)	(744)
Storage inventories	81	188
Preoperating expenses (net)	-	75
Goodwill	3,604	61
Guarantee deposits	100	32
Contingency reserve investments	-	3
Contingency provisions	-	(3)
Other	62	2
	Ps 5,442	**Ps 1,346**

22. DEPOSITS

Liquidity coefficient

The "Investment regime for transactions in foreign currency and conditions to be fulfilled during the term of transactions in such currency", designed for financial 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 2006 and 2005 the Financial Group generated a liquidity requirement of USD 179,305 thousand and USD 169,125 thousand, respectively, and held investments in liquid assets of USD 339,067 thousand and USD 502,024 thousand, holding a surplus of USD 159,762 thousand and USD 332,899 thousand, respectively.

Deposits

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

	2006	2005
Immediately due and payable deposits:		
Checking accounts earning no interest	Ps 34,893	Ps 29,610
Checking accounts earning interest	28,374	25,053
Checking accounts in US dollars	6,600	4,182
Checking accounts in US dollars for individual residents on the Mexican border	4,048	2,376
Savings accounts	162	4
Demand deposits accounts	20,755	17,373
IPAB checking accounts	528	608
	95,360	**79,206**
Time deposits:		
Over-the-counter promissory notes	55,687	49,503
Money desk promissory notes	2,695	3,097
Fixed-term deposits	13,758	9,587
Time deposits from banks	343	343
Provision for interest	1,694	1,423
	Ps 74,177	**Ps 63,953**
	Ps 169,537	**Ps 143,159**

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 earn 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

	2006				2005			
Foreign exchange	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Mexican pesos and UDIs	0.99%	1.06%	0.99%	0.94%	1.14%	1.34%	1.36%	1.21%
Foreign currency	1.00%	1.11%	1.16%	1.07%	0.78%	0.80%	0.86%	0.89%
Banorte USA:								
Demand, NOW and savings	-	-	-	0.29%	-	-	-	-
Money market	-	-	-	4.40%	-	-	-	-

Time deposits

	2006				2005			
Foreign exchange	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
General public								
Mexican pesos and UDIs	5.95%	5.43%	5.40%	5.17%	6.24%	6.36%	6.92%	6.78%
Foreign currency	2.17%	2.73%	2.60%	2.84%	1.17%	1.31%	1.54%	1.62%
Banorte USA:								
General public	-	-	-	4.94%	-	-	-	-
Money market								
Mexican pesos and UDIs	8.52%	8.15%	9.98%	10.19%	9.73%	10.32%	10.38%	8.29%

As of December 31, 2006 and 2005, the terms at which these deposits are negotiated are as follows:

	2006			
	From1 to 179 days	From 6 to 12 months	More than 1 year	Total
Money market promissory notes	Ps 57,444	Ps 2,136	Ps 9,408	Ps 68,988
Time deposits	-	242	3,253	3,495
Provision for interest	120	20	1,554	1,694
	Ps 57,564	**Ps 2,398**	**Ps 14,215**	**Ps 74,177**

	2005			
	From1 to 179 days	From 6 to 12 months	More than 1 year	Total
Money market promissory notes	Ps 48,929	Ps 304	Ps 3,367	Ps 52,600
Time deposits	8,821	589	520	9,930
Provision for interest	165	8	1,250	1,423
	Ps 57,915	**Ps 901**	**Ps 5,137**	**Ps 63,953**

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23. INTERBANK AND OTHER LOANS:

The loans received from other banks as of December 31, 2006 and 2005 are as follows:

	Mexican pesos		US dollars converted to MXP		Total	
	2006	2005	2006	2005	2006	2005
Bank deposits and loans	Ps 907	Ps 637	Ps 25	Ps 1,061	Ps 932	Ps 1,698
Foreign bank deposits and loans	-	-	2,016	995	2,016	995
Rediscounted portfolio loans	12,475	12,431	94	433	12,569	12,864
Issue of CPOs	-	-	536	-	536	-
Call money	-	1,532	-	-	-	1,532
FOVI rediscounts	724	3,204	-	-	724	3,204
Provision for interest	66	70	7	22	73	92
Total	**Ps 14,172**	**Ps 17,874**	**Ps 2,678**	**Ps 2,511**	**Ps 16,850**	**Ps 20,385**

These liabilities earn interest depending on the type of instrument and average balance of the loans. The average interest rates are shown below:

	2006				2005			
Foreign exchange	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Call money								
Mexican pesos and UDIs	7.75%	7.40%	7.70%	6.89%	9.14%	9.68%	9.66%	8.88%
Other bank loans								
Mexican pesos and UDIs	8.43%	6.71%	6.74%	8.08%	8.04%	8.73%	7.67%	8.12%
Foreign currency	6.27%	6.62%	6.25%	6.01%	4.89%	5.00%	5.82%	5.62%

The liabilities contracted by Banorte USA Corporation accrue interest at an average rate of 4.53%.

As of December 31, 2006 and 2005, the terms at which these financial liabilities are negotiated are as follows:

	2006			2005
	Short-term	Long-term	Total	Total
Bank deposits and loans	Ps 123	Ps 809	Ps 932	Ps 1,698
Foreign bank deposits and loans		2,016	2,016	995
Rediscounted portfolio loans	6,695	6,410	13,105	12,863
Call money	-	-	-	1,532
FOVI rediscounts	-	724	724	3,204
Provision for interest	73	-	73	92
	Ps 6,891	**Ps 9,959**	**Ps 16,850**	**Ps 20,385**

24. EMPLOYEE RETIREMENT OBLIGATIONS

The Financial Group recognizes projected liabilities for pension plans, seniority premiums and postretirement medical coverage by applying the projected unit credit method, which considers the benefits accrued at the valuation date and the benefits generated during the year.

The amount of accumulated and projected benefits as of December 31, 2006 and 2005, determined by independent actuaries, is analyzed below:

	2006			
	Pension plan	Seniority premiums	Medical benefits	Total
Projected benefit obligation (PBO)	Ps (679)	Ps (107)	Ps (1,093)	Ps (1,879)
Plan assets	685	146	495	1,326
Funded status	**6**	**39**	**(598)**	**(553)**
Transition asset (obligation)	83	(15)	424	492
Unrecognized prior service costs	(32)	(4)	-	(36)
Unrecognized actuarial losses	139	2	67	208
Net projected asset (liability)	**196**	**22**	**(107)**	**111**
Accumulated benefit obligation (ABO)	**Ps 527**	**Ps 75**	**Ps -**	**Ps 602**

	2005			
	Pension plan	Seniority premiums	Medical benefits	Total
Projected benefit obligation (PBO)	Ps (673)	Ps (98)	Ps (983)	Ps (1,754)
Plan assets	678	130	442	1,250
Funded status	**5**	**32**	**(541)**	**(504)**
Transition asset (obligation)	83	(17)	452	518
Unrecognized prior service costs	(33)	(3)	-	(36)
Unrecognized actuarial (gains) losses	143	7	(19)	131
Net projected asset (liability)	**198**	**19**	**(108)**	**109**
Accumulated benefit obligation (ABO)	**Ps 643**	**Ps 84**	**Ps -**	**Ps 727**

The Financial Group has a net prepaid pension asset of Ps 4 generated from transferring personnel from Sólida Administradora de Portafolios, S. A. de C. V. (Sólida) to Banorte. As of December 31, 2006, the Financial Group had segregated plan assets of Ps 1,330 (Ps 1,250 in 2005), which are used to cover the projected benefit obligations, which is recorded under “Other assets” in the consolidated balance sheets.

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For the years ended December 31, 2006 and 2005, the net period cost adjusted for inflation is made up as follows:

	2006	2005
Service cost	Ps 68	Ps 66
Interest cost	94	87
Expected return on plan assets	(90)	(80)
Amortization of unrecognized items:		
Transition liability	34	33
Prior service costs	(2)	(1)
Variance in assumptions	17	10
Period cost	**Ps 121**	**Ps 115**

The rates used in the calculation of the projected benefit obligation and return on plan assets as of December 31, 2006 and 2005 are shown below:

	2006	2005
Discount rate	5.50%	5.50%
Rate of wage increase	1.00%	1.00%
Rate of increase in costs and expenses of other postretirement benefits	2.00%	2.00%
Expected long-term rate of return on plan assets	6.50%	6.50%

As of 2005, the Financial Group recognizes the liability for severance payments due to causes other than organizational restructuring (severance indemnities), which was also determined by independent actuaries, as follows:

	2006	2005
Projected benefit obligation (PBO)	Ps (213)	Ps (201)
Plan assets	131	109
Funded status	**(82)**	**(92)**
Transition obligation	125	135
Unrecognized actuarial gains	30	46
Net projected liability	**Ps 73**	**Ps 89**

For the years ended December 31, 2006 and 2005, the net period cost adjusted for inflation is made up as follows:

	2006	2005
Service cost	Ps 24	Ps 24
Interest cost	7	6
Transition obligation	14	13
Period cost	**Ps 45**	**Ps 43**

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 elected to remain enrolled.

Furthermore, beginning in January 2001 the Financial Group instituted a defined contribution pension plan. The participating employees in this plan are all those who were hired from that date forward, as well as all those who, hired before such a date, enrolled voluntarily. Moreover, this plan maintains a fund, as of December 31, 2006, amounting to Ps 710, which is recorded under “Other assets”.

The employees who were hired before January 2001 and decided to enroll voluntarily in the defined contribution pension plan received a benefit for past services equivalent to the actuarial benefits accrued in the previous plan and were immediately assigned 50% (January 2001) and the remaining 50% will be contributed over 10 years.

The initial assignment of the prior service costs to the defined contribution plan was financed by funds from the defined benefit plan and was treated as a modification to the plan in accordance with Bulletin D-3.

Costs associated with the defined contribution pension plan do not require an actuarial valuation because the costs of this plan are equivalent to the Financial Group's contributions made to the plan's participants during the year.

25. SUBORDINATED DEBENTURES

	2006	2005
Senior subordinated debentures, non-convertible, maturing in January 2014, denominated in U.S. dollars, at an annual interest rate of 5.875%, payable semiannually with a final principal payment upon maturity (10-year term).	Ps 3,313	Ps 3,312
Senior subordinated debentures, non-convertible, representative securities BANORTE 02D debentures maturing in November 2012, at an annual interest rate of 8.0% for the first 10 semiannual periods and subject to adjustment in the following 10 semiannual periods, which will not be less than 8% nor greater than 10% a year.	1,219	1,241
Senior subordinated debentures, non-convertible, maturing in April 2021, denominated in U.S. dollars, at an annual interest rate of 6.862%%, payable semiannually with a final principal payment upon maturity (15-year term).	2,194	-
Preferred subordinated debentures, non-convertible, maturing in April 2016, denominated in U.S. dollars, at an annual interest rate of 6.135%%, payable semiannually with a final principal payment upon maturity (10-year term).	4,382	-
Preferred subordinated debentures maturing in April 2009, denominated in U.S. dollars, at an annual interest rate of 2.72%.	111	-
Preferred subordinated debentures maturing in June 2034, denominated in U.S dollars, at an annual interest rate of 2.75%.	111	-
Accrued interest payable and hedging swaps.	36	191
	Ps 11,366	**Ps 4,744**

The debt issue costs related to the issuance of these debentures are amortized using the straight-line method as an adjustment to the yield over the term of the debt. The amortization expense recognized in earnings amounted to Ps 5 in both 2006 and 2005.

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26. TRANSACTIONS AND BALANCES WITH SUBSIDIARIES AND ASSOCIATED COMPANIES

The balances and transactions with subsidiaries and associated companies as of December 31, 2006 and 2005 are as follows:

	Revenues		Accounts receivable	
Institution	2006	2005	2006	2005
Arrendadora Banorte, S. A. de C. V.	Ps 95	Ps 80	Ps 1,263	Ps 923
Casa de Bolsa Banorte, S. A. de C. V.	473	339	-	-
Banco del Centro, S. A.	-	1,383	-	2,244
Almacenadora Banorte, S. A. de C. V.	10	6	-	111
Factor Banorte, S. A. de C. V.	65	53	346	690
Inmobiliaria Bra, S. A. de C. V.	-	-	-	2
Créditos Pronegocio, S. A. de C. V.	45	20	526	299
Banorte USA Corporation	-	-	92	-
Total	**Ps 688**	**Ps 1,881**	**Ps 2,227**	**Ps 4,269**

	Expenses		Accounts payable	
Institution	2006	2005	2006	2005
Grupo Financiero Banorte, S. A. de C.V.	Ps 5	Ps 7	Ps 41	Ps 66
Arrendadora Banorte, S. A. de C. V.	126	31	9	15
Casa de Bolsa Banorte, S. A. de C. V.	1,316	2,363	-	-
Banco del Centro, S. A.	-	201	-	401
Banorte Generali, S. A. de C. V. AFORE	-	-	4	2
Almacenadora Banorte, S. A. de C. V.	4	4	6	4
Factor Banorte, S. A. de C. V.	-	-	16	42
Inmobiliaria Banorte, S. A. de C. V.	68	66	139	156
Constructora Primero, S. A. de C. V.	23	27	133	93
Inmobiliaria Bancrecer, S. A. de C. V.	50	50	63	59
Inmobiliaria Innova, S. A. de C. V.	27	20	99	112
Inmobiliaria Banormex, S. A. de C. V.	4	3	4	5
Inmobiliaria Finsa, S. A. de C. V.	7	9	18	17
Inmobiliaria Bra, S. A. de C. V.	11	19	3	10
Inmuebles de Occidente, S. A. de C. V.	4	4	14	12
Inmuebles de Tijuana, S. A. de C. V.	-	-	3	3
Créditos Pronegocio, S. A. de C. V.	-	1	1	1
Total	**Ps 1,645**	**Ps 2,805**	**Ps 553**	**Ps 998**

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

Pursuant to article 73 of the LIC, the loans granted by Banorte to related parties (belonging to the financial sector or not) cannot exceed 75% of the basic portion of their net capital. As of December 31, 2006 and 2005, the amount of the loans granted to related parties is Ps 5,619 and Ps 6,335, respectively, representing 34% and 51%, respectively, of the limit established by the LIC.

Portfolio sales

Sale of portfolio packages between related parties

In February 2003 Banorte sold Ps 1,925 (nominal value) of its own portfolio (with interest) to its subsidiary Sólida Administradora de Portafolios, S. A. de C. V. ("Sólida") at a price of Ps 378 (nominal value). Of this transaction, Ps 1,891 (nominal value) related to past-due amounts and Ps 64 (nominal value) 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 (nominal value), considering the collections made since August 2002. In conjunction with the sold portfolio, Ps 1,577 (nominal value) of the associated allowance for loan losses was transferred as well.

In official letter 601-II-323110 dated November 5, 2003, the Commission set forth the accounting criteria to be applied to this transaction and issued a series of rulings whereby the Financial Group must provide detailed information on the activities of this transaction throughout its duration, in the understanding that this transaction was a one-time event and not a recurring portfolio transfer procedure.

Pursuant to the foregoing, below is a summary of the activity of the loan portfolio sold to Sólida since August 2002 and for the years of 2005 and 2006:

	Mexican pesos			Foreign currency value			Total		
Type of portfolio	Aug 02	Dec 05	Dec 06	Aug 02	Dec 05	Dec 06	Aug 02	Dec 05	Dec 06
Current portfolio									
Commercial	Ps 5	Ps 2	Ps 1	Ps 5	Ps -	Ps -	Ps 10	Ps 2	Ps 1
Mortgage	54	93	89	-	-	-	54	93	89
Total	**59**	**95**	**90**	**5**	**-**	**-**	**64**	**95**	**90**
Past-due portfolio									
Commercial	405	435	385	293	154	126	698	589	511
Consumer	81	78	74	-	-	-	81	78	74
Mortgage	1,112	613	504	-	-	-	1,112	613	504
Total	**1,598**	**1,126**	**963**	**293**	**154**	**126**	**1,891**	**1,280**	**1,089**
Total portfolio	**Ps 1,657**	**Ps 1,221**	**Ps 1,053**	**Ps 298**	**Ps 154**	**Ps 126**	**Ps 1,955**	**Ps 1,375**	**Ps 1,179**
Allowance for loan losses(1)									
Commercial	Ps 326	Ps 419	Ps 368	Ps 246	Ps 146	Ps 120	Ps 572	Ps 565	Ps 488
Consumer	77	77	74	-	-	-	77	77	74
Mortgage	669	558	468	-	-	-	669	558	468
Total allowance for loan losses	**Ps 1,072**	**Ps 1,054**	**Ps 910**	**Ps 246**	**Ps 146**	**Ps 120**	**Ps 1,318**	**Ps 1,200**	**Ps 1,030**

(1) Allowance required based on the classification methodology applied by Banorte.
Banorte holds 99.99% of the stockholders' equity of Sólida.

As of December 31, 2006, the composition of the Financial Group's loan portfolio, including the loan portfolio sold to Sólida, is as follows:

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	Mexican pesos		Foreign currency value		Total	
Type of portfolio	Dec 06	Dec 05	Dec 06	Dec 05	Dec 06	Dec 05
Commercial loans	Ps 55,833	Ps 45,316	Ps 17,361	Ps 7,695	Ps 73,194	Ps 53,011
Loans to financial institutions	3,761	2,968	478	836	4,239	3,804
Consumer loans	20,570	13,428	145	1	20,715	13,429
Mortgage loans	27,128	24,648	760	-	27,888	24,648
Government loans	10,328	15,254	442	544	10,770	15,798
IPAB loans	-	168	-	-	-	168
Current portfolio	**117,620**	**101,782**	**19,186**	**9,076**	**136,806**	**110,858**
Commercial loans	986	901	200	232	1,186	1,133
Consumer loans	682	491	1	-	683	491
Government loans	-	-	-	-	-	-
Mortgage loans	1,221	1,398	4	-	1,225	1,398
Past-due portfolio	**2,889**	**2,790**	**205**	**232**	**3,094**	**3,022**
Total portfolio	**120,509**	**104,572**	**19,391**	**9,308**	**139,900**	**113,880**
Allowance for loan losses	3,861	3,782	616	344	4,477	4,126
Net portfolio	**Ps 116,648**	**Ps 100,790**	**Ps 18,775**	**Ps 8,964**	**Ps 135,423**	**Ps 109,754**
Allowance for loan losses					144.70%	136.53%
% of past-due portfolio					2.28%	2.75%

27. INFORMATION BY SEGMENT

To analyze the financial information of the Financial Group, the data of the most representative segments as of December 31, 2006 are presented, without considering the eliminations relative to the consolidation of the financial statements.

The balances by service sector of the Financial Group are as follows:

Banking Sector:	2006
Net income	Ps 5,185
Stockholders' equity	23,786
Total portfolio	138,721
Past-due portfolio	1,962
Allowance for loan losses	3,447
Total net assets	182,607
Brokerage Sector:	
Net income	184
Stockholders' equity	709
Portfolio in custody	162,764
Total net assets	935
Long-term Savings Sector:	
Net income	1,028
Stockholders' equity	3,475
Total net assets	17,527
Auxiliary Credit Organizations Sector:	
Net income	247
Stockholders' equity	1,092
Total portfolio	7,426
Past-due portfolio	40
Allowance for loan losses	70
Total net assets	8,234

The current loan portfolio, grouped by economic sector and geographical location as of December 31, 2006 and 2005 is as follows:

	2006				
	Geographical location				
Sector	North	Center	West	South	Total
Agriculture	Ps 2,135	Ps 1,300	Ps 592	Ps 451	Ps 4,478
Mining	93	23	12	22	150
Manufacturing	5,564	3,186	1,479	522	10,751
Construction	2,858	2,062	177	285	5,382
Public utilities	46	11	1	1	59
Commerce	6,259	4,435	2,384	3,282	16,360
Transportation	2,631	693	81	95	3,500
Financial services	6,357	6,463	218	1,691	14,729
Communal, social services	4,454	5,881	1,701	566	12,602
Business groups	88	217	3	10	318
Public administration services	3,303	3,177	1,247	2,348	10,075
International Organization Services	1	-	1	-	2
INB	-	-	-	-	8,504
Credit card	-	-	-	-	9,482
Consumer	-	-	-	-	11,102
Mortgage	-	-	-	-	27,038
Others	-	-	-	-	84
Loans from Arrendadora Banorte	-	-	-	-	2,682
Loans from Factor Banorte	-	-	-	-	4,114
Loans from Créditos Pronegocio	-	-	-	-	554
Current loan portfolio					**Ps 141,966**

	2005				
	Geographical location				
Sector	North	Center	West	South	Total
Agriculture	Ps 1,648	Ps 1,256	Ps 545	Ps 420	Ps 3,869
Mining	44	14	8	19	85
Manufacturing	5,566	2,773	1,489	384	10,212
Construction	1,666	1,514	298	246	3,724
Public utilities	25	8	1	-	34
Commerce, restaurants, hotels	4,534	3,529	2,564	2,341	12,968
Transportation & communications	2,694	923	118	286	4,021
Financial services	6,542	4,684	630	1,471	13,327
Communal, social & personal services	1,587	4,918	481	624	7,610
Business, professional & civic groups	9	225	22	2	258
Public Administration Services	4,903	4,567	855	4,900	15,225
International Organization Services	2	-	1	-	3
Credit card	-	-	-	-	6,484
Consumer	-	-	-	-	9,691
Mortgage	-	-	-	-	24,773
Loans to FOBAPROA or IPAB, ADE, FOPYME & FINAPE	-	-	-	-	332
Consumer	-	-	-	-	(17)
Hedging swaps	-	-	-	-	(45)
Loans from Arrendadora Banorte	-	-	-	-	2,402
Loans from Factor Banorte	-	-	-	-	3,964
Loans from Créditos Pronegocio	-	-	-	-	337
Current loan portfolio					**Ps 119,257**

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

	2006				
	Geographical location				
Sector	North	Center	West	South	Total
Agriculture	Ps 13	Ps 34	Ps 7	Ps 3	Ps 57
Mining	2	2	-	-	4
Manufacturing	26	62	44	6	138
Construction	5	35	3	3	46
Public utilities	-	-	-	-	-
Commerce	74	91	52	19	236
Transportation	3	9	5	-	17
Financial services	2	6	-	-	8
Communal, social services	12	13	2	2	29
Business groups	-	-	-	-	-
Public Administration Services	-	-	-	-	-
International Organization Services	-	-	-	-	-
INB	-	-	-	-	96
Credit card	-	-	-	-	358
Consumer	-	-	-	-	249
Mortgage	-	-	-	-	717
Other past-due loans	-	-	-	-	7
Loans from Arrendadora Banorte	-	-	-	-	22
Loans from Factor Banorte	-	-	-	-	18
Loans from Créditos Pronegocio	-	-	-	-	58
Past-due loan portfolio					**Ps 2,060**

	2005				
	Geographical location				
Sector	North	Center	West	South	Total
Agriculture	Ps 16	Ps 35	Ps 34	Ps 1	Ps 86
Mining	1	-	2	-	3
Manufacturing	49	69	64	7	189
Construction	6	35	2	1	44
Commerce, restaurants, hotels	56	70	65	10	201
Transportation & communications	1	19	1	3	24
Financial services	7	1	5	-	13
Communal, social & personal services	10	32	4	4	50
Business groups	1	-	-	-	1
Credit card	-	-	-	-	222
Consumer	-	-	-	-	207
Mortgage	-	-	-	-	799
Others	-	-	-	-	5
Loans from Arrendadora Banorte	-	-	-	-	33
Loans from Factor Banorte	-	-	-	-	34
Loans from Créditos Pronegocio	-	-	-	-	16
Past-due loan portfolio					**Ps 1,927**

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

	2006							
	Geographical location							
Product	Monterrey	Mexico City	West	Northwest	Southeast	Treasury and others	Abroad	Total
Non-interest earning checking accounts	Ps 9,813	Ps 11,896	Ps 3,634	Ps 4,559	Ps 4,894	Ps 94	Ps -	Ps 34,890
Interest earning checking accounts	7,097	15,314	2,784	4,130	4,657	88	-	34,070
Savings	2	1	-	-	-	-	-	3
Current account in MXP and preestablished	2,622	3,313	1,058	1,746	1,837	65	-	10,641
Non-interest bearing demand deposits, USD	222	245	95	658	124	-	2,912	4,256
Interest bearing demand deposits, USD	2,253	998	400	2,189	200	(2)	4,318	10,356
Savings USD	-	-	-	-	-	-	158	158
Over-the-counter promissory notes	8,958	16,130	4,028	3,876	5,748	-	-	38,740
Time deposits, USD	1,932	2,681	1,277	1,190	737	14	7,347	15,178
Money desk customers	5,277	5,936	1,798	1,263	1,255	-	-	15,529
Financial intermediaries	-	-	-	-	-	3,495	-	3,495
FOBAPROA checking earning interest	526	-	-	-	-	1,695	-	2,221
Total deposits								**Ps 169,537**

	2005						
	Geographical location						
Product	Monterrey	Mexico City	West	Northwest	Southeast	Treasury and others	Total
Non-interest earning checking accounts	Ps 7,352	Ps 9,849	Ps 3,987	Ps 3,867	Ps 4,034	Ps 73	Ps 29,162
Interest earning checking accounts	6,047	13,987	3,839	4,556	4,965	78	33,472
Savings	1	1	-	-	-	-	2
Current account in MXP and preestablished	1,738	2,864	1,066	1,629	1,486	48	8,831
Non-interest bearing demand deposits, USD	89	205	68	360	119	-	841
Interest bearing demand deposits, USD	1,553	1,861	487	2,167	223	(1)	6,290
Over-the-counter promissory note	6,520	14,159	4,858	4,161	4,980	178	34,856
Time deposits, USD	1,699	2,285	1,512	795	632	14	6,937
Money desk customers	3,752	5,212	3,026	1,195	1,250	-	14,435
Financial intermediaries	-	-	-	-	-	6,495	6,495
FOBAPROA checking earning interest	623	-	-	-	-	1,220	1,843
Hedging swaps	-	-	-	-	-	(5)	(5)
Total deposits							**Ps 143,159**

28. TAX ENVIRONMENT

Income tax and asset tax regime

The Financial Group and its subsidiaries are subject to ISR and asset tax (IMPAC). ISR is calculated by considering certain effects of inflation as taxable or deductible, such as depreciation calculated on values in constant pesos, and the effect of inflation on certain monetary assets and liabilities is accrued or deducted through the annual adjustment for inflation which is similar to results from monetary position. In 2004, the rate was 33%; 30% in 2005; 29% in 2006; and as of 2007 it will be 28%. Due to changes in the tax legislation effective January 1, 2007, taxpayers who file tax reports and meet certain requirements may obtain a tax credit equivalent to 0.5% or 0.25% of taxable income.

Through 2006, IMPAC was calculated by applying 1.8% on the net average of the majority of restated assets less certain liabilities, including liabilities payable to banks and foreign entities. IMPAC is payable only to the extent that it exceeds ISR payable for the same period; any required payment of IMPAC is creditable against the excess of ISR over IMPAC of the following ten years. As of January 1, 2007, the IMPAC rate will be 1.25% on the value of assets for the year, without deducting any liabilities.

Any payment made can be recovered against the amount by which ISR exceeds IMPAC over the next ten fiscal years. For the year 2006, the Financial Group did not incur IMPAC as current ISR was higher than IMPAC.

Reconciliation of statutory and effective tax rates

The principal items affecting the determination of the statutory tax rate of the Financial Group were the annual adjustment for inflation, the deduction of the allowance for loan losses, without exceeding 2.5% of the average loan portfolio, the deduction of the reserve for shared losses with the IPAB and the valuation effect of financial instruments.

Employee statutory profit sharing

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

29. STOCKHOLDERS' EQUITY

At the General Ordinary Stockholders' Meetings held on April 28 and October 12, 2006, the following resolutions were adopted, among others:

a) To transfer the profits from 2005 equal to Ps 5,957 (Ps 5,719 at nominal value) to earnings from prior years, and increase the legal reserve by Ps 294 (Ps 286 at nominal value) equivalent to 5% of net income for the year.

b) Declare cash dividends of Ps 763 (Ps 757 at nominal value).

At the Extraordinary Stockholders' Meeting held on December 13, 2006, it was resolved, among other things, to reform the Financial Group's bylaws to adjust them to the provisions established by the new Mexican Stock Market Law. This new law requires every company that is listed on the Bolsa Mexicana de Valores, S. A. de C. V. ("BMV" Mexican Stock Exchange) to include "Bursátil" (publicly traded) in their legal name or use the letter "B" after S. A. Consequently, the Financial Group's legal name will be changed to add "S. A. B. de C. V." at the end. However, authorization for this modification is still pending in the SHCP and therefore the Financial Group's legal name remains unchanged as of the date of these consolidated financial statements.

The Financial Group's stockholders' equity as of December 31, 2006 and 2005 is made up as follows:

	Number of shares with a nominal value of Ps 3.50					
	2006			2005		
	Common stock	Shares issued (not subscribed)	Paid-in capital	Common stock	Shares issued (not subscribed)	Paid-in capital
"O" Series	2,018,347,548	-	2,018,347,548	2,018,554,148	-	2,018,554,148

	Historical amounts					
	2006			2005		
	Common stock	Shares issued (not subscribed)	Paid-in capital	Common stock	Shares issued (not subscribed)	Paid-in capital
"O" Series	Ps 7,064	Ps -	Ps 7,064	Ps 7,065	-	Ps 7,065
Restatement in pesos of December 2006			4,516			4,516
			Ps 11,580			**Ps 11,581**

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 distributions 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.

The Financial Group's net profit is subject to the requirement that at least 5% of net income of each year be transferred to the legal reserve until the reserve equals 20% of capital stock at par value. The legal reserve may not be distributed to the stockholders during the life of the Financial Group, except in the form of a stock dividend.

Capital reserves

In accordance with official letter No. 601-II-77797 dated October 16, 2000, in which the Commission authorized the Financial Group, on a one-time basis and as an exception, to affect capital reserves and establish the allowance for loan losses determined to cover contingencies for loss sharing and the "Incentive arrangement" related to the "Arrangement for sharing loan portfolio flows with FOBAPROA". In accordance with the creation of such reserves, deferred taxes were recorded directly in the "Capital reserves" account in stockholders' equity.

Pursuant to the expiration of the trust contract number 1990-4, during June 2006, Banorte canceled part of the respective loss sharing reserve, recognizing the cancellation of deferred taxes which it had created in the "Capital reserves" account in the amount of Ps 300, nominal value.

Capitalization ratio

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

The information as of December 31, 2006 sent for Banco de México to review is shown below.

The capitalization ratio of Banorte as of December 31, 2006 was 17.35% of total risk (market and credit), and 24.05% of credit risk, which in both cases exceed the current regulatory requirements.

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The amount of net capital, divided by basic and complementary capital as of December 31, 2006, is detailed below (these figures may differ from those in the basic financial statements):

	2006
Stockholders' equity	Ps 23,560
Subordinated debentures and capitalization instruments	2,807
Deduction of investment in subordinated instruments	
Deduction of investments in shares of financial entities	3,449
Deduction of investments in shares of non-financial entities	779
Deduction of financing granted for the acquisition of bank shares or shares of the Financial Group's entities	
Deduction of deferred taxes	-
Deduction of intangibles and expenses or deferred costs	619
Other assets to deduct	-
Basic capital	**21,520**
Debentures and capitalization instruments	8,301
Allowance for loan loss reserves	714
Complementary capital	**9,015**
Net capital	**Ps 30,535**

Characteristics of the subordinated debentures:

	Amount	Maturity	Basic capital proportion	Complementary capital proportion
Debentures indexed to USD 2002	1,219	28/11/2012	100%	0%
Complementary capital debentures 2004	3,313	17/02/2014	0%	100%
Complementary capital debentures 2006	4,382	13/10/2016	0%	100%
Basic capital debentures 2006	2,194	13/10/2021	72%	28%

Assets subject to risk are detailed below:

Assets subject to market risk:

	Positions weighted by risk	Capital requirement
Transactions in Mexican pesos with nominal interest rate	Ps 34,879	Ps 2,790
Transactions with debt instruments in Mexican pesos with surcharge and revisable rate	9,145	732
Transactions in Mexican pesos with real interest rates or in UDIs	725	58
Transactions in UDIs or with yields referenced to the NCPI	4	1
Transactions in foreign currency with nominal interest rate	2,729	218
Exchange transactions	97	8
Share transactions	228	18
Total	**Ps 47,807**	**Ps 3,825**

Assets subject to credit risk:

	Assets weighted by risk	Capital requirement
Group II (weighted at 20%)	Ps 11,975	Ps 958
Group II Others (weighted at 10%)	50	4
Group II Others (weighted at 23%)	543	43
Group III (weighted at 100%)	104,541	8,363
Group III Others (weighted at 11.5%)	41	4
Group III Others (weighted at 50%)	1,130	90
Group III Others (weighted at 115%)	1,675	134
Group III Others (weighted at 150%)	1,432	115
Sum	**121,837**	**9,711**
For permanent shares, furniture and real property, and advance payments and deferred charges	5,591	447
Total	**Ps 126,978**	**Ps 10,158**

30. FOREIGN CURRENCY POSITION

As of December 31, 2006 and 2005, the Financial Group holds certain assets and liabilities in foreign currency, mainly U.S. dollars, converted to the exchange rate issued by Banco de México at Ps 10.8116 and Ps 10.6344 per USD 1.00, respectively, as shown below:

	Thousands of U.S. dollars	
	2006	2005
Assets	3,560,079	1,594,589
Liabilities	3,263,390	1,548,066
Net asset position in U.S. dollars	**296,689**	**46,523**
Net asset position in Mexican pesos	**Ps 3,208**	**Ps 495**

31. POSITION IN UDIs

As of December 31, 2006 and 2005, the Financial Group holds certain assets and liabilities denominated in UDIs, converted to Mexican pesos based on the current equivalency of Ps 3.788954 and Ps 3.637532, per UDI, respectively, as shown below:

	Thousands of UDIs	
	2006	2005
Assets	146,081	122,203
Liabilities	103,296	94,509
Net asset position in UDIs	**42,785**	**27,694**
Net asset position in Mexican pesos	**Ps 162**	**Ps 101**

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32. NET INCOME PER SHARE

The net income per share is the result of dividing the net income by the weighted average of the Financial Group's shares in circulation during the period.

The results prior to December 31, 2006 and 2005 are shown below:

	2006			2005
	Income	Weighted average shares	Income per share	Income per share
Net income per share	**Ps 5,959**	**2,019,019,115**	**Ps 2.95136**	**Ps 8.6091**

33. SAVING PREVENTIVE AND PROTECTION MECHANISM

In December 1998, the Federal Congress approved a draft law establishing the gradual elimination of FOBAPROA as of January 1, 1999, and the creation of IPAB, which assumed the assets of FOBAPROA, and the obligations assumed by the latter as a result of the bank salvage process.

Pursuant to Temporary Article 5 of the Bank Savings Protection Law, on July 18, 1999 IPAB issued the general rules for implementation of the PCCC, which were applied to those institutions that elected to terminate the contracts executed with FOBAPROA and to subsequently execute contracts of the New Program with IPAB.

As a result of the changes described above, the New Program Contract was executed with IPAB, which allows IPAB to perform the GEL Audits of all loans generating resources for IPAB. These audits were completed in the first half of 2005, which once their consequences were applied it was possible to exchange IPAB obligations for IPAB Instruments, most of which were paid in full in 2005. Two were paid in full in June 2006 as per the New Program Contract.

During 2006 and 2005, the amount of contributions to the IPAB payable by Banorte for fees amounted to Ps 659 and Ps 624, respectively.

34. RISK MANAGEMENT

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 Managing Director of the Financial Group, the General Director of Comprehensive Risk Management, the General Director of Banking, Savings and Welfare, and the General Director of the Securities Firm, as well as the General Director of Audits, who has the right to speak but not to vote.

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

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

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

2. Approve and review at least once a year:

- The specific limits for discretionary risks, as well as tolerance levels for nondiscretionary risks.
- The methodology and procedures to identify, measure, oversee, limit, control, report and disclose the different kinds of risks to which the Holding Company 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 of Directors, at least once a month, 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.

35. COMPREHENSIVE RISK MANAGEMENT UNIT (UAIR) (UNAUDITED)

The function of the UAIR is to identify, measure, oversee, limit, control, report and disclose the different kinds of risk 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 Management.
- Operating Risk Management.
- 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 difficulty of renewing debts or obtaining others under normal conditions for the Financial Group, due to the anticipated or forced sale of assets at unusual discounts to meet its obligations.

Operating risk: Loss resulting from lack of adaptation or failure in processes, personnel, internal systems or external events. This definition includes Technological Risk and Legal Risk. Technological Risk 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.

During 2006, different audits were performed of comprehensive risk management activities, both by internal and independent external auditors, whose reports showed satisfactory results for the Financial Group in terms of compliance with the prudential Comprehensive Risk Management regulations established by the Commission.

Credit risk

Credit Risk is the risk that the customers will not comply with their payment obligations; therefore, adequate risk management is essential to maintain a high quality loan portfolio.

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

a) Improve the quality, diversification and composition of the loan portfolio to optimize the risk-return ratio.

b) Provide senior management with reliable and timely information to support decision-making in credit matters.

c) Provide the business departments with clear and sufficient tools to support credit placement and follow up.

d) Support the creation of economic value for shareholders by means of efficient credit risk management.

e) Define and constantly update the regulatory framework for credit risk management.

f) Comply with the credit risk management reporting requirements established by the relevant authorities.

g) 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's banks segment 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 Classification (CIR Banorte).

The Target Markets and Risk Acceptance Criteria are tools which, together with the CIR Banorte, 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.

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 Comisión Nacional de Valores (Mexican Securities Commission) on August 20, 2004. 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 900,000 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 bank 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, 2006, the total portfolio of the Financial Group is Ps 129,976. The expected loss represents 1.8% and the unexpected loss represents 3.4% of the total operating portfolio. The average of the expected loss was 1.8% during the period from October to December 2006. For December 31, 2005, the Financial Group's total operating portfolio was Ps 112,184 and the expected loss was 1.9% of this portfolio, while the unexpected loss was 4.1%.

General rules for the diversification of risk in performing asset and liability transactions applicable to credit institutions

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.

The Financial Group, in granting financing to a person or group of persons representing common risk, must adjust to the maximum financing level resulting from applying to basic capital a factor tied to the Financial Group's capitalization level.

Furthermore, in terms of securing public resources, the Financial Group should diversify their risks, ensuring an adequate composition of liabilities based on the placement of the resources secured.

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

Basic capital as of September 30, 2006	**Ps 21,858**
Financing whose individual amount represents more than 10% of basic capital:	
Credit transactions	
Number of financings	-
Amount of financings taken as a whole	-
% in relation to basic capital	%
Money market transactions	
Number of financings	5
Amount of financings taken as a whole	Ps 16,076
% in relation to basic capital	74%
Maximum amount of financing with the 3 largest debtors and Common Risk groups	**Ps 12,770**

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 one day loss which could be generated in the valuation of the portfolios at a given date. This methodology is used both for the calculation of market risk and for the establishment and control of internal limits.

The Financial Group applies the nonparametric historical simulation method to calculate the VaR, considering for such purpose a 99% confidence level, using the 500 immediate historical scenarios, multiplying the result by a security factor that ensures the coverage of unforeseen volatilities in the primary risk factors affecting such portfolios, which is established based on the behavior of the principal risk factors.

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 of the portfolio for the fourth quarter of 2006 is Ps 312.

Millions of pesos	4Q05	1Q06	2Q06	3Q06	4Q06
VaR Banorte*	296	246	191	213	312
Banorte net capital**	18,170	19,351	19,833	25,865	30,535
VaR / net capital Banorte	1.63%	1.27%	0.96%	0.82%	1.02%

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

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Also, the average of the VaR for the risk factor of the portfolio of instrument described for the Financial Group behaved as follows during the fourth quarter of 2006:

Risk factor	VaR
Domestic interest rate	294
Foreign interest rate	52
Exchange rate	97
Capital	4
Foreign currency bond prices	36
Total VaR	312

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.

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.

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.

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 (Liquid Assets/Liquid Liabilities). Liquid assets include funds available, marketable securities and securities available for sale. By the same token, liquid liabilities include immediately due and payable deposits, immediately due and payable interbank loans and short-term loans. The liquidity ratio at the end of the fourth quarter of 2006 is 64.7%, while the average during the quarter is 67.3%, as shown below:

	End of quarter				
	4Q05	1Q06	2Q06	3Q06	4Q06
Liquid assets	47,984	58,843	55,787	51,094	64,013
Liquid liabilities	81,587	81,044	86,537	82,685	98,883
Liquidity index	58.8%	72.6%	64.5%	61.8%	64.7%

	Average				
	4Q05	1Q06	2Q06	3Q06	4Q06
Liquid assets	42,801	47,441	51,318	52,511	58,764
Liquid liabilities	74,744	79,738	84,317	84,846	87,371
Liquidity index	57.3%	59.5%	60.9%	61.8%	67.3%

Average calculation using the Liquidity Index'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.

Operating risk

As of January 2003, the Financial Group established a formal operating risk department denominated "Operating Risk Management Department" as part of its Risk Management Strategy. The department prepared an implementation master plan (2004-2007) in accordance with the requirements of the local regulator, and approved by the Risk Policies Committee (CPR). The plan generally covers the corporate management of operating risk, the recording of loss events and the calculation of the capital requirement for operating risk.

The master plan consists of the following phases:

- Close coordination with the Controllership, Internal Audit and Risk Analysis areas,
- Identify the main sources of information,
- Create a database,
- Determine the type of software for Operating Risk Management and for calculation of the capital requirement for Operation Risk,
- Acquire and develop software,
- Install the software and perform tests, and
- Generate reports through the management information system.

As the cornerstone of operating risk management, and bearing in mind the Basle II Agreement, the Financial Group has begun to record events that result in a real or potential economic loss, in order to have the bases to be able to calculate the capital requirement.

The Operating Risk department coordinates with the Internal Audit and Controllership departments in order to promote and provide support in the other two key areas, which are to ensure effective internal control to establish procedures for processes and their compliance, and permanent audit supervision. Coordination also takes place with the Business, Technology and Operations departments, which continually develop Operating Risk mitigation strategies.

Risk management model

The Financial Group has 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 are processed in order to eliminate or mitigate them (seeking to reduce their severity or frequency) by defining tolerance levels, as the case may be. Work is currently under way on the development of an Institutional Operating Risk Management Model, in which the first step is the recording of operating loss events.

Recording of events

Given the inherent nature of operating risk, an historical database must be in place containing the operating events experienced by the Financial Group in order to be able to determine the respective trends, frequency, impact and distribution.

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 those proposed by the Basle II Agreement):

Types of events	Description
Internal fraud	Actions intended to defraud, illegally seize ownership or evade the regulations, law or policies of the institution involving at least one internal party.
External fraud	Actions taken by third parties intended to defraud, illegally seize ownership or evade the law.
Labor relations	Actions inconsistent with laws or employment, health or safety agreements, or which result in the payment of claims for damages to personnel or discrimination claims.
Practices with customers	Negligence or unintentional breaches which prevent compliance with professional obligations with customers or due to the nature or design of a product or service.
Damage to assets	Damage or loss to physical assets due to natural disasters or other events.
System failures	Interruption in business activities due to information systems failures.
Execution, delivery and processes	Failures in processing of transactions or in process management and in relations with counterparties and suppliers.

Technology risk

Technology risk forms an inherent part of operating risk, for which reason its management is performed throughout the entire organization. The Technology and Operations departments carry out the functions established by the Commission in terms of technology risk management related to the establishment of controls, the evaluation of weaknesses and potential contingency plans.

To address the operating risk caused by high impact external events, the Financial Group is working on a project to improve their Business Continuity Plan (BCP) and Business Recovery Plan (BRP) based on a same-time data replication system at an alternate computer site. The project leader is the Controllership Executive Management, due to its association with processes, procedures and regulatory compliance. However, the areas of Technology and Operations, Business, and ARO Leadership are also significantly involved. The project's current progress covers the back-up and recovery of the main critical applications with a wider scope than the one previously reached with external providers.

Legal Risk

For the recording and follow-up of legal, administrative and tax issues that may arise from an adverse unfavorable 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 contingencies are estimated by the attorneys that process the issues based on their knowledge in each case. This facilitates the creation of accounting provisions necessary to mitigate any estimated contingencies.

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 real operating losses are recorded in the SCERO in accordance with a predetermined classification.

Based on the statistics of the current legal issues and real loss events, the Financial Group can identify specific legal or operating risks, which are analyzed in order to eliminate or mitigate them in an attempt to reduce or limit their future occurrence or impact.

36. MEMORANDUM ACCOUNTS

	2006	2005
Bank customers (current accounts)	Ps 11	Ps 15
Settlement of customer transactions	420	(130)
Customer valuables received in custody	162,764	123,852
Customer repurchase agreements	22,027	26,328
Customer call options transactions	-	163
Managed trusts	2,768	Ps 2,886
	Ps 187,990	**Ps 153,114**
Guarantees granted	Ps -	Ps 28
Other contingent obligations	262	1,184
Opening of irrevocable credits	2,282	2,260
Amounts committed in transactions with IPAB	526	623
Deposits of assets	1,186	766
Financial Group securities delivered into custody	204	221
Financial Group government securities held in custody	292	388
Assets in trusts or under mandate	84,355	70,597
Managed assets in custody	93,378	86,818
Investment banking transactions on account of third parties (net)	92,723	93,689
	Ps 275,208	**Ps 256,574**
Securities to be received in repurchase agreements	Ps 198,372	Ps 249,809
Minus: Creditor repurchase agreement	(198,582)	(250,082)
	Ps (210)	**Ps (273)**
Repurchase agreement from debtors	Ps 19,518	Ps 74,051
Minus: Securities to be delivered in repurchase agreements	(19,518)	(73,963)
	Ps -	**Ps 88**

37. COMMITMENTS

As of December 31, 2006 and 2005, the Financial Group had the following contingent obligations and commitments:

- Third-party guarantees, other contingent obligations and lines of credits totaling Ps 2,544 (Ps 3,472 in 2005), which are recorded in memorandum accounts.

- Certain real property and operating equipment are leased. The leases establish periodic rental adjustments based on changes in different future economic factors. Total property lease payments for the periods ended December 31, 2006 and December 31, 2005, were Ps 160 and Ps 169, respectively. Total operating equipment rental payments for the periods ended December 31, 2006 and December 31, 2005, were Ps 59 and Ps 33, respectively.

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Future minimum lease commitments are:

2007	Ps 7
2008	7
2009	6
2010	6
Thereafter	10
Total	**Ps 36**

38. CONTINGENCIES

As of December 31, 2006, there are lawsuits filed against the Financial Group in civil and mercantile court. However, the Financial Group's attorneys consider that the claims filed are unsubstantiated and, in the event of an adverse ruling, they would not affect the Financial Group's financial situation significantly. A reserve of Ps 139 is recorded for such contentious matters.

Furthermore, contingencies may arise due to differences in taxes derived from a potential review of the tax returns filed by the Financial Group and differences in the interpretation of legal provisions between the Financial Group and the tax authorities.

39. SUBSEQUENT EVENTS

Acquisition of UniTeller Holdings, Inc.

In January 2007, the Financial Group announced the completion of its purchase of 100% of the outstanding shares of UniTeller Holdings, Inc. (UniTeller), which is a remittances company based in the United States of America. The acquisition was completed after receiving the approval of the SHCP in Mexico and of all the states in the U.S. where UniTeller operates and that regulate the money transfer industry in that country.

The sum of the transaction totaled USD 19 million, which the Financial Group paid for with its own resources. As of December 31, 2006, UniTeller had total assets of approximately USD 10 million and a stockholders' equity of USD 5 million. It is based in New Jersey, U.S.A. and has a network of nearly 1,000 agents in that country. It also has agreements with various financial institutions and companies in Latin America and the Philippines with over 4,000 pay points in 19 countries, including Mexico.

Sale of Fianzas Banorte, S. A. de C. V.

On July 27, 2006, the Board of Directors approved the sale of 100% of the shares of the Financial Group's bonding company Fianzas Banorte, S. A. de C. V. This agreement was entered into between the Financial Group and Grupo Valores Operativos Monterrey, Sociedad Anónima de Inversión de Capital Variable on September 22, 2006. A modifying agreement on the same date establishes that such transaction is subject to obtaining each and every one of the authorizations required by the sellers and buyers no later than by February 28, 2007. In the event of failure to comply by such a date, the purchase-sale contract will be dissolved automatically without any liability on either party.

Agreement to purchase Motran Services Incorporated

On January 24, 2007, Banorte USA Corporation signed an agreement to purchase 100% of the shares in circulation of Motran Services Incorporated (“Motran”).

Motran is located mainly in the state of California, in the United States of America and is dedicated to sending remittances to foreign countries. The agreement establishes that Banorte USA will pay USD 2 million for the outstanding shares. It is expected that the purchase price will exceed the market value of the net assets acquired by approximately USD 1.3 million.