

OFFERING CIRCULAR



U.S.\$300,000,000

Banco Mercantil del Norte, S.A.

acting through its Grand Cayman Branch

4.375% Senior Notes Due 2015

We are selling U.S.\$300,000,000 aggregate principal amount of 4.375% Senior Notes due 2015 (the "Notes"). The Notes will mature on July 19, 2015. We will pay interest on the Notes on January 19 and July 19 of each year, beginning on January 19, 2011. Payments of interest made by our Grand Cayman Branch are not subject to Mexican or Cayman Islands withholding tax. However, if any such withholding tax would apply, we will pay additional amounts so that the net amount received by holders of the Notes after Mexican or Cayman Islands withholding tax, if imposed, will equal the amount that would have been received if no withholding tax had been applicable, subject to some exceptions described in this offering circular. The Notes will be our senior unsecured obligations and will rank equally in right of payment with all of our other senior unsecured indebtedness, except for obligations that are preferred by statute. The Notes will be structurally subordinated to the existing and future obligations of our subsidiaries, including trade payables. In the event of certain changes in the Mexican or Cayman Islands laws affecting the withholding tax applicable to payments under the Notes, we may redeem the Notes before their stated maturity at a price equal to 100% of their principal amount plus accrued interest to the redemption date.

Application has been made to list the Notes on the Official List of the Luxembourg Stock Exchange and to trading on the Euro MTF market.

This Offering Circular constitutes a Prospectus according to Luxembourg law dated July 10th, 2005 on Prospectuses for Securities.

Investing in the Notes involves risks. See "Risk Factors" beginning on page 10.

The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the "Securities Act"). The Notes may not be offered or sold within the United States or to U.S. persons, except to qualified institutional buyers in reliance on the exemption from registration provided by Rule 144A under the Securities Act and to certain non-U.S. persons in offshore transactions in reliance on Regulation S under the Securities Act. You are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

THE INFORMATION CONTAINED IN THIS OFFERING CIRCULAR IS EXCLUSIVELY OUR RESPONSIBILITY AND HAS NOT BEEN REVIEWED OR AUTHORIZED BY THE MEXICAN BANKING AND SECURITIES COMMISSION (COMISIÓN NACIONAL BANCARIA Y DE VALORES, OR THE "CNBV"). THE NOTES HAVE NOT BEEN AND WILL NOT BE REGISTERED WITH THE MEXICAN NATIONAL SECURITIES REGISTRY (REGISTRO NACIONAL DE VALORES) MAINTAINED BY THE CNBV AND THEREFORE THE NOTES MAY NOT BE PUBLICLY OFFERED OR SOLD NOR BE THE SUBJECT OF BROKERAGE ACTIVITIES IN MEXICO, EXCEPT THAT THE NOTES MAY BE OFFERED IN MEXICO TO INSTITUTIONAL AND QUALIFIED INVESTORS PURSUANT TO THE PRIVATE PLACEMENT EXEMPTION SET FORTH IN ARTICLE 8 OF THE MEXICAN SECURITIES MARKET LAW (LEY DEL MERCADO DE VALORES). AS REQUIRED UNDER THE MEXICAN SECURITIES MARKET LAW, WE WILL NOTIFY THE CNBV OF THE OFFERING OF THE NOTES OUTSIDE OF MEXICO. SUCH NOTICE WILL BE SUBMITTED TO THE CNBV TO COMPLY WITH A LEGAL REQUIREMENT AND FOR INFORMATION PURPOSES ONLY, AND THE DELIVERY OF SUCH NOTICE TO, AND THE RECEIPT OF SUCH NOTICE BY, THE CNBV DOES NOT IMPLY ANY CERTIFICATION AS TO THE INVESTMENT QUALITY OF THE NOTES, OUR SOLVENCY, LIQUIDITY OR CREDIT QUALITY OR THE ACCURACY OR COMPLETENESS OF THE INFORMATION SET FORTH HEREIN. THIS OFFERING CIRCULAR MAY NOT BE PUBLICLY DISTRIBUTED IN MEXICO. THE ACQUISITION OF THE NOTES BY AN INVESTOR WHO IS A MEXICAN RESIDENT WILL BE MADE UNDER ITS OWN RESPONSIBILITY.

Price: 99.725%

Delivery of the Notes was made in book-entry form through the Depository Trust Company on July 19, 2010.

Sole Book-Running Manager

J.P. Morgan

August 3, 2010.

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You should rely only on the information contained in this offering circular or to which we have referred you. We have not, and the initial purchaser has not, authorized anyone to provide you with information that is different. This document may only be used where it is legal to sell these securities. The information in this document may only be accurate on the date of this document.

Unless otherwise specified or the context otherwise requires, references in this offering circular to “the Bank,” “Banorte,” “we,” “us” and “our” are references to Banco Mercantil del Norte, S.A., Institución de Banca Múltiple, Grupo Financiero Banorte and its subsidiaries. References to “Banorte Cayman” are to the Grand Cayman Branch of Banco Mercantil del Norte, S.A., Institución de Banca Múltiple, Grupo Financiero Banorte. References to “the issuer” are to Banco Mercantil del Norte, S.A., Institución de Banca Múltiple, Grupo Financiero Banorte, acting through its Grand Cayman Branch.

In connection with the issue of the Notes, J.P. Morgan Securities Inc. (the “Stabilizing Manager”) (or persons acting on behalf of the Stabilizing Manager) may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilizing Manager (or persons acting on behalf of the Stabilizing Manager) will undertake stabilization action. Any stabilization action may begin on or after the date on which adequate public disclosure of the final terms of the offer of the Notes is made and, if begun, may be ended at any time. Any stabilization action or over-allotment must be conducted by the Stabilizing Manager (or persons acting on behalf of the Stabilizing Manager) in accordance with all applicable laws and rules.

We, having made all reasonable inquiries, confirm that this offering circular contains all information with regard to us, our subsidiaries and the Notes that is material in the context of the issue and offering of the Notes, that the information contained in this offering circular is true and accurate and is not misleading as of the date of this offering circular, that the opinions and intentions expressed herein are honestly held and that there are no other facts, the omission of which would make this offering circular or any of such information or the expression of any such opinions or intentions materially misleading. We accept responsibility for the information contained in this offering circular.

We are relying upon an exemption from registration under the Securities Act for offers and sales of securities that do not involve a public offering. By purchasing the Notes, you will be deemed to have made the acknowledgements, representations and agreements described under “Transfer Restrictions” in this offering circular. We are not, and the initial

purchaser is not, making an offer to sell the Notes in any jurisdiction except where such an offer or sale is permitted. You should understand that you will be required to bear the financial risks of your investment for an indefinite period of time.

Neither the CNBV nor the U.S. Securities and Exchange Commission (the “SEC”) nor any state or foreign securities commission has approved or disapproved of the Notes or determined if this offering circular is truthful or complete. Any representation to the contrary is a criminal offense.

We have submitted this offering circular solely to a limited number of qualified institutional buyers in the United States and to investors outside the United States so that they can consider a purchase of the Notes. This offering circular has been prepared solely for use in connection with the placement of the Notes and for the listing of the Notes on the Official List of the Luxembourg Stock Exchange and to trading of the Notes on the Euro MTF market. We have not authorized the use of this offering circular for any other purpose. This offering circular may be distributed and its contents disclosed only to those prospective investors to whom it is provided. By accepting delivery of this offering circular, you agree to these restrictions. See “Transfer Restrictions.”

This offering circular is based on information provided by us and by other sources that we believe are reliable, but no assurance can be given by the initial purchaser as to the accuracy or completeness of such information. The initial purchaser assumes no responsibility for the accuracy or completeness of the information contained herein (financial, legal or otherwise). In making an investment decision, prospective investors must rely on their own examinations of us and the terms of this offering and the Notes, including the substantial risks involved. Moreover, the contents of this offering circular are not to be construed as legal, business or tax advice. You are urged to consult your own attorney, business or tax advisor for legal, business or tax advice.

This offering circular does not constitute an offer of, or an invitation by or on behalf of, us or the initial purchaser or any of our or its respective directors, officers and affiliates to subscribe for or purchase any securities in any jurisdiction to any person to whom it is unlawful to make such an offer in such jurisdiction. Each purchaser of the Notes must comply with all applicable laws and regulations in force in each jurisdiction in which it purchases, offers or sells such Notes or possesses or distributes this offering circular and must obtain any consent, approval or permission required by it for the purchase, offer or sale by it of such Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers or sales.

Notwithstanding anything in this document to the contrary, you (and each of your employees, representatives or other agents) may disclose to any and all persons, without limitation of any kind, the U.S. federal income tax treatment and tax structure of the offering of Notes and all materials of any kind (including opinions or other tax analyses) that are provided to you relating to such tax treatment and tax structure. For these purposes, “tax structure” is limited to facts relevant to the U.S. federal income tax treatment of the offering of Notes.

THE NOTES HAVE NOT BEEN NOR WILL OTHERWISE BE REGISTERED WITH THE MEXICAN NATIONAL SECURITIES REGISTRY MAINTAINED BY THE CNBV AND, THEREFORE, THE NOTES MAY NOT BE PUBLICLY OFFERED OR SOLD NOR BE THE SUBJECT OF BROKERAGE ACTIVITIES IN MEXICO, EXCEPT THAT THE NOTES MAY BE OFFERED IN MEXICO TO INSTITUTIONAL AND QUALIFIED INVESTORS PURSUANT TO THE PRIVATE PLACEMENT EXEMPTION SET FORTH IN ARTICLE 8 OF THE MEXICAN SECURITIES MARKET LAW. AS REQUIRED UNDER THE MEXICAN SECURITIES MARKET LAW, WE WILL NOTIFY THE CNBV OF THE OFFERING OF THE NOTES OUTSIDE OF MEXICO. SUCH NOTICE WILL BE SUBMITTED TO THE CNBV TO COMPLY WITH A LEGAL REQUIREMENT AND FOR INFORMATION PURPOSES ONLY, AND THE DELIVERY OF SUCH NOTICE TO, AND THE RECEIPT OF SUCH NOTICE BY, THE CNBV DOES NOT IMPLY ANY CERTIFICATION AS TO THE INVESTMENT QUALITY OF THE NOTES, OUR SOLVENCY, LIQUIDITY OR CREDIT QUALITY OR THE ACCURACY OR COMPLETENESS OF THE INFORMATION SET FORTH HEREIN. THIS OFFERING CIRCULAR MAY NOT BE PUBLICLY DISTRIBUTED IN MEXICO. THE ACQUISITION OF THE NOTES BY AN INVESTOR OF MEXICAN NATIONALITY WILL BE MADE UNDER ITS OWN RESPONSIBILITY.

THE INFORMATION CONTAINED IN THIS OFFERING CIRCULAR IS OUR SOLE RESPONSIBILITY AND HAS NOT BEEN REVIEWED OR AUTHORIZED BY THE CNBV.

No invitation, whether directly or indirectly, may be made to the public in the Cayman Islands to subscribe for the Notes.

The Notes are not deposits with Banorte and are not insured or otherwise protected by the United States Federal Deposit Insurance Corporation or any other United States governmental agency or any Mexican governmental agency, including, without limitation, the *Instituto para la Protección al Ahorro Bancario* of Mexico (“TPAB”).

Pursuant to Article 28 of the Mexican Financial Groups Law (*Ley para Regular las Agrupaciones Financieras* or “Financial Groups Law”), a financial services holding company such as Grupo Financiero Banorte, S.A. de C.V. (“GFNorte”), our holding company, is secondarily (*subsidiariamente*) and unlimitedly liable for the performance of the obligations undertaken by the members of our financial group (including Banorte), in respect of the operations that each company is allowed to carry out pursuant to applicable law. In addition, GFNorte is unlimitedly liable for the losses of each company comprising our financial group; provided that for such purposes, a company is deemed to have losses when its assets are insufficient to fulfill its payment obligations. As a result, GFNorte would secondarily be liable in respect of our obligations under the Notes. However, the enforcement of GFNorte’s liability pursuant to Article 28 of the Mexican Financial Groups Law is subject to a specific proceeding provided for in the Financial Groups Law and may not be enforced expeditiously. Thus the timing and outcome of an action against GFNorte is uncertain.

We reserve the right to reject any offer to purchase, in whole or in part, for any reason, or to sell less than the full amount of the Notes offered hereby.

The Notes may not be purchased or held by (i) any plan, program or arrangement subject to the Employee Retirement Income Security Act of 1974, as amended (“ERISA”), Section 4975 of the Internal Revenue Code of 1986, as amended (the “Code”) or provisions under any federal, state, local, non-U.S. or other laws or regulations that are substantially similar to such provisions of ERISA or the Code or (ii) any person acting on behalf of or using the assets of any such plan, program or arrangement (each of (i) and (ii), a “Plan”), unless such purchase and holding is covered by the exemptive relief provided by (i) Prohibited Transaction Class Exemption (“PTCE”) 96-23, 95-60, 91-38, 90-1 or 84-14, (ii) Section 408(b)(17) of ERISA or Section 4975(d)(20) of the Code, or (iii) another applicable statutory or administrative exemption. Any purchaser or holder of Notes or any interest therein will be deemed to have represented by its purchase or holding thereof that either (i) it is not a Plan and it is not purchasing securities on behalf of or using the assets of any such Plan or (ii) such purchase and holding and any subsequent disposition of such Notes is covered by the exemptive relief provided by (i) PTCE 96-23, 95-60, 91-38, 90-1 or 84-14, (ii) Section 408(b)(17) of ERISA or Section 4975(d)(20) of the Code, or (iii) another applicable statutory or administrative exemption. If a purchaser or holder of Notes that is a Plan elects to rely on an exemption other than (i) PTCE 96-23, 95-60, 91-38, 90-1 or 84-14, or (ii) Section 408(b)(17) of ERISA or Section 4975(d)(20) of the Code, we may require a satisfactory opinion of counsel or other evidence with respect to the availability of such exemption for such purchase or holding or any subsequent disposition of the Notes. Prospective purchasers must carefully consider the restrictions on purchase set forth in “Transfer Restrictions” and “Certain ERISA Considerations.”

This communication is only being distributed to and is only directed at (i) persons who are outside the United Kingdom or (ii) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the “Order”) or (iii) high net worth companies, and other persons to whom it may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as “relevant persons”). The Notes are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire the Notes will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this document or any of its contents.

In any European Economic Area (“EEA”) member state that has implemented Directive 2003/71/EC (together with any applicable implementing measures in any member state, the “Prospectus Directive”), this communication is only addressed to and is only directed at qualified investors in that member state within the meaning of the Prospectus Directive.

This offering circular has been prepared on the basis that all offers of the Notes will be made pursuant to an exemption under the Prospectus Directive, as implemented in member states of the EEA, from the requirement to produce a prospectus for offers of the Notes. Accordingly, any person making or intending to make any offer within the EEA of the Notes which are the subject of the placement contemplated in this offering circular should only do so in circumstances in which no obligation arises for us or the initial purchaser to produce a prospectus for such offer. Neither we nor the initial purchaser has authorized, nor do we or they authorize, the making of any offer of the Notes through any financial intermediary, other than offers made by initial purchaser which constitute the final placement of such Notes contemplated in this offering circular.

Each person in a Relevant Member State who receives any communication in respect of, or who acquires any Notes under the offer contemplated in this offering circular will be deemed to have represented, warranted and agreed to and with the Stabilizing Manager and the Issuer that:

(a) it is a qualified investor within the meaning of the law in that Relevant Member State implementing Article 2(1)(e) of the Prospectus Directive; and

(b) in the case of any Notes acquired by it as a financial intermediary as that term is used in Article 3(2) of the Prospectus Directive, (i) the Notes acquired by it in the offers have not been acquired on behalf of, nor have they been acquired with a view to their offer or resale to, persons in any Relevant Member State other than qualified investors, as that term is defined in the Prospectus Directive, or in circumstances in which the prior consent of the Dealer Managers has been given to the offer or resale; or (ii) where the Notes have been acquired by it on behalf of persons in any Relevant Member State other than qualified investors, the offer of those Notes to it is not treated under the Prospectus Directive as having been made to such persons.

For the purposes of this representation, the expression an “offer” in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and any Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State and the expression “Prospectus Directive” means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

AVAILABLE INFORMATION

We are not subject to the information requirements of the United States Securities Exchange Act of 1934, as amended (the “Exchange Act”). To preserve the exemption for resales and transfers under Rule 144A under the Securities Act, we have agreed that we will promptly provide any holder or any prospective purchaser of the Notes who is designated by that holder and is a “qualified institutional buyer,” as defined under Rule 144A, upon the request of such holder or prospective purchaser, with information meeting the requirements of Rule 144A(d)(4), unless we either furnish information to the SEC in accordance with Rule 12g3-2(b) under the Exchange Act or furnish information to the SEC pursuant to Section 13 or 15(d) of the Exchange Act. For so long as the Notes are outstanding, such information will be available at our specified offices and (for so long as the Notes are listed on the Luxembourg Stock Exchange) the Luxembourg Paying Agent. Following completion of this offering, we are not otherwise obligated to furnish holders or others with any supplemental information, discussion or analysis of our business or financial reports.

We will make available to the holders of the Notes, at the corporate trust office of the Trustee at no cost, copies of the indenture as well as this offering circular, and annual audited consolidated financial statements prepared in conformity with Mexican Banking GAAP (as defined herein). We will also make available at the office of the Trustee our audited annual and our unaudited quarterly consolidated financial statements prepared in accordance with Mexican Banking GAAP. Information is also available at the office of the Luxembourg Listing Agent (as defined herein).

Application has been made to list the Notes on the Official List of the Luxembourg Stock Exchange and to trading on the Euro MTF market, in accordance with the rules of the Luxembourg Stock Exchange. This offering circular forms, in all material respects, the listing memorandum for admission to the Luxembourg Stock Exchange. We will be required to comply with any undertakings given by us from time to time to the Luxembourg Stock Exchange in connection with the Notes, and to

furnish to it all such information as the rules of the Luxembourg Stock Exchange may require in connection with the listing of the Notes.

ENFORCEMENT OF JUDGMENTS

We are a multiple purpose bank (*institución de banca múltiple*) incorporated in accordance with the laws of Mexico with limited liability (*sociedad anónima*). All of our directors and officers and experts named herein are non-residents of the United States and substantially all of the assets of such non-resident persons and substantially all of our assets are located outside the United States. As a result, it may not be possible for investors to effect service of process within the United States upon such persons or to enforce against them or us in United States courts judgments predicated upon the civil liability provisions of United States federal securities laws. We have been advised by our special Mexican counsel, White & Case, S.C., that there is doubt as to the enforceability, in original actions in Mexican courts, of liabilities predicated solely on United States federal securities laws and as to the enforceability in Mexican courts of judgments of United States courts obtained in actions predicated upon the civil liability provisions of United States federal securities laws. We have been advised by such special Mexican counsel that no bilateral treaty is currently in effect between the United States and Mexico that covers the reciprocal enforcement of civil foreign judgments. In the past, Mexican courts have enforced judgments rendered in the United States by virtue of the legal principles of reciprocity and comity, consisting of the review in Mexico of the United States judgment, in order to ascertain, among other matters, whether Mexican legal principles of due process and public policy (*orden público*) have been complied with, without reviewing the merits of the subject matter of the case.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This offering circular contains forward-looking statements. Examples of such forward-looking statements include, but are not limited to: (i) statements regarding our future results of operations and financial position; (ii) statements of plans, objectives or goals, including those related to our operations; and (iii) statements of assumptions underlying such statements. Words such as “believes,” “anticipates,” “should,” “estimates,” “seeks,” “forecasts,” “expects,” “may,” “intends,” “plans” and similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements.

You should not place undue reliance on forward-looking statements, which are based on current expectations. By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and risks exist that the predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution investors that a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed or implied in such forward-looking statements, including the following factors:

- competition;
- acquisitions and divestitures;
- credit and other lending risks;
- limitations on our access to sources of financing on competitive terms;
- restrictions on foreign currency convertibility and remittance outside of Mexico;
- failure to meet capital requirements or other requirements;
- limitations on our ability to freely determine interest rates;
- changes in reserve requirements;
- changes in requirements to make contributions to or for the receipt of support from programs organized by the Mexican government;
- changes in overall economic conditions in Mexico and internationally;
- changes in exchange rates, market interest rates or the rate of inflation;

- uncertainties in respect of GFNorte's secondary liability;
- changes in regulation as it relates to the products we offer; and
- the effect of changes in accounting principles, new legislation, intervention by regulatory authorities, government directives and monetary or fiscal policy in Mexico.

Should one or more of these factors or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described herein as anticipated, believed, estimated, expected or intended.

Prospective investors should read the sections of this offering circular entitled "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business of Banorte" for a more complete discussion of the factors that could affect our future performance and the markets in which we operate. In light of these risks, uncertainties and assumptions, the forward-looking events described in this offering circular may not occur. All forward-looking statements included in this offering circular are based upon information available to us as of the date of this offering circular, and we undertake no obligation to update or revise any forward-looking statement, whether as a result of new information or future events or developments.

PRESENTATION OF CERTAIN FINANCIAL AND OTHER INFORMATION

Financial Statements

This offering circular includes (i) our audited consolidated financial statements as of December 31, 2009, 2008 and 2007 and for the years ended December 31, 2009, 2008 and 2007, together with the notes thereto (the “audited consolidated financial statements”), and (ii) our unaudited condensed consolidated financial statements as of and for the three months ended March 31, 2010 and 2009, together with the notes thereto (the “unaudited interim financial statements,” and together with the audited consolidated financial statements, the “Financial Statements”). The Financial Statements have been prepared in accordance with the accounting principles and regulations prescribed by the CNBV for credit institutions, as amended (“Mexican Banking GAAP”).

Accounting Principles

Mexican Banking GAAP differs from Mexican Financial Reporting Standards (*normas de información financiera*), referred to as MFRS, as currently in effect and issued by the *Consejo Mexicano para la Investigación y Desarrollo de Normas de Información Financiera A.C.* (“CINIF”). Mexican Banking GAAP also differs in certain significant respects from accounting principles generally accepted in the United States of America (“U.S. GAAP”). For a summary of the principal differences between Mexican Banking GAAP and U.S. GAAP, as they relate to our Financial Statements, see “Significant Differences Between Mexican Banking GAAP and U.S. GAAP.” No reconciliation of any of the Financial Statements to U.S. GAAP has been prepared for the purposes of this offering circular. Any such reconciliation would likely result in material differences.

Effective January 1, 2008, the guidelines of the MFRS B-10 provide that the effects of inflation will no longer be recognized in financial statements in a non-inflationary environment. After that date, the recording of inflation effects will only be required in an environment where cumulative inflation over the three preceding years is equal to or greater than 26%. Because of the relatively low level of Mexican inflation in recent years, the cumulative inflation rate in Mexico over the three-year period preceding December 31, 2008 and 2009 does not qualify as inflationary.

Consequently, beginning on January 1, 2008, we were no longer required by Mexican Banking GAAP to recognize the effects of inflation in our financial statements. Accordingly, our financial information through December 31, 2007 is stated in Pesos in purchasing power as of December 31, 2007. The financial information as of December 31, 2008 and 2009, and the financial information for the years ended December 31, 2008 and 2009, is not directly comparable to prior periods due to the recognition of inflation effects in financial information in prior periods.

The Financial Statements and the other financial information contained in this offering circular are presented in consolidated form.

Currencies

The financial information appearing in this offering circular is presented in Mexican Pesos. In this offering circular references to “Pesos” or “Ps.” are to Mexican Pesos and references to “U.S. dollars,” “dollars,” “U.S.\$” or “\$” are to United States dollars. This offering circular contains translations of certain Peso amounts into U.S. dollars at specified rates solely for the convenience of the reader. These translations should not be construed as representations that the Peso amounts actually represent such U.S. dollar amounts or could be converted into U.S. dollars at the rate indicated. Unless otherwise indicated, U.S. dollar amounts that have been translated from Pesos have been so translated at an exchange rate of Ps.12.3306 per U.S. dollar, the rate calculated for March 31, 2010 and published on March 30, 2010 in the *Diario Oficial de la Federación* (the Mexican Official Gazette of the Federation, or the “Official Gazette”) by the Banco de México for the payment of obligations denominated in currencies other than Pesos and payable within Mexico (the “Banco de México Exchange Rate”). As of the same date, the noon buying rate in New York City for cable transfers in Pesos per U.S. dollar as certified for customs purposes by the Federal Reserve Bank of New York was Ps.12.3005 per U.S. dollar. See “Exchange Rates and Currency” for information regarding rates of exchange between the Peso and the U.S. dollar for the periods specified therein.

References herein to “UDIs” are to *Unidades de Inversión*, a Peso equivalent unit of account indexed for Mexican inflation. UDIs are units of account whose value in Pesos is indexed to inflation on a daily basis, as measured by the change in the *Índice Nacional de Precios al Consumidor* (National Consumers’ Price Index, or “NCPI”). Under a UDI-based loan or financial instrument, the borrower’s nominal Peso principal balance is converted either at origination or upon restructuring to a UDI principal balance, and interest on the loan or financial instrument is calculated on the outstanding UDI balance of the loan or financial instrument. Principal and interest payments are made by the borrower in an amount of Pesos equivalent to the

amount due in UDIs at the stated value of the UDIs on the day of payment. As of March 31, 2010, one UDI was equal to Ps.4.439870 (U.S.\$0.36).

Terms Relating to Our Loan Portfolio

As used in this offering circular, the following terms relating to our loan portfolio and other credit assets have the meanings set forth below, unless otherwise indicated.

“Total performing loans” and “total performing loan portfolio” refer to the aggregate of (i) the total principal amount of loans outstanding as of the date presented, (ii) amounts attributable to “accrued interest,” (iii) “rediscounted loans” and (iv) the “UDI Trusts” (as explained below). Under Mexican Banking GAAP, we include as income for any reporting period interest accrued but unpaid during that period. Such “accrued interest” is reported as part of our total performing loan portfolio in the financial statements until it is paid or becomes part of the total non-performing loan portfolio in accordance with the CNBV’s rules. “Rediscounted loans” are Peso- and dollar-denominated loans made to finance projects in industries that qualify for priority status under the wholesale lending programs of the Mexican government’s development banks and are generally funded by such development banks. In accordance with Mexican Banking GAAP, rediscounted loans are recorded on the balance sheet as outstanding loans. As mandated by the CNBV, total performing loans include the portfolio trusts (the “UDI Trusts”) holding our loans converted into UDIs that are consolidated in our Financial Statements. Under the UDI program, we are liable for all future losses, if any, on the loans in the UDI Trusts. See “Selected Statistical Information—Debtor Support Programs—UDI Program.”

Unless otherwise specified herein, the terms “total performing loans” and “total performing loan portfolio,” as used in this offering circular, do not include “total non-performing loans,” as defined below. The term “net total performing loans” refers to total performing loans less allowance for loan losses on these loans.

The terms “total non-performing loans” and “total non-performing loan portfolio” include past-due principal and past-due interest. For a description of our policies regarding the classification of loans as non-performing, see “Selected Statistical Information—Non-Performing Loan Portfolio.” The term “net non-performing loans” refers to total non-performing loans less allowance for loan losses on these loans.

References in this offering circular to “provisions” are to additions to the loan loss allowance or reserves recorded in a particular period and charged to income. References in this offering circular to “allowance” are to the aggregate loan loss allowance or reserves shown as of a particular date as a balance sheet item.

The terms “total loans” and “total loan portfolio” include total performing loans plus total non-performing loans, each as defined above. The terms “net total loans” and “net total loan portfolio” refer to net total performing loans plus net non-performing loans, as defined above.

The loan portfolio information provided in “Selected Statistical Information” was determined in accordance with the manner in which we have presented the components of our loan portfolio in other sections of this offering circular as described above. See “Selected Statistical Information—Loan Portfolio” and the footnotes to the tables included therein.

Terms Relating to Our Capital Adequacy

As used in this offering circular, the following terms relating to our capital adequacy have the meanings set forth below, unless otherwise indicated.

“Total capital” or “total net capital” refers to *capital neto*, as such term is determined based on the Mexican Banking Law (*Ley de Instituciones de Crédito*) and the General Rules Applicable to Mexican Banks, and includes Tier 1 capital plus Tier 2 capital.

“Tier 1 capital” refers to the *parte básica* (basic portion) of the total net capital, as such term is determined based on the Mexican Capitalization Rules.

“Tier 2 capital” refers to the *parte complementaria* (additional portion) of the total net capital, as such term is determined based on the Mexican Capitalization Rules.

“Capital Ratio” refers to the ratio of the *capital neto* (total net capital) to risk-weighted assets, market risk and operational risk, calculated in accordance with the methodology established from time to time by the CNBV pursuant to the Mexican Capitalization Rules.

“General Rules Applicable to Mexican Banks” refers to General Rules Applicable to Mexican Banks (*Disposiciones de Carácter General Aplicables a las Instituciones de Crédito*), published by the CNBV in the Official Gazette in December 2005, as such regulations have been amended and may be further amended from time to time.

“Mexican Capitalization Rules” refers to the rules governing capitalization requirements for commercial banks set forth under the Mexican Banking Law (*Ley de Instituciones de Crédito*) and the General Rules Applicable to Mexican Banks. Rules for capitalization were introduced to the General Rules Applicable to Mexican Banks through an amendment published on April 9, 2010, which became effective on May 1, 2010.

Market Share and Ranking Information

Unless otherwise indicated, the market share and ranking information included in this offering circular is derived from statistics of the CNBV, *Asociación de Banqueros de México, A.C.* (“ABM”) or *Controladora Prosa, S.A. de C.V.* (“Prosa,” a Mexican clearing agency for automatic teller machines (“ATMs”) and credit cards).

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SUMMARY

This summary highlights selected information from this offering circular and may not contain all the information that is important to you. For a more complete understanding of us, our business and this offering, you should read this entire offering circular, including the “Risk Factors” and the Financial Statements appearing elsewhere in this offering circular.

Banorte

We are a multiple purpose bank (*institución de banca múltiple*) with limited liability (*sociedad anónima*) incorporated in accordance with the laws of Mexico and licensed to operate as a commercial bank. We provide a full range of banking services, serving 1,556 corporate customers (which are customers that generally have revenues in excess of Ps.1,100 million) and approximately 8.1 million retail customers in Mexico as of March 31, 2010 (compared to 1,489 corporate customers and approximately 7.2 million retail customers in Mexico as of March 31, 2009). We conduct a wide range of commercial and retail banking activities in Mexico through our nationwide network of 1,098 branches.

As of March 31, 2010, we had total assets of Ps.549,163 million, total deposits of Ps.271,472 million and stockholders' equity of Ps.41,449 million. As of March 31, 2010, we ranked third among all Mexican banks both in terms of total loans and total deposits. We are the largest bank in Mexico that is not controlled by a foreign financial institution. In 2009, we generated net income of Ps.5,132 million and a return on average equity of 13.60% (average based on beginning and end-of-period balances), which includes non-recurring extraordinary income associated with a revaluation of our securitized mortgage and government loan portfolio pursuant to recently adopted accounting requirements issued by the CNBV. Without considering the non-recurring extraordinary income items, our return on average equity in 2009 was 13.25% (average based on beginning and end-of-period balances). In the first three months of 2010, we generated net income of Ps.1,435 million and a return on average equity of 14.16% (average based on beginning and end-of-period balances).

The number of our branches increased from 156 as of December 31, 1996 to 1,098 as of March 31, 2010. During that time, together with GFNorte, our parent company, we have been involved in several strategic transactions, including the acquisitions of Banco del Centro, S.A., Institución de Banca Múltiple (“Bancentro”) in 1996, Banpaís, S.A., Institución de Banca Múltiple (“Banpaís”) in 1997 and Bancrecer, S.A., Institución de Banca Múltiple (“Bancrecer”) in 2001. Banpaís was merged into Banorte in 2000; Bancrecer and Banorte merged in 2002; and Bancentro was merged into Banorte on August 28, 2006. In the fourth quarter of 2006, we acquired 70% of the capital stock of INB Financial Corp. (“INB Financial”), a privately held bank holding company headquartered in McAllen, Texas, which in turn owns, through its wholly-owned subsidiary, INB Delaware, 100% of Inter National Bank (“INB”), a Texas regional commercial bank and INB Financial’s principal subsidiary. In 2009, the other stockholders of INB Financial exercised their put option to sell to us the remaining 30% of the capital stock of INB Financial. In 2006, we acquired, Servicio UniTeller Inc. (“UniTeller”), a money transfer company. In December 2007, we acquired all of the capital stock of Motran Services Inc. (“Motran”), a money transfer and remittances company based in Los Angeles, California for a total investment of U.S.\$3 million. With the acquisition of Motran, we intend to further expand into an important market for money transfer and remittances business to complement Uniteller’s operations.

On November 12, 2009, The International Finance Corporation (“IFC”), a member of the World Bank group, and Banorte reached an agreement which included the IFC’s investment of up to U.S.\$150 million in our capital stock, which represents approximately 4.48% of Banorte’s equity as of December 31, 2009. In connection with the IFC’s investment in Banorte, we issued to the IFC 3,371 million ordinary shares of capital stock for a total consideration of U.S.\$82.3 million in cash and the capitalization of a loan granted to us for U.S.\$67.7 million. Under the investment agreement, the IFC’s partnership with Banorte will help support our expansion in small and medium-sized enterprise (“SME”) financing, in other priority sectors like agribusiness, housing (low and medium-income) and infrastructure finance, and help support our presence in climate change and sustainability initiatives. Pursuant to the investment agreement, the IFC is required to maintain its equity share in Banorte for at least five years. After five years, the IFC has the option to sell its equity share to GFNorte, which GFNorte will be required to purchase with its own shares or with cash.

Our branches are located throughout Mexico, with approximately 32.79% located in northern Mexico (which includes the Monterrey region), 38.98% located in central Mexico (which includes the Mexico City region), 10.84% located in western Mexico (which includes the Guadalajara region) and 17.40% located in southern Mexico. We have increased the number of our ATMs from 4,170 as of March 31, 2009 to 4,539 as of March 31, 2010, 65% of which were not located in our branches. We have also increased the number of our banking transactions per month from approximately 32 million as of March 31, 2009 to approximately 36 million as of March 31, 2010, of which approximately 47% were conducted by means of ATMs.

We plan to open approximately 100 new branches in the next two years (50 in 2011 and 50 in 2012), approximately 50 of which will be located in Mexico City, which has been the main focus of our growth since 2005.

Based on our internal estimates, the following table sets forth our current market share in each region of Mexico in terms of the criteria specified below as of March 31, 2010.

Banorte's Regional Market Share

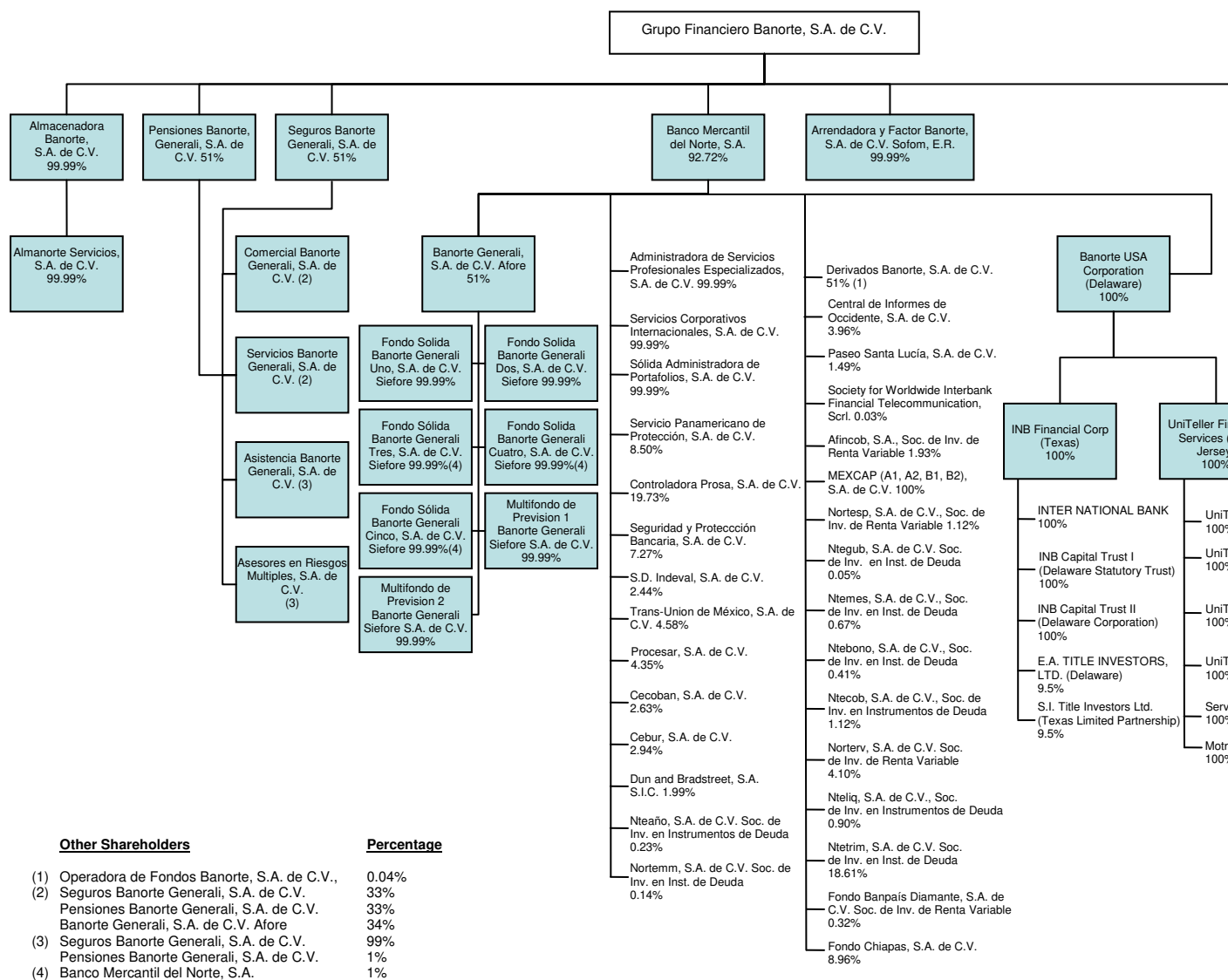
	Banorte's Percentage of the Total in Each Region of Mexico									
	North	Central	D.F. North	D.F. South	West	Northeast	Border	Peninsula	South	Isthmus
Branches.....	17.3%	14.5%	13.1%	12.6%	9.8%	12.2%	11.6%	15.3%	7.9%	9.2%
ATMs	25.1%	17.8%	17.0%	8.8%	13.6%	13.8%	20.6%	14.8%	7.3%	8.3%
Bank employees (full time).....	14.7%	12.5%	11.9%	3.1%	8.7%	9.4%	11.7%	11.9%	6.0%	6.1%
Deposits (principal amount).....	28.9%	22.0%	15.7%	9.1%	10.6%	14.1%	15.2%	14.0%	8.1%	8.8%
Loans (principal amount).....	24.3%	25.6%	14.8%	5.1%	15.0%	22.1%	16.0%	22.0%	9.3%	15.9%

We believe that we have developed a number of significant strengths that should help contribute to our future growth in the Mexican financial services industry, including our nationwide branch network, a service-oriented approach and a broad range of products.

Grupo Financiero Banorte

We are the banking subsidiary of GFNorte, the fourth-largest financial services holding company in Mexico based on total assets as of March 31, 2010. GFNorte holds 92.72% of our capital stock. Through us and its other subsidiaries, GFNorte provides a wide range of financial and related services in Mexico, including banking, stock brokerage, insurance, bonding, investment fund management, pension fund management, factoring and warehousing. As of March 31, 2010, we accounted for 96.51% of the total assets and 90.79% of the total equity of GFNorte.

The following chart presents our corporate structure and that of GFNorte, our parent company, indicating principal subsidiaries and respective ownership interests as of the date of this offering circular.



Strategy

We seek to enhance our position as one of the most profitable commercial and retail banks in Mexico, providing a wide variety of products and services. To achieve this goal, we are focused on the following objectives:

Integrate Strategic Acquisitions and Improve Operating Efficiencies

Banorte has expanded significantly since 1996 through strategic acquisitions, including the acquisitions of Bancentro in 1996, Banpaís in 1997, Bancrecer in 2001 and the merger of Bancentro into Banorte in August 2006. We have successfully integrated these significant acquisitions and achieved cost reductions in an effort to improve our efficiency. From January 2002 to June 2006, we closed 262 unprofitable branches in order to improve operating efficiencies, reduced our total number of employees by approximately 26% and streamlined our senior management. Following our acquisitions of UniTeller and INB during the fourth quarter of 2006 and Motran in 2007, we expect to continue our emphasis on integration of strategic acquisitions and operating efficiency.

Benefits from our integration efforts have included: (i) a reduction in administrative expenses, (ii) technological efficiencies, (iii) revenue synergies from cross-selling products within GFNorte, (iv) the ability to offer a greater variety of services to our customers and (v) wider regional coverage. We expect to continue to pursue these integration efforts in the future.

Develop a Presence in the United States Through Strategic Acquisitions

We believe the U.S. commercial banking market offers important growth opportunities, due to, among other factors, the growing size and increasing average household income of the U.S. Hispanic population. Subject to regulatory constraints, we intend to take advantage of these growth opportunities by pursuing a long-term strategy of selective acquisitions of U.S.-based banking entities. We believe that our acquisitions of INB, UniTeller and Motran have enabled us to take advantage of opportunities for revenue growth in areas such as:

- cross-border real estate financing, including the financing of properties in Mexico for U.S. citizens or residents;
- cross-border retail banking products, including binational credit cards; and
- remittances, including bank-to-bank money transfers.

In particular, we believe that our acquisitions of UniTeller and Motran have provided us with technical experience and a market-tested and regulatory-compliant technology platform capable of supporting significant growth in the remittance business. Moreover, we believe that each of these acquisitions are consistent with and will facilitate our long-term strategy to provide financial services to the Hispanic market in the United States.

We are currently subject to regulatory requirements applicable to any such acquisitions in the United States as a result of agreements entered into with our regulators. See “Business of Banorte—Litigation and Regulatory Proceedings.”

Increase Our Non-Interest Income

Our non-interest income is comprised primarily of commissions and fees, income from trading and foreign exchange activities and income from recovery bank activities. Increasing fee income is a central component of our business strategy. We seek to increase our fee income by: (i) continuously reviewing the fees associated with our products and services in order to find new opportunities or to adjust to market conditions and practices, (ii) increasing our cross-selling efforts within GFNorte, (iii) promoting the use of technological and electronic payment methods, as well as telephone and internet banking, (iv) establishing new relationships with businesses generating high volume point-of-sale transactions and (v) promoting our checking, ATM and debit card services.

In June 2009, Banorte Generali, S.A. de C.V. Afore acquired the retirement fund management and investment business of Afore IXE S.A. de C.V., a retirement management fund, for a total consideration of Ps.258 million. This business includes a portfolio of 312,489 clients and Ps.5,447 million in managed assets. In August 2009 and December 2009, we acquired the retirement fund management business of Afore Ahorra Ahora, S.A. de C.V. and Afore Argos S.A. de C.V., including 367,660 clients representing Ps.1,138 million in managed assets and 22,000 clients representing Ps.600 million in managed assets, for a total consideration of Ps.19 million and Ps.17 million, respectively.

Continue to Expand our Lending to Government Entities

We intend to increase our loans to Mexican federal, state and municipal governmental entities, which as of March 31, 2010 comprised 17.58% of our loan portfolio. We believe government lending presents an attractive opportunity for growth in our loan portfolio given its combined low level of credit risk and the ability to cross-sell our products and services to government employees. The suite of products and services include checking and payroll deposit accounts, cash management services, payment of money orders, fiduciary services, financings, investments, and tax bill collection services, which are available through branches and TELECOMM –TELEGRAFOS offices, and via payments made through the Internet, ATMs, government-owned web sites, and service modules. In addition, we believe that developing our relationships with government customers will provide us with access to a broader customer base to market our retail products and services, such as credit cards and mortgage products.

Increase Mortgage Lending to the Middle and High Income Segment

We plan to focus on increasing our sales of mortgage products to middle and high income customers, which we see as an increasingly profitable segment due to high margins, less competition and a relatively low level of credit risk. As of March 31, 2010, this segment accounted for 22.27% of our loan portfolio. In particular, we intend to attract customers in this segment by providing high-quality service through rapid approval response times and more frequent and customized interactions at the time of sale and afterwards.

Continue to Develop New Products and Services

We seek to continue to improve the variety of products we offer to our individual, corporate and middle-market customers in order to differentiate ourselves as much as possible from our competition. To this end, we have developed policies and procedures to work with our business partners in identifying the needs of our customers and fashioning products and services, including technological solutions, to address their needs, develop new business ideas, seek out new business opportunities and help expand our activities.

As part of our efforts to develop new products and services, we launched *Enlace Express* in 2005, a product that offers a debit card with a checkbook option that allows remittances from the United States to be deposited directly into the customer's debit account in Mexico, as well as complementary ATM and internet banking services and an attractive interest rate on related savings accounts. The number of clients for this product increased from 140,528 in the first three months of 2009 to 148,445 in the first three months of 2010. Other examples of new product offerings include:

- *Banorte Fácil*, an entry-level savings account available beginning in 2004 to all consumers without fees of any type and with no minimum balance requirements, which we believe caters to the segment of the Mexican population that traditionally has not had access to banking services. The number of clients for this product increased from 1,401,237 in the first three months of 2009 to 1,655,689 in the first three months of 2010.
- *Mujer Banorte*, a product created in 2004 and redesigned in 2005, aimed at women. It includes a checking and savings account offering an attractive interest rate, life and medical insurance coverage, medical and legal information assistance, savings at discount stores and assistance with other home services. The number of clients for this product increased from 226,856 in the first three months of 2009 to 243,889 in the first three months of 2010.
- *¡Ya Bájale!*, a low interest rate credit card balance transfer program created in 2005, the first of its kind in Mexico. The number of clients for this product decreased from 141,967 in the first three months of 2009 to 44,868 in the first three months of 2010.
- *Recompensa Total Banorte*, a customer rewards program developed in 2006 that rewards clients for their loyalty and business on the basis of both credit card use and use of other banking services generally.
- *Banorte Móvil*, an innovative service channel of e-banking developed in 2009 that operates through any cellular phone or mobile device with access to the Internet, or any telecommunication provider, and provides access to banking services (including balance inquiries, transfers, payments, special credit cards and the purchase of cellular phone air time), as an additional service to our e-banking clients at no additional charge. The number of downloads of the software application for this service by mobile device users increased to 240,621 for the quarter ended March 31, 2010 compared to 153,472 downloads for the quarter ended March 31, 2009.

- *Enlace Dólares*, a Visa electronic debit card established in 2009, which is denominated in U.S. dollars for residents of the U.S./Mexican border, featuring free withdrawals in more than 600 Banorte dual-currency ATMs located along the Mexican side of the border, and a preferred fee in more than 35,000 ATMs in the U.S. through the AllPoint Network, allowing our customers to make transactions on both sides of the border in U.S. dollars with a single account at a low cost. As of March 31, 2010, there were 21,288 clients using this service.
- *Banorte Fácil Credit Card*, a credit card product launched in May 2009 for clients with low incomes. We believe it is one of the most inexpensive credit cards on the market (source: Condusef).
- *Hipoteca de Aniversario* (Anniversary Mortgage), a mortgage product created to celebrate Banorte's 110th anniversary, was launched in the second quarter of 2009. This mortgage offer includes a 11.0% interest rate and 1.10% commission.
- *Cuenta Fuerte Banorte*, a package of services created for middle class customers, was introduced in September 2009. For a monthly fee, the account holder enjoys an attractive variety of services and financial products that includes a checking account, Banorte via Internet, Banorte Móvil, life insurance, investments and a credit card option.
- *Oferta Integral PyME*, a product package providing SMEs with more flexible financial management and offering important operational benefits that cover their main banking needs, including credit, checks, payroll processing, investments and electronic banking.

Our goal is to continue to provide for the needs of our customers and to increase our revenues through creative development of products and services.

Improve the Profitability of Our Branches

We seek to improve the profitability of our branches by: (i) increasing loan placements, particularly in the areas of consumer loans and mortgage loans, (ii) diversifying our deposit base, (iii) increasing non-interest income and (iv) implementing cost reductions. We will continue to review the profitability of our branch network by determining the optimal size of our network and seeking to identify branches that should be closed or relocated.

Promote Synergies Within the GFNorte Group

We intend to increase our market share and profitability by continuing to cross-sell services and products to our customers and customers of GFNorte. We have introduced processes that facilitate our ability to offer additional financial services to our customers and those of GFNorte, with an emphasis on service and innovation. We cross-sell consumer loan products, credit cards and mortgages to our checking and savings account customers and to GFNorte's insurance and pension fund customers. We plan to continue our cross-selling efforts within GFNorte.

In addition, we are always exploring the possibility of improving synergies and efficiencies within GFNorte.

Expand Our Credit Card Business

We intend to expand the number of credit cards issued to individuals and businesses throughout Mexico. We have created certain incentive programs to encourage the use of our credit cards and believe that we offer a competitive interest rate in the market. At the end of 2008, we implemented a restructuring strategy aimed at decreasing defaults by establishing more flexible scheduled payment terms and lower applicable interest rates in order to facilitate repayment of outstanding amounts. See "Business of Banorte—Credit Card Operations." As of March 31, 2010, we had 1,044,102 credit cards outstanding, of which 78% carried a balance. We plan to issue approximately 220,000 new credit cards in the remainder of 2010 and approximately 370,000 new credit cards in 2011.

We were incorporated on March 16, 1945 as a financial institution limited liability company (*sociedad anónima, institución financiera*) organized under the laws of Mexico. Our principal offices, as well as our management committee, are located at Avenida Revolución 3000, Colonia Primavera, Monterrey, Nuevo León, México 64830. Our telephone number at that address is (81) 83-19-65-00.

Capital Ratios

The table below presents our risk-weighted assets and capital ratios as of December 31, 2009 and March 31, 2010.

	As of March 31, 2010	As of December 31, 2009
	in millions of Ps.	
Capital:		
Tier 1	36,023	35,381
Tier 2	13,855	14,277
Total capital.....	49,878	49,658
Risk-Weighted Assets:		
Credit risk	200,487	203,305
Credit and market risk.....	269,201	272,922
Operational risk.....	27,084	23,124
Capital Ratios (credit, market and operational risk):		
Tier 1 capital to risk-weighted assets	12.16%	11.95%
Tier 2 capital to risk-weighted assets	4.68%	4.82%
Total capital to risk-weighted assets.....	16.83%	16.77%

THE OFFERING

The following is a brief summary of certain terms of this offering. For a more complete description of the terms of the Notes, see “Description of the Notes” in this offering circular.

Issuer.....	Banco Mercantil del Norte, S.A., Institución de Banca Múltiple, Grupo Financiero Banorte, acting through its Grand Cayman Branch.
The Offering	We are offering our 4.375% Senior Notes due 2015, which we refer to as the “Notes”. The Notes are not guaranteed by IPAB or by any other Mexican governmental agency.
Amount	U.S.\$300,000,000 aggregate principal amount of 4.375% Senior Notes due 2015.
Interest Rate	4.375% per year, payable semi-annually in arrears on January 19 and July 19 of each year, commencing on January 19, 2011.
Maturity Date.....	The Notes will mature on July 19, 2015.
Issue Price.....	99.725%
Indenture	The Notes will be issued pursuant to an indenture originally dated as of July 19, 2010, as supplemented by a supplemental indenture dated as of July 19, 2010 (together, the “Indenture”) between The Bank of New York Mellon, as trustee, and the Issuer.
Ranking of the Notes	The Notes will be our direct, unconditional and unsecured general obligations and will, other than as set forth below, at all times rank <i>pari passu</i> in right of payment with all of our other unsecured obligations other than obligations that are, by their terms, expressly subordinated in right of payment to the Notes. The Notes will be effectively subordinated to (i) all of our secured indebtedness with respect to the value of our assets securing that indebtedness, (ii) certain direct, unconditional and unsecured general obligations that in case of our insolvency are granted preferential treatment pursuant to Mexican law and (iii) all of the existing and future liabilities of our subsidiaries, including trade payables. As of March 31, 2010, we had approximately Ps.11,310 million (approximately U.S.\$917 million) aggregate principal amount of indebtedness outstanding that rank <i>pari passu</i> with the Notes, approximately Ps.271,472 million (approximately U.S.\$22,016 million) outstanding demand obligations to depositors that rank senior to the Notes by statute and approximately Ps.9,998 million (approximately U.S.\$811 million) aggregate principal amount of indebtedness of our subsidiaries.
Book Entry; Form and Denominations	The Notes will be issued in the form of one or more global notes without coupons, registered in the name of a nominee of The Depository Trust Company (“DTC”), as depositary, for the accounts of its participants including Euroclear Bank S.A./N.V. (“Euroclear”), and Clearstream Banking, <i>societe anonyme</i> , Luxembourg (“Clearstream”). The Notes will be issued in minimum denominations of U.S.\$100,000 and integral multiples of U.S.\$1,000 in excess thereof. The Notes will not be issued in definitive form except under certain limited circumstances described herein. See “Description of the Notes—Book-Entry System; Delivery and Form—Certificated Notes.”
Optional Tax Redemption.....	The Notes are redeemable at our option in whole (but not in part), at any time, upon giving not less than 30 nor more than 60 days’ notice to the holders of the Notes, at the principal amount thereof plus additional amounts, if any, together with interest accrued to the date fixed for redemption if the laws or regulations affecting taxes in Mexico or the Cayman Islands change in certain respects and impose more than a <i>de minimis</i> payment of withholding tax on the Notes. See “Description of the Notes—Redemption Prior to Maturity Solely for Taxation Reasons.”

Covenants	The Indenture contains covenants that, among other things: • limit our ability to consolidate with or merge into any other corporation or convey or transfer our properties and assets substantially as an entirety to any person; and • require us to file with the trustee certain supplementary and periodic information, documents and reports, if we do not make public filings with the SEC pursuant to Section 13 and Section 15(d) of the Exchange Act. These covenants are subject to important exceptions and qualifications. See “Description of the Notes—Covenants.”
Events of Default	For a discussion of certain events of default that will permit acceleration of the principal of the Notes plus accrued and unpaid interest, and any other amounts due with respect to the Notes, see “Description of the Notes—Events of Default.”
Use of Proceeds	The net proceeds from the issuance of the Notes are estimated to be approximately U.S.\$297.7 million, after deducting the initial purchaser’s discounts and commissions and the estimated offering expenses. Subject to market conditions, we intend to use the net proceeds of the issuance of the Notes to repay U.S.\$25 million of existing indebtedness and for working capital purposes and the remainder for general corporate purposes. See “Use of Proceeds.”
Withholding Taxes; Additional Amounts	Payments of interest by our Grand Cayman Branch are currently not subject to withholding or similar taxes. However, we have agreed that all payments by us in respect of the Notes, whether of principal or interest, will be made without withholding or deduction for or on account of any Mexican or Cayman Islands taxes, unless required by law, in which case, subject to specified exceptions and limitations, we will pay such additional amounts as may be required so that the net amount received by the holders of the Notes in respect of principal, interest or other payments on the Notes, after any such withholding or deduction, will not be less than the amount that would have been received in the absence of any such withholding or deduction. See “Description of the Notes—Payment of Additional Amounts.”
Trading and Listing.....	Application has been made to the Luxembourg Stock Exchange for the Notes to be listed on the Official List of the Luxembourg Stock Exchange and traded on the Euro MTF market.
Transfer Restrictions.....	We have not registered the Notes under the Securities Act. The Notes are subject to restrictions on transfer and may only be offered in transactions exempt from or not subject to the registration requirements of the Securities Act. See “Transfer Restrictions” and “Plan of Distribution.” The Notes will not be registered with the Mexican National Securities Registry maintained by the CNBV and, pursuant to the Mexican Securities Market Law, may not be offered or sold publicly or otherwise be subject to brokerage activities in Mexico, except that the Notes may be offered in Mexico to institutional and qualified investors pursuant to a private placement exemption set forth in Article 8 of the Mexican Securities Market Law. As required under the Mexican Securities Market Law, we will notify the CNBV of the offering of the Notes outside of Mexico. Such notice will be delivered to the CNBV to comply with a legal requirement and for information purposes only, and the delivery to and the receipt by the CNBV of such notice does not imply any certification as to the investment quality of the Notes, our solvency, liquidity or credit quality or the accuracy or completeness of the information included in this offering circular.
Governing Law	The Indenture and the Notes will be governed by, and will be construed in accordance with, the laws of the State of New York.

RISK FACTORS

Before making a decision to invest in the Notes, you should carefully consider the risks described below as well as the other information contained in this offering circular. Our business, financial condition or results of operations could be materially adversely affected by any of these risks. The risks described below are not the only ones we or investments in Mexico in general face. Additional risks and uncertainties not currently known to us or that we currently consider immaterial may also materially adversely affect our ability to make payments on the Notes.

Risks Relating to Our Business

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

In 2008 and 2009, the global economy underwent a period of slowdown and unprecedented volatility and was adversely affected by a significant lack of liquidity, loss of confidence in the financial sector, disruptions in the credit markets, reduced business activity, rising unemployment, decline in interest rates and erosion of consumer confidence. The global economic slowdown and the U.S. economic slowdown in particular had a negative impact on the Mexican economy and have adversely affected our business. The future economic environment may continue to be less favorable than that of recent years. There is no assurance when such conditions will improve. In particular, we may face, among others, the following risks related to the economic downturn:

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

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

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

- financial margins;
- the volume of loans originated;
- the market value of our financial assets; and
- gains from sales of loans and securities.

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

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

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

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

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

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

We may be required to make significant contributions to IPAB.

Under Mexican law, banks are required to make monthly contributions to IPAB to support their operations that are equal to $\frac{1}{12}$ of 0.4% (the annual rate) multiplied by the average of certain liabilities minus the average of certain assets. IPAB was created in January 1999 to manage the bank savings protection system and regulate the financial support granted to banks in Mexico. Mexican authorities impose regular assessments on banking institutions covered by IPAB for funding. We contributed Ps.1,073 million in 2009 and Ps.263 million in the first three months of 2010. In the event that IPAB's reserves are insufficient to manage the bank savings protection system and provide the necessary financial support granted to troubled banking institutions, IPAB maintains the right to require extraordinary contributions to participants in the system.

We engage in transactions with our parent GFNorte and its subsidiaries or affiliates that may not be on an arm's-length basis.

No assurance can be given that transactions between us and our parent GFNorte or any of its subsidiaries or affiliates have been or will be conducted on a basis as favorable to us as could be obtained by us from unaffiliated parties. We have also entered into certain service agreements with our affiliates Seguros Banorte Generali, S.A. de C.V., Banorte Generali, S.A. de C.V. Afore, and Pensiones Banorte Generali, S.A. de C.V., to allow these companies to offer their products and services within our branch network in consideration for certain fees. In addition, we, GFNorte and other subsidiaries or affiliates have entered into a number of agreements providing for the sharing of revenues or expenses in connection with the performance of certain activities, including loan recovery. We are likely to continue to engage in transactions with our parent and any of its subsidiaries or affiliates, and no assurance can be given that we will do so on an arm's-length basis. In addition, future conflicts of interest between us and GFNorte or any of its subsidiaries or affiliates may arise, which conflicts are not required to be and may not be resolved in our favor. See "Related Party Transactions—Affiliated Transactions."

There can be no assurance that future transactions involving GFNorte or any of its subsidiaries or affiliates will not have an adverse effect on our financial position.

Resources could be diverted, or our business or business opportunities could be diverted, to other entities within the financial group controlled by GFNorte, or operations of other subsidiaries of GFNorte may be transferred to us.

We are part of a financial group controlled by GFNorte. Other entities within the group include Sólida Administradora de Portafolios, S.A. de C.V. ("Sólida"), which maintains some non-performing loan portfolios, and Casa de Bolsa Banorte, S.A. de C.V. ("Casa de Bolsa Banorte"), which maintains trading positions. GFNorte could, at any time, devote more resources or divert our business or business opportunities to other subsidiaries of GFNorte that directly or indirectly compete with us, as well as transfer certain operations of other subsidiaries of GFNorte to us, on grounds of capital efficiency, regulatory constraints, or other criteria. GFNorte estimates that Sólida contributed approximately 4.94% of GFNorte's net income as of March 31, 2010 and approximately 5.37% of GFNorte's net income in 2009. Casa de Bolsa Banorte contributed approximately 4.91% of GFNorte's net income as of March 31, 2010 and approximately 3.47% of GFNorte's net income in 2009. Sólida currently has no employees of its own and primarily relies upon Banorte to conduct its business. Should more of our resources be diverted, or

our business or business opportunities be diverted, to other subsidiaries of GFNorte, or if unprofitable operations of other subsidiaries of GFNorte are transferred to us, our financial position could be adversely affected.

Failure to successfully implement and continue to improve our credit risk management system could materially and adversely affect our business operations and prospects.

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

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

Non-performing or low credit quality loans can negatively impact our results of operations. We cannot assure you that we will be able to effectively control and reduce the level of the impaired loans in our loan portfolio. In particular, the amount of our reported non-performing loans may increase in the future as a result of growth in our loan portfolio or factors beyond our control, such as the impact of the global financial crisis and macroeconomic trends and political events affecting Mexico or events affecting given industries. In addition, our current loan loss reserves may not be adequate to cover an increase in the amount of non-performing loans or any future deterioration in the overall credit quality of our loan portfolio. As a result, if our loan portfolio deteriorates we may be required to increase our loan loss reserves, which may adversely affect our financial position and results of operations. Moreover, there is no precise method for predicting loan and credit losses, and we cannot assure you that our loan loss reserves are or will be sufficient to cover actual losses. If we are unable to control or reduce the level of our non-performing or poor credit quality loans, our financial position and results of operations could be materially and adversely affected.

We have experienced asset quality problems, including with respect to collateral, and have reported relatively large loan loss provisions.

The asset quality of our loan portfolio, including with respect to collateral, and the loan portfolios of other Mexican banks have been negatively affected by the unfavorable financial and economic conditions prevailing in Mexico following the global financial crisis commencing in September 2008. Mexican regulatory authorities and the banking system responded to this situation in several ways, including making revisions to Mexican Banking GAAP, including allowing for the reclassification of certain “available for sale securities” to “held to maturity securities” and broadening the class of securities available for repurchase. Other regulatory responses included imposing more stringent loan loss reserve requirements and capitalization standards, as well as adopting a number of programs designed to provide relief to Mexican borrowers in connection with the granting and restructuring of outstanding loans. Unfavorable financial and economic conditions in Mexico and these regulatory initiatives have caused the Mexican banking sector to experience asset quality problems and to record relatively large loan loss provisions. See “Selected Statistical Information—Non-Performing Loan Portfolio.” We also believe that recoveries from those non-performing loans as a percentage of the non-performing loan portfolio are likely to decline over time as a consequence of the aging of such non-performing loan portfolio, as well as the decreased value of the collateral supporting these loans.

In Mexico, foreclosure procedures may be subject to delays and administrative requirements that may result in lower levels of recovery on collateral compared to its value. In addition, other factors such as defects in the perfection of our security interests and fraudulent transfers by borrowers may impair our ability to recover on our collateral. Accordingly, there can be no assurance that we will be able to realize the full value of our collateral.

Our loans to the Mexican federal government and to Mexican state and municipal governments do not require capital or reserves.

The Mexican Capitalization Rules and the rules requiring the creation of reserves for loan losses do not require minimum capitalization levels or the creation of reserves in connection with loans made to the Mexican federal government or to Mexican state or municipal governments (together, “Governmental Loans”). Accordingly, we do not maintain and have not created, and do not intend to maintain or create, additional capital or reserves in connection with our Governmental Loans, which as of March 31, 2010 amounted to approximately Ps.40,995 million. As a result, if the credit quality of our Governmental Loans were to deteriorate, either specifically or at a generalized level, it could result in a more significant impact on our financial position and results of operations than would a deterioration of other loans in our portfolio, in respect of which we maintain capital requirements or create reserves.

Some of our loans to Mexican states and municipalities may be restructured.

The Mexican government and commercial banks, including us, have from time to time agreed to modify the terms of Governmental Loans. Such modifications have included extensions in maturity of up to 12 years, reductions in interest rates and prepayment options. As of March 31, 2010, Ps.5,137 million of these loans, or 2.20% of our total loan portfolio, has been restructured. There can be no assurance that other loans of this same type or even these same loans will not be similarly restructured in the future in a way that would be materially adverse to us.

Loan loss reserves in Mexico differ from those applicable to banks in the United States and certain other countries.

Except for Governmental Loans and loans to certain Mexican development banks guaranteed by the federal government and Banco de México, we are required to classify each loan or type of loan according to an assessment of risk based on criteria set forth by Mexican banking regulations and to establish corresponding reserves. The criteria to establish reserves include both qualitative and quantitative factors. Mexican banking regulations relating to loan classification and determination of loan loss reserves are generally different or less stringent than those applicable to banks in the United States and certain other countries. The Mexican government has enacted new rules regarding the manner in which Mexican banks classify loans and determine loan loss reserves. In particular, in 2009, the CNBV approved new rules for provisions for loan losses of the credit card, consumer and mortgage loan portfolios according to expected loss methodology. These rules allow banks to use additional objective and subjective factors in determining loan loss reserves.

We may be required or deem it necessary to increase our loan loss reserves in the future. Increasing loan loss reserves could adversely affect our results of operations and financial position and our ability to pay amounts due on the Notes.

The short-term nature of our funding sources may pose a liquidity risk for us.

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

We anticipate that customers in Mexico will continue in the near future to demand short-term deposits (particularly demand deposits and short-term time deposits) and loans, and we intend to maintain our emphasis on the use of banking deposits as a source of funding. The short-term nature of this funding source could cause liquidity problems for us in the future if deposits are not made in the volumes we expect or are not renewed. As of March 31, 2010, 98.12% of our Peso and foreign currency deposits had remaining maturities of one year or less or were payable on demand. In the past, a substantial portion of such customer deposits have been rolled over upon maturity or maintained with us (in the case of deposits payable on demand) and, as a result, such deposits have over time been a stable source of funding. No assurance can be given, however, that customers will continue to roll over or maintain their deposits with us. If a substantial number of our customers fail to roll over their deposits upon maturity or withdraw their deposits from us, our liquidity position could be adversely affected, and we may be required to seek funding from more expensive sources.

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

We are exposed to currency risk any time we hold an open position in a currency other than Pesos and to interest rate risk when we have an interest rate repricing gap or carry interest-earning securities having fixed real or nominal interest rates. Peso exchange rates and interest rates in Mexico have been subject to significant fluctuations in recent years. Because of the

historical volatility in Peso exchange rates and interest rates in Mexico, the risks associated with such positions may be greater than in certain other countries. Exchange rates and interest rates have experienced considerable volatility from October 2008 to date due to the U.S. and international financial crisis. Although we follow various risk management procedures in connection with our trading and treasury activities, there can be no assurance that we will not experience losses with respect to these positions in the future, any of which could have a material adverse effect on our results of operations and financial position. See “Selected Statistical Information—Interest Rate Sensitivity of Assets and Liabilities” and “Risk Management.”

A sustained increase in interest rates will also raise our funding costs and may reduce loan demand, especially among consumers. Rising interest rates may therefore require us to re-balance our asset portfolio and our liabilities in order to minimize the risk of potential mismatches and maintain our profitability. In addition, rising interest rate levels may adversely affect the Mexican economy and the financial position and repayment ability of our corporate and retail borrowers, including holders of our credit cards, which in turn may lead to a deterioration in our asset quality.

Also, volatility in exchange and interest rates could affect the ability of our clients to repay their loans, which could result in an increase in our non-performing loan portfolio, and therefore affect our results.

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

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

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

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

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

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

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

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

Our credit ratings are an important component of our liquidity profile. Among other factors, our credit ratings are based on the financial strength, credit quality and concentrations in our loan portfolio, the level and volatility of our earnings, our capital adequacy, the quality of management, the liquidity of our balance sheet, the availability of a significant base of core retail and commercial deposits, and our ability to access a broad array of wholesale funding sources. Our lenders and counterparties in derivative transactions are sensitive to the risk of a ratings downgrade. Changes in our credit ratings or those of any of our

subsidiaries would increase the cost of raising funds in the capital markets or of borrowing funds. In addition, our ability to renew maturing debt may be more difficult and expensive.

Our ability to compete successfully in the marketplace for deposits depends on various factors, including our financial stability as reflected by our credit ratings. A downgrade in our credit ratings may adversely affect perception of our financial stability and our ability to raise deposits.

Significant competition from other banks in providing financial services to the Mexican retail and corporate banking sectors may adversely affect our position in the Mexican banking industry.

We face strong competition in all aspects of our business, including in originating loans and in attracting deposits. The competition in originating loans comes principally from other Mexican and foreign banks, mortgage banking companies, consumer finance companies, insurance companies and other institutional lenders and purchasers of loans. We anticipate that we will encounter greater competition as we continue expanding our operations in Mexico. A number of institutions with which we compete have significantly greater assets and capital, name recognition and other resources. In addition, certain of our competitors, such as the *sociedades financieras de objeto limitado* (“Sofoles”) and *sociedades financieras de objeto múltiple* (“Sofomes”), are not financial institutions and, if not part of a financial group, are not subject to the extensive Mexican banking regulations to which we are subject. As a result, certain of our competitors may have advantages in conducting certain businesses and providing certain financial services. Some of our competitors are significantly larger and have more financial resources than us, including a larger asset size and capital base.

Competition is also likely to increase as a result of the entrance of new participants into the banking sector. The Mexican banking authorities have recently granted a number of banking licenses for the establishment and operation of several new banking institutions. See “Business of Banorte—Competition.” The CNBV is likely to continue granting banking licenses to new participants.

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

As a result of our entrance into the U.S. banking sector through our acquisition of INB and UniTeller in 2006 and Motran in 2007, we have faced strong competition from U.S.-based financial groups, commercial banks and other financial institutions. In particular we face competition from Wells Fargo & Company, Bank of America Corporation, J.P. Morgan Chase & Company and Banco Bilbao Vizcaya Argentaria, each of which has a significant presence in the regions covered by INB and UniTeller and Motran, our remittances companies.

Future mergers or acquisitions of financial institutions could disrupt our operations and adversely affect our financial position.

GFNorte acquired Bancentro in 1996, Banpaís in 1997, Bancrecer in December 2001, INB in 2006, UniTeller in 2006, and Motran in 2007. The integration of the banking operations of these merged entities faced difficulties and problems that affected the performance of Banorte by diverting our management’s attention and human resources. We could face similar problems if we engage in similar transactions in the future. In addition, future acquisitions may require us to operate in markets that are new to us and may subject us to regulatory arrangements in other countries with which we have not had prior experience.

Such transactions and the possibility of a new merger, acquisition or other business combination involving us is likely to entail risks, including diversion of management attention and of human resources, unknown or unforeseen liabilities relating to the counterparty, difficulty in integrating and managing new or combined operations, labor unrest and loss of key personnel.

Our increasing focus on individuals and small and medium-sized businesses could lead to higher levels of non-performing loans and subsequent charge-offs.

As part of our business strategy, we seek to increase lending and other services to individuals and to small and medium-sized companies. Individuals and small and medium-sized companies are, however, more likely to be adversely affected by downturns in the Mexican economy than large corporations and high-income individuals. Consequently, in the future we may experience higher levels of non-performing loans, which could result in higher provisions for loan losses. As a result of the global financial crisis and the deterioration of the Mexican economy, from 2007 to 2008 the amount of non-performing loans in respect of credit cards increased 158.14% and for commercial loans 104.76%. There can be no assurance that the levels of non-performing loans and subsequent charge-offs will not be materially higher in the future.

Mexican governmental regulations may adversely affect our operating results, financial position and ability to make principal payments on the Notes.

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

Given the current environment of frequent changes to laws and regulations affecting the financial services sector, there may be future changes in the regulatory system or in the enforcement of the laws and regulations that could adversely affect us. See “Supervision and Regulation” for a discussion of the governmental authorities that regulate us.

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

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

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

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

Our future success also depends on our continuing ability to identify, hire, train and retain other qualified sales, marketing and managerial personnel. Competition for such qualified personnel is intense and we may be unable to attract,

integrate or retain qualified personnel at levels of experience or compensation that are necessary to sustain or expand our operations. Our businesses could be materially and adversely affected if we cannot attract these necessary personnel.

In addition, approximately 36% of our employees are unionized, and we could incur higher ongoing labor costs and disruptions in our operations in the event of a strike or other work stoppage.

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

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

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

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

Our ability to remain competitive will depend in part on our ability to upgrade our information technology infrastructure on a timely and cost-effective basis. We must continually make significant investments and improvements in our information technology infrastructure in order to remain competitive. In particular, as we continue to open new branches in the Mexico City metropolitan area and in other cities throughout Mexico, we need to improve our information technology infrastructure, including maintaining and upgrading our software and hardware systems and back-office operations. The information available to and received by our management through our existing information systems may not be timely and sufficient to manage risks as well as to plan for and respond to changes in market conditions and other developments in our operations. In addition, we may experience difficulties in upgrading, developing and expanding our information technology systems quickly enough to accommodate our growing customer base. Any failure to effectively improve or upgrade our information technology infrastructure and management information systems in a timely manner could materially and adversely affect our competitiveness, financial position and results of operations.

The Financial Statements included in this offering circular have been prepared and are presented in accordance with Mexican Banking GAAP, which is significantly different from U.S. GAAP.

The Financial Statements included in this offering circular have been prepared and are presented in accordance with Mexican Banking GAAP. Significant differences exist between Mexican Banking GAAP and U.S. GAAP which are material to the Financial Statements and other financial information included in this offering circular. See “Significant Differences Between Mexican Banking GAAP and U.S. GAAP.” We have made no attempt to identify or quantify the impact of those differences in this offering circular. In making an investment decision, you must rely upon your own examination of us, the terms of this offering and the financial information included in this offering circular. You should consult your own professional advisors for an understanding of the differences between Mexican Banking GAAP and U.S. GAAP, and how those differences might affect the financial information included in this offering circular.

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

We are required to comply with applicable anti-money laundering, anti-terrorism laws and other regulations in Mexico. These laws and regulations require us, among other things, to adopt and enforce “know your customer” policies and procedures and to report suspicious and large transactions to the applicable regulatory authorities. Recent rules have been adopted in

Mexico restricting the ability of Mexican banks to receive currencies in physical form, in exchange for foreign exchange and other similar transactions. See “Supervision and Regulation—Money Laundering Regulations.” While we have adopted policies and procedures aimed at detecting and preventing the use of our banking network for money laundering activities and by terrorists and terrorist-related organizations and individuals generally, such policies and procedures have in some cases only been recently adopted and may not completely eliminate instances where we may be used by other parties to engage in money laundering and other illegal or improper activities. To the extent we may fail to fully comply with applicable laws and regulations, the relevant government agencies to which we report have the power and authority to impose fines and other penalties on us. In addition, our business and reputation could suffer if customers use us for money laundering or illegal or improper purposes.

Risks Relating to Mexico

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

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

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

Mexican President Felipe Calderón Hinojosa, of the political party *Partido Acción Nacional* (“PAN”), may implement significant changes in laws, public policies and/or regulations that could affect Mexico’s political and economic situation, which could adversely affect our business.

Furthermore, following Mr. Calderón’s election in 2006, the Mexican Congress became politically divided, as the PAN does not have the majority of seats. Elections for the Mexican Senate and House of Representatives and for the governorship of certain states of Mexico took place on July 5, 2009, giving the *Partido Revolucionario Institucional* a majority in the legislature. The lack of alignment between the legislature and the President could result in deadlock and prevent the timely implementation of political and economic reforms, which in turn could have a material adverse effect on Mexican economic policy, on our business and the prices of and returns on Mexican securities. It is possible, although not probable, that political uncertainty may adversely affect Mexico’s economic situation.

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

We cannot provide any assurance that future political developments in Mexico, over which we have no control, will not have an unfavorable impact on our financial position or results of operations and impair our ability to make payments under the Notes.

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

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

Mexico experienced a period of slow growth from 2001 through 2003 primarily as a result of the downturn in the U.S. economy. In 2006, GDP grew by 4.9% and inflation was 4.1%; in 2007, GDP grew by 3.5% and inflation decreased to 3.8%; in 2008, GDP grew by 1.4% and inflation increased to 6.5%; and in 2009, GDP decreased by 6.5% and inflation decreased to 3.6%.

Mexico also has, and is expected to continue to have, high real and nominal interest rates. The interest rates on 28-day Mexican government treasury securities (*Certificados de la Tesorería de la Federación*) averaged approximately 7.19%, 7.19%, 7.68% and 5.39% for 2006, 2007, 2008 and 2009, respectively. Accordingly, if we incur Peso-denominated debt in the future, it could be at high interest rates.

As a consequence of the global recession and economic slowdown during 2008, the Mexican economy entered into a recession. In 2009, Mexico's GDP experienced its worst drop in recent history. Employment was negatively impacted, with the unemployment rate reaching 4.80% in December 2009 from 4.32% in December 2008. The consumer confidence index in Mexico decreased to an eight-year low of 37 points in February 2009, with a corresponding impact on consumption. The current recession could affect our operations to the extent that we are unable to reduce our costs and expenses in response to falling demand. Similarly, our loan portfolio could deteriorate as a result of higher delinquency rates. These factors could result in a decrease in our loan portfolio, revenues and net income.

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

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

In 2008 and 2009, as a result of the negative economic conditions in the United States and in other parts of the world, local and international markets experienced high volatility, which contributed to the depreciation of the Peso. In 2009, the Peso depreciated by 21.3%. The Mexican government has implemented a series of measures to limit the volatility of the Peso. However, we cannot assure you that such measures will be effective or maintained or how such measures will impact the Mexican economy.

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

We face risks related to health epidemics and other outbreaks.

Our business could be adversely affected by the effects of avian flu, severe acute respiratory syndrome ("SARS"), A/H1N1 flu or another epidemic or outbreak. In April 2009, an outbreak of A/H1N1 flu occurred in Mexico and the United States and there have been recent cases in Europe, China and elsewhere in Asia. Any prolonged occurrence or recurrence of avian flu, SARS, A/H1N1 flu or other adverse public health developments in Mexico may have a material adverse effect on our business operations. Our operations may be impacted by a number of health-related factors, including, among other things, quarantines or closures of our facilities, which could disrupt our operations, and a general slowdown in the Mexican economy. Any of the foregoing events or other unforeseen consequences of public health problems could adversely affect our business, results of operations, prospects and financial condition. We have not adopted any written preventive measures or contingency plans to combat any future outbreak of avian flu, SARS, A/H1N1 flu or any other epidemic.

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

Economic and market conditions in other countries may, to varying degrees, affect the market value of securities of Mexican companies. Although economic conditions in other countries may differ significantly from economic conditions in Mexico, investors' reactions to developments in other countries may have an adverse effect on the market value of securities of Mexican companies. For example during 2007 and 2008, prices of both Mexican debt and equity securities decreased substantially as a result of the global financial crisis. The Dow Jones Industrial Average index fell by 35% from its average level in July 2007 to its January 2009 average level, while Mexico's stock exchange index (IPC) fell by 39% in the same period.

In addition, in recent years economic conditions in Mexico have become increasingly correlated to economic conditions in the United States as a result of the North American Free Trade Agreement ("NAFTA") and increased economic activity between the two countries, which was highlighted during the recent economic crisis affecting the United States. The

Mexican economy continues to be heavily influenced by the U.S. economy and, therefore, the termination of NAFTA or other related events, further deterioration in economic conditions in, or delays in recovery of, the U.S. economy may hinder any recovery in Mexico. We cannot assure you that the events in other emerging market countries, in the United States or elsewhere will not adversely affect our business, financial position or results of operations.

The new Mexican tax reforms may have an adverse effect on our customers, which may adversely affect our business.

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

Our corporate disclosures may be different or less substantial than those of issuers in other countries.

Issuers of securities in Mexico are required to make public disclosures that are different and that may be less substantial than disclosures required in countries with highly developed capital markets. In addition, accounting and other reporting principles and standards for credit and other financial institutions in Mexico and the financial results reported using such principles and standards may differ substantially from those results that would have been obtained using other principles and standards, such as U.S. GAAP. See “Significant Differences Between Mexican Banking GAAP and U.S. GAAP.”

Risks Relating to the Notes

The Notes are subject to transfer restrictions.

The Notes have not been registered under the Securities Act or any U.S. state securities laws. The Notes may not be offered or sold except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable U.S. state securities laws. See “Transfer Restrictions” for a full explanation of such restrictions.

The Notes will not be registered with the Mexican National Securities Registry maintained by the CNBV and may not be offered or sold publicly or otherwise be subject to brokerage activities in Mexico, except that the Notes may be offered in Mexico to institutional and qualified investors pursuant to a private placement exemption set forth in Article 8 of the Mexican Securities Market Law.

An active trading market for the Notes may not develop.

Currently there is no market for the Notes. Application has been made to list the Notes on the Official List of the Luxembourg Stock Exchange and to trading on the Euro MTF market, and after the Notes become listed on this exchange, we may delist the Notes if the listing maintenance provisions become unduly onerous or burdensome or for other reasons. After the Notes are listed and admitted to trading, a trading market for the Notes may not develop, or if a market for the Notes were to develop, the Notes may trade at a discount from their initial offering price, depending upon many factors, including prevailing interest rates, the market for similar securities, general economic conditions and our financial condition. The initial purchaser is not under any obligation to make a market with respect to the Notes, and we cannot assure you that trading markets will develop or be maintained. Accordingly, we cannot assure you as to the development or liquidity of any trading market for the Notes. If an active market for the Notes does not develop or is interrupted, the market price and liquidity of the Notes may be adversely affected.

If proceedings are brought in Mexico seeking to enforce our obligations under the Notes, pursuant to Mexican Monetary Law (*Ley Monetaria*), payment of the Notes may be made in Pesos if enforced through judgment.

Although our obligations to pay in U.S. dollars outside Mexico are valid, pursuant to Article 8 of the Mexican Monetary Law in the event that proceedings are brought in Mexico seeking to enforce our obligations under the Notes, payment of obligations in foreign currency to be made in Mexico may be satisfied by delivering the equivalent in the currency of Mexico (“Mexican Judgment Currency”). Pursuant to Mexican law, an obligation in a currency other than Mexican currency, which is payable in Mexico, may be satisfied in Mexican currency at the rate of exchange in effect on the date on which payment is made. Such rate of exchange is currently determined by the Banco de México every business day in Mexico and published the following banking day in the Official Gazette. It is unclear, however, whether the applicable rate of exchange applied by the Mexican court to determine the Mexican Judgment Currency is the rate prevailing at the time when the judgment is rendered or when the judgment is paid. Provisions that purport to limit our liability to discharge our obligations as described above, or to

give any party an additional course of action seeking indemnity or compensation for possible deficiencies arising or resulting from variations in rates of exchange, may not be enforceable in Mexico.

If we were to be declared bankrupt, holders of Notes may find it difficult to collect payment on the Notes.

Under Mexico's Law of Reorganization Proceedings (*Ley de Concursos Mercantiles*), if we were to become subject to a reorganization proceeding (*concurso mercantil*) or were declared bankrupt (*quiebra*) in a Mexican court, our payment obligations denominated in foreign currency, including the Notes (i) would be converted to Pesos at the exchange rate prevailing at the time such declaration is deemed effective and subsequently converted into UDIs other than secured debt, (ii) would cease accruing interest to the extent such debt is not secured, (iii) would be paid at the time claims of creditors are satisfied, (iv) would be dependent upon the outcome of the relevant *concurso mercantil* or *quiebra* proceedings, and (v) would not be adjusted to consider the depreciation of the Peso against the U.S. dollar occurring after such declaration of insolvency. In addition, in the event of bankruptcy, Mexican law provides preferential treatment for certain claims, such as those relating to labor, taxes and secured creditors.

The Notes will be effectively subordinated to our secured debt, our subsidiaries' indebtedness and other liabilities and to certain claims preferred by statute.

Our obligations under the Notes are unsecured. Banks in Mexico are not allowed to post security except for (i) derivative transactions, (ii) obligations in favor of Banco de México, Mexican development banks, public trusts incorporated by the Mexican government for economic promotion and IPAB, and (iii) specific cases expressly authorized by the CNBV. We currently have engaged in no secured obligations, except for derivative transactions. The Notes will be effectively subordinated to all of our secured debt to the extent of the value of the collateral securing such debt. In the event that we are not able to repay amounts due under such secured debt obligations, creditors could proceed against the collateral securing such indebtedness. In that event, any proceeds upon a realization of the collateral would be applied first to amounts due under the secured debt obligations before any proceeds would be available to make payments on the Notes. If there is a default, the value of this collateral may not be sufficient to repay both our secured creditors and the holders of the Notes. The Notes will also rank effectively junior to all of our subsidiaries' indebtedness and other liabilities. Our right to receive any assets of any of our subsidiaries upon their liquidation or reorganization, and therefore the right of holders of the Notes to participate in those assets would be effectively subordinated to the claims of those subsidiaries' creditors, including trade creditors. Additionally, the claims of holders of the Notes will rank effectively junior to certain obligations that are preferred by statute, including certain claims relating to taxes and labor.

It may be difficult to enforce civil liabilities against us or our directors, executive officers and controlling persons.

We are organized under the laws of Mexico. All of our directors, executive officers and controlling persons reside outside the U.S.; all or a significant portion of the assets of our directors, executive officers and controlling persons are located outside the U.S.; and certain of the experts named in this offering circular also reside outside the U.S. As a result, it may be difficult for you to effect service of process within the U.S. upon these persons or to enforce against them or us in U.S. courts judgments predicated upon the civil liability provisions of the federal securities laws of the U.S. We have been advised by our special Mexican counsel, White & Case S.C., that there is doubt as to the enforceability, in original actions in Mexican courts, of liabilities predicated solely on U.S. federal securities laws and as to the enforceability in Mexican courts of judgments of U.S. courts obtained in actions predicated upon the civil liability provisions of U.S. federal securities laws.

USE OF PROCEEDS

Our net proceeds from the issuance of the Notes are estimated to be approximately U.S.\$297.7 million, after deducting the initial purchaser's discounts and commissions and the estimated offering expenses. Subject to market conditions, we intend to use the net proceeds of the issuance of the Notes to repay U.S.\$25 million of existing indebtedness and for working capital purposes and the remainder for general corporate purposes.

EXCHANGE RATES AND CURRENCY

Mexico has had a free market for foreign exchange since 1991 and Banco de México allows the Peso to float freely against the U.S. dollar and other foreign currencies. Banco de México intervenes directly in the foreign exchange market only to reduce excessive short-term volatility. Since late 2003, Banco de México has been conducting auctions of U.S. dollars in an attempt to reduce the levels of its foreign reserves. Banco de México conducts open market operations on a regular basis to determine the size of Mexico's monetary base. Changes in Mexico's monetary base have an impact on the exchange rate. Banco de México may increase or decrease the reserve of funds that financial institutions are required to maintain. If the reserve requirement is increased, financial institutions will be required to allocate more funds to their reserves, which will reduce the amount of funds available for operations. This causes the amount of available funds in the market to decrease and the cost, or interest rate, to obtain funds to increase. The opposite happens if reserve requirements are lowered. This mechanism, known as "*corto*" or "*largo*," as the case may be, or more formally "the daily settlement balance target," represents a device used by Banco de México to adjust the level of interest and foreign exchange rates.

There can be no assurance that the Mexican government will maintain its current policies with respect to the Peso or that the Peso will not depreciate significantly in the future.

The following table sets forth, for the periods indicated, the period-end, average, high and low Banco de México Exchange Rate expressed in Pesos per U.S. dollar. The rates shown below are in nominal Pesos that have not been restated in constant currency units. No representation is made that the Peso amounts referred to in this offering circular could have been or could be converted into U.S. dollars at any particular rate or at all. Unless otherwise indicated, U.S. dollar amounts that have been translated from Pesos have been so translated at an exchange rate of Ps.12.3306 to U.S.\$1.00, the Banco de México Exchange Rate on March 31, 2010.

<u>Year Ended December 31,</u>	Banco de México Exchange Rate(1)			
	Period-End	Average(2)	High	Low
2005	10.63	10.89	11.40	10.41
2006	10.81	10.90	11.48	10.43
2007	10.92	10.93	11.27	10.66
2008	13.83	11.14	13.92	9.92
2009	13.07	13.50	15.37	12.60

<u>Month Ended</u>	Banco de México Exchange Rate(1)			
	Period-End	Average(2)	High	Low
January 31, 2010	13.01	12.80	13.01	12.65
February 28, 2010	12.78	12.94	13.18	12.78
March 31, 2010	12.33	12.57	12.75	12.33
April 30, 2010	12.26	12.23	12.37	12.16
May 31, 2010	12.91	12.74	13.18	12.26
June 30, 2010	12.84	12.72	12.93	12.46
July 31, 2010 (through July 28)	12.68	12.83	13.10	12.65

(1) Source: Banco de México.

(2) Average of end-of-month rates for 2005, 2006, 2007, 2008 and 2009. Average of daily rates for each complete month of 2010.

The Mexican economy has suffered balance of payment deficits and shortages in foreign exchange reserves in the past. While the Mexican government, for more than ten years, has not restricted the ability of Mexican and foreign individuals or entities to convert Pesos to U.S. dollars, we cannot assure you that the Mexican government will not institute restrictive exchange control policies in the future. To the extent that any such restrictive exchange control policies were to be instituted in the future in the event of shortages of foreign currency, our ability to transfer or convert Pesos into U.S. dollars and other currencies to service our foreign currency obligations, including the Notes, would be adversely affected and foreign currency may not be available without substantial additional cost.

CAPITALIZATION

The following table sets forth, as of March 31, 2010, our actual capitalization and adjusted capitalization to reflect the issuance of the Notes offered hereby and the application of the net proceeds of this offering as described herein under “Use of Proceeds.”

This table should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” “Use of Proceeds” and the Financial Statements appearing elsewhere in this offering circular.

	As of March 31, 2010(1)		
	Actual (Ps. millions)	As Adjusted for this Offering (2) (Ps. millions)	(U.S.\$ millions)(3)
LONG-TERM DEBT:			
Bank and other loans.....	4,814	4,506	365
4.375% Senior Notes due 2015	—	3,699	300
Subordinated debentures:			
Preferred subordinated debentures	9,371	9,371	760
Non-preferred subordinated debentures	8,216	8,216	666
Accrued interest	251	251	20
Total subordinated debentures.....	17,838	17,838	1,446
Total long-term debt	22,652	26,043	2,111
STOCKHOLDERS’ EQUITY:			
Paid-in capital(4).....	13,978	13,978	1,134
Other capital	26,755	26,755	2,170
Minority interest.....	716	716	58
Total stockholders’ equity	41,449	41,449	3,362
TOTAL CAPITALIZATION(5).....	64,101	67,492	5,473

- (1) Except as disclosed in this offering circular, there has been no material change in our total capitalization since March 31, 2010.
- (2) The “As Adjusted for this Offering” columns reflect the issuance of Notes in an aggregate principal amount of U.S.\$300 million.
- (3) The U.S. dollar amounts in this column have been translated into U.S. dollars at the exchange rate of Ps.12.3306 per U.S.\$1.00, based on the Banco de México Exchange Rate published on March 31, 2010.
- (4) As of March 31, 2010, our capital stock consisted of 75,249,929,493 Series O Shares, par value Ps.0.10 per share, which were issued, outstanding and fully paid. Of these shares, 69,770,242,062 (92.72% of our capital stock) are held by GFNorte.
- (5) For a discussion of our Capital Ratio, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Risk-Based Capital.”

SELECTED CONSOLIDATED FINANCIAL INFORMATION

The selected consolidated financial information presented in this section is derived from our accounting records or from the Financial Statements and relates only to us and our consolidated subsidiaries. This information should be read in conjunction with “Presentation of Certain Financial and Other Information,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the audited consolidated financial statements and unaudited interim financial statements included elsewhere in this offering circular. Results of the first three months are not necessarily indicative of results to be expected for the full year.

In accordance with Mexican Banking GAAP, our financial statements and the other financial information contained in this offering circular are as of December 31, 2009 and 2008 and for the years ended December 31, 2009, 2008 and 2007 and as of and for the three months ended March 31, 2010 and 2009.

Effective January 1, 2008, we adopted MFRS B-10, “Effects of Inflation.” Based on this standard, we were no longer required by Mexican Banking GAAP to recognize the effects of inflation in our financial statements in periods considered not to be inflationary. Accordingly, our financial information through December 31, 2007 is stated in Pesos in purchasing power as of December 31, 2007. The financial information as of December 31, 2008 and 2009, and the financial information for the years ended December 31, 2008 and 2009, is not directly comparable to prior periods due to the recognition of inflation effects in financial information in prior periods. Our financial information as of December 31, 2008 and 2009 maintained the inflation adjustments recognized in prior years in our consolidated stockholders’ equity, and the inflation-adjusted amounts for non-monetary assets and liabilities at December 31, 2007 became the accounting basis for those assets and liabilities beginning on January 1, 2008 and for subsequent periods.

	For the three months ended March 31,			For the year ended December 31,			
	2010(1)	2010	2009	2009(1)	2009	2008	2007
	(U.S.\$ millions)	(Ps. millions)		(U.S.\$ millions)		(Ps. millions)	
STATEMENT OF INCOME DATA:							
Interest income	790	9,737	12,852	3,565	43,956	48,605	38,973
Interest expense	(355)	(4,382)	(6,873)	(1,748)	(21,550)	(26,858)	(21,793)
Monetary position gain (loss), net	—	—	—	—	—	—	(298)
Financial margin	435	5,355	5,979	1,817	22,406	21,747	16,882
Provision for loan losses	(142)	(1,746)	(2,144)	(663)	(8,181)	(6,722)	(2,588)
Financial margin after provision for loan losses	293	3,609	3,835	1,154	14,225	15,025	14,294
Commissions and fees	198	2,437	1,907	666	8,231	8,305	7,201
Net operating revenue	491	6,046	5,742	1,820	22,456	23,330	21,495
Selling, general and administrative expenses	(324)	(3,978)	(4,132)	(1,315)	(16,203)	(15,813)	(14,566)
Net operating income	167	2,068	1,610	505	6,253	7,517	6,929
Other income	14	173	568	119	1,469	2,398	1,920
Other expenses	12	154	156	49	608	782	321
Income before income tax	169	2,087	2,022	575	7,114	9,133	8,528
Current income taxes	(44)	(540)	(234)	(198)	(2,451)	(2,642)	(2,728)
Deferred income taxes	(7)	(82)	(316)	44	537	231	462
Income before equity in earnings of subsidiaries and associated companies	118	1,465	1,472	421	5,200	6,722	6,262
Equity in earnings of subsidiaries and associated companies	2	20	(1)	6	73	1	34
Non controlling interest	(4)	(50)	(53)	(11)	(141)	(180)	(145)
Net income	116	1,435	1,418	416	5,132	6,543	6,151

	As of March 31,		As of December 31,		
	2010(1)	2010	2009(1)	2009	2008
	(U.S.\$ millions)	(Ps. millions)	(U.S.\$ millions)	(Ps. millions)	
BALANCE SHEET DATA:					
Cash and cash equivalents	4,734	58,367	4,807	59,280	54,393
Securities	18,162	223,947	18,056	222,633	238,636
Securities and derivative financial instruments	464	5,727	477	5,882	8,169
Total loans.....	18,918	233,256	19,048	234,879	236,236
Allowance for loan losses.....	(592)	(7,295)	(597)	(7,358)	(6,582)
Acquired loan portfolios.....	197	2,426	207	2,548	3,049
Deferred taxes, net.....	111	1,373	119	1,466	481
Other assets	2,543	31,362	2,441	30,100	28,729
Total assets.....	44,537	549,163	44,558	549,430	563,111
Deposits	22,016	271,472	22,308	275,061	260,906
Bank and other loans	917	11,310	915	11,286	27,236
Securities and derivative financial instruments	15,701	193,599	15,449	190,495	203,329
Subordinated debentures	1,447	17,838	1,473	18,168	20,613
Other liabilities	1,095	13,495	1,087	13,414	14,985
Total liabilities	41,176	507,714	41,232	508,424	527,069
Total stockholders' equity	3,361	41,449	3,326	41,006	36,042
Total liabilities and stockholders' equity	44,537	549,163	44,558	549,430	563,111

	As of or for the three months ended March 31,		As of or for the year ended December 31,		
	2010(1)	2010	2009(1)	2009	2008
	(U.S.\$ millions, except percentages)	(Ps. millions, except percentages)	(U.S.\$ millions, except percentages)	(Ps. millions, except percentages)	
PROFITABILITY AND EFFICIENCY:					
Return on average total assets(2).....	1.05%	1.05%	0.92%	0.92%	1.57%
Return on average stockholders' equity(2)	14.16%	14.16%	13.60%	13.60%	20.05%
Net interest margin(3).....	4.15%	4.15%	4.27%	4.27%	5.57%
Efficiency ratio(4)	51.05%	51.05%	52.89%	52.89%	52.62%
CAPITALIZATION:					
Stockholders' equity as a percentage of total assets	7.55%	7.55%	7.46%	7.46%	6.40%
Tier 1 capital as a percentage of risk-weighted assets	12.16%	12.16%	11.95%	11.95%	9.36%
Total capital as a percentage of risk-weighted assets	16.83%	16.83%	16.77%	16.77%	15.01%
CREDIT QUALITY DATA:					
Total performing loans.....	18,430	227,239	18,558	228,828	231,400
Total non-performing loans	488	6,017	490	6,051	4,836
Total loans.....	18,918	233,256	19,048	234,879	236,236
Loans graded "C," "D" and "E"(5)	663	8,177	680	8,386	5,938
Allowance for loan losses.....	592	7,295	597	7,358	6,582
CREDIT QUALITY RATIOS:					
Allowance for loan losses as a percentage of total loans	3.13%	3.13%	3.13%	3.13%	2.79%
Allowance for loan losses as a percentage of total non-performing loans(6).....	121.24%	121.24%	121.60%	121.60%	136.10%

	As of or for the three months ended March 31,		As of or for the year ended December 31,		
	2010(1)	2010	2009(1)	2009	2008
	(U.S.\$ millions, except percentages)	(Ps. millions, except percentages)	(U.S.\$ millions, except percentages)	(Ps. millions, except percentages)	
Allowance for loan losses as a percentage of loans graded “C,” “D” and “E”(5)	89.21%	89.21%	87.74%	87.74%	110.85%
Total non-performing loans as a percentage of total loans	2.58%	2.58%	2.58%	2.58%	2.05%
Net non-performing loans (total non-performing loans less allowance for loan losses) as a percentage of net total loans (total performing loans plus net non-performing loans)	(0.57)%	(0.57)%	(0.57)%	(0.57)%	(0.76)%
Net non-performing loans (total non-performing loans less allowance for loan losses) as a percentage of stockholders’ equity	(3.08)%	(3.08)%	(3.19)%	(3.19)%	(4.84)%
Loans graded “C,” “D” and “E” as a percentage of total loans(5)	3.51%	3.51%	3.57%	3.57%	2.51%

- (1) Statement of income and balance sheet data expressed in U.S. dollars have been translated at the rate of Ps.12.3306 per U.S.\$1.00, based on the Banco de México Exchange Rate on March 31, 2010. See “Risk Factors—Risks Relating to Mexico— Depreciation or fluctuation of the Peso relative to the U.S. dollar and other currencies can adversely affect our results of operations and financial condition” and “Exchange Rates and Currency.”
- (2) Determined on an annualized basis, based on beginning and end-of-period balances.
- (3) Represents financial margin divided by average interest-earning assets. Average interest-earning assets are determined based on daily monthly averages.
- (4) Efficiency ratio is equal to total selling, general and administrative expenses as a percentage of the aggregate of financial margin and non-interest income. For this purpose, financial margin and non-interest income are calculated before provision for loan losses.
- (5) Refers to our loan portfolio classified pursuant to the General Rules Applicable to Mexican Banks. Under applicable regulations, such classification is determined by reference to our loan portfolio at the end of the preceding quarter. See “Selected Statistical Information—Grading of Loan Portfolio.”
- (6) Corresponds to end-of-period balance, which is different from guidelines prescribed by the CNBV regarding calculation of required additional reserves. See “Selected Statistical Information—Allowance for Loan Losses.”

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with our Financial Statements, together with the Notes thereto, included elsewhere in this offering circular. Our Financial Statements have been prepared in accordance with Mexican Banking GAAP, which differs in certain significant respects from MFRS and U.S. GAAP. See "Significant Differences Between Mexican Banking GAAP and U.S. GAAP" for a discussion of significant differences between Mexican Banking GAAP and U.S. GAAP. No reconciliation of any of our Financial Statements to U.S. GAAP has been performed. Any such reconciliation would likely result in material quantitative differences. See "Presentation of Certain Financial and Other Information" and "Risk Factors—Risks Relating to Our Business—The Financial Statements included in this offering circular have been prepared and are presented in accordance with Mexican Banking GAAP, which is significantly different from U.S. GAAP."

Mexican Economic Environment

GDP grew by 3.5% in 2007, the lower pace compared to the previous year is mainly attributable to lower external demand. On the other hand, the lower growth of all internal demand components in 2007, influenced by weaker wage mass and lower remittances from the United States, negatively affected private consumption. In 2007, headline inflation grew 3.8% on an annual basis, influenced by international prices of commodities. However, inflation expectations stayed stable slightly above the 3% Banco de México target.

During 2008, the international environment imposed particularly adverse conditions upon Mexico. External demand suffered an important deterioration driven by the relation of external demand to the manufacturing sector. During the last quarter of 2008, the weaker external demand also affected internal demand, where lower investment and consumption were observed. GDP growth was 1.4% during 2008 and several supply side shocks that affected price level were observed. The most important shocks were to international prices of food and energy commodities. From September onwards, there were important pressures related to the exchange rate. Annual headline inflation at the end of 2008 was 6.53%.

During 2009, the world economy experienced the sharpest decline in decades. Given its important commercial ties with the economy of the United States, Mexico suffered the sharpest decline in its GDP since 1932, with an annual GDP growth rate of (6.5)%. The deep deterioration of external demand implied a drastic decline in 2010 on Mexican exports linked to key sectors such as automotive and electrical equipment industries. Mexico was affected throughout its financial sector by considerable volatility. On the inflation side, economic slowdown as well as mitigation of past supply side shocks influenced the inflation pressures to ease. Inflation rate ended 2009 at an annual rate of 3.57%.

Even though there are some indicators as to a probable economic recovery in 2010, the consequences of the worldwide financial crisis that commenced in 2008 continue to affect our operating performance, as evidenced by a reduced financial margin due to decreased interest income and increased reserves, primarily based on the impairment of credit card loans. See note 2 to our audited consolidated financial statements included elsewhere in this offering circular.

Effect of Tax Legislation

The Mexican Income Tax Law (*Ley del Impuesto sobre la Renta*) was amended in December 2009 (effective January 1, 2010), which primarily impacted us by providing for an annual increase in the income tax rate from 28% for 2007, 2008 and 2009, to 30% for 2010. According to the last amendments the income tax rate will remain at 30% for 2010, 2011 and 2012, and will decrease to 29% for 2013 and 28% for 2014 and future periods.

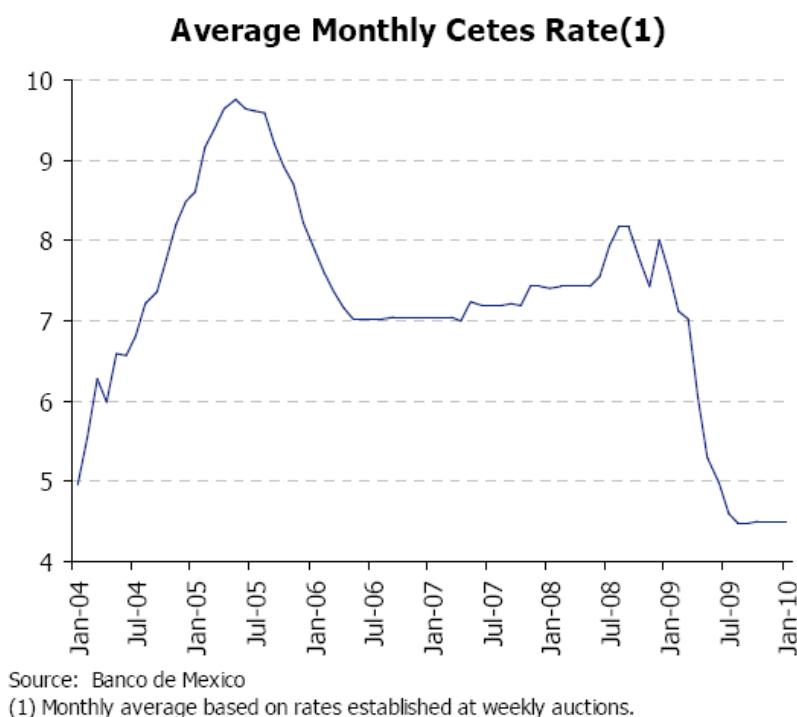
On October 1, 2007, the Business Flat Tax Law ("IETU Law") was enacted and provided for a new flat rate business tax, or IETU (*Impuesto Empresarial a Tasa Única*). The IETU Law went into effect on January 1, 2008. According to this law, revenues, deductions and certain tax credits for each year are determined based on cash flows for each year. The established rates are 17.0% and 16.5% for 2009 and 2008, respectively, and 17.5% for 2010 and future periods. This law supersedes the Asset Tax Law (*Ley del Impuesto al Activo*), allowing, under certain circumstances, the recovery of taxes paid in the ten immediately preceding years to that in which income tax is paid under the terms of such tax provisions.

Current income tax is the higher of the regular income tax and the IETU. Based on financial projections, and according to INIF 8 (*Interpretación a las Normas de Información Financiera 8*), issued by the CINIF, in the section "Effects of the New Flat Rate Business Tax," we determined we will be subject to regular income tax in the future, and therefore only recognize deferred regular income tax.

Effects of Changes in Interest Rates

Interest rate fluctuations in Mexico have a significant effect on our interest income, interest expense and trading income. Changes in market interest rates may lead to temporary repricing gaps between our interest-earning assets and our interest-bearing liabilities. Most of our interest-earning assets and interest-bearing liabilities carry floating interest rates or are subject to frequent repricing. Upward or downward adjustments of the interest rates on our assets and liabilities generally occur approximately every 28 days. The repricing generally limits the effects of net exposures that regularly occur upon movements in interest rates. See “Selected Statistical Information—Interest Rate Sensitivity of Assets and Liabilities.” In addition, sustained high interest rate environments have historically discouraged customers from borrowing and have resulted in increased delinquencies in outstanding loans and in a deterioration of asset quality.

During the periods discussed below, the benchmark market interest rate in Mexico was the annual interest rate paid in connection with primary offerings of *Certificados de la Tesorería de la Federación* (“CETES”), which are Mexican government peso-denominated treasury bills, with 28-day maturities.



During 2007, excess liquidity in global markets and a strong appetite for risk positively influenced Mexican financial markets. The CETES rate ranged between 7.0% and 7.4%, with an average rate of 7.2% for the year.

During 2008, in the face of continued inflationary pressures, Banco de México raised its reference rate 25bp in three consecutive meetings (from June to August) to prevent second round effects on inflation expectations. In September of that year, the financial crisis unfolded causing an abrupt increase in risk-aversion, thus affecting domestic financial variables significantly, especially the exchange rate level and long-term interest rates. The CETES rate ranged between 7.1% and 8.2%, with an average rate of 7.7% for the year.

During 2009, the performance of financial markets in Mexico responded to global factors, benefiting from the rally in risky assets that began in March. However, Mexico's close links with the economy of the United States, along with uncertainties on the fiscal front, caused a negative differentiation of Mexican financial variables, particularly the Peso, which appreciated by a significantly lower proportion versus the U.S. dollar than most currencies. In the face of the sharpest economic recession since 1995, Banco de México reduced rates decisively to a 4.5% level—taking real rates to a negative level for the first time in an easing monetary policy cycle. The CETES rate ranged between 4.5% and 8.0%, with an average rate of 5.4% for the year.

Effects of Changes in the Rate of Inflation and the Conversion into UDI-denominated Loans

There was a significant decrease in the inflation rate in Mexico in 2009. The annual rate of inflation was 3.8% in 2007, 6.5% in 2008 and 3.6% in 2009. In the first three months of 2010, the annual rate of inflation was 2.4%. Effective January 1, 2008, we adopted MFRS B-10, “Effects of Inflation.” Based on this standard, subsequent to such date, we have no longer recognized the effects of inflation in our financial statements, given that such periods have not been inflationary. Accordingly, our financial information through December 31, 2007 is stated in Pesos in purchasing power as of December 31, 2007. The financial information as of December 31, 2008 and 2009, and the financial information for the years ended December 31, 2008 and 2009, is not directly comparable to prior periods due to the recognition of inflation effects in financial information in prior periods.

As part of the Mexican government’s debt restructuring program for borrowers facing cash flow constraints, we, along with other commercial banks in Mexico, converted a substantial amount of non-performing Peso-denominated loans into UDI-denominated loans. As described more fully in “Selected Statistical Information—Debtor Support Programs—UDI Program,” UDIs are a unit of account created by the Mexican government that expresses in Pesos, at any given time, the principal amount of financial transactions as adjusted for inflation. A substantial portion of the UDI-denominated loans created pursuant to this program were written off in 2009.

In the early years of a UDI-denominated loan, interest payments are generally lower than interest payments on a comparable Peso-denominated loan. Interest payments on a UDI-denominated loan reflect only the real component of interest rates as they are paid on a principal amount that is adjusted for inflation. In later years, however, interest payments on a UDI-denominated loan are generally higher than on a comparable Peso-denominated loan because of the increase in Peso terms in the value of a UDI. It is believed that borrowers should generally be better able to meet their future interest payment obligations on a UDI-denominated loan than on a Peso-denominated loan. This is because interest rates on UDI-denominated loans are fixed, while their principal amount is adjusted to reflect the effects of inflation. In the case of mortgage loans, we believe that the conversion into UDI-denominated loans increases the probability of a borrower being able to meet his or her interest payment obligations as borrowers’ income levels generally are expected to increase in line with inflation. There can be no assurance, however, that the assumptions underlying the ability of borrowers to repay UDI-denominated loans will be met in the future. For instance, if income levels do not increase with inflation, the ability of the borrower to repay the principal amount of the loan at maturity is reduced, as the principal amount of UDI-denominated loans increases with inflation.

Government Sponsored Support Programs

The adverse economic conditions in Mexico that began in late 1994 and continued into 1995 significantly impacted our business, financial position and results of operations. We responded to these conditions by participating in various Mexican government support programs, including *Fondo Bancario de Protección al Ahorro* (“FOBAPROA”) and IPAB, under which we transferred a portion of our loan portfolio to the Mexican government and committed to increase our capital levels through a capitalization program. See “Supervision and Regulation—IPAB” for a more complete description of these support programs. The Mexican government satisfied all of its obligations to us pursuant to these two programs on or prior to June 2006.

Critical Accounting Policies

We have identified certain key accounting policies on which our financial position and results of operations are dependent. These key accounting policies generally involve complex quantitative analyses or are based on subjective judgments or decisions. In the opinion of management, our most critical accounting policies under Mexican Banking GAAP are those described further below. For a further description of our significant accounting policies, see the notes to our audited consolidated financial statements, which are included elsewhere in this offering circular.

Allowance for Loan Losses

Our allowance for loan losses is maintained in accordance with the rules for the classification and rating of loan portfolios of Mexican banks and the creation of related reserves (the “Loan Classification and Rating Rules”) set forth under the General Rules Applicable to Mexican Banks, which require that the commercial portfolio must be rated every three months and that the consumer loan and mortgage loan portfolios must be rated every month.

The allowance for loan losses for our commercial loan portfolio is calculated primarily based on the classification of the loans into prescribed categories. To calculate our commercial loan loss reserve, the Loan Classification and Rating Rules require that we follow a methodology that incorporates an evaluation of the borrower’s ability to repay its loan and of the related collateral and guarantees in the loan’s rating analysis to estimate a probable loss and define the percentage of necessary reserves.

The Loan Classification and Rating Rules allow us to use our own methodology following certain parameters to assign a risk rating to each borrower. This methodology is subject to the annual review of the CNBV. The CNBV initially approved our methodology on November 27, 2008, effective on December 1, 2008 for a two-year period. Under our methodology, we are required to classify at least 100% of the aggregate balance of our commercial loans, including all loans with an outstanding balance equal to or greater than 4,000,000 UDIs, as of the classification date. If our analysis of the classification of a commercial loan changes from period to period, then the calculation of the amount of our loan loss reserve will adjust accordingly.

For individual loans, including credit card, mortgage and other consumer loans, the loan loss reserve is determined in accordance with a classification based solely on the non-performing status for such loans and prescribed loan loss rates for such classifications. The ratings for these types of loans are performed on a monthly basis.

The determination of the allowance for loan losses, particularly for commercial loans, requires management's judgment. The loan loss reserve calculation that results from using the estimated and prescribed loss percentages may not be indicative of future losses. See "Selected Statistical Information—Grading of Loan Portfolio" and "—Allowance for Loan Losses." Differences between the estimate of the loan loss reserve and the actual loss will be reflected in our financial statements at the time of charge-off.

Because of the changing conditions of our borrowers and the markets in which we operate, it is possible that significant adjustments to the loan loss reserve for changes in estimates of the collectability of loans will be made in the short term.

Reserve for Doubtful Accounts

Estimates are used in determining our allowance for bad debts and are based on our historical collection experience, current trends, credit policy and a percentage of our other accounts receivable by aging category. In determining these percentages, we look at historical write-offs of these receivables in addition to current trends in the credit quality of our customer base as well as changes in credit policies.

Fair Value of Financial Instruments

Financial instruments, including securities and derivatives, included in our portfolio are recorded at fair value. Fair values are based on listed market prices, where possible. If listed market prices are not available or if the liquidation of our positions would reasonably be expected to impact market prices, fair value is determined based on other relevant factors, including dealer price quotations and price quotations for similar instruments traded in different markets, including markets located in different geographic areas. Fair values for certain derivative contracts are derived from pricing models that consider current market and contractual prices for the underlying financial instruments or commodities, as well as time value and yield curve or volatility factors underlying the positions.

Pricing models and their underlying assumptions impact the amount and timing of unrealized gains and losses recognized, and the use of different pricing models or assumptions could produce different financial results. Changes in the fixed income, equity, foreign exchange and commodity markets will impact management's estimates of fair value in the future, potentially affecting our results of operations. To the extent financial contracts have extended maturity dates, management's estimates of fair value may involve greater subjectivity due to the lack of transparent market data available upon which to base modeling assumptions. The illiquid nature of certain securities or debt instruments (such as certain equity securities, securitization transaction receivables and structured notes) also require a high degree of judgment in determining fair value due to the lack of listed market prices and the potential impact of the liquidation of our position on market prices, among other factors.

Investments in Securities

According to its intent, from the date of acquisition we classify investments in debt and equity securities in one of the following categories: (1) trading securities—when we intend to trade debt and equity instruments in the short-term, prior to maturity, if any—which are stated at fair value and any value fluctuations are recognized within current earnings; (2) held-to-maturity securities—when we intend to, and are financially capable of, holding such investments until maturity—which are recognized and maintained at amortized cost; and (3) available-for-sale securities—investments that are classified neither as trading nor held-to-maturity—which are stated at fair value and any unrealized gains or losses, net of income taxes, are recorded as a component of comprehensive income (loss) within stockholders' equity, and reclassified to current earnings upon their sale. As mentioned above, fair value is determined using prices quoted on recognized markets. If such securities are not traded, fair value is determined by applying technical valuation models recognized in the financial sector.

Investments in securities classified as held-to-maturity and available-for-sale are subject to impairment tests. If there is evidence the securities are impaired, such impacts are recognized in current earnings.

Acquired Loan Portfolios

Acquired loan portfolios are represented by the acquisition cost of the various loan asset packages acquired by us, which are subsequently valued by applying one of the three following methods:

- (1) Cost Recovery Method. Payments received are applied against the acquisition cost of the loan portfolio until the balance equals zero. Recoveries in excess of the acquisition cost are recognized in current earnings.
- (2) Cash Basis Method. The amount resulting from multiplying the estimated yield rate times the amount actually collected is recorded in the income statement, provided it is not greater than the amount obtained by the interest method. The difference between the recorded amount and the amount collected reduces the outstanding portfolio balance, once the entire initial investment has been amortized. Any subsequent recovery will be recorded in the income statement.
- (3) Interest method. The result of multiplying the acquired portfolio's outstanding balance by the estimated yield is recorded in current earnings. Differences between our collection estimates and actual collections are reflected prospectively in the estimated yield.

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

Foreclosed Assets

We record assets repossessed at the value at which they were judicially adjudicated by the applicable court. If the book value of the loan to be foreclosed on the date of foreclosure is lower than the value of the repossessed asset as judicially determined, we adjust the value of the asset to the book value of the loan. We record assets received as payment in kind at the lower of either the appraised value or the book value of the loan on which payment in kind is made. Our estimates of fair values of such repossessed assets may consider external and internal bank-prepared appraisals. These appraisals are based on assumptions concerning market conditions and assume an ability to dispose of the assets in a reasonable time period. Should our assumptions regarding market conditions change, we would adjust our estimates of the fair value of our repossessed asset portfolio accordingly. Foreclosed assets are subsequently reviewed for impairment and adjusted based on a methodology approved by the CNBV, which is based on the number of days we have held the asset.

Impairment of Goodwill, Intangible and Other Long-Lived Assets

Goodwill and indefinite-lived intangible assets are not amortized but are instead tested for impairment on at least an annual basis, or more frequently if events or changes in circumstances indicate that the asset might be impaired, utilizing fair value estimates. Such fair value estimates are based on valuation models that typically incorporate probability assessments of expected future cash flows. The cost of intangible assets with finite and determinable useful lives are amortized to reflect the pattern of economic benefits consumed, principally on a straight-line basis over the estimated useful lives.

Property, plant and equipment and other long-lived assets are amortized over their useful lives. Useful lives are based on management's estimates of the period that the assets will generate revenue. Management reviews the carrying amounts of long-lived assets in use when an impairment indicator suggests that such amounts might not be recoverable, considering the greater of the present value of future net cash flows and the net sales price upon disposal. Impairment is recorded when the carrying amounts exceed the greater of the aforementioned amounts. Impairment indicators considered for these purposes are, among others, operating losses or negative cash flows in the period if they are combined with a history or projection of losses, depreciation and amortization charged to results, which in percentage terms in relation to revenues are substantially higher than that of previous years, obsolescence, reduction in the demand for the services rendered, competition and other legal and economic factors.

Employee Retirement Obligations

Our employee retirement obligations include employee pension plans, seniority premium benefits and severance indemnities at the end of the work relationship. The determination of our obligations and expenses is dependent on our selection of certain assumptions used by actuaries in calculating such amounts. We evaluate our assumptions at least annually. Those assumptions are described in Note 23 to our audited consolidated financial statements and include the expected return on plan assets, discount rate and rate of increase in compensation costs. Our assumptions depend on Mexico's economic circumstances.

In accordance with Mexican Banking GAAP, actual results that differ from our assumptions (actuarial gains or losses) are accumulated and amortized over future periods and, therefore, generally affect our recognized expenses and recorded obligations in these future periods. While we believe that our assumptions are appropriate, significant differences in our actual experience or significant changes in our assumptions may materially affect our employee retirement obligations and our future expenses.

Results of Operations—First Three Months of 2010 Compared to First Three Months of 2009

Financial Margin

Financial margin decreased to Ps.5,355 million for the first three months of 2010 compared to Ps.5,979 million for the first three months of 2009, a decrease of Ps.624 million, or 10.44%. This decrease was the net result of a decline in our interest income of Ps.3,115 million, or 24.24%, for the first three months of 2010 compared to the first three months of 2009, which was partially offset by a decline in our interest expense of Ps.2,491 million, or 36.24%, in the comparable periods.

In terms of margins, our average interest rate earned on interest-earning assets for the first three months of 2010 was 7.22% and the average interest rate paid on interest-bearing liabilities was 3.80%, resulting in a yield spread of 3.42%. Our average interest rate earned on interest-earning assets for the first three months of 2009 was 9.34% and the average interest rate paid on interest-bearing liabilities was 5.74%, resulting in a yield spread of 3.60%.

The following table sets forth the components of our financial margin for the periods indicated:

	For the three months ended March 31,	
	2010	2009
	(Ps. millions)	
INTEREST INCOME:		
Interest on loans	6,258	7,347
Fees on loans(1)	159	150
Interest on cash and cash equivalents and securities	3,190	5,210
Interest on repurchase operations(2).....	130	145
UDI valuation(5)	—	—
Foreign exchange valuation(3)	—	—
Total interest income	9,737	12,852
INTEREST EXPENSE:		
Interest on deposits and funding	2,050	2,953
Interest on repurchase operations(4).....	2,268	3,883
UDI valuation (5)	32	18
Foreign exchange valuation (3)	4	19
Fees paid(6).....	28	—
Total interest expense	4,382	6,873
Monetary loss, net	—	—
Financial margin	5,355	5,979

- (1) Fees on loans represent fees generated in connection with the issuance, renewal, draw-down or prepayment of a loan that is recorded as interest income in accordance with Mexican Banking GAAP.
- (2) Interest income on repurchase operations represents interest income on securities purchased pursuant to our agreements to resell, in accordance with Mexican Banking GAAP.
- (3) Foreign exchange valuation represents the net changes in the foreign exchange valuation that are recorded as interest income or interest expense depending on the net effect, in accordance with Mexican Banking GAAP.

- (4) Interest expense on repurchase operations represents interest expense on securities sold under agreements to repurchase, in accordance with Mexican Banking GAAP.
- (5) UDI valuation represents part of the effect from changes in the inflation rate on UDI-denominated liabilities that are recorded in interest expense and UDI-denominated assets that are recorded in interest income, as the case may be, in accordance with Mexican Banking GAAP.
- (6) Fees paid represent fees incurred in connection with our withdrawal, renewal and drawing down of loans that are recorded as interest expense in accordance with Mexican Banking GAAP.

Interest Income

Our interest income was Ps.9,737 million for the first three months of 2010 compared to Ps.12,852 million for the first three months of 2009, a decrease of Ps.3,115 million, or 24.24%. This reduction was the result of a decrease in the average interest rate earned on interest-earning assets and a decrease in the average balance of these assets. There was a 212 basis point decrease in the average interest rate earned on interest-earning assets from 9.34% for the first three months of 2009 to 7.22% for the first three months of 2010. There was a 1.99% decrease in the average balance of interest-earning assets from Ps.550,434 million for the first three months of 2009 to Ps.539,673 million for the first three months of 2010. The decrease in the average rate earned reflected the lower level of average market interest rates and the shift to lower yielding interest-earning assets. The rate on 28-day Mexican interbank rate (*Tasa de Interés Interbancaria de Equilibrio*, or “TIIIE”) averaged 4.92% for the first three months of 2010, 308 basis points lower than the 8.00% average rate for the first three months of 2009. The average balance of interest-earning assets decreased primarily as a result of declines in consumer and SME loans and investments in securities offset in part by an increase in government and mortgage loans. As a result of our decline in the average balance of higher interest-earning assets from consumer to government loans, for example, our average interest rates on interest-earning assets also declined.

Interest on loans was Ps.6,258 million (or 64.27% of interest income) for the first three months of 2010 compared to Ps.7,347 million (or 57.17% of interest income) for the first three months of 2009, a decrease of Ps.1,089 million, or 14.82%. This decrease was primarily the result of a decline in consumer and SME loans as well as lower interest rates charged.

Fees on loans were Ps.159 million (or 1.63% of interest income) for the first three months of 2010 compared to Ps.150 million (or 1.16% of interest income) for the first three months of 2009, an increase of Ps.9 million, or 6.00%. This increase was primarily the result of new restructuring activities in respect of commercial loans.

Interest income from cash and cash equivalents and securities was Ps.3,190 million (or 32.76% of interest income) for the first three months of 2010 compared to Ps.5,210 million (or 40.54% of interest income) for the first three months of 2009, a decrease of Ps.2,020 million, or 38.77%. This decrease was primarily due to a decline in the average interest rate earned on cash and cash equivalents and securities and a decline in the average balance of securities offset in part by an increase in the average balance of cash and cash equivalents for the first three months of 2010 compared to the corresponding period in 2009.

Interest income from repurchase operations was Ps.130 million (or 1.34% of interest income) for the first three months of 2010 compared to Ps.145 million (or 1.13% of interest income) for the first three months of 2009, a decrease of Ps.15 million, or 10.34%. This decrease was primarily due to a lower volume of repurchase operations in the first three months of 2010 compared to the corresponding period in 2009.

Interest Expense

Interest expense was Ps.4,382 million for the first three months of 2010 compared to Ps.6,873 million for the first three months of 2009, a decrease of Ps.2,491 million, or 36.24%. This reduction was the result of a decrease in the average interest paid on interest-bearing liabilities, and a decline in the average balance of interest-bearing liabilities. Our average interest rate paid on interest-bearing liabilities decreased by 194 basis points from 5.74% for the first three months of 2009 to 3.80% for the first three months of 2010, and our average balance of these liabilities decreased by 3.63% from Ps.479,129 million for the first three months of 2009 to Ps.461,716 million for the first three months of 2010. The decrease in the average rate paid on interest-bearing liabilities was a function of a general decline in market interest rates in the first three months of 2010 compared to the corresponding period in 2009. The rate on 28-day CETES averaged 4.47% for the first three months of 2010, 278 basis points lower than the 7.25% average rate for the first three months of 2009. The average balance of interest-bearing liabilities decreased primarily as the result of a decrease in bank loans.

Interest on deposits and funding was Ps.2,050 million (or 46.78% of interest expense) for the first three months of 2010 compared to Ps.2,953 million (or 42.97% of interest expense) for the first three months of 2009, a decrease of Ps.903 million, or 30.58%. This decrease was the result of a decline in the average interest rates paid on interest-bearing liabilities.

Interest expense from repurchase operations was Ps.2,268 million (or 51.76% of interest expense) for the first three months of 2010 compared to Ps.3,883 million (or 56.50% of interest expense) for the first three months of 2009, a decrease of Ps.1,615 million, or 41.59%. This decrease was the result of the lower volume of repurchase operations in the first three months of 2010 compared to the corresponding period in 2009.

Provisions

Provisions for loan losses charged against earnings were Ps.1,746 million for the first three months of 2010 compared to Ps.2,144 million for the first three months of 2009, a decrease of Ps.398 million, or 18.56%, primarily due to lower reserve requirements in effect in respect of all segments of the consumer loan portfolio, particularly for credit cards and mortgages.

The allowance for loan losses as a percentage of non-performing loans increased to 121.24% as of March 31, 2010 from 109.24% on March 31, 2009. The increase in the ratio of allowance for loan losses to non-performing loans reflects the increases in allowance for loan losses mandated by the CNBV in respect of expected credit card losses over the following twelve months and to a lesser extent the impact of a decrease in the rate of write-offs compared to the rate of new provisions for credit cards, commercial and mortgage loans during the first three months of 2010.

Non-Interest Income

The following table sets forth the components of our non-interest income for the periods indicated:

	For the three months ended March 31,	
	2010	2009
	(Ps. millions)	
COMMISSIONS AND FEES:		
Fund transfers.....	57	60
Account management	224	230
Fiduciary	65	51
Credit card.....	616	590
Income from real estate loan portfolios acquired and other investment projects.....	195	137
Electronic banking services	263	250
Other commissions and fees	597	456
Total commissions and fees income.....	2,017	1,774
Commission and fee expense	(371)	(306)
Net commissions and fees	<u>1,646</u>	<u>1,468</u>
BROKERAGE REVENUES:		
Foreign exchange gains	189	360
Realized gains (losses) on securities	184	(25)
Unrealized gains (losses) on securities.....	<u>133</u>	<u>(133)</u>
Total brokerage revenues, net.....	506	202
Other revenues	<u>285</u>	<u>237</u>
Total non-interest income	<u>2,437</u>	<u>1,907</u>

Total non-interest income was Ps.2,437 million for the first three months of 2010 compared to Ps.1,907 million for the first three months of 2009, an increase of Ps.530 million, or 27.79%, primarily due to an increase in income from real estate loan portfolios acquired and other investment projects, other commissions and fees, both realized and unrealized gains on securities and other revenues.

Net commissions and fees earned were Ps.1,646 million for the first three months of 2010 compared to Ps.1,468 million for the first three months of 2009, an increase of Ps.178 million, or 12.13%, mainly due to an increase in other commissions and fees, income from real estate loan portfolios acquired and other investment projects, and to a lesser extent, credit card fees due to higher transaction volume.

Fees from fund transfers were Ps.57 million (or 2.83% of total commission and fee income) for the first three months of 2010 compared to Ps.60 million (or 3.38% of total commission and fee income) for the same period in 2009, a decrease of Ps.3 million or 5.00%. This decrease was due to a lower volume of fund transfer fees.

Fees from account management were Ps.224 million (or 11.11% of total commission and fee income) for the first three months of 2010 compared to Ps.230 million (12.97% of total commission and fee income) for the same period in 2009, a decrease of Ps.6 million, or 2.61%. This decrease was due to a reduction in account management service fees charged to customers as a result of changes in regulation that prohibited the assessment of overdraft fees adopted in the third quarter of 2009.

Fees from fiduciary services were Ps.65 million (or 3.22% of total commission and fee income) for the first three months of 2010 compared to Ps.51 million (or 2.87% of total commissions and fees income) for the first three months of 2009, an increase of Ps.14 million, or 27.45%. This increase was primarily the result of an increase in the volume of fiduciary services for the first three months of 2010 compared to the same period in 2009.

Credit card fees were Ps.616 million (or 30.54% of total commission and fee income) for the first three months of 2010 compared to Ps.590 million (or 33.26% of total commissions and fees income) for the first three months of 2009, an increase of Ps.26 million, or 4.41%. The higher level of credit card fees charged during the first three months of 2010 was primarily the result of a higher level of usage of credit cards by our customers.

Fees from real estate loan portfolios acquired and other investment projects were Ps.195 million (or 9.67% of total commission and fee income) for the first three months of 2010 compared to Ps.137 million (or 7.72% of total commissions and fees income) for the first three months of 2009, an increase of Ps.58 million, or 42.34%. This increase was primarily the result of the increase in revenues from investment projects by Sólida, our recovery bank services subsidiary, in the first three months of 2010 compared to lower revenues on such investment projects for the same period in 2009.

Fees from electronic banking services were Ps.263 million (or 13.04% of total commission and fee income) for the first three months of 2010 compared to Ps.250 million (or 14.09% of total commissions and fees income) for the first three months of 2009, an increase of Ps.13 million, or 5.20%. This increase was primarily the result of the increase in the number of clients using electronic banking services and increases in number of ATMs and point of sale terminals ("POSS").

Other commissions and fees were Ps.597 million (or 29.60% of total commission and fee income) for the first three months of 2010 compared to Ps.456 million (or 25.70% of total commission and fee income) for the first three months of 2009, an increase of Ps.141 million, or 30.92%. This increase was primarily the result of an increase in fees from letters of credit, insurance policies and other transaction fees.

Commission and fee expense was Ps.371 million for the first three months of 2010 compared to Ps.306 million for the first three months of 2009, an increase of Ps.65 million, or 21.24%. This increase was mainly due to an increase in interchange fees in respect of POSs and fees related to ATM transactions paid to other banking institutions.

Brokerage revenues were Ps.506 million for the first three months of 2010 compared to Ps.202 million for the first three months of 2009, an increase of Ps.304 million, or 150.50%. This increase was due to increases in both realized and unrealized gains on securities, offset by a decrease in foreign exchange gains. Foreign exchange gains were Ps.189 million for the first three months of 2010 compared to Ps.360 million for the first three months of 2009, a decrease of Ps.171 million, or 47.50%, due primarily to a decrease in volume of foreign exchange operations and a decrease in volatility in the Peso-U.S. dollar exchange rate. We recorded unrealized gains on securities of Ps.133 million in the first three months of 2010 compared to unrealized losses on securities of Ps.133 million in the first three months of 2009, which was attributable principally to mark-to-market gains on our debt securities resulting from a decline in interest rates. We also recorded an increase in realized gains on securities of Ps.184 million for the first three months of 2010 compared to realized losses on securities of Ps.25 million for the first three months of 2009, an increase of Ps.209 million, which was attributable principally to gains realized on the sale of securities.

Selling, General and Administrative Expenses

The following table sets forth the components of our selling, general and administrative expenses for the periods indicated:

	For the three months ended March 31,	
	2010	2009
	(Ps. millions)	
Salaries and employee benefits.....	1,681	1,652
Employee profit sharing	210	199
Professional fees	306	333
Leases.....	196	207
Promotional expenses	169	224
Other administrative and operational expenses.....	778	944
Taxes other than income taxes.....	206	206
Contribution to IPAB.....	263	267
Depreciation and amortization.....	223	153
Corporate expense recoveries.....	(54)	(53)
Total selling, general and administrative expenses.....	3,978	4,132

Selling, general and administrative expenses were Ps.3,978 million for the first three months of 2010 compared to Ps.4,132 million for the first three months of 2009, a decrease of Ps.154 million, or 3.73%. This decrease was primarily the result of lower other administrative and operational expenses and professional fees.

Salaries and employee benefits, the largest component of selling, general and administrative expenses, were Ps.1,681 million (or 42.26% of selling, general and administrative expenses) for the first three months of 2010 compared to Ps.1,652 million (or 39.98% of selling, general and administrative expenses) for the first three months of 2009, an increase of Ps.29 million, or 1.76%. This increase was primarily the result of an increase in the amount of retirement and other employee benefits as a result of actuarial adjustments.

Leases were Ps.196 million (or 4.93% of selling, general and administrative expenses) for the first three months of 2010 compared to Ps.207 million (or 5.01% of selling, general and administrative expenses) for the first three months of 2009, a decrease of Ps.11 million, or 5.31%. This decrease was the result of a decrease in leased computers and equipment due to pre-payments of such leasing contracts.

Other administrative and operational expenses were Ps.778 million (or 19.56% of selling, general and administrative expenses) for the first three months of 2010 compared to Ps.944 million (or 22.85% of selling, general and administrative expenses) for the first three months of 2009, a decrease of Ps.166 million, or 17.58%. This decrease was primarily the result of a decline in the purchase of credit card supplies and decrease in deferred expenses in connection with Banorte's client loyalty program.

Our contribution to IPAB was Ps.263 million (or 6.61% of selling, general and administrative expenses) for the first three months of 2010 compared to Ps.267 million (or 6.46% of selling, general and administrative expenses) for the first three months of 2009, a decrease of Ps.4 million, or 1.50%. This decrease was primarily the result of lower average balances of deposits in the first three months of 2010.

Depreciation and amortization expenses were Ps.223 million (or 5.61% of selling, general and administrative expenses) for the first three months of 2010 compared to Ps.153 million (or 3.70% of selling, general and administrative expenses) for the first three months of 2009, an increase of Ps.70 million, or 45.75%. This increase was primarily the result of an increase in assets subject to depreciation, including furniture and computers and an increase in the amount of amortized expenses in connection with new branches.

Other Income and Expenses, Net

Other income includes, among other things, interest income from loans to employees and other miscellaneous income and non-operating gains. Other expenses include miscellaneous losses and write-offs. The net amount of other income and expenses resulted in a net gain of Ps.19 million for the first three months of 2010 compared to net gain of Ps.412 million for the first three months of 2009, a decrease of Ps.393 million, or 95.39%. This decrease was primarily due to the effect of

non-recurring extraordinary income recognized in 2009 as a result of the revaluation of our securitized government and mortgage loan portfolio pursuant to accounting requirements issued by the CNBV and, to a lesser extent, a reduction in revenues from recoveries related to acquired portfolios.

Income Taxes

Current income tax was Ps.540 million for the first three months of 2010 compared to Ps.234 million for the first three months of 2009, an increase of Ps.306 million, or 130.77%. This increase was due mainly to an increase in loan loss reserves above the 2.5% deductible fiscal limit and also the increase in other non-deductible reserves. Both types of provisions are considered temporarily non-deductible, thus directly impacting the base for the calculation of current income tax.

Deferred income taxes represented an expense of Ps.82 million for the first three months of 2010 compared to an expense of Ps.316 million for the first three months of 2009, a difference of Ps.234 million as a result of the temporary non-deductible provisions explained in the paragraph above.

The net increase for current and deferred taxes is Ps.72 million. This increase was primarily due to an increase in the income tax rate from 28% to 30% and the increase in income before tax.

Equity in Earnings of Subsidiaries and Associated Companies

Our equity in earnings of subsidiaries and affiliates was Ps.20 million for the first three months of 2010 compared to Ps.(1) million for the first three months of 2009. This increase was primarily due to the increase in the net income of Banorte Generali, S.A. de C.V. Afore, our retirement fund affiliate.

Net Income

Net income was Ps.1,435 million for the first three months of 2010 compared to Ps.1,418 million for the first three months of 2009, an increase of Ps.17 million, or 1.20%, due to the results of our operations discussed above.

Results of Operations—2009 Compared to 2008

Financial Margin

Financial margin was Ps.22,406 million for 2009 compared to Ps.21,747 million for 2008, an increase of Ps.659 million, or 3.03%. This increase was the result of a decrease in interest expense of Ps.5,308 million, or 19.76%, which more than offsets a decrease in our interest income by Ps.4,649 million, or 9.56%, for 2009 compared to 2008.

In terms of margins, our average interest rate earned on interest-earning assets for 2009 was 7.64% and the average interest rate paid on interest-bearing liabilities was 4.50%, resulting in a yield spread of 3.14%. Our average interest rate earned on interest-earning assets for 2008 was 9.87% and the average interest rate paid on interest-bearing liabilities was 6.20%, resulting in a yield spread of 3.67%.

The following table sets forth the components of our financial margin for the years indicated:

	For the year ended December 31,	
	2009	2008
	(Ps. millions)	
INTEREST INCOME:		
Interest on loans	26,786	27,021
Fees on loans(1)	578	516
Interest on cash and cash equivalents and securities.....	16,216	20,268
Interest on repurchase operations(2)	376	793
UDI valuation(5).....	—	—
Foreign exchange valuation(4)	—	7
Total interest income	43,956	48,605
INTEREST EXPENSE:		
Interest on deposits and funding.....	9,984	10,907
Interest on repurchase operations(3)	11,463	15,874

UDI valuation(5).....	54	77
Foreign exchange valuation(4).....	16	—
Fees paid(6).....	33	—
Total interest expense	21,550	26,858
Monetary (loss) gain, net	—	—
Financial margin	22,406	21,747

- (1) Fees on loans represent fees generated in connection with the issuance, renewal, draw-down or prepayment of a loan that is recorded as interest income in accordance with Mexican Banking GAAP.
- (2) Interest income on repurchase operations represents interest income on securities purchased pursuant to our agreements to resell in accordance with Mexican Banking GAAP.
- (3) Interest expense on repurchase operations represents interest expense on securities sold under agreements to repurchase in accordance with Mexican Banking GAAP.
- (4) Foreign exchange valuation represents the net changes in the foreign exchange valuation that are recorded as interest income or interest expense depending on the net effect in accordance with Mexican Banking GAAP.
- (5) UDI valuation represents part of the effect from changes in the inflation rate on UDI-denominated liabilities that are recorded in interest expense and UDI-denominated assets that are recorded in interest income, as the case may be, in accordance with Mexican Banking GAAP.
- (6) Fees paid represent fees incurred in connection with our withdrawal, renewal and drawing down of loans that are recorded as interest expense in accordance with Mexican Banking GAAP.

Interest Income

Our interest income was Ps.43,956 million for 2009 compared to Ps.48,605 million for 2008, a decrease of Ps.4,649 million, or 9.56%. This decrease was the result of a decrease in the average interest rate earned on interest-earning assets offset in part by an increase in the average balance of interest-earning assets. There was a 223 basis point decrease in the average interest rate earned on interest-earning assets from 9.87% for 2008 to 7.64% for 2009. In addition, there was a 16.87% increase in the average balance of interest-earning assets from Ps.492,510 million for 2008 to Ps.575,576 million for 2009. The decrease in the average rate charged reflected the general decrease of market interest rates during 2009. The rate on 28-day TIIE averaged 5.90% for 2009, 237 basis points lower than the 8.27% average rate recorded for 2008. The average balance of interest-earning assets increased primarily as a result of the increase in the average balance of the loan portfolio in the amount of Ps.25,613 million, the increase in the average balance of securities in the amount of Ps.43,362 million and the increase in the average balance of cash and cash equivalents in the amount of Ps.11,292.

Interest on loans was Ps.26,786 million (or 60.94% of interest income) for 2009 compared to Ps.27,021 million (or 55.59% of interest income) for 2008, a decrease of Ps.235 million, or 0.87%. This decrease was primarily the result of the decrease in the average interest rate earned on the loan portfolio.

Fees on loans were Ps.578 million (or 1.31% of interest income) for 2009 compared to Ps.516 million (or 1.06% of interest income) for 2008, an increase of Ps.62 million, or 12.02%. This increase was primarily the result of restructuring activities in respect of commercial loans.

Interest income from cash and cash equivalents and securities was Ps.16,216 million (or 36.89% of interest income) for 2009 compared to Ps.20,268 million (or 41.70% of interest income) for 2008, a decrease of Ps.4,052 million, or 19.99%. This decrease was primarily due to the decrease in average interest rates.

Interest income from repurchase operations was Ps.376 million (or 0.86% of interest income) for 2009 compared to Ps.793 million (or 1.63% of interest income) for 2008, a decrease of Ps.417 million, or 52.58%. This decrease was primarily due to lower levels of market interest rates.

Interest Expense

Interest expense was Ps.21,550 million for 2009 compared to Ps.26,858 million for 2008, a decrease of Ps.5,308 million, or 19.76%. This decrease was the result of a decrease in the average interest rate paid on interest-bearing liabilities offset in part by an increase in the average balance of these liabilities. Our average interest rate paid on interest-

bearing liabilities decreased by 170 basis points from 6.20% for 2008 to 4.50% for 2009 and the average balance of these liabilities increased by 10.62% from Ps.433,393 million for 2008 to Ps.479,415 million for 2009. The decrease in the average rate paid on interest-bearing liabilities was a function of the general decrease of market interest rates in 2009. The rate on 28-day CETES averaged 5.50% for 2009, 220 basis points lower than the 7.70% average rate for 2008. The average balance of interest-bearing liabilities increased primarily as a result of the higher volume of demand and time deposits.

Interest on deposits and funding was Ps.9,984 million (or 46.33% of interest expense) for 2009 compared to Ps.10,907 million (or 40.61% of interest expense) for 2008, a decrease of Ps.923 million, or 8.46%. This decrease was primarily the result of lower market interest rates offset in part by an increase in the average balance of time deposits.

Interest expense from repurchase operations was Ps.11,463 million (or 53.19% of interest expense) for 2009 compared to Ps.15,874 million (or 59.10% of interest expense) for 2008, a decrease of Ps.4,411 million, or 27.79%. This decrease was the result of lower market interest rates.

Provisions

Provisions for loan losses charged against earnings were Ps.8,181 million for 2009 compared to Ps.6,722 million for 2008, an increase of Ps.1,459 million, or 21.70%. This increase was primarily due to additional reserves taken in connection with the deterioration in credit card, mortgage and commercial loans.

The allowance for loan losses as a percentage of non-performing loans decreased to 121.60% as of December 31, 2009 from 136.10% on December 31, 2008. The decrease in the ratio of allowance for loan losses to non-performing loans reflects an increase in the rate of write-offs compared to the rate of new provisions.

Non-Interest Income

The following table sets forth the components of our non-interest income for the years indicated:

	For the year ended December 31,	
	2009	2008
	(Ps. millions)	
COMMISSIONS AND FEES:		
Fund transfers.....	248	222
Account management	946	998
Fiduciary	254	295
Credit card.....	2,310	2,533
Income from real estate loan portfolios acquired and other investment projects.....	818	734
From loans managed for FOBAPROA	1	1
Electronic banking services	1,030	1,009
Other commissions and fees	1,945	2,065
Total commission and fee income.....	7,552	7,857
Commission and fee expense	1,261	1,174
Net commissions and fees	6,291	6,683
BROKERAGE REVENUES:		
Foreign exchange gains	875	779
Realized gains (losses) on securities	236	114
Unrealized (losses) on securities	(158)	(17)
Total brokerage revenues, net.....	953	876
Other Revenues	987	746
Total non-interest income	8,231	8,305

Total non-interest income was Ps.8,231 million for 2009 compared to Ps.8,305 million for 2008, a decrease of Ps.74 million, or 0.89%, primarily due to decreases in net commissions and fees offset in part by increases in brokerage and other revenues.

Net commissions and fees earned were Ps.6,291 million for 2009 compared to Ps.6,683 million for 2008, a decrease of Ps.392 million, or 5.87%, mainly due to a decrease in income from credit card fees and other commission and fees partially offset by an increase in income from real estate loan portfolios acquired and other investment projects.

Fees from fund transfers were Ps.248 million (or 3.28% of total commission and fee income) for 2009 compared to Ps.222 million (or 2.83% of total commission and fee income) for 2008, an increase of Ps.26 million, or 11.71%. This increase was primarily due to the higher volume of fund transfer fees.

Fees from account management were Ps.946 million (or 12.53% of total commission and fee income) for 2009 compared to Ps.998 million (or 12.70% of total commission and fee income) for 2008, a decrease of Ps.52 million, or 5.21%. This decrease was primarily due to a reduction in account management service fees charged to customers as a result of changes in regulations adopted in the third quarter of 2009 that prohibited the assessment of overdraft fees.

Fees from fiduciary services were Ps.254 million (or 3.36% of total commission and fee income) for 2009 compared to Ps.295 million (or 3.75% of total commission and fee income) for 2008, a decrease of Ps.41 million, or 13.90%. This decrease was primarily the result of a decrease in the volume of fiduciary services for 2009 compared to 2008.

Credit card fees were Ps.2,310 million (or 30.59% of total commission and fee income) in 2009 compared to Ps.2,533 million (or 32.24% of total commission and fee income) for 2008, a decrease of Ps.223 million, or 8.80%. The lower level of credit card fees charged during 2009 was the result of (i) a change in regulations, effective August 2009, that prohibited the assessment of late credit card fees indefinitely and (ii) lower credit card transaction volumes.

Fees from real estate loan portfolios acquired and other investment projects were Ps.818 million (or 10.83% of total commission and fee income) for 2009 compared to Ps.734 million (or 9.34% of total commission and fee income) for 2008, an increase of Ps.84 million. This increase was primarily the result of an increase in revenues from investment projects by Sólida during the second half of 2009, as a result of a faster than expected completion of the housing projects where capital is invested.

Fees from electronic banking services were Ps.1,030 million (or 13.64% of total commission and fee income) for 2009 compared to Ps.1,009 million (or 12.84% of total commission and fee income) for 2008, an increase of Ps.21 million, or 2.08%. This increase was primarily the result of an increase in the number of clients using electronic banking services and an increase in the number of ATMs and revenue from internet banking services.

Other commissions and fees were Ps.1,945 million (or 25.75% of total commission and fee income) for 2009 compared to Ps.2,065 million (or 26.28% of total commission and fee income) for 2008, a decrease of Ps.120 million, or 5.81%. This decrease was primarily the result of the reclassification of reimbursement-related expenses to "Other Commissions and Fees," which were previously recorded as "Other Expenses" in "Non-Operating Income," in addition to lower fees related to letters of credit, electronic transactions, payroll-related services and car insurance renewals.

Commission and fee expense was Ps.1,261 million for 2009 compared to Ps.1,174 million for 2008, an increase of Ps.87 million, or 7.41%. This increase was mainly due to an increase in interchange fees in respect of POSs and fees related to ATM transactions paid to other banking institutions.

Brokerage revenues were Ps.953 million for 2009 compared to Ps.876 million for 2008, an increase of Ps.77 million, or 8.79%, due to increases in realized gains on securities and foreign exchange gains partially offset by an increase in unrealized losses on securities. Realized gains on securities increased to Ps.236 million for 2009 compared to Ps.114 million for 2008, an increase of Ps.122 million, or 107.02%, which was attributable principally to a positive trading result due to a declining interest rate environment. Foreign exchange gains were Ps.875 million for 2009 compared to Ps.779 million for 2008, an increase of Ps.96 million, or 12.32%, due primarily to increased volatility in the Peso-U.S. dollar exchange rate. We recorded unrealized losses on securities of Ps.158 million in 2009 compared to unrealized losses on securities of Ps.17 million in 2008, which was attributable principally to impairment losses of certain debt securities resulting from the lingering effects of the global financial crisis.

Selling, General and Administrative Expenses

The following table sets forth the components of our selling, general and administrative expenses for the years indicated:

	For the year ended December 31,	
	2009	2008
	(Ps. millions)	
Salaries and employee benefits.....	6,542	6,033
Employee profit sharing.....	677	877
Professional fees	1,457	1,173
Leases.....	691	613
Promotional expenses	788	787
Other administrative and operational expenses.....	3,680	4,076
Taxes other than income taxes.....	854	872
Contribution to IPAB.....	1,073	938
Depreciation and amortization.....	685	727
Corporate expense recoveries.....	(244)	(283)
Total selling, general and administrative expenses.....	16,203	15,813

Selling, general and administrative expenses were Ps.16,203 million for 2009 compared to Ps.15,813 million for 2008, an increase of Ps.390 million, or 2.47%, primarily as a result of higher personnel expenses, contribution to IPAB and professional fees.

Salaries and employee benefits, the largest component of selling, general and administrative expenses, were Ps.6,542 million (or 40.38% of selling, general and administrative expenses) for 2009 compared to Ps.6,033 million (or 38.15% of selling, general and administrative expenses) for 2008, an increase of Ps.509 million, or 8.44%. This increase was primarily the result of the increase in personnel in back-office operations and compensatory incentives paid at the end of 2009.

Leases were Ps.691 million (or 4.26% of selling, general and administrative expenses) for 2009 compared to Ps.613 million (or 3.88% of selling, general and administrative expenses) for 2008, an increase of Ps.78 million, or 12.72%. This increase was primarily the result of new leasing of ATMs during 2009.

Other administrative and operational expenses were Ps.3,680 million (or 22.71% of selling, general and administrative expenses) for 2009 compared to Ps.4,076 million (or 25.78% of selling, general and administrative expenses) for 2008, a decrease of Ps.396 million, or 9.72%. This decrease was primarily the result of the change to the amortization of loan origination expenses previously recognized in income and lower expenses associated with the credit card business in 2009.

Our contribution to IPAB was Ps.1,073 million (or 6.62% of selling, general and administrative expenses) for 2009 compared to Ps.938 million (or 5.93% of selling, general and administrative expenses) for 2008, an increase of Ps.135 million, or 14.39%. This increase was primarily the result of a higher average balance of interest-bearing liabilities.

Depreciation and amortization expense was Ps.685 million (or 4.23% of selling, general and administrative expenses) for 2009 compared to Ps.727 million (or 4.60% of selling, general and administrative expenses) for 2008, a decrease of Ps.42 million, or 5.78%. This decrease was primarily the result of lower depreciation related to the closure of 29 branches in 2009.

Other Income and Expenses, Net

Other income includes, among other things, interest income from loans to employees and other miscellaneous income and gains or losses. Other expenses include miscellaneous losses and write-offs and discounts. The net amount of other income and expenses resulted in net gain of Ps.861 million for 2009 compared to a net gain of Ps.1,616 million for 2008, a reduction of Ps.755 million. This difference was primarily due to the non-recurring gain recognized in the first half of 2008 related to the sale of shares of Instituto para el Depósito de Valores, S.A. de C.V. ("Indeval") in connection with the initial public offering of the Bolsa Mexicana de Valores, S.A.B. de C.V.

Income Taxes

Current income taxes were Ps.2,451 million for 2009 compared to Ps.2,642 million for 2008, a decrease of Ps.191 million, or 7.23%. This decrease was mainly due to lower income before tax as a result of the differences described in “—Results of Operations—First Three Months of 2010 Compared to First Three Months of 2009—Income Taxes.”

Deferred income tax represented a benefit of Ps.537 million for 2009 compared to a benefit of Ps.231 million for 2008, a difference of Ps.306 million. This difference was primarily the result of lower tax provisions for loan loss reserves in excess of the established fiscal limit of 2.5% of the annual average of the total loan portfolio.

Equity in Earnings of Subsidiaries and Associated Companies

Our equity in earnings of subsidiaries and affiliates was Ps.73 million in 2009 compared to Ps.1 million in 2008. This increase was primarily due to the increase in net income of Banorte Generali, S.A. de C.V. Afore, our pension fund equity method investment.

Net Income

Net income was Ps.5,132 million for 2009 compared to Ps.6,543 million for 2008, a decrease of Ps.1,411 million, or 21.57%, due to the results of our operations discussed above.

Results of Operations—2008 Compared to 2007

Financial Margin

Financial margin before monetary loss was Ps.21,747 million for 2008 compared to Ps.17,180 million for 2007, an increase of Ps.4,567 million, or 26.58%. This increase was the result of an increase in our interest income of Ps.9,632 million, or 24.71%, for 2008 compared to 2007, which more than offsets an increase in interest expense of Ps.5,065 million, or 23.24%, in the comparable periods.

Through December 31, 2007, Mexican Banking GAAP required that we recognize as part of financial margin the effects of inflation on monetary assets and liabilities that generate interest income or expense as long as cumulative inflation in the last three fiscal years is equal to or greater than 26%. Accordingly, we did not record a net monetary gain for 2008 and recorded a net monetary loss of Ps.298 million for 2007.

In terms of margins, our average interest rate earned on interest-earning assets for 2008 was 9.87% and the average interest rate paid on interest-bearing liabilities was 6.20%, expressed in nominal terms in each case, resulting in a yield spread of 3.67%. Our average interest rate earned on interest-earning assets for 2007 was 9.10% and the average interest rate paid on interest-bearing liabilities was 5.74%, resulting in a yield spread of 3.36%.

The following table sets forth the components of our financial margin for the years indicated:

	For the year ended December 31,	
	2008	2007
	(Ps. millions)	
INTEREST INCOME:		
Interest on loans	27,021	20,458
Fees on loans(1)	516	239
Interest on cash and cash equivalents and securities.....	20,268	17,482
Interest on repurchase operations(2)	793	751
UDI valuation(5).....	—	13
Foreign exchange valuation.....	7	30
Total interest income	48,605	38,973
INTEREST EXPENSE:		
Interest on deposits and funding.....	10,907	7,712
Interest on repurchase operations(3)	15,874	14,081
UDI valuation(5).....	77	—
Foreign exchange valuation(4)	—	—

	For the year ended December 31,	
	2008	2007
	(Ps. millions)	
Fees paid(6).....	—	—
Total interest expense	26,858	21,793
Monetary (loss), net	—	(298)
Financial margin	21,747	16,882

- (1) Fees on loans represent fees generated in connection with the issuance, renewal, draw-down or prepayment of a loan that is recorded as interest income in accordance with Mexican Banking GAAP.
- (2) Interest income on repurchase operations represents interest income on securities purchased pursuant to our agreements to resell in accordance with Mexican Banking GAAP.
- (3) Interest expense on repurchase operations represents interest expense on securities sold under agreements to repurchase in accordance with Mexican Banking GAAP.
- (4) Foreign exchange valuation represents the net changes in the foreign exchange valuation that are recorded as interest income or interest expense depending on the net effect in accordance with Mexican Banking GAAP.
- (5) UDI valuation represents part of the effect from changes in the inflation rate on UDI-denominated liabilities that are recorded in interest expense and UDI-denominated assets that are recorded in interest income, as the case may be, in accordance with Mexican Banking GAAP.
- (6) Fees paid represent fees incurred in connection with our withdrawal, renewal and drawing down of loans that are recorded as interest expense in accordance with Mexican Banking GAAP.

Interest Income

Our interest income was Ps.48,605 million for 2008 compared to Ps.38,973 million for 2007, an increase of Ps.9,632 million, or 24.71%. This increase was the result of an increase in the average balance of interest-earning assets and an increase in the average interest rate earned on interest-earning assets. There was a 77 basis point increase in the average interest rate earned on interest-earning assets from 9.10% for 2007 to 9.87% for 2008. In addition, there was a 14.99% increase in the average balance of interest-earning assets from Ps.428,317 million for 2007 to Ps.492,510 million for 2008. The increase in the average rate earned reflected the higher level of interest rates in 2008. The rate on 28-day THIE averaged 8.28% for 2008, 62 basis points higher than the 7.66% average rate recorded for 2007. The average balance of interest-earning assets increased primarily as a result of the increase in the average balance in all segments of the loan portfolio in the amount of Ps.45,987 million.

Interest on loans was Ps.27,021 million (or 55.59% of interest income) for 2008 compared to Ps.20,458 million (or 52.49% of interest income) for 2007, an increase of Ps.6,563 million, or 32.08%. This increase was primarily the result of the increase in the average balance of the loan portfolio and higher market interest rates in 2008.

Fees on loans were Ps.516 million (or 1.06% of interest income) for 2008 compared to Ps.239 million (or 0.61% of interest income) for 2007, an increase of Ps.277 million, or 115.90%. This increase was primarily the result of higher origination of new loans.

Interest income from cash and cash equivalents and securities was Ps.20,268 million (or 41.70% of interest income) for 2008 compared to Ps.17,482 million (or 44.86% of interest income) for 2007, an increase of Ps.2,786 million, or 15.94%. This increase was due primarily to the increase in average earned rate from investment in securities and partially offset by a decrease in the average rate earned on cash deposits.

Interest income from repurchase operations was Ps.793 million (or 1.63% of interest income) for 2008 compared to Ps.751 million (or 1.93% of interest income) for 2007, an increase of Ps.42 million, or 5.59%. This increase was primarily due to higher levels of market interest rates.

Interest Expense

Interest expense was Ps.26,858 million for 2008 compared to Ps.21,793 million for 2007, an increase of Ps.5,065 million, or 23.24%. This increase was the result of an increase in the average interest rate paid on interest-bearing liabilities and an increase in the average balance of these liabilities. Our average interest rate paid on interest-bearing liabilities increased by 46 basis points from 5.74% for 2007 to 6.20% for 2008 while our average balance of these liabilities increased by 14.22% from Ps.379,438 million for 2007 to Ps.433,393 million for 2008. The increase in the average rate paid on interest-bearing liabilities was a function of the general increase in market interest rates in 2008. The rate on 28-day CETES averaged 7.68% for 2008, 49 basis points higher than the 7.19% average rate for 2007. The average balance of interest-bearing liabilities increased primarily as a result of the higher volume of total deposits.

Interest on deposits and funding was Ps.10,907 million (or 40.61% of interest expense) for 2008 compared to Ps.7,712 million (or 35.39% of interest expense) for 2007, an increase of Ps.3,195 million, or 41.43%. This increase was the result of an increase in the average balance of time deposits, bank loans and subordinated debentures, and an increase in the average interest rate paid on time deposits.

Interest expense from repurchase operations was Ps.15,874 million (or 59.10% of interest expense) for 2008 compared to Ps.14,081 million (or 64.61% of interest expense) for 2007, an increase of Ps.1,793 million, or 12.73%. This increase was the result of the higher interest market rates and higher volume of repurchase operations.

Provisions

Provisions for loan losses charged against earnings were Ps.6,722 million for 2008 compared to Ps.2,588 million for 2007, an increase of Ps.4,134 million, or 159.74%. This increase was primarily due to additional reserves taken in 2008 in connection with the impairment of a Ps.1,030 million loan to Comercial Mexicana, S.A.B. de C.V., the deterioration in the consumer and commercial loan portfolio, and the mandated increase by the CNBV in loan loss reserve requirements for performing credit card accounts.

The allowance for loan losses as a percentage of non-performing loans remained essentially unchanged at 136.10% as of December 31, 2008, from 135.09% on December 31, 2007. The allowance for loan losses as a percentage of nonperforming loans without giving effect to the additional reserves taken in 2008 in connection with the loan to Comercial Mexicana, S.A.B. de C.V. was 114.81%.

Non-Interest Income

The following table sets forth the components of our non-interest income for the years indicated:

	For the year ended December 31,	
	2008	2007
	(Ps. millions)	
COMMISSIONS AND FEES:		
Fund transfers.....	222	229
Account management	998	975
Fiduciary	295	270
Credit card.....	2,533	2,132
Income from real estate loan portfolios acquired and other investment projects.....	734	575
From loans managed for FOBAPROA	1	4
Electronic banking services	1,009	944
Other commissions and fees	2,065	1,904
Total commission and fee income.....	7,857	7,033
Commission and fee expense	1,174	1,034
Net commission and fee income.....	6,683	5,999

BROKERAGE REVENUES:

Foreign exchange gains	779	506
Realized gains (losses) on securities	114	67
Unrealized (losses) gains on securities.....	(17)	325
Total brokerage revenues.....	876	898
Other revenues	746	304
Total non-interest income.....	<u>8,305</u>	<u>7,201</u>

Total non-interest income was Ps.8,305 million for 2008 compared to Ps.7,201 million for 2007, an increase of Ps.1,104 million, or 15.33%, primarily due to increases in net commission and fee income and other revenues.

Fees from fund transfers were Ps.222 million (or 2.83% of total commission and fee income) for 2008 compared to Ps.229 million (or 3.26% of total commission and fee income) for 2007, a decrease of Ps.7 million, or 3.06%. This decrease was primarily due to the decreased fees charged for fund transfers in 2008 due to a lower level of remittances and a voluntary reduction on international funds transfer fees charged to clients.

Fees from account management were Ps.998 million (or 12.70% of total commission and fee income) for 2008 compared to Ps.975 million (or 13.86% of total commission and fee income) for 2007, an increase of Ps.23 million, or 2.36%. This increase was primarily due to an increase in overdraft fees and fixed fees charged to our customers.

Fees from fiduciary services were Ps.295 million (or 3.75% of total commission and fee income) for 2008 compared to Ps.270 million (or 3.84% of total commission and fee income) for 2007, an increase of Ps.25 million, or 9.26%. This increase was primarily the result of an increase in the volume of fiduciary services for 2008 compared to 2007.

Credit card fees were Ps.2,533 million (or 32.24% of total commission and fee income) for 2008 compared to Ps.2,132 million (or 30.31% of total commission and fee income) for 2007, an increase of Ps.401 million, or 18.81%. The higher level of credit card fees charged during 2008 was primarily the result of higher transaction volumes and in an increase in the number of credit card accounts.

Fees from electronic banking services were Ps.1,009 million (or 12.84% of total commission and fee income) for 2008 compared to Ps.944 million (or 13.42% of total commission and fee income) for 2007, an increase of Ps.65 million, or 6.89%. This increase was primarily the result of an increase in the number of clients using electronic banking services, increases in the number of POSs, ATMs, including an increase in ATM services provided to other banks' clients, and electronic cash management services.

Other commissions and fees were Ps.2,065 million (or 26.28% of total commission and fee income) for 2008 compared to Ps.1,904 million (or 27.07% of total commission and fee income) for 2007, an increase of Ps.161 million, or 8.46%. This increase was primarily the result of an increase in fees from advisory services and management fees earned on mutual funds.

Commission and fee expense was Ps.1,174 million for 2008 compared to Ps.1,034 million for 2007, an increase of Ps.140 million, or 13.54%. This increase was mainly due to an increase in interchange fees in respect of POSs and fees related to ATM transactions paid to other banking institutions.

Net commission and fee income was Ps.6,683 million for 2008 compared to Ps.5,999 million for 2007, an increase of Ps.684 million, or 11.40%, mainly due to increases in credit card fees.

Brokerage revenues were Ps.876 million for 2008 compared to Ps.898 million for 2007, a decrease of Ps.22 million, or 2.45%, primarily due to unrealized losses on securities, offset in part by foreign exchange gains. Realized gains on securities increased to Ps.114 million for 2008 compared to a gain of Ps.67 million for 2007, an increase of Ps.47 million, or 70.15%, which was attributable mainly to a positive trading result. We recorded unrealized losses on securities of Ps.17 million in 2008 compared to unrealized gains of Ps.325 million in 2007, which was attributable mainly to permanent impairment losses on Lehman Brothers Holdings Inc. debt securities. We recorded foreign exchange gains of Ps.779 million in 2008 compared to foreign exchange gains of Ps.506 million in 2007 an increase of Ps.273 million, or 53.95%, which was attributable mainly to increased volatility in the Peso – U.S. Dollar exchange rate.

Selling, General and Administrative Expenses

The following table sets forth the components of our selling, general and administrative expenses for the years indicated:

	For the year ended December 31,	
	2008	2007
	(Ps. millions)	
Salaries and employee benefits.....	6,033	5,587
Employee profit sharing.....	877	859
Professional fees	1,173	918
Leases.....	613	668
Promotional expenses	787	759
Other administrative and operational expenses.....	4,076	3,955
Taxes other than income taxes.....	872	595
Contribution to IPAB.....	938	774
Depreciation and amortization.....	727	716
Corporate expense recoveries.....	(283)	(265)
Total selling, general and administrative expenses.....	15,813	14,566

Selling, general and administrative expenses were Ps.15,813 million for 2008 compared to Ps.14,566 million for 2007, an increase of Ps.1,247 million, or 8.56%, primarily as a result of higher salaries and employee benefits, professional fees, other administrative and operation expenses, taxes other than income taxes, and contribution to IPAB.

Salaries and employee benefits, the largest component of selling, general and administrative expenses, were Ps.6,033 million (or 38.15% of selling, general and administrative expenses) for 2008 compared to Ps.5,587 million (or 38.36% of selling, general and administrative expenses) for 2007, an increase of Ps.446 million, or 7.98%. This increase was primarily the result of increases in personnel expenses associated with the increase in the number of branches, higher provisions for severance payments and higher medical benefits paid.

Leases were Ps.613 million (or 3.88% of selling, general and administrative expenses) for 2008 compared to Ps.668 million (or 4.59% of selling, general and administrative expenses) for 2007, a decrease of Ps.55 million, or 8.23%. This decrease was primarily the result of a change in accounting criteria for leases related to equipment and software. In 2007 leases were recorded as operating expenses while in 2008 they are considered capitalized leases.

Other administrative and operational expenses were Ps.4,076 million (or 25.78% of selling, general and administrative expenses) for 2008 compared to Ps.3,955 million (or 27.15% of selling, general and administrative expenses) for 2007, an increase of Ps.121 million, or 3.06%. This increase was primarily the result of the increase in operational expenses associated with the expansion of our credit card business.

Our contribution to IPAB was Ps.938 million (or 5.93% of selling, general and administrative expenses) for 2008 compared to Ps.774 million (or 5.31% of selling, general and administrative expenses) for 2007, an increase of Ps.164 million, or 21.19%. This increase was primarily the result of a higher average balance of demand and time deposits and bank loans.

Depreciation and amortization expenses were Ps.727 million (or 4.60% of selling, general and administrative expenses) for 2008 compared to Ps.716 million (or 4.92% of selling, general and administrative expenses) for 2007, an increase of Ps.11 million, or 1.54%. This increase was primarily the result of an increase in the number of branches in 2008.

Other Income and Expenses, Net

Other income includes, among others, interest income from loans to employees and other miscellaneous income and gains. Other expenses include miscellaneous losses and write-offs and discounts. The net amount of other income and expenses resulted in a net income of Ps.1,616 million for 2008 compared to a net income of Ps.1,599 million for 2007, an increase of Ps.17 million, or 1.06%. This increase was primarily due to higher nonrecurring gains recognized in the first half of 2008 related to the sale of shares of Indeval in connection with the initial public offering of the Bolsa Mexicana de Valores, S.A.B. de C.V. than the nonrecurring gains recognized in 2007 for certain real estate sales, offset by the effects monetary of losses incurred in 2007.

Income Taxes

Current income taxes and employee profit sharing expense, which also includes an asset tax expense for 2007, was Ps.2,642 million for 2008 compared to Ps.2,728 million for 2007, a decrease of Ps.86 million, or 3.15%. This decrease was primarily due to a lower tax base as a result of taking larger tax deductions in 2008 related to higher inflation, which is deductible for tax purposes.

We recorded a deferred income tax benefit of Ps.231 million for 2008 compared to a benefit of Ps.462 million for 2007, a difference of Ps.231 million. Net deferred tax assets were higher in 2008 compared to 2007 as a result of a greater amount of deferred taxes linked to the excess loan loss reserves created over the fiscal limit of 2.5% of the annual average loan portfolio in 2008 compared to 2007.

Equity in Earnings of Subsidiaries and Associated Companies

Our equity in earnings of subsidiaries and affiliates was Ps.1 million in 2008 compared to Ps.34 million in 2007. The decrease was primarily due to lower net income of the retirement savings funds managed by Banorte Generali, S.A. de C.V. Afore.

Net Income

Net income was Ps.6,543 million for 2008 compared to Ps.6,151 million for 2007, an increase of Ps.392 million, or 6.37%, due to the reasons discussed above.

Financial Position

The following discussion compares our consolidated financial position at March 31, 2010, December 31, 2009 and December 31, 2008.

Assets

We had total assets of Ps.549,163 million as of March 31, 2010, compared to Ps.549,430 million as of December 31, 2009, a decrease of Ps.267 million, or 0.04%. This decrease was principally due to decreases in the loan portfolio, cash and cash equivalents, partially offset by an increase in securities and other assets.

We had total assets of Ps.549,430 million as of December 31, 2009, compared to Ps.563,111 million as of December 31, 2008, a decrease of Ps.13,681 million, or 2.43%. This decrease was principally the result of decreases in the loan portfolio.

Loan Portfolio

As of March 31, 2010, total performing loans were Ps.227,239 million compared to Ps.228,828 million as of December 31, 2009, a decrease of Ps.1,589 million, or 0.69%. This decrease was mainly due to decreases in commercial and corporate loans and credit cards, partially offset by an increase in payroll and government loans. Total performing loans represented 41.38% of total assets as of March 31, 2010, compared to 41.65% of total assets as of December 31, 2009. As of March 31, 2010, performing commercial loans represented 44.66% of total performing loans, loans to financial institutions represented 3.48%, performing mortgage loans represented 22.48%, performing government loans represented 18.04% and performing credit cards, payroll loans, and car loans represented 11.33%.

We had total performing loans of Ps.228,828 million as of December 31, 2009, compared to Ps.231,400 million as of December 31, 2008, a decrease of Ps.2,572 million, or 1.11%. This decrease was mainly due to decreases in corporate and commercial loans and credit cards. Total performing loans represented 41.65% of total assets as of December 31, 2009. As of December 31, 2009, performing mortgage loans represented 21.80% of total performing loans, performing commercial loans represented 46.03%, loans to financial institutions represented 3.90%, performing government loans represented 17.04% and performing credit cards, payroll loans, and car loans represented 11.23%.

Total performing loans represented 41.09% of total assets as of December 31, 2008. As of December 31, 2008, performing commercial loans represented 49.46% of total performing loans, performing mortgage loans represented 20.00%, performing government loans represented 11.66%, performing consumer loans represented 12.69% and loans to financial institutions represented 6.19%.

Non-Performing Loans

We had total non-performing loans of Ps.6,017 million as of March 31, 2010 compared to Ps.6,051 million as of December 31, 2009, a decrease of Ps.34 million, or 0.56%. This decrease was primarily due to decreases in non-performing mortgage loans, credit cards, payroll and automotive loans, partially offset by an increase in non-performing commercial and corporate loans. Total non-performing loans represented 1.10% of total assets as of March 31, 2010, compared to 1.10% of total assets as of December 31, 2009. As of March 31, 2010, non-performing commercial loans represented 59.70% of total non-performing loans, non-performing mortgage loans represented 14.29% and non-performing mortgage loans, credit cards, payroll and automotive loans represented 26.01%.

We had total non-performing loans of Ps.6,051 million as of December 31, 2009 compared to Ps.4,836 million as of December 31, 2008, an increase of Ps.1,215 million, or 25.12%. As of December 31, 2009, non-performing commercial loans represented 50.57% of total non-performing loans, non-performing mortgage loans represented 17.34% and non-performing credit card, payroll and automotive loans represented 32.09%.

Deferred Taxes and Deferred Employee Profit Sharing, Net

Our deferred taxes are a net asset mainly comprised of tax loss carry-forwards, temporary differences to be used as income tax deductions in future fiscal periods. Loan loss reserves created in each tax period in excess of 2.5% of the annual average of the total loan portfolio must be applied in future fiscal periods. Our deferred profit sharing is calculated by applying the 10% profit sharing rate to the applicable temporary differences resulting from comparing the accounting and employee profit sharing bases of assets and liabilities.

We had net deferred tax and employee profit sharing assets of Ps.1,373 million as of March 31, 2010, compared to Ps.1,466 million as of December 31, 2009, a decrease of Ps.93 million, or 6.34%. This decrease was due primarily to higher deferred income taxes in the first quarter of 2009 as a result of advertisement and publicity services paid in advance.

We had net deferred tax and employee profit sharing assets of Ps.1,466 million as of December 31, 2009, compared to Ps.481 million as of December 31, 2008, an increase of Ps.985 million, or 204.78%. This increase was primarily due to lower tax provisions for loan loss reserves in excess of the established fiscal limit of 2.5% of the annual average of the total loan portfolio.

Liabilities

We had total liabilities of Ps.507,714 million as of March 31, 2010 compared to Ps.508,424 million as of December 31, 2009, a decrease of Ps.710 million, or 0.14%. This decrease was primarily due to decreases in demand deposits, offset by increases in time deposits and repurchase transactions.

We had total liabilities of Ps.508,424 million as of December 31, 2009 compared to Ps.527,069 million as of December 31, 2008, a decrease of Ps.18,645 million, or 3.54%. This decrease was primarily due to decreases in interbank loans and repurchase transactions, offset in part by an increase in demand and time deposits.

Deposits

We had total deposits of Ps.271,472 million as of March 31, 2010 compared to Ps.275,061 million as of December 31, 2009, a decrease of Ps.3,589 million, or 1.30%. This decrease was primarily due to decreases in demand deposits, offset in part by an increase in time deposits. As of March 31, 2010, demand deposits, which bear interest at lower rates, represented 46.40% of total deposits, while time deposits represented the remaining 53.60%.

We had total deposits of Ps.275,061 million as of December 31, 2009 compared to Ps.260,906 million as of December 31, 2008, an increase of Ps.14,155 million, or 5.43%. This increase was due to increases in demand and time deposits. As of December 31, 2009, time deposits represented 49.97% of total deposits and demand deposits represented 50.03%. As of December 31, 2008, time deposits represented 50.80% of total deposits and demand deposits represented 49.20%.

Total deposits represented 53.47%, 54.10% and 49.50% of total liabilities as of March 31, 2010, December 31, 2009 and December 31, 2008, respectively.

Bank Loans and Other Loans

We had bank loans and other loans of Ps.11,310 million as of March 31, 2010, compared to Ps.11,286 million as of December 31, 2009, an increase of Ps.24 million, or 0.21%. The amount of bank loans and other loans remained essentially unchanged and was comprised of short, medium, and long term loans. Bank loans and other loans represented 2.23% of total liabilities as of March 31, 2010 compared to 2.22% as of December 31, 2009.

We had bank loans and other loans of Ps.11,286 million as of December 31, 2009 compared to Ps.27,236 million as of December 31, 2008, a decrease of Ps.15,950 million, or 58.56%. This decrease was due to the prepayment of a U.S. dollar-denominated syndicate loan in the aggregate principal amount of U.S.\$135 million and lower funding requirements as a result of lower loan originations and an increase in demand and time deposits. Bank loans and other loans represented 2.22% of total liabilities as of December 31, 2009 compared to 5.17% as of December 31, 2008.

Subordinated Debentures

We had non-convertible subordinated debentures of Ps.17,838 million, Ps.18,168 million and Ps.20,613 million as of March 31, 2010, December 31, 2009 and December 31, 2008, respectively. Subordinated debentures represented 3.51%, 3.57% and 3.91% of total liabilities as of March 31, 2010, December 31, 2009 and December 31, 2008, respectively.

Stockholders' Equity

Our stockholders' equity was Ps.41,449 million as of March 31, 2010 compared to Ps.41,006 million as of December 31, 2009, an increase of Ps.443 million, or 1.08%. This increase was due to net income generated during the three months ended March 31, 2010, partially offset by dividends paid during the same period.

Our stockholders' equity was Ps.41,006 million as of December 31, 2009 compared to Ps.36,042 million as of December 31, 2008, an increase of Ps.4,964 million, or 13.77%. This increase was due to an increase in capital stock issued in connection with the IFC's investment in Banorte in November 2009 as described in Note 2(e) to our audited consolidated financial statements and net income generated during the same period.

Stockholders' equity represented 7.55%, 7.46% and 6.40% of our total assets as of March 31, 2010, December 31, 2009 and December 31, 2008, respectively.

Liquidity

The purpose of our liquidity management function is to ensure that we have funds available to meet our financial obligations. These obligations arise from withdrawals of deposits, repayments at maturity of short-term notes, extensions of loans or other forms of credit and working capital needs. One significant element of the liquidity management function is maintaining our compliance with Banco de México's liquidity regulations. See "Supervision and Regulation—Liquidity Requirements for Foreign Currency-Denominated Liabilities."

We have various sources of liquidity. Short-term and marketable investments, such as government securities and deposits with Banco de México and prime banks, are our most liquid income generating assets. Deposits, including demand deposits, savings deposits and time deposits, are our largest source of liquidity. Our liquid assets also include deposits in foreign banks. These deposits in foreign banks are denominated principally in U.S. dollars.

Banco de México regulations require Mexican banks to comply with certain reserve requirements with respect to non-Peso-denominated liabilities. Reserves on non-Peso-denominated deposits continue to be required. See "Supervision and Regulation—Liquidity Requirements for Foreign Currency-Denominated Liabilities." As of March 31, 2010, December 31, 2009 and December 31, 2008, we were in compliance with all reserve requirements and liquidity coefficients.

Our management expects that cash flows from operations and other sources of liquidity will be sufficient to meet our liquidity requirements over the next 12 months, including our expected 2010 capital expenditures.

Foreign Currency Position

Banco de México regulations require that a bank maintain open positions in foreign currencies no higher than a specified level with respect to its total Tier 1 capital. See "Supervision and Regulation—Liquidity Requirements for Foreign Currency-Denominated Liabilities." As of March 31, 2010, the limit established for us by Banco de México for

maturity-adjusted net foreign currency-denominated liabilities were U.S.\$4,955 million (Ps.61,098 million). As of such date, our maturity-adjusted net foreign currency-denominated liabilities were U.S.\$798 million (Ps.9,840 million). For a discussion of the components of Tier 1 capital, see “Supervision and Regulation—Capitalization.”

For the three months ended March 31, 2010 and for the years ended December 31, 2009 and 2008, we were in compliance with regulatory requirements relating to the ratio of dollar-denominated liabilities to total liabilities.

As part of our asset liability management strategy, we closely monitor our exposure to foreign currency risk, with a view to minimizing the effect of exchange rate movements on our earnings. As of March 31, 2010, our foreign currency-denominated assets totaled U.S.\$5,529 million (Ps.68,176 million), representing 12.41% of our total assets. At that date, our foreign currency-denominated liabilities amounted to U.S.\$5,209 million (Ps.64,230 million), representing 12.65% of our total liabilities. See “Selected Statistical Information—Interest-bearing Deposits with Other Banks.”

Funding

Our principal sources of funding are customer deposits, which are highly concentrated in non-interest-bearing checking accounts, short-term notes with interest due at maturity and interest-bearing demand and time deposits. Customer deposits are our least expensive source of funding. Our deposits decreased to Ps.271,472 million (or 96.00% of total funding) as of March 31, 2010 from Ps.275,061 million (or 96.06% of total funding) as of December 31, 2009, a decrease of Ps.3,589 million, or 1.30%. This decrease was primarily due to the seasonal movement of funds from December to the beginning of the year.

Repurchase agreements have been another important instrument in Mexico’s money markets by providing short-term investments to banking customers, mainly with Mexican government-issued paper and to a lesser extent securities issued by other Mexican banks and corporations. Management has used repurchase operations to achieve cost efficiencies and make our business more competitive. As of March 31, 2010, December 31, 2009 and December 31, 2008, securities of Ps.185,135 million, Ps.181,959 million and Ps.192,581 million, respectively, were pledged as collateral in connection with repurchase agreements.

Long-term debt is another source of funds for us. Long-term debt is issued to match long-term loans and investments and reduce liquidity risk. As of March 31, 2010, we had Ps.4,814 million principal amount of long-term debt outstanding with maturities over one year. We had Ps.5,058 million and Ps.8,105 million principal amount of long-term debt outstanding with maturities over one year as of December 31, 2009 and 2008, respectively.

Our current funding strategy seeks to reduce funding costs by taking advantage of our extensive branch network and customer base to attract banking deposits. Although we monitor developments in public demand for long-term loans and opportunities to borrow long-term funds on favorable terms, we anticipate that customers in Mexico will continue in the near future to demand short-term deposits (particularly demand deposits and short-term time deposits) and loans, and we intend to maintain our emphasis on the use of banking deposits.

UDI-denominated deposits from the Mexican government provide the funding for our off-balance sheet UDI Trusts. In return, we have purchased from the Mexican government CETES *Especiales*, which have an interest rate based on the CETES rate and maturities and principal amounts that mirror the maturities and the principal amount of the loans in the UDI Trusts (the “CETES *Especiales*” or “Special CETES”). These Special CETES pay interest in cash only as the loans in the UDI Trusts mature. The Mexican government’s UDI-denominated deposits have a fixed real interest rate which varies depending on the type of loan in the UDI Trusts.

Our foreign currency-denominated assets, substantially all of which are dollar-denominated, are funded from a number of sources. These sources include deposits of the same currency obtained mainly through deposits of customers, medium and large Mexican companies, primarily in the export sector, interbank deposits and fixed rate notes. In the case of foreign trade transactions, we use trade financing facilities including from Mexican development banks and foreign export-import banks. Foreign currency funding rates are generally based on LIBOR. Our position in foreign currency as of March 31, 2010 amounted to Ps.68,176 million in assets (or 12.41% of total assets) and Ps.64,230 million in liabilities (or 12.65% of total liabilities).

Capital Expenditures

We budget internally for capital expenditures in U.S. dollars. We invested (in nominal terms) U.S.\$4.7 million, U.S.\$14.3 million and U.S.\$18.9 million in technology (including telecommunications, computer hardware and software and systems development) for the first three months of 2010 and in fiscal years 2008 and 2009, respectively. Our current budget anticipates capital expenditures of approximately U.S.\$29.2 million during the last nine months of 2010, including investments

relating to hardware, software, telecommunications, ATMs and POSs. In addition, we estimate that we will invest U.S.\$16.7 million in 2010, U.S.\$17.5 million in 2011 and U.S.\$18.1 million in 2012 in our branch expansion program.

We expect that capital expenditures for the last nine months of 2010 and for 2011 will be funded with cash generated from future operations and other sources of liquidity. We can give no assurance, however, that the capital expenditures will be made in the amounts currently expected or be funded with cash generated from our future operations.

Risk-Based Capital

The Mexican Capitalization Rules take into account not only credit risk, but also market risk. See “Supervision and Regulation—Capitalization.” The tables below present our risk-weighted assets and Capital Ratios as of March 31, 2010 and as of December 31, 2009 and 2008, determined, as required by regulations, on an unconsolidated basis. Those regulations provide that all of our investments in subsidiaries and revaluation surpluses related to such investments must be subtracted from the calculation of Tier 1 capital. As of March 31, 2010, we were in compliance with all applicable capital regulations. The minimum Capital Ratio required by the Mexican Capitalization Rules in order for a bank not to be required to defer or cancel interest payments and defer principal payments of subordinated debt and not to be subject to certain other corrective measures is 10% for total capital to risk-weighted assets.

	As of March 31, 2010 (Ps. millions, except percentages)	As of December 31, 2009 2008 (Ps. millions, except percentages)	
Capital:			
Tier 1	36,023	35,381	28,300
Tier 2	13,855	14,277	17,076
Total capital.....	49,878	49,658	45,376
Risk-Weighted Assets:			
Credit risk	200,487	203,305	204,884
Credit and market risk.....	269,201	272,922	290,456
Operational risk	27,084	23,124	8,669
Other capital requirements.....	—	—	3,154
Capital Ratios (credit, market and operational risk):			
Tier 1 capital to risk-weighted assets	12.16%	11.95%	9.36%
Tier 2 capital to risk-weighted assets	4.68%	4.82%	5.65%
Total capital to risk-weighted assets.....	16.83%	16.77%	15.01%

SELECTED STATISTICAL INFORMATION

The following selected statistical information is provided with respect to Banorte and its consolidated subsidiaries only. Selected statistical information for Banorte is as of and for the three months ended March 31, 2010 and as of and for the years ended December 31, 2009, 2008 and 2007.

Assets and liabilities have been classified by currency of denomination (Pesos or foreign currency), rather than by domicile of customer or other criteria, because substantially all of our transactions are effected in Mexico or on behalf of Mexican residents in Pesos or foreign currency. The U.S. dollar is the main foreign currency used in our transactions, although Euros are also used. For purposes of this section, all foreign currency assets and liabilities have been converted into U.S. dollars and then converted into Pesos at an exchange rate of Ps.12.3306 to U.S.\$1.00, the Banco de México Exchange Rate on March 31, 2010.

The following information should be read in conjunction with our Financial Statements included elsewhere in this offering circular, as well as “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Presentation of Certain Financial and Other Information.” The following information is presented solely for the convenience of the reader for analytical purposes and, for certain items, differs from and is not comparable to the presentation in our Financial Statements.

Unless otherwise indicated, balance sheet and statement of income items in the following tables are presented in millions of Pesos as of March 31, 2010. Because Mexican tax law does not currently provide income tax exemptions for any investment securities, we do not hold any income tax-exempt securities and no tax-equivalence adjustments are considered necessary.

Certain amounts and percentages included in this offering circular have been subject to rounding adjustments; accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.

Average Balance Sheet and Interest Rate Data

Peso-Denominated Average Balances and Interest Income

Average balances for Peso-denominated assets and liabilities have been calculated in the following manner: for each month, an average of the daily Peso balances and the interest income (expense) was determined. The average balance for each year presented below is the average of the 12 monthly balances so determined. Interest income (expense) for each year is the total of the income (expense) for the 12 months so determined.

Foreign Currency-Denominated and UDI-Denominated Average Balances and Interest Income

Average balances and interest income (expense) for foreign currency-denominated and UDI-denominated assets and liabilities have been translated into Pesos and calculated in the following manner: for each month, an average of the daily foreign currency or UDI balances and the total interest income (expense) was determined. In addition, the average balances and the total interest income (expense) were translated into Pesos using the applicable month-end exchange rate published in the Official Gazette. The average balance for each year presented below is the average of the 12 monthly balances so determined. Interest income (expense) for each year is the total of the income (expense) for the 12 months so determined.

Average Interest Rate

The average annual rates earned on interest-earning assets and the average annual rate paid on interest-bearing liabilities are nominal rates.

Average Assets and Interest Rates

The table below presents the average balance of assets, interest income and average annual interest rate for the periods indicated:

	For the three months ended March 31,			For the year ended December 31,								
	2010			2009			2008			2007		
	Average Balance	Interest Income	Average Interest Rate	Average Balance	Interest Income	Average Interest Rate	Average Balance	Interest Income	Average Interest Rate	Average Balance	Interest Income	Average Interest Rate
(Ps. millions, except percentages)												
Deposits in banks:												
Pesos	29,018	338	4.66%	29,401	1,687	5.74%	28,162	2,257	8.01%	27,675	2,051	7.41%
Foreign currency	18,802	11	0.23%	17,185	71	0.41%	7,132	222	3.11%	6,030	354	5.87%
Sub-total	47,820	349	2.92%	46,586	1,758	3.77%	35,294	2,479	7.02%	33,705	2,405	7.14%
Investment securities(1):												
Pesos	203,939	2,547	5.00%	243,106	13,235	5.44%	201,980	16,654	8.25%	191,161	14,543	7.61%
UDIs	143	2	5.59%	-	-	-	-	-	-	-	-	-
Foreign currency	19,044	236	4.96%	19,561	1,021	5.22%	17,325	1,019	5.88%	11,372	577	5.07%
Sub-total	223,126	2,785	4.99%	262,667	14,256	5.43%	219,305	17,673	8.06%	202,533	15,120	7.47%
Loans(2):												
Pesos	207,088	6,032	11.65%	204,182	25,584	12.53%	180,135	25,580	14.20%	136,266	18,406	13.51%
UDIs	1,148	12	4.18%	1,243	54	4.34%	1,536	67	4.36%	2,107	82	3.89%
Foreign currency	24,806	375	6.05%	28,645	1,737	6.06%	26,786	1,911	7.13%	24,097	2,091	8.68%
Sub-total	233,042	6,419	11.02%	234,070	27,375	11.70%	208,457	27,558	13.22%	162,470	20,579	12.67%
Repurchase Agreements:												
Pesos	11,550	130	4.50%	7,418	376	5.07%	7,546	793	10.51%	11,440	751	6.57%
Trading Derivatives:												
Pesos	837	-	-	1,668	-	-	1,141	-	-	766	-	-
Hedging Derivatives:												
Pesos	19,259	215	4.47%	17,243	889	5.16%	12,059	749	6.21%	5,821	352	6.05%
Foreign Currency	4,189	(159)	(15.18%)	6,158	(688)	(11.17%)	9,092	(637)	(7.01%)	12,247	(254)	(2.07%)
Sub-total	23,448	56	0.96%	23,401	201	0.86%	21,151	112	0.53%	18,068	98	0.54%
Foreign exchange valuation:												
Pesos	-	-	-	-	-	-	-	7	-	-	43	-
UDI Trusts' deposits(3):												
UDIs	(150)	(2)	5.33%	(234)	(10)	4.27%	(384)	(17)	4.43%	(665)	(23)	3.45%
Total interest-earning assets:												
Pesos	471,691	9,262	7.85%	503,018	41,771	8.30%	431,023	46,040	10.68%	373,129	36,146	9.69%
UDIs	1,141	12	4.21%	1,009	44	4.36%	1,152	50	4.34%	1,442	59	4.09%
Foreign currency	66,841	463	2.77%	71,549	2,141	2.99%	60,335	2,515	4.17%	53,746	2,768	5.15%
Sub-total	539,673	9,737	7.22%	575,576	43,956	7.64%	492,510	48,605	9.87%	428,317	38,973	9.10%
Permanent stock investments:												
Pesos	1,384			1,275			943			753		
Foreign Currency	8			8			7			7		
Sub-total	1,392			1,283			950			760		
Cash and due from banks:												
Pesos	7,546			7,249			5,852			5,458		
Foreign currency	3,090			2,434			1,536			1,731		
Sub-total	10,636			9,683			7,388			7,189		
Securitizations (Constancias):												
Pesos	413			600			558			325		
Allowances for loan losses:												
Pesos	(6,461)			(5,744)			(3,607)			(2,540)		
UDIs	(49)			(275)			(455)			(689)		
Foreign currency	(648)			(547)			(337)			(317)		
Sub-total	(7,158)			(6,566)			(4,399)			(3,546)		
Property, furniture and equipment, net:												
Pesos	6,646			6,028			5,823			5,576		
Foreign Currency	640			695			613			569		
Sub-total	7,286			6,723			6,436			6,145		
Other non-interest-earning assets												
Pesos	20,910			18,233			18,798			18,214		
UDIs	(108)			(40)			(38)			(41)		
Foreign currency	4,793			5,119			5,224			4,770		
Sub-total	25,595			23,312			23,984			22,943		
Total assets:												
Pesos	502,129	9,262	7.38%	530,659	41,771	7.87%	459,390	46,040	10.02%	400,915	36,146	9.02%
UDIs	984	12	4.88%	694	44	6.34%	659	50	7.59%	712	59	8.29%
Foreign currency	74,724	463	2.48%	79,258	2,141	2.70%	67,378	2,515	3.73%	60,506	2,768	4.58%
Total	577,837	9,737	6.74%	610,611	43,956	7.20%	527,427	48,605	9.22%	462,133	38,973	8.43%

(1) Does not include equity investments in subsidiaries and affiliates. Includes securities purchased under agreements to resell and derivatives financial instruments.

- (2) Interest income includes fees on loans of Ps.198 million in 2007, Ps.493 million in 2008, Ps.578 million in 2009 and Ps.159 million for the three months ended March 31, 2010.
- (3) UDI Trusts' deposits are payable to the Mexican federal government and deducted from CETES *Especiales* (investment securities) for balance sheet purposes.

Average Liabilities, Stockholders' Equity and Interest Rates

The table below presents the average balances of liabilities and stockholders' equity, interest expense and average annual interest rate for the periods indicated:

	For the three months ended March 31,			For the year ended December 31,								
	2010			2009			2008			2007		
	Average Balance	Interest Expense	Average Interest Rate	Average Balance	Interest Expense	Average Interest Rate	Average Balance	Interest Expense	Average Interest Rate	Average Balance	Interest Expense	Average Interest Rate
(Ps. millions, except percentages)												
Demand deposits:												
Pesos	53,178	148	1.11%	51,372	742	1.44%	49,086	930	1.90%	44,467	705	1.59%
Foreign currency	12,152	22	0.72%	13,125	100	0.76%	11,103	135	1.22%	11,056	267	2.42%
Sub-total	65,330	170	1.04%	64,497	842	1.31%	60,189	1,065	1.77%	55,523	972	1.75%
Time deposits:												
Peso	117,638	1,066	3.63%	120,097	5,425	4.52%	95,634	6,227	6.51%	67,422	3,808	5.65%
UDIs	403	8	7.94%	393	32	8.14%	373	30	8.04%	378	29	7.67%
Foreign currency	25,974	123	1.89%	23,805	564	2.37%	17,339	566	3.26%	15,838	618	3.90%
Sub-total	144,015	1,197	3.33%	144,295	6,021	4.17%	113,346	6,823	6.02%	83,638	4,455	5.33%
Bank loans:												
Pesos	3,666	93	10.15%	11,828	750	6.34%	7,585	740	9.76%	2,508	221	8.81%
Foreign currency	1,512	8	2.12%	5,628	111	1.97%	5,796	261	4.50%	3,179	183	5.76%
Sub-total	5,178	101	7.80%	17,456	861	4.93%	13,381	1,001	7.48%	5,687	404	7.10%
Loans from Mexican development banks:												
Pesos	5,913	91	6.16%	6,696	443	6.62%	8,020	579	7.22%	9,132	660	7.23%
Foreign currency	819	4	1.95%	530	15	2.83%	205	8	3.90%	99	6	6.06%
Sub-total	6,732	95	5.65%	7,226	458	6.34%	8,225	587	7.14%	9,231	666	7.22%
Outstanding subordinated debentures:												
Pesos	8,024	119	5.93%	7,216	506	7.01%	3,578	354	9.89%	-	-	-
UDIs	2,002	25	5.00%	1,929	96	4.98%	1,310	72	5.50%	-	-	-
Foreign currency	8,045	120	5.97%	9,119	548	6.01%	10,601	788	7.43%	11,560	726	6.28%
Sub-total	18,071	264	5.84%	18,264	1,150	6.30%	15,489	1,214	7.84%	11,560	726	6.28%
Securities sold under agreements to repurchase:												
Pesos	195,458	2,268	4.64%	200,042	11,463	5.73%	199,879	15,874	7.94%	194,043	14,081	7.26%
Trading Derivatives:												
Foreign currency	694			1,427			1,086			971		
Hedging Derivatives:												
Pesos	13,510	191	5.66%	12,200	539	4.42%	11,892	78	0.66%	11,889	319	2.68%
Foreign currency	12,728	60	1.89%	14,008	146	1.04%	9,906	139	1.40%	6,896	170	2.47%
Sub-total	26,238	251	3.83%	26,208	685	2.61%	21,798	217	1.00%	18,785	489	2.60%
Foreign exchange valuation:												
Pesos	-	(36)	-	-	(70)	-	-	(77)	-	-	-	-
Total interest-bearing liabilities:												
Pesos	397,387	4,012	4.04%	409,451	19,938	4.87%	375,674	24,859	6.62%	329,461	19,794	6.01%
UDIs	2,405	33	5.49%	2,322	128	5.51%	1,683	102	6.06%	378	29	7.67%
Foreign currency	61,924	337	2.18%	67,642	1,484	2.19%	56,036	1,897	3.39%	49,599	1,970	3.97%
Sub-total	461,716	4,382	3.80%	479,415	21,550	4.50%	433,393	26,858	6.20%	379,438	21,793	5.74%
Non-interest-bearing liabilities:												
Pesos	66,429			85,058			53,479			48,893		
UDIs	1			29			2			1		
Foreign currency	8,673			7,655			7,312			6,462		
Sub-total	75,103			92,742			60,793			55,356		
Stockholders' equity:												
Pesos	37,377			34,907			29,474			23,156		
UDIs	(465)			(383)			(115)			119		
Foreign currency	4,106			3,930			3,882			4,064		
Sub-total	41,018			38,454			33,241			27,339		
Total liabilities and stockholders' equity:												
Pesos	501,193	4,012	3.20%	529,416	19,938	3.77%	458,627	24,859	5.42%	401,510	19,794	4.93%
UDIs	1,941	33	6.80%	1,968	128	6.50%	1,570	102	6.50%	498	29	5.82%
Foreign currency	74,703	337	1.80%	79,227	1,484	1.87%	67,230	1,897	2.82%	60,125	1,970	3.28%
Total	577,837	4,382	3.03%	610,611	21,550	3.53%	527,427	26,858	5.09%	462,133	21,793	4.72%

Changes in Financial Margin and Expense—Volume and Rate Analysis

The following tables allocate, by currency of denomination, changes in interest income and interest expense between changes in volume and changes in rates for the three months ended March 31, 2010 compared to the three months ended March 31, 2009 and for the year ended December 31, 2009 compared to 2008, and 2008 compared to 2007. Volume and rate variances have been calculated based on movements in average balances over the period and changes in interest rates on average interest-earning assets and average interest bearing liabilities. The variances caused by changes in both volume and rate have been allocated to volume.

Interest-Earning Assets

	March 31, 2010/2009			2009/2008			2008/2007		
	increase/(decrease) due to changes in			increase/(decrease) due to changes in			increase/(decrease) due to changes in		
	Volume	Interest Rate	Net Change	Volume	Interest Rate	Net Change	Volume	Interest Rate	Net Change
					(Ps. millions)				
Deposits in banks:									
Pesos	5	(213)	(208)	99	(669)	(570)	36	170	206
Foreign currency	9	(25)	(16)	313	(464)	(151)	65	(197)	(132)
Sub-total	14	(238)	(224)	412	(1,133)	(721)	101	(27)	74
Investment securities:									
Pesos	(275)	(1,517)	(1,792)	3,391	(6,810)	(3,419)	823	1,288	2,111
UDIs	-	2	2	-	-	-	-	-	-
Foreign currency	(16)	(12)	(28)	132	(130)	2	302	140	442
Sub-total	(291)	(1,527)	(1,818)	3,523	(6,940)	(3,417)	1,125	1,428	2,553
Loans(1):									
Pesos	159	(1,120)	(961)	3,415	(3,411)	4	5,926	1,248	7,174
UDIs	(2)	-	(2)	(13)	-	(13)	(22)	7	(15)
Foreign currency	(113)	(5)	(118)	133	(307)	(174)	233	(413)	(180)
Sub-total	44	(1,125)	(1,081)	3,535	(3,718)	(183)	6,137	842	6,979
Repurchase operations:									
Pesos	84	(99)	(15)	(13)	(404)	(417)	(256)	298	42
Hedging Derivatives:									
Pesos	38	(44)	(6)	322	(182)	140	377	20	397
Foreign currency	97	(69)	28	206	(257)	(51)	65	(448)	(383)
Sub-total	135	(113)	22	528	(439)	89	442	(428)	14
Foreign exchange valuation:									
Pesos	-	-	-	-	(7)	(7)	-	(36)	(36)
UDI Trusts' fiduciary liabilities:									
UDIs	1	-	1	7	-	7	10	(4)	6
Total interest-earning assets:									
Pesos	11	(2,993)	(2,982)	7,214	(11,483)	(4,269)	6,906	2,988	9,894
UDIs	(1)	2	1	(6)	-	(6)	(12)	3	(9)
Foreign currency	(23)	(111)	(134)	784	(1,158)	(374)	665	(918)	(253)
Total	(13)	(3,102)	(3,115)	7,992	(12,641)	(4,649)	7,559	2,073	9,632

- (1) Interest income includes fees on loans of Ps.198 million in 2007, Ps.493 million in 2008, Ps.578 million in 2009 and Ps.159 million for the three months ended March 31, 2010.

Interest-Bearing Liabilities

	March 31, 2010/2009			2009/2008			2008/2007		
	increase/(decrease) due to changes in			increase/(decrease) due to changes in			increase/(decrease) due to changes in		
	Volume	Interest Rate	Net Change	Volume	Interest Rate	Net Change	Volume	Interest Rate	Net Change
					(Ps. millions)				
Demand deposits:									
Pesos	12	(109)	(97)	43	(231)	(188)	73	152	225
Foreign currency	(2)	(7)	(9)	25	(60)	(35)	1	(133)	(132)
Sub-total	10	(116)	(106)	68	(291)	(223)	74	19	93
Time deposits:									
Pesos	18	(684)	(666)	1,593	(2,395)	(802)	1,593	826	2,419
UDIs	-	-	-	2	-	2	-	1	1
Foreign currency	15	(36)	(21)	211	(213)	(2)	59	(111)	(52)
Sub-total	33	(720)	(687)	1,806	(2,608)	(802)	1,652	716	2,368
Bank loans:									
Pesos	(165)	25	(140)	414	(404)	10	447	72	519
Foreign currency	(29)	(4)	(33)	(8)	(142)	(150)	151	(73)	78
Sub-total	(194)	21	(173)	406	(546)	(140)	598	(1)	597

	March 31, 2010/2009			2009/2008			2008/2007		
	increase/(decrease) due to changes in			increase/(decrease) due to changes in			increase/(decrease) due to changes in		
	Volume	Interest Rate	Net Change	Volume	Interest Rate	Net Change	Volume	Interest Rate	Net Change
				(Ps. millions)					
Loans from Mexican development banks:									
Pesos	(27)	(19)	(46)	(96)	(40)	(136)	(80)	(1)	(81)
Foreign currency	1	-	1	13	(6)	7	6	(4)	2
Sub-total	(26)	(19)	(45)	(83)	(46)	(129)	(74)	(5)	(79)
Outstanding subordinated debentures:									
Pesos	50	(60)	(10)	360	(208)	152	-	354	354
UDIs	1	1	2	34	(10)	24	-	72	72
Foreign currency	(51)	-	(51)	(110)	(130)	(240)	(60)	122	62
Sub-total	-	(59)	(59)	284	(348)	(64)	(60)	548	488
Securities sold under agreements to repurchase:									
Pesos	(105)	(1,510)	(1,615)	13	(4,424)	(4,411)	423	1,370	1,793
Hedging derivatives:									
Pesos	3	152	155	2	459	461	-	(241)	(241)
Foreign currency	(3)	43	40	58	(51)	7	74	(105)	(31)
Sub-total	-	195	195	60	408	468	74	(346)	(272)
Foreign exchange valuation:									
Pesos	-	1	1	-	7	7	-	(77)	(77)
Total interest-bearing liabilities:									
Pesos	(214)	(2,206)	(2,420)	2,329	(7,250)	(4,921)	2,456	2,609	5,065
UDIs	1	1	2	36	(10)	26	-	73	73
Foreign currency	(69)	(4)	(73)	189	(602)	(413)	231	(304)	(73)
Total	(282)	(2,209)	(2,491)	2,554	(7,862)	(5,308)	2,687	2,378	5,065

Interest-Earning Assets—Yield and Yield Spread

The following table sets forth, by currency of denomination, the levels of our average interest earning assets and financial margin, and gross and net yield and yield spread obtained, for each of the periods indicated. In addition, because loan fees are a component of pricing, a table including loan fees (other than fees on credit card cash disbursements and merchant fees on credit card purchases) in financial margin has been included.

	For the three months ended		For the year ended December 31,		
	March 31,	2010	2009	2008	2007
	(Ps. millions, except percentages)		(Ps. millions, except percentages)		
Total average earning assets:					
Pesos	471,691	503,018	431,023	373,129	
UDIs	1,141	1,009	1,152	1,442	
Foreign currency	66,841	71,549	60,335	53,746	
Total	539,673	575,576	492,510	428,317	
Historical not including loan fees:					
Financial margin:					
Pesos	5,091	21,255	20,688	16,154	
UDIs	(21)	(84)	(52)	30	
Foreign currency	126	657	618	798	
Total	5,196	21,828	21,254	16,982	
Gross yield(1):					
Pesos	7.72%	8.19%	10.57%	9.63%	
UDIs	4.21%	4.36%	4.34%	4.09%	
Foreign currency	2.77%	2.99%	4.17%	5.15%	
Weighted-average rate	7.10%	7.54%	9.77%	9.05%	
Net yield(2):					
Pesos	4.32%	4.23%	4.80%	4.33%	
UDIs	(7.36)%	(8.33)%	(4.51)%	2.08%	
Foreign currency	0.75%	0.92%	1.02%	1.49%	
Weighted-average rate	3.85%	3.79%	4.32%	3.97%	

	For the three months ended March 31, 2010 (Ps. millions, except percentages)	For the year ended December 31, 2009 2008 2007 (Ps. millions, except percentages)		
Yield spread(3):				
Pesos	3.68%	3.32%	3.95%	3.63%
UDIs	(1.28)%	(1.15)%	(1.72)%	(3.58)%
Foreign currency	0.59%	0.80%	0.78%	1.18%
Weighted-average rate	3.30%	3.04%	3.57%	3.31%

- (1) Gross yield represents interest income divided by average earning assets.
- (2) Net yield represents the total of financial margin divided by average earning assets.
- (3) Yield spread represents the difference between gross yield on average interest-earning assets and average cost of interest-bearing liabilities.

	For the three months ended March 31, 2010 (Ps. millions, except percentages)	For the year ended December 31, 2009 2008 2007 (Ps. millions, except percentages)		
Historical including loan fees:				
Financial margin:				
Pesos	5,250	21,833	21,181	16,352
UDIs	(21)	(84)	(52)	30
Foreign currency	126	657	618	798
Total	5,355	22,406	21,747	17,180

	For the three months ended March 31, 2010 (Ps. millions, except percentages)	For the year ended December 31, 2009 2008 2007 (Ps. millions, except percentages)		
Gross yield(1):				
Pesos	7.85%	8.30%	10.68%	9.69%
UDIs	4.21%	4.36%	4.34%	4.09%
Foreign currency	2.77%	2.99%	4.17%	5.15%
Weighted-average rate	7.22%	7.64%	9.87%	9.10%
Net yield(2):				
Pesos	4.45%	4.34%	4.91%	4.38%
UDIs	(7.36)%	(8.33)%	(4.51)%	2.08%
Foreign currency	0.75%	0.92%	1.02%	1.49%
Weighted-average rate	3.97%	3.89%	4.42%	4.01%
Yield spread(3):				
Pesos	3.81%	3.43%	4.06%	3.68%
UDIs	(1.28)%	(1.15)%	(1.72)%	(3.58)%
Foreign currency	0.59%	0.80%	0.78%	1.18%
Weighted-average rate	3.42%	3.14%	3.67%	3.36%

- (1) Gross yield represents interest income divided by average earning assets.
- (2) Net yield represents the total of financial margin divided by average earning assets.

- (3) Yield spread represents the difference between gross yield on average interest-earning assets and average cost of interest-bearing liabilities.

Return on Average Total Assets and Average Stockholders' Equity

The following table presents certain selected financial data and ratios for Banorte for the periods indicated:

	For the three months ended March 31, 2010 (Ps. millions, except percentages)	For the year ended December 31, 2009 2008 2007 (Ps. millions, except percentages)		
Net income	1,435	5,132	6,543	6,151
Average total assets.....	577,837	610,611	527,427	462,133
Average stockholders' equity	41,018	38,454	33,241	27,339
Return on average assets(1)(2)	1.05%	0.92%	1.57%	2.42%
Return on average equity(1)	14.16%	13.70%	20.05%	22.54%
Average stockholders' equity as a percentage of average total assets.....	7.10%	6.30%	6.30%	5.92%
Dividend Payout Ratio.....	5.66%	2.54%	9.81%	11.45%

- (1) The average for each period was determined by calculating the sum of the line item at the end of the period and the line item at the end of the prior period and then dividing this sum by two.

- (2) Figures for the three months ended March 31, 2010 have been annualized.

Interest Rate Sensitivity of Assets and Liabilities

Interest Rates

Banco de México regulations mandate that Mexican banks base their floating interest rates on commercial and mortgage loans on a single reference rate published by official or market-driven sources and that the agreements for such loans specify the factor used to determine the interest rate and the minimum and maximum spread over the reference rate. Currently, we generally base the floating interest rate on all of our new Peso-denominated loans on the THIE.

In accordance with Banco de México regulations, our policy with respect to non-Peso lending activities, mainly in U.S. dollars, is to price such loans generally on the basis of LIBOR or to a fixed rate. Spreads over LIBOR are determined in accordance with our marginal cost of funding in currencies other than Pesos. Interest on loans to Mexican borrowers paid to our Grand Cayman Branch is generally subject to a 4.9% withholding tax, the cost of which is reflected in our determination of the overall cost of the loan to the customer. Under Banco de México regulations, a portion of our non-Peso liabilities must be invested in certain dollar-denominated, low-risk, highly liquid instruments and deposits. See "Supervision and Regulation—Liquidity Requirements for Foreign Currency-Denominated Liabilities." Our cost associated with funding the reserve is also included in determining the cost to customers of non-Peso-denominated loans.

Interest Rate Sensitivity

A key component of our asset and liability policy is the management of interest rate sensitivity. Interest rate sensitivity is the relationship between market interest rates and financial margin due to the repricing characteristics of assets and liabilities. For any given period, the pricing structure is matched when an equal amount of assets and liabilities reprice. Any excess of assets or liabilities over these matched items results in a repricing gap or net exposure. A negative repricing gap denotes liability sensitivity and normally means that a decline in interest rates would have a positive effect on financial margin, while an increase in interest rates would have a negative effect on financial margin.

The following table reflects our interest-earning assets and interest-bearing liabilities as of March 31, 2010. Fixed-rate instruments were classified in this table according to their final maturity and other instruments according to their time of repricing.

As of March 31, 2010						
	0-30 Days	31-90 Days	91-180 Days	181-365 Days	Non-Rate Sensitive or Over One Year	Total
(Ps. millions, except percentages)						
ASSETS(1):						
Variable-rate loans.....	137,987	11,865	3,781	1,161	193	154,987
Fixed-rate loans	6,117	7,092	5,832	7,589	45,622	72,252
Total performing loans	144,104	18,957	9,613	8,750	45,815	227,239
Securities and investments	194,605	3,834	8,386	2,619	14,503	223,947
Repurchase agreements and derivative financial instruments	5,354	82	49	5	237	5,727
Total interest-earning assets.....	344,063	22,873	18,048	11,374	60,555	456,913
Cash, property and other non-interest-earning assets					93,528	93,528
Non-performing loans					6,017	6,017
Less: Allowance for loan losses					7,295	7,295
Total assets	344,063	22,873	18,048	11,374	152,805	549,163
LIABILITIES AND STOCKHOLDERS'						
EQUITY(1):						
Demand deposits	86,438	320	—	21	39,191	125,970
Time deposits.....	114,089	13,759	6,470	5,952	5,232	145,502
Total deposits	200,527	14,079	6,470	5,973	44,423	271,472
Short-term debt	2,659	484	726	2,627	—	6,496
Long-term debt	—	—	—	—	4,814	4,814
Securities and derivative financial instruments	193,513	(2)	—	(3)	91	193,599
Subordinated debentures	7,974	254	—	—	9,610	17,838
Other liabilities					13,495	13,495
Stockholders' equity					41,449	41,449
Total liabilities and stockholders' equity	404,673	14,815	7,196	8,597	113,882	549,163
Interest rate sensitivity gap	(60,610)	8,058	10,852	2,777	38,923	—
Cumulative interest rate sensitivity gap	(60,610)	(52,552)	(41,700)	(38,923)	—	—
Cumulative gap as percentage of total interest-earning assets.....	(13.27)%	(11.50)%	(9.13)%	(8.52)%	—	—

(1) Based on the lesser of the number of days to reprice and the remaining days to maturity of the corresponding asset or liability.

As of March 31, 2010, interest-earning assets totaled Ps.456,913 million. Of these assets, 75.30% repriced periodically every 30 days or less. Such assets included 41.88% of performing loans and 56.56% of securities and investments. Of our total performing loans, 95.76% are variable-rate loans and 4.24% are fixed-rate loans.

Of our liabilities as of March 31, 2010, 53.47% consisted of deposits, totaling Ps.271,472 million, of which 73.87% reprice every 30 days or less. The remaining 46.53% of our liabilities amounting to Ps.236,242 million consisted of Ps.11,310 million of funds from bank borrowings, Ps.17,838 million of subordinated debentures, Ps.185,135 million of repurchase operations, and Ps.21,959 million of other liabilities. Of such Ps.236,242 million of liabilities, 86.41% reprice every 30 days or less.

Interest-Bearing Deposits with Other Banks

Banco de México regulations require banks to maintain a minimum liquidity coefficient of foreign currency liabilities. See "Supervision and Regulation—Liquidity Requirements for Foreign Currency-Denominated Liabilities." A substantial majority of our short-term deposits with international banks are denominated in U.S. dollars.

Banco de México regulations require that a bank maintain balanced positions in foreign currencies no higher than a specified level with respect to its Tier 1 capital. At December 31, 2009, the limit established for us by Banco de México for maturity-adjusted net foreign currency-denominated liabilities was U.S.\$4,319 million (Ps.53,256 million). As of December 31, 2009, our maturity-adjusted net foreign currency liabilities totaled U.S.\$692 million (Ps.8,533 million).

Securities

We held securities in the amount of Ps.223,947 million as of March 31, 2010, representing 40.78% of our total assets.

The following table presents our portfolio of securities at the dates indicated, including those subject to repurchase agreements:

	As of March 31, 2010 (Ps. millions)	As of December 31, 2009	As of December 31, 2008	As of December 31, 2007
PESO-DENOMINATED:				
Mexican government securities:				
CETES	956	547	—	111
CETES Especiales (1)	729	725	688	648
Bonds	155,078	149,595	159,122	134
Total Mexican government securities	156,763	150,867	159,810	893
Bank bonds and certificates	46,485	51,780	58,903	5,283
Other fixed income securities	—	-	22	76
Equity securities (GFNorte, Banorte Stock Plan)	1,116	1,056	480	97
Total Peso-denominated	204,364	203,703	219,215	6,349
FOREIGN CURRENCY-DENOMINATED:				
Government securities:				
Mexican government securities issued abroad	2,644	2,831	3,125	1,361
U.S. Treasury bills	787	134	—	—
Total government securities	3,431	2,965	3,125	1,361
Eurobonds PEMEX	5,596	5,816	5,667	3,881
U.S. commercial paper	—	—	—	1,209
US Agencies	7,276	6,603	6,227	4,635
Other fixed income securities	3,548	3,670	4,285	704
Equity securities (Visa & MC).....	-	35	117	—
Total foreign currency-denominated	19,851	19,089	19,421	11,790
Sub-total securities	224,215	222,792	238,636	18,139
Assigned Securities Pending Settlement.....	(268)	(159)	—	(10)
Total Securities	223,947	222,633	238,636	18,129

(1) CETES *Especiales* in the above table are shown net of UDI Trusts' deposits.

Securities—Maturities and Average Yields

The following table analyzes, as of March 31, 2010, remaining maturities and weighted-average yields of our securities that have a specific date of maturity:

	From 1 to 89 days		From 90 to 179 days		From 6 to 12 months		From 1 to 2 years		From 2 to 3 years		From 3 to 4 years		From 4 to 5 years		More than 5 years		Total
	Amnt	Yield	Amnt	Yield	Amnt	Yield	Amnt	Yield	Amnt	Yield	Amnt	Yield	Amnt	Yield	Amnt	Yield	Balance
(Ps. millions, except percentages)																	
PESO-DENOMINATED:																	
CETES	41	4.52%	833	4.59%	82	4.59%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	956
CETES Especiales	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	728	4.40%	728
Bonds	9,767	4.61%	3,947	4.61%	11,507	4.61%	44,687	4.61%	54,468	4.61%	9,937	4.63%	13,641	4.65%	7,124	4.86%	155,078
Total Mexican government securities	9,808	4.61%	4,780	4.61%	11,589	4.61%	44,687	4.61%	54,468	4.61%	9,937	4.63%	13,641	4.65%	7,852	4.81%	156,762
Bank bonds and certificates	11,065	4.67%	3,279	4.92%	10,494	4.83%	245	9.71%	6,479	5.97%	3,019	5.91%	3,602	5.01%	8,302	4.54%	46,485
Other fixed-income securities	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-
Total Peso-denominated	20,873	4.64%	8,059	4.74%	22,083	4.71%	44,932	4.64%	60,947	4.76%	12,956	4.93%	17,243	4.72%	16,154	4.67%	203,247
FOREIGN CURRENCY-DENOMINATED:																	
Mexican government securities issued abroad	-	0.00%	-	0.00%	265	6.61%	-	0.00%	147	4.86%	376	4.86%	-	0.00%	1,856	4.86%	2,644
U.S. Treasury securities	-	0.00%	-	0.00%	-	0.00%	432	5.93%	185	5.52%	-	0.00%	-	0.00%	170	5.92%	787
Eurobonds	-	0.00%	-	0.00%	1,502	3.02%	69	5.96%	122	5.50%	343	6.25%	-	0.00%	3,560	5.20%	5,596
PEMEX	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-
U.S. commercial paper	47	4.17%	143	3.95%	129	4.16%	132	4.49%	31	4.79%	29	3.97%	153	4.27%	6,612	4.48%	7,276

Other fixed-income securities	-	0.00%	-	0.00%	-	0.00%	332	5.96%	66	4.82%	-	0.00%	-	0.00%	3,150	5.73%	3,548
Total foreign currency denominated	47	4.17%	143	3.95%	1,896	3.60%	965	5.74%	551	5.21%	748	5.46%	153	4.27%	15,348	4.96%	19,851
Total securities (excluding equity securities)	20,920	4.64%	8,202	4.74%	23,979	4.71%	45,897	4.64%	61,498	4.76%	13,704	4.93%	17,396	4.72%	31,502	4.67%	223,098
UDI Trusts' deposits ...																	1
Equity Securities (GFNorte, Banorte Stock Plan)																	1,116
Assigned Securities Pending Settlement																	(268)
Consolidated securities balance																	223,947

Bank Loans and Securities Sold Under Repurchase Agreements

The following table sets forth our borrowings and securities sold under repurchase agreements for the periods indicated:

	As of and for the three months ended March 31,		As of and for the year ended December 31,					
	2010		2009		2008		2007	
	Amount	Rate	Amount	Rate	Amount	Rate	Amount	Rate
	(Ps. millions, except percentages)		(Ps. millions, except percentages)					
Bank loans:								
At end of period	11,310	5.29%	11,286	4.09%	27,236	7.39%	14,094	7.07%
Daily average indebtedness during period	13,279	5.04%	23,372	5.39%	22,569	6.80%	14,847	6.83%
Maximum month-end balance	22,118	4.80%	31,596	6.46%	36,427	5.87%	22,542	6.77%
Securities sold under repurchase agreements:								
At end of period	197,191	4.60%	193,060	5.94%	206,326	7.69%	194,886	7.08%
Daily average indebtedness during period	195,192	4.65%	199,925	5.74%	202,262	7.85%	189,231	7.30%
Maximum month-end balance	198,470	4.57%	210,911	5.44%	217,168	7.31%	209,438	6.59%
Total:								
At end of period	208,501	4.64%	204,346	5.84%	233,562	7.66%	208,980	7.08%
Daily average indebtedness during period	208,471	4.67%	223,297	5.70%	224,831	7.74%	204,078	7.27%
Maximum month-end balance	220,588	4.59%	242,507	5.57%	253,595	7.10%	231,980	6.61%

Deposits

The following table presents the components of our deposit base for the dates indicated:

	As of March 31,		As of December 31,		
	2010		2009	2008	2007
	(Ps. millions)		(Ps. millions)		
Interest-bearing demand deposits:					
Peso-denominated		56,710	63,487	58,781	53,727
Non-Peso-denominated		11,483	12,246	11,473	10,284
Sub-total		68,193	75,733	70,254	64,011
Non-interest-bearing demand deposits:					
Peso-denominated		50,021	54,731	52,050	41,884
Non-Peso-denominated		7,432	6,879	5,825	5,052
Sub-total		57,453	61,610	57,875	46,936
Savings deposits:					
Peso-denominated		3	3	3	3
Non-Peso-denominated		321	261	235	164
Sub-total		324	264	238	167
Time deposits:					
Peso-denominated		119,395	111,516	111,540	74,934
Non-Peso-denominated		26,107	25,938	20,999	17,485
Sub-total		145,502	137,454	132,539	92,419
Total		271,472	275,061	260,906	203,533

Loan Portfolio

Total loan amounts set forth in this section include the total principal amount of performing and non-performing loans outstanding at the date presented, which include rediscounted loans and loans in the UDI Trusts. The terms “total loans” and “total loan portfolio” include total performing loans plus total non-performing loans. The terms “net total loans” and “net total loan portfolio” refer to net total performing loans plus net non-performing loans. See “Presentation of Certain Financial and Other Information—Terms Relating to Our Loan Portfolio.”

Total balance of our loan portfolio as of March 31, 2010 amounted to Ps.233,256 million, a decrease of Ps.1,623 million, or 0.69%, from the balance at December 31, 2009. This decrease was mainly due to a decrease in commercial, corporate, and credit card portfolios.

As of December 31, 2009, our loan portfolio amounted to Ps.234,879 million, a decrease of 0.57% compared to December 31, 2008. This decrease was mainly due to a reduction in commercial, corporate and credit card portfolios partially offset by an increase in government and mortgage portfolios.

As of December 31, 2008, our loan portfolio amounted to Ps.236,236 million, an increase of 25.47% compared to December 31, 2007. This increase was mainly due to growth in all segments with particular emphasis on mortgages, government and commercial portfolios.

Loans by Type and by Borrower

The following table analyzes our loan portfolio by loan type. Total loans reflect the sum of the performing loan portfolio and the non-performing loan portfolio. For a breakdown of non-performing loans by loan type, see “—Non-Performing Loan Portfolio” below.

	As of March 31, 2010 (Ps. millions)	As of December 31, 2009	2008 (Ps. millions)	2007
Commercial and corporate loans:				
Government loans.....	40,995	38,982	26,977	17,948
Loans granted to financial institutions	7,918	8,923	14,331	16,153
Commercial loans:				
Collateralized or guaranteed	73,597	75,536	81,485	58,600
Unsecured.....	27,892	29,802	32,961	28,401
Sub-total	101,489	105,338	114,446	87,001
Total commercial and corporate loans	150,402	153,243	155,754	121,102
Consumer loans:				
Mortgage	51,083	49,881	46,282	37,216
Credit cards	11,239	11,801	15,067	13,881
Automobile and other consumer loans	14,515	13,903	14,297	13,339
Total consumer loans	76,837	75,585	75,646	64,436
Total performing loans.....	227,239	228,828	231,400	185,538
Total non-performing loans	6,017	6,051	4,836	2,744
Total loans(1)	233,256	234,879	236,236	188,282

(1) The loan amounts set out in the above table include accrued interest.

Commercial Loans

Total performing commercial and corporate loans as of March 31, 2010 amounted to Ps.150,402 million, which decreased by Ps.2,841 million, or 1.85%, from the amount recorded on December 31, 2009. This decrease was due to increased participation in new syndications and new originations of structured loans related to the infrastructure and real estate sectors.

Performing commercial and corporate loans totaled Ps.153,243 million as of December 31, 2009, reflecting a decrease of Ps.2,511 million, or 1.61%, compared to December 31, 2008. The decrease in commercial and corporate lending in 2009 was primarily due to prepayments of commercial and corporate clients and lower credit origination. Outstanding commercial and

corporate loans as a percentage of the total loan portfolio accounted for 64.48% as of March 31, 2010, 65.24% as of December 31, 2009, 65.93% as of December 31, 2008 and 64.32% as of December 31, 2007.

As of March 31, 2010 and as of December 31, 2009, 2008 and 2007, the aggregate outstanding principal amount and accrued interest of loans to our 15 largest clients (including loans to a single corporate group or to the Mexican government) represented 30.20%, 28.41%, 24.86% and 29.18%, respectively, of total commercial and corporate loans. Of these 15 largest clients, as of March 31, 2010, 14 were classified as “A” and 1 was classified as “B” under the CNBV’s regulatory loan classification guidelines.

As of March 31, 2010, 27.48% of our commercial loan portfolio was unsecured. Unsecured commercial loans, consisting primarily of short-term working capital loans (with terms of 30 to 90 days), are common in Mexico. The credit analysis and administration of these loans are the same as for secured loans. If we establish an unsecured line of credit, it is because we believe the borrower is a creditworthy customer, and the fact that it is an unsecured loan is taken into consideration during the approval process.

Consumer Loans

Performing consumer loans, including residential mortgage, credit card, automobile and other consumer loans, increased 17.40% in 2008, decreased 0.08% in 2009 and increased 1.66% during the first three months of 2010.

Our performing credit card portfolio increased 8.54% in 2008, decreased 21.68% in 2009 and decreased 4.76% during the first three months of 2010. Like other Mexican banks, we reflect in our interest rates for credit cards the greater risk associated with such loans. Other types of loans, such as mortgage and automobile loans, are generally less risky because borrowers are less able to increase their borrowings without prior approval and must generally provide some form of collateral.

Performing automobile and other consumer loans increased 7.18% from December 31, 2007 to December 31, 2008, decreased 2.76% from December 31, 2008 to December 31, 2009 and increased 4.40% from December 31, 2009 to March 31, 2010. The preferred lending products for this market segment have been automobile loans and payroll advances.

As of March 31, 2010, 0.66% of our mortgage portfolio consisted of low-income loans, which are funded by *Fondo de Operación y Financiamiento Bancario a la Vivienda* (the Operating and Bank Financing Fund for Housing or “FOVI”). During the inflationary period of the 1980s, few residential mortgage loans were made in Mexico. Like other Mexican banks, we are required to participate in programs that promote loans for low-income housing with funds provided by FOVI. Loans extended under these programs carry below-market interest rates. The monthly payment due in respect to these loans is fixed at the time the loan is issued and increases in accordance with increases in the official monthly minimum wage. Like all other Mexican banks participating in these mandatory programs, we have obtained from Banco de México its commitment to repay any unpaid principal of those loans that are performing at maturity. The aggregate principal amount outstanding on these loans on March 31, 2010 was Ps.345 million.

As of March 31, 2010, our mortgage portfolio consisted of 85,007 residential loans, with an aggregate principal amount outstanding of Ps.48,525 million. These loans were originally granted in Pesos or UDIs. The Peso-denominated loans were funded by us and carry market interest rates, but the monthly payment is fixed or variable. The UDI-denominated loans were funded by us and the Mexican government, and the monthly payment is fixed, but the outstanding balance in Pesos increases monthly in proportion to the variation of the NCPI.

Loans by Currency

Foreign currency-denominated loans amounted to Ps.23,867 million on March 31, 2010, reflecting a decrease of 9.92% from December 31, 2009. Foreign currency-denominated loans amounted to Ps.26,495 million on December 31, 2009, reflecting a decrease of 15.24% from December 31, 2008 and Ps.31,258 million on December 31, 2008, reflecting an increase of 19.46% from December 31, 2007. Foreign currency-denominated loans decreased as a percentage of the total loan portfolio from 13.90% as of December 31, 2007 to 11.28% as of December 31, 2009. The decrease in foreign currency-denominated loans from December 31, 2009 to March 31, 2010 is principally the result of lower demand caused by the financial crisis.

The following table presents our Peso and foreign currency-denominated loan portfolio at the dates indicated. Foreign currency-denominated loans that were not denominated in U.S. dollars were converted into U.S. dollars and then expressed in Pesos, at the Banco de México Exchange Rate.

	As of March 31,		As of December 31,					
	2010		2009		2008		2007	
	Loan Amount	% of Portfolio(2)	Loan Amount	% of Portfolio(2)	Loan Amount	% of Portfolio(2)	Loan Amount	% of Portfolio(2)
	(Ps. millions, except percentages)		(Ps. millions, except percentages)					
Peso-denominated loans	208,259	89.28%	207,232	88.23%	203,650	86.21%	160,345	85.16%
UDI denominated loans	1,129	0.48%	1,152	0.49%	1,328	0.56%	1,771	0.94%
Foreign currency-denominated loans	23,867	10.24%	26,495	11.28%	31,258	13.23%	26,166	13.90%
Total loans(1)	233,255	100%	234,879	100%	236,236	100%	188,282	100.0%

(1) The loan amounts set out in the above table include accrued interest.

(2) Percentage of portfolio equals the relevant loan amount by currency divided by the sum of total loans.

Loans to the Public and Private Sectors

As of March 31, 2010, our loans to the public sector amounted to Ps.40,995 million, accounting for 17.58% of our total loan portfolio. The percentage of our loan portfolio comprised of public sector loans increased from 9.53% at December 31, 2007 to 11.42% at December 31, 2008, to 16.60% at December 31, 2009 and increased to 17.58% as of March 31, 2010. These increases are a result of more aggressive placement of loans to states and municipalities. See “Risk Factors—Loans to the Mexican federal government and to Mexican state and municipal governments do not require capital or reserves” and “—Some of our loans to Mexican states and municipalities may be restructured.”

Loans to individuals consisted of loans for business activities, mortgage loans, credit card loans and automobile and other consumer loans. Loans to individuals totaled Ps.79,261 million as of March 31, 2010, reflecting an increase of 0.87% from Ps.78,576 million as of December 31, 2009, which in turn decreased by 0.40% from Ps.78,892 million as of December 31, 2008, which reflected an increase of 18.81% from Ps.66,403 million as of December 31, 2007. The increase from the fourth quarter of 2009 to the first quarter of 2010 was due to higher balances in the mortgage, automobile, and payroll loan portfolios as a result of higher loan demand due to a more favorable economic environment, which offset a reduction in the credit card portfolio. The decrease between December 2008 and December 2009 was mainly the result of a decline in the credit card, automobile, and payroll loan portfolios as a result of lower levels of employment, which reduced the demand for these products, and tighter loan origination policies. The increase between December 2007 and December 2008 was the result of an increase in all segments of the portfolio.

The following table sets forth an analysis of the composition of our total loan portfolio at the dates indicated with respect to loans to both the public and private sectors:

	As of March 31,		As of December 31,					
	2010		2009		2008		2007	
	Loan Amount	% of Portfolio(3)	Loan Amount	% of Portfolio(3)	Loan Amount	% of Portfolio(3)	Loan Amount	% of Portfolio(3)
	(Ps. millions, except percentages)		(Ps. millions, except percentages)					
Public sector(1)	40,995	17.58%	38,982	16.60%	26,976	11.42%	17,948	9.53%
Private sector:								
Businesses	112,999	48.44%	117,321	49.95%	130,368	55.19%	103,931	55.20%
Individuals(2)	79,261	33.98%	78,576	33.45%	78,892	33.39%	66,403	35.27%
Total private sector loans	192,260	82.42%	195,897	83.40%	209,260	88.58%	170,334	90.47%
Total loans	233,255	100%	234,879	100%	236,236	100%	188,282	100%

(1) Includes loans supported by the full faith and credit of the Mexican government.

(2) Includes loans to individuals for business activities as well as mortgage, credit card and other consumer loans.

(3) Percentage of portfolio equals the relevant loan amount divided by the sum of total loans.

Loans by Economic Activity

During the last few years, we have focused our lending activities towards those sectors of the Mexican economy which we believe, within the context of our overall risk management policies, have the greatest potential for growth. In addition, we have attempted to reduce our risk by diversifying our loan portfolio among a greater number of customers and within a larger geographic area in Mexico.

From December 31, 2007 to December 31, 2008, mortgage loans increased by Ps.8,954 million, an increase of 23.52%, due mainly to new residential mortgage loan origination. By December 31, 2009, the total balance of our mortgage loan portfolio increased by Ps.3,902 million, or 8.30% of our total portfolio, mainly as a result of new loan origination. As of March 31, 2010, our mortgage loan portfolio totaled Ps.51,943 million, representing an increase of Ps.1,013 million, or 1.99%, from the mortgage loan balance as of December 31, 2009. This increase was mainly the result of new loan origination. Mortgage loans represented 22.27%, 21.68%, 19.91% and 20.22%, respectively, of our total loan portfolio as of March 31, 2010, December 31, 2009, December 31, 2008 and December 31, 2007, respectively.

During the first three months of 2010, our government loans increased by Ps.2,000 million, or 5.14%. During the same period our mortgage loans increased by Ps.1,013 million, or 1.99%. These increases along with increases in loans granted to the mining sector of Ps.164 million, or 40.59%, and the increase in other consumer loans of Ps.527 million, or 3.70%, were insufficient to offset the decreases on the total loan portfolio of Ps.1,623 million, or 0.69%.

The following table sets forth an analysis of our loan portfolio's composition at the dates indicated according to the borrower's principal economic activity:

	As of March31,		As of December 31,					
	2010		2009		2008		2007	
	Loan	% of	Loan	% of	Loan	% of	Loan	% of
	Amount	Portfolio(5)	Amount	Portfolio(5)	Amount	Portfolio(5)	Amount	Portfolio(5)
	(Ps. millions, except percentages)		(Ps. millions, except percentages)					
Economic Activity(1):								
Total mortgages	51,943	22.27%	50,930	21.68%	47,028	19.91%	38,074	20.22%
Social and community services(2).....	8,926	3.83%	8,986	3.83%	9,172	3.88%	8,298	4.41%
Manufacturing.....	13,279	5.69%	15,361	6.54%	16,716	7.08%	12,981	6.89%
Construction and real estate development	19,395	8.31%	19,530	8.31%	19,112	8.09%	12,129	6.44%
Commercial activities(3)	26,934	11.55%	27,393	11.66%	32,009	13.55%	24,365	12.94%
Credit card	12,557	5.38%	13,411	5.71%	17,207	7.28%	14,710	7.81%
Financial services(4)	19,577	8.39%	20,449	8.71%	26,288	11.13%	25,372	13.48%
Energy and utilities	—	0.00%	—	0.00%	—	0.00%	—	0.00%
Agriculture, forestry and livestock	5,011	2.15%	5,054	2.15%	5,344	2.26%	5,035	2.67%
Mining.....	568	0.24%	404	0.17%	132	0.06%	193	0.10%
Transportation and communication....	7,860	3.37%	7,955	3.39%	8,567	3.63%	6,583	3.50%
Government.....	40,926	17.55%	38,926	16.57%	26,901	11.39%	17,851	9.48%
INB commercial portfolio.....	11,449	4.91%	12,189	5.19%	13,028	5.51%	8,975	4.77%
Other consumer loans	14,762	6.33%	14,235	6.06%	14,656	6.20%	13,619	7.23%

	As of March 31,		As of December 31,					
	2010		2009		2008		2007	
	Loan Amount	% of Portfolio(5)	Loan Amount	% of Portfolio(5)	Loan Amount	% of Portfolio(5)	Loan Amount	% of Portfolio(5)
	(Ps. millions, except percentages)		(Ps. millions, except percentages)					
ADE.....	69	0.03%	56	0.02%	76	0.03%	97	0.05%
Total loan portfolio	233,256	100.00%	234,879	100.00%	236,236	100.00%	188,282	100.00%

- (1) The loan amounts set out in the above table include accrued interest and non-performing loans.
- (2) Includes certain loans to the public sector and to educational and cultural institutions.
- (3) Includes loans for commercial activities not directly related to manufacturing.
- (4) Includes credit extended to financial institutions and unincorporated businesses except for credit exposures connected to leasing and factoring.
- (5) Percentage of portfolio equals the relevant loan amount by economic activity divided by the sum of total loans.

Our loan portfolio is characterized by seasonal variations in loan demand and in outstanding loan balances. For example, heavy demand for agricultural financing drives increases in outstanding loan balances from May through July of each year. In addition, the Mexican economy has historically experienced large increases in economic activity during the second half of the year, resulting in significant demand for working capital and inventory financing during the period from September through November and for consumer loan balances from November through January.

Maturity Composition of the Loan Portfolio

The following table sets forth an analysis with reference to time remaining to maturity of our loan portfolio, as of March 31, 2010 and as of December 31, 2009, 2008 and 2007:

	As of March 31,		As of December 31,					
	2010		2009		2008		2007	
	Loan Amount	% of Portfolio(3)	Loan Amount	% of Portfolio(3)	Loan Amount	% of Portfolio(3)	Loan Amount	% of Portfolio(3)
	(Ps. millions, except percentages)		(Ps. millions, except percentages)					
Due within 1 year(1)	44,876	19.24%	45,045	19.18%	56,325	23.84%	46,818	24.87%
Between 1 and 5 years(1)	75,059	32.18%	76,648	32.63%	77,560	32.83%	65,268	34.67%
Over 5 years(1)	107,235	45.97%	107,079	45.59%	97,439	41.25%	73,355	38.96%
Sub-total loans.....	227,170	97.39%	228,772	97.40%	231,324	97.92%	185,441	98.49%
Non-performing loans.....	6,017	2.58%	6,051	2.58%	4,836	2.05%	2,744	1.46%
ADE.....	69	0.03%	56	0.02%	76	0.03%	97	0.05%
Total loan portfolio(2)	233,256	100.00%	234,879	100.00%	236,236	100.00%	188,282	100.00%

- (1) These loans may be prepaid.
- (2) Maturity composition is based on the period remaining to the maturity of the loans.
- (3) Percentage of portfolio equals the relevant loan amount by currency divided by the sum of total loans.

From December 31, 2007 to December 31, 2008, loans due within one year increased by Ps.9,507 million, an increase of 20.31%. From December 31, 2008 to December 31, 2009, the balance of loans due within one year decreased by Ps.11,280 million, or 20.03%. From December 31, 2009 to March 31, 2010, such loans decreased by Ps.169 million, or 0.38%.

For the three months ended March 31, 2010 and for the years ended December 31, 2009, 2008 and 2007, our loans with a maturity of over 5 years increased as a percentage of total loans. These trends are the result of increases in our mortgage loan portfolio with maturities of 15 years.

Interest Rate Sensitivity of Outstanding Loans

Every 28 days the interest rates of the majority of our Peso-denominated loans have rates that are determined by reference to a marginal variable rate. Following the establishment of the TIIE on March 20, 1995, we began pricing loans based on the TIIE.

The following table presents the interest rate sensitivity of our outstanding loan portfolio at the dates indicated:

	As of March 31,	As of December 31,		
	2010 (Ps. millions)	2009	2008 (Ps. millions)	2007
Fixed-rate	73,596	76,272	88,226	80,679
Variable rate	159,660	158,607	148,010	107,603
Total loan portfolio	233,256	234,879	236,236	188,282
Non-performing loans.....	6,017	6,051	4,836	2,744
Allowances for loan losses	(7,295)	(7,358)	(6,582)	(3,707)
Net total loan portfolio(1)	225,961	227,521	229,654	184,575

(1) The loan amounts set out in the above table include accrued interest.

Non-Performing Loan Portfolio

In assessing the performance of our loan portfolio, we have reviewed both the outstanding amount of our non-performing loan portfolio as well as the classification of loans using the loan grading system set forth under the General Rules Applicable to Mexican Banks. In accordance with the practice of most Mexican banks, we have traditionally monitored the performance of our loan portfolio by reference to our *cartera vencida*, or non-performing loan portfolio.

Pursuant to Mexican Banking GAAP, we recognize the entire principal amount and accrued but unpaid interest of a loan as “non-performing” in accordance with the following criteria: (i) in the case of loans where the principal and interest is payable in a single installment, 30 days after a payment becomes due, (ii) in the case of loans where the principal is payable in a single installment with periodic interest payments, 90 days after an interest payment is missed or 30 days after a principal payment is missed; (iii) in the case of loans where the principal and interest are payable in periodic installments, 90 days after a payment is missed; (iv) in the case of revolving loans, 60 days after a missed payment; (v) in the case of mortgage loans, 90 days after a missed payment; (vi) in the case of credit card loans, after two consecutive payments are missed; and (vii) in the case of checking accounts, when an overdraft occurs. In addition, unpaid balances of loans are considered “non-performing” when a borrower has declared bankruptcy. Restructured loans are considered “non-performing” until we have received payment for three consecutive monthly periods, or one installment payment in cases where the installment period is greater than 60 days. Loans with an extended maturity date in which the borrower has not paid the accrued interest and at least 25% of the original principal amount when due will be considered “non-performing” so long as there is no evidence of sustained payment.

Accrued interest recorded as non-performing interest and included in income becomes part of our total classifiable credit portfolio and is subject to the loan loss reserve requirements of the credit portfolio grading system, as described under “—Grading of Loan Portfolio.” The amount of the loan loss allowance for possible credit risk is based upon the grade assigned to the underlying loan.

The non-performing loan portfolio may include credits that our management views as involving different risk levels and that are accordingly graded for regulatory purposes in categories ranging from “A” to “E.” See “—Grading of Loan Portfolio.”

As of March 31, 2010, the total amount of non-performing loans was Ps.6,017 million, which represented 2.58% of total loans. Of this amount, Ps.115 million, or 1.91%, of the total amount of non-performing loans represented non-performing interest. The total amount of non-performing loans decreased by Ps.34 million, or 0.56%, during the first three months of 2010. This decrease was mainly the result of an improvement in asset quality of loan portfolios, especially in consumer loans, offset by the deterioration in commercial loans of INB.

As of December 31, 2009, the total amount of non-performing loans was Ps.6,051 million, or 2.58% of total loans. Of this amount, Ps.625 million, or 10.33%, of the total amount of non-performing loans represented non-performing interest. The total amount of non-performing loans increased by Ps.1,215 million, or 25.12%, during 2009. This increase was mainly the result of the deterioration in the consumer, commercial, and mortgage portfolios due to the weaker economic environment.

As of December 31, 2008, the total amount of non-performing loans was Ps.4,836 million, or 2.05% of total loans. Of this amount, Ps.478 million, or 9.88%, of the total amount of non-performing loans represented non-performing interest. The total amount of non-performing loans increased by Ps.2,092 million, or 76.24%, during 2008. This increase was mainly the result of the deterioration in the consumer loan portfolio, especially in credit cards, as a result of the payment problems that many of our clients faced due to a deteriorating economic environment, particularly in the second half of the year. Past due loans also increased to a lesser extent as a result of higher delinquencies in commercial loans, mainly in the SME segment.

As of December 31, 2007, the total amount of non-performing loans was Ps.2,744 million, or 1.46% of total loans. Of this amount, Ps.331 million, or 12.06%, of the total amount of non-performing loans represented non-performing interest.

The following table sets forth an analysis of our non-performing loans (including non-performing interest) by type of loan at the dates indicated:

	As of March 31, 2010 (Ps. millions)	2009	As of December 31, 2008 (Ps. millions)	2007
NON-PERFORMING LOANS:				
Commercial loans:				
Collateralized or guaranteed	2,564	2,111	1,057	463
Unsecured.....	1,028	949	534	314
Total commercial and corporate loans	3,592	3,060	1,591	777
Consumer loans:				
Residential mortgage	860	1,049	746	858
Credit card.....	1,318	1,610	2,140	829
Other consumer credit.....	247	332	359	280
Total consumer loans.....	2,425	2,991	3,245	1,967
Total non-performing loans	6,017	6,051	4,836	2,744
Allowance for loan losses	7,295	7,358	6,582	3,707
Total non-performing portfolio net of allowance for loan losses	(1,278)	(1,307)	(1,746)	(963)

Grading of Loan Portfolio

The Loan Classification and Rating Rules provide a model to classify consumer and mortgage loans and set forth the methodology to classify commercial loans based on an evaluation of the borrower's payment ability (including financial risk, industry risk and payment history) and an evaluation of the related collateral and guarantees. Based on these models and methodology, probable loss is estimated and the percentage of required reserves is determined. The Loan Classification and Rating Rules also permit banks, subject to prior approval by the CNBV, to develop and adopt specific internal procedures to grade the loans in their portfolio. We have developed our own Internal Risk Grading Methodology, or "CIR Banorte" to classify commercial loans and follow the parametric model set forth in the Loan Classification and Rating Rules to classify other loans, such as mortgage, credit card and consumer loans.

The Loan Classification and Rating Rules require that Mexican banks grade 100.0% of their loan portfolio (except loans made to or guaranteed by the Mexican federal government) as of the end of each quarter. The classification of mortgage loans, credit cards and other credits is performed monthly and reported to the CNBV.

The Loan Classification and Rating Rules establish the following categories corresponding to levels of risk and set forth procedures for the grading of commercial loans: Grade "A" loans, representing minimal risk of non-payment; Grade "B" loans, representing low risk loans; Grade "C" loans, representing loans with moderate risk; Grade "D" loans, representing high risk loans; and Grade "E" loans, representing non-collectible loans.

The Loan Classification and Rating Rules provide for additional subcategories of grading on the basis of the collateral or guarantees that may apply to the individual credit subject to grading, as follows:

Risk Levels	Allowance for Loan Losses for Commercial Loans greater than \$4 million UDIs		
	Low/Minus Rating	Medium/Average Rating	High/Plus Rating
A-1		0.5%	
A-2		0.99%	
B-1	1.0%	3.0%	4.99%
B-2	5.0%	7.0%	9.99%
B-3	10.0%	15.0%	19.99%
C-1	20.0%	30.0%	39.99%
C-2	40.0%	50.0%	59.99%
D	60.0%	75.0%	89.99%
E		100%	

Months as of first nonfulfillment	Allowance for Loan Losses for Commercial Loans less than \$4 million UDIs	
	Portfolio Type 1	Portfolio Type 2
	% Allowance	% Allowance
0	0.5%	10%
1	5%	30%
2	15%	40%
3	40%	50%
4	60%	70%
5	75%	85%
6	85%	95%
7	95%	100%
8 or more	100%	100%

Portfolio Type 1: Credits that have never been restructured.

Portfolio Type 2: Credits that have been restructured because of troubled portfolio.

The grading of commercial loan portfolios is determined by an analysis of the financial risk, industry risk, country risk and the credit experience, which include the following risk factors: financial structure and payment capacity, sources of financing, administration and decision making, integrity of the financial information, market position and the specific collateral or guarantees that cover the credits.

With respect to consumer loans, the classification is determined on the basis of the time such loans have been in default (in this context, months in default refers to the number of monthly payments missed). Currently, consumer loans with no default are rated "A", those loans in default for one month are rated "B", loans in default for two months are rated "C", loans in default for three to six months are rated "D" and loans in default for seven months or more are rated "E".

Risk Levels	Allowance for Loan Losses for Consumer Loans	
	Months At Default	% Allowance
A	0	0.5%
B	1	10%
C	2	45%
D	3	65%
D	4	75%
D	5	80%
D	6	85%
E	7	90%
E	8	95%
E	9 or more	100%

According to the CNBV's regulatory rules, the classifications for credit card accounts are determined on the percentage of provisions of each account over the balance at the end of the month. Provisions are calculated case by case based on expected loss multiplying probability of default, loss given default and exposure at time of default. This methodology was modified in 2009, resulting in a different provisions range that had a material impact on our classification of credit card accounts. See Note 12 to our audited consolidated financial statements for further discussion of the modification to the methodology.

Risk Levels	Provisions Range
A	0% to 0.99%
B-1	1% to 2.5%
B-2	2.51% to 19.99%
C	20% to 59.99%
D	60% to 89.99%
E	90% to 100%

The reserves for each account are calculated according to the next formula:

$$R_i = PI_i \times SP_i \times EI_i$$

Where:

R_i = reserves for the i-account

PI_i = probability of default for the i-account

SP_i = loss given default for the i-account

EI_i = exposure at default for the i-account

If $ACT \geq 4$ then $PI_i = 100\%$

$$\text{If } ACT < 4 \text{ then } PI_i = \frac{1}{1 + e^{-[-2.9704 + 0.6730ACT + 0.4696HIST - 0.0075ANT - 1.0217\%PAY + 1.1513\%USE]}}$$

Where:

ACT = Number of missed payments in consecutive periods, previous to calculation date.

$HIST$ = Number of missed payments in the last six months.

ANT = Number of months since origination until provisions calculation date.

$\%PAY$ = Percentage representing a ratio between Current Payment and Balance to Pay, and is calculated as Current Payment / Balance to Pay.

$\%USE$ = Percentage representing a ratio between Balance to Pay and Credit Limit for the account, and is calculated as Balance to Pay / Credit Limit.

$SP_i = 75\%$ if $ACT < 10$, 100% if $ACT \geq 10$

$$EI_i = B * \text{Max} \left\{ \left(\frac{B}{\text{Credit Limit}} \right)^{-0.5784}, 100\% \right\}$$

Where:

B = Debtor's total balance in the bank at the end of the month

As of December 31, 2009 and March 31, 2010, the aggregate outstanding principal amount of our 15 largest loans (including loan exposures to a single corporate group or to an agency of the Mexican government) represented 18.5% and 19.5%, respectively, of our total loans. The largest single loan exposure at December 31, 2009 and March 31, 2010 (excluding the Mexican government and our affiliates) accounted for 12.43% and 14.73% of our stockholders' equity, respectively. As of December 31, 2009, of our 15 largest loans, 15 loans were rated "A". As of March 31, 2010, of our 15 largest loans, 14 loans were rated "A" and one was rated "B."

The following table analyzes the grading of our commercial loan portfolio at the dates indicated. In accordance with the CNBV rules, loans are graded based on their outstanding balance at the end of the reported update. This table excludes loans to the Mexican federal government and Banco de México or to any party that is guaranteed by these institutions, but includes accrued interest, non-performing interest and our off-balance sheet commitments (such as guarantees and letters of credit).

	As of March 31,		As of December 31,					
	2010		2009		2008		2007	
	Amount	%	Amount	%	Amount	%	Amount	%
	(Ps. millions, except percentages)		(Ps. millions, except percentages)					
Total graded loans:								
A.....	206,891	86.55%	209,343	87.08%	209,607	86.82%	177,776	92.11%
B.....	23,961	10.02%	22,663	9.43%	25,876	10.72%	12,394	6.42%
C.....	4,681	1.96%	4,649	1.93%	2,676	1.11%	1,096	0.57%
D.....	2,295	0.96%	2,589	1.08%	1,682	0.70%	1,228	0.64%
E.....	1,201	0.50%	1,148	0.48%	1,580	0.65%	507	0.26%
Total graded loans(1).....	239,029	100.00%	240,392	100.00%	241,421	100.00%	193,001	100.00%
Allowance grading of our loans:								
Additional allowances derived from grading:								
Commercial loans.....	3,435	47.09%	3,202	43.52%	3,073	46.69%	1,344	36.26%
Mortgage loans.....	706	9.68%	738	10.03%	596	9.05%	747	20.15%
Credit card.....	2,473	33.90%	2,672	36.31%	1,787	27.15%	657	17.72%
Other consumer loans.....	623	8.54%	691	9.39%	789	11.99%	656	17.70%
Non-performing interest.....	44	0.60%	46	0.63%	37	0.56%	22	0.59%
Excess over minimum regulatory requirements.....	14	0.19%	9	0.12%	300	4.56%	281	7.58%
Total allowance for loan losses ..	7,295	100.00%	7,358	100.00%	6,582	100.00%	3,707	100.00%
Total loans graded C, D or E.....	8,177		8,386		5,938		2,831	
Allowances as a percentage of:								
Graded loans.....		3.05%		3.06%		2.73%		1.92%
Total loans plus interest(2).....		3.13%		3.13%		2.79%		1.97%
Total non-performing amounts.....		121.24%		121.60%		136.10%		135.14%
Total loans graded C, D or E.....		89.21%		87.74%		110.85%		130.94%
Total non-performing amounts as a percentage of total loans plus interest(2).....		2.58%		2.58%		2.05%		1.46%
Total net non-performing loans (non-performing amounts less allowance) as percentage of net total loans plus interest.....		(0.57)%		(0.57)%		(0.76)%		(0.52)%
Total loans graded C, D or E as a percentage of total loans.....		3.51%		3.57%		2.51%		1.50%

(1) Total graded loans include our surety bonds and stand-by letters of credit, which are not included in the balance sheet.

(2) Interest includes non-performing and outstanding interest.

Allowance for Loan Losses

We provide for possible loan losses in accordance with the Loan Classification and Rating Rules as required by the CNBV and currently we are in compliance with the allowance for losses required to be set aside by such Rules. The grading of loans determines the amount of the allowance for loan losses required to be set aside, which is determined based on the percent of the outstanding balance of such loans: between 0.0% and 0.99% for Grade “A” loans, between 1% and 19.99% for Grade “B” loans, between 20% and 59.99% for Grade “C” loans, between 60% and 89.99% for Grade “D” loans and between 90% and 100% for Grade “E” loans. Mexican government and Banco de México loans or loans to a third party guaranteed by these institutions are not subject to the grading system and are effectively deemed to be Grade “A” loans for loan loss allowance purposes. See “Risk Factors—Loans to the Mexican federal government and to Mexican state and municipal governments do not require capital or reserves.” The loan loss reserves are held in a separate account on our balance sheet and all write-offs of

uncollectible loans are charged against this reserve. Mexican banks are required to obtain authorization from their boards of directors in order to write off loans. In addition, Mexican banks are required to inform the CNBV after such write-offs have been recorded.

For the year ended December 31, 2009, we recorded provisions charged against earnings totaling Ps.8,103 million. During the first three months of 2010, we recorded provisions charged against earnings totaling Ps.1,722 million. Consequently, our allowance for loan losses amounted to 121.24% of non-performing loans at March 31, 2010, compared to 121.60% as of December 31, 2009.

Analysis of Allowance for Loan Losses

The following table analyzes our allowance for loan losses and movements in loan charge-offs and recoveries for the periods indicated, as well as changes to income and period-end allowances for loan losses:

	For the three months ended March 31,	For the year ended December 31,		
	2010	2009	2008	2007
	(Ps. millions)		(Ps. millions)	
Balance at beginning of year	7,358	6,582	3,707	3,578
Increase:				
Allowances charged to income.....	1,722	8,103	6,661	2,514
Appreciation of foreign currency items and UDIs.....	—	—	108	31
Created with profit margin.....	15	59	48	27
Recognized against retained earnings from prior years .	—	1,136	103	—
Other.....	—	1	—	—
Sub-total	1,737	9,299	6,920	2,572
Decrease:				
Benefits and reductions granted to UDI loan programs.	—	—	—	—
Effects of restatement	—	—	—	131
Losses and write-offs.....	1,758	8,458	3,956	2,165
Reduction and benefits granted to mortgage debtors.....	10	46	77	72
Valuation of foreign currencies and UDIs	32	19	—	—
Benefits granted as part of FINAPE and FOPYME programs.....	—	—	—	—
Other.....	—	—	12	75
Sub-total	1,800	8,523	4,045	2,443
Balance at end of the year.....	7,295	7,358	6,582	3,707

Allocation of Allowance for Loan Losses by Category

	As of March 31,		As of December 31,					
	2010		2009		2008		2007	
	Allowance	%	Allowance	%	Allowance	%	Allowance	%
	(Ps. millions, except percentages)		(Ps. millions, except percentages)					
Commercial, financial and agricultural	3,435	47.09%	3,202	43.51%	3,073	46.69%	1,344	36.26%
Residential mortgages.....	706	9.67%	739	10.05%	596	9.06%	746	20.13%
Credit card.....	2,473	33.90%	2,672	36.31%	1,788	27.16%	658	17.74%
Other consumer loans	623	8.53%	691	9.40%	789	11.99%	656	17.69%
Non-performing interest	44	0.60%	46	0.62%	37	0.56%	22	0.60%
Excess over minimum regulatory requirements	15	0.21%	8	0.11%	299	4.54%	281	7.58%
Total	7,295	100%	7,358	100%	6,582	100%	3,707	100%

Rules for the UDI Trusts require a minimum level of loan loss allowance based upon the Loan Classification and Rating Rules in the case of commercial loans, and in the case of mortgage loans the greater of the minimum required by the Loan Classification and Rating Rules or the percentage required under methodologies approved by the CNBV. This loan loss allowance forms part of the loan loss allowance shown in our Financial Statements included elsewhere in this offering circular.

Foreclosed Real Estate and Other Assets

As of March 31, 2010, the book value of real estate and non-real estate assets on which we foreclosed totaled Ps.1,235 million and Ps.67 million, respectively, a 0.72% decrease and no change, respectively, from December 31, 2009.

As of December 31, 2009, the book value of real estate and non-real estate assets on which we foreclosed totaled Ps.1,244 million and Ps.67 million, respectively, a 10.38% increase and a 5.63% decrease, respectively, from December 31, 2008.

Under the CNBV regulations, Mexican banks that are awarded title to foreclosed property in a judicial auction are required to account for such property at the lesser of the amount set in the auction and the appraised value. Real estate assets we received in a negotiated settlement with the borrower are required to be recorded at the lower of the appraised value of the property and the amount of the loan recorded in such settlement. Pursuant to CNBV rules, the loss in the value of foreclosed assets is recognized on the basis of the amount of time that has elapsed following the foreclosure proceedings or settlement. The following table analyzes as of March 31, 2010 the ranges of elapsed times and the applicable provision for losses in connection with foreclosed real estate and other assets:

Foreclosed Real Estate Assets	
Time Elapsed Since Foreclosure or Settlement (months)	% of Loss Reserve
up to 6.....	0%
6 to 12.....	10%
12 to 18.....	20%
18 to 29.....	45%
29 to 30.....	60%
More than 30.....	100%

Other Foreclosed Assets	
Time Elapsed Since Foreclosure or Settlement (months)	% of Loss Reserve
up to 12.....	0%
12 to 24.....	10%
24 to 30.....	15%
30 to 36.....	25%
36 to 42.....	30%
42 to 48.....	35%
48 to 54.....	40%
54 to 60.....	50%
More than 60.....	100%

We have a special division that administers foreclosed real estate and manages all activities related to the administration, marketing and sale of properties.

The following table sets forth, by type of property, the book value of foreclosed real estate and non-real estate assets at the periods indicated. The book value does not include the assets foreclosed from credits sold to FOBAPROA and IPAB.

	As of March 31, 2010 (Ps. millions)	2009	As of December 31, 2008 (Ps. millions)	2007
Real estate:				
Rural land.....	114	99	67	74
Urban land.....	399	438	438	95
Single-family houses.....	498	477	407	305
Condominiums.....	62	24	27	30

Industrial plants.....	64	62	68	66
Commercial buildings.....	81	120	120	71
Other.....	17	24	—	—
Sub-total	1,235	1,244	1,127	641
Non-real estate	67	67	71	68
Provisions for losses	(391)	(383)	(334)	(324)
Total	911	928	864	385

Restructuring of Loans

The deteriorating economic situation in Mexico subsequent to the December 1994 devaluation of the Peso and the increase in the portfolio of non-performing loans led Mexican banks, including us, to implement restructuring programs in most of their business divisions. In addition, the Mexican government adopted a number of debtor relief programs to facilitate this process. Restructured loans remain classified as “non-performing” until at least three payments on such loans have been made or until one payment on such loans has been made where the installment period is greater than 60 days. Restructured loans under Mexican government support programs are classified as performing loans as long as the debtor remains current on such loans.

When we restructure a loan, we reclassify current accrued interest, past-due principal and past-due interest as current principal. If the restructuring results in a sufficient improvement in the quality of a loan, we may also maintain a smaller allowance for loan loss with respect to such loan and use the excess allowance to reduce the amount of additional provisions on other loans.

Debtor Support Programs

The devaluation of the Peso in 1994 and the subsequent economic crisis in Mexico led the Mexican government to introduce debtor support programs, which have had significant effects on us. Substantially all of the outstanding debtor support programs were combined at the beginning of 1999 into a single program known as *Punto Final*, which was adopted by the Mexican government and the *Asociación de Banqueros de México, A.C.* (the “Mexican Bankers Association”) in December 1998 and became effective on January 1, 1999. The following is a description of the principal debtor support programs.

UDI Program

On March 30, 1995, the Mexican government implemented the UDI program, designed to encourage the restructuring and conversion of non-performing Peso-denominated loans of borrowers facing cash flow constraints to UDI-denominated loans. UDIs are a unit of account created by the Mexican government that expresses in Pesos, at any given time, the principal amount of financial transactions as adjusted for inflation. Unlike a loan denominated in Pesos, the interest rate, which is a real rate, on UDI-denominated loans is generally a fixed percentage of the principal amount denominated in UDIs. In UDI terms, there is no negative amortization of a UDI-denominated loan. UDIs are indexed to inflation in Peso terms based on the NCPI and, therefore, the principal amount in Peso terms will increase with inflation. UDIs are, among other things, designed to mitigate the short-term effects of inflation on borrowers and improve the asset quality of banks, although banks retain the asset quality risk associated with restructured loans. The UDI program covered four types of loans: commercial loans, mortgage loans, loans to states and municipalities and four categories of debt owed to development banks.

Pursuant to the UDI program, the principal balance and accrued interest on a borrower’s Peso-denominated loan was restructured and converted to a UDI principal balance, at the Peso-UDI exchange rate on the date of the conversion. Banks then transferred these loans, together with a reserve ranging from 0% to 15% of the principal amount of such loans, to a trust controlled by the bank and funded with long-term UDI-denominated deposits purchased by the Mexican government through Banco de México. The transferring bank was required to purchase from the Mexican government bonds, known as CETES *Especiales*, or Special CETES, which are issued by the Mexican government and currently have an interest rate based on the 28-day CETES rate and maturities and principal amounts that mirror the maturities and principal amount of the UDI loans in the trust. The Special CETES pay interest in cash as the loans in the trust mature. The transferring bank continues to service the transferred loans and remains at risk for any loan losses. The transferring bank may prepay the relevant trust in exchange for the underlying loans.

Because the principal balance of a UDI-denominated loan in Peso terms will increase in line with inflation, there may be an increased risk of default in future years if inflation should significantly exceed growth in income or operating margin levels in nominal terms. In addition, in the case of secured loans, the loan to value ratios may deteriorate.

The following table sets forth, by type of loan, our outstanding balance of UDI-restructured loans active at the periods indicated:

	As of March 31, 2010		2009		As of December 31, 2008		2007	
	Loan Amount	% of the total loan portfolio	Loan Amount	% of the total loan portfolio	Loan Amount	% of the total loan portfolio	Loan Amount	% of the total loan portfolio
	(Ps. millions, except percentages)				(Ps. millions, except percentages)			
Home mortgage loans	547	0.23%	559	0.24%	660	0.28%	1,066	0.57%
Total(1).....	547	0.23%	559	0.24%	660	0.28%	1,066	0.57%

(1) The loan amounts set out in the above table include aggregate amount of principal and accrued interest.

The following table sets forth, by type of loan, the number of UDI-restructured loans active as of March 31, 2010 and as of December 31, 2009, 2008 and 2007:

	As of March 31, 2010	As of December 31,		
		2009	2008	2007
Home mortgage loans	1,194	1,222	1,367	1,858
Total	1,194	1,222	1,367	1,858

As of March 31, 2010, we had Ps.547 million aggregate amount of principal and interest of UDI-restructured loans, representing 0.23% of our total loans at that date. As of the same date, 100.00% of our UDI restructurings were home mortgage loans.

As of December 31, 2009, we had Ps.559 million aggregate amount of principal and interest of UDI-restructured loans, representing 0.24% of our total loans at that date. As of the same date, 100.00% of our UDI restructurings were home mortgage loans.

As of December 31, 2008, we had Ps.660 million aggregate amount of principal and interest of UDI-restructured loans, representing 0.28% of our total loans at that date. As of the same date, 100.00% of our UDI restructurings were home mortgage loans.

As of December 31, 2007, we had Ps.1,066 million aggregate amount of principal and interest of UDI-restructured loans, representing 0.57% of our total loans at that date. As of the same date, 100.00% of our UDI restructurings were home mortgage loans. In conformity with Mexican Banking GAAP, the UDI Trusts are consolidated for the purpose of presenting our financial information.

ADE Program

On August 23, 1995, the Mexican government, through the Mexican *Secretaría de Hacienda y Crédito Público* (“Ministry of Finance and Public Credit”), entered into the *Acuerdo de Apoyo Inmediato a los Deudores de la Banca* (Agreement for the Immediate Support of Bank Debtors or “ADE”), a one-time interest relief program (the “ADE program”) for existing bank debtors. ADE was an interest rate relief support program designed to encourage borrowers to restructure their payment obligations under certain loans at subsidized interest rates and provide support to current customers, especially individuals and small business borrowers. ADE covered four types of Peso- or UDI-denominated bank loans: credit card loans, personal and consumer loans, business loans (particularly loans to small and medium-sized business) and mortgage loans. Pursuant to the ADE program, most borrowers with existing loans in good standing were entitled to benefit from subsidized interest rates from September 1, 1995 to August 31, 1996; and borrowers in the food, agriculture and fishing sectors with existing business loans were entitled to benefit from subsidized interest rates for a period of 18 months beginning in September 1995.

The subsidized interest rates for existing debt were 38.5% for credit card loans (up to the first Ps.5,000 of such loans), 34% per annum for personal and consumer loans (up to the first Ps.30,000 of such loans) and 25% per annum for business loans (up to the first Ps.200,000 of such loans). Interest rates in respect of the first Ps.200,000 of mortgage loans that had previously been converted into UDIs were 6.5% in the first year and 8.8% thereafter, and amounts exceeding Ps.200,000 in respect of mortgage loans were subject to a 10% interest rate.

To qualify for this program, a debtor had to be current on its loan, or if not, the debtor had to sign a letter of intent stating that such debtor intended to restructure its loans. In addition, holders of existing mortgage loans were required to convert their loans to UDIs.

Mortgage Loan Program

On May 16, 1996, the Mexican government announced the *Programa de Beneficios a los Deudores de Créditos Para la Vivienda* (the “Mortgage Loan Program”), which sought to mitigate the effects of the Mexican economic crisis on mortgage loan debtors and to increase such debtors’ ability to repay their outstanding loans. Mortgage loan debtors who had UDI-denominated loans and were current on their mortgage loans were able to obtain discounts on their monthly payments for a 10-year period retroactive for all payments made on the loan from January 1, 1996. Debtors with Peso-denominated mortgage loans who wished to participate in the Mortgage Loan Program converted their Peso-denominated mortgage loans into UDI-denominated mortgage loans in order to be eligible to receive such discounts from the time of conversion. A borrower who converted a loan to UDIs in order to participate in the Mortgage Loan Program could elect new loan maturities of 15, 20 or 25 years. The Mexican government bears the cost of the discounts and will pay such amounts to mortgage lenders either in cash or by issuing Mexican government securities. A similar discount program applies to mortgage loans funded through FOVI, although the discount applies during a period of four or five years depending upon the credit history of the debtor.

Punto Final Program

All of the outstanding debtor support programs, except for the restructuring of loans to states and municipalities, were combined at the beginning of 1999 into the *Punto Final* program. The *Punto Final* program offered significant discounts to borrowers who are current in the payment of their loans or become current and elect to participate in the program. The *Punto Final* program was principally designed to offer debt relief to mortgage, agricultural and small and medium-sized commercial borrowers.

Mortgage Borrowers

The benefits of the *Punto Final* program were offered to mortgage borrowers whose loans in Pesos and UDIs were granted prior to April 30, 1996. This program offered borrowers a 50% discount on all payments on such loans, including principal, for the first 165,000 UDIs of a loan’s outstanding balance, and a 45% discount for the remaining balance up to 500,000 UDIs. The discounts offered by this program may be accumulated with discounts offered by previously established debtor relief programs. A borrower failing to meet its payment obligations under this program would lose its rights to any discounts, including discounts offered by previously established debtor support programs. Discounts offered by the *Punto Final* program were not initially offered to borrowers under the low-income housing programs financed by the Mexican government. For a further discussion of the low-income housing programs, see “—Loan Portfolio—Consumer Loans.” Almost all of our mortgage loans are residential mortgage loans.

The cost of the discounts offered by the *Punto Final* program for mortgage loans is shared between the Mexican government, which bears approximately two-thirds of the cost, and the Mexican banks, which bear the remaining approximately one-third. We recognize this cost only to the extent payments on the mortgage loans are received. Therefore, the full cost of the *Punto Final* program to us will be recognized over the remaining life of the mortgage loans.

The following table sets forth the aggregate principal and accrued interest outstanding of our residential mortgage loans participating in the *Punto Final* program at the periods indicated:

	As of March 31, 2010 (Ps. millions, except percentages)	As of December 31, 2009 2008 2007 (Ps. millions, except percentages)		
Total residential mortgage performing loans	616	692	799	978
Total residential mortgage non-performing loans.....	9	24	54	258
Total residential mortgage loans in <i>Punto Final</i>	625	716	853	1,236
Total mortgage loan portfolio.....	51,943	50,930	47,028	38,074
Residential mortgage loans in <i>Punto Final</i> as a percentage of the total mortgage loans portfolio.....	1.20%	1.41%	1.81%	3.25%

Other Programs

On May 6, 2007, we entered into a credit program sponsored by the Mexican development bank Nacional Financiera (“NAFIN”) for the promotion of loans to small and medium-sized companies. Under this program, NAFIN granted to us a line of credit for up to Ps.240 million to finance the working capital of two finance entities, which in turn will issue credit to small and medium-sized companies. Up to Ps.80 million of the financing provided by us to these entities is fully guaranteed by NAFIN.

On June 18, 2007, we entered into an agreement with *Sociedad Hipotecaria Federal, S.N.C.* (the Federal Mortgage Company or “SHF”), a Mexican federal government entity, pursuant to the *Garantía de Pago Oportuno para Créditos Puente* (the “Guarantee of Payment Program”). Under the program, SHF guarantees up to 100% of lines of credit in favor of, or securities issued by, Sofoles and Sofomes in connection with the financing of housing construction. Pursuant to this program, we granted an SHF guaranteed line of credit to each of eight different Sofoles in an aggregate amount of Ps.4,750 million.

Banorte adopted a series of measures during December 2008 in response to the liquidity problems faced by individuals during the economic downturn. In connection with these initiatives, Banorte launched a campaign called “50/48” that allowed up to a 50% discount on applicable loan interest rates and extended repayment terms up to 48 months to customers who were seeking to refinance their debt and manage their credit rating. The benefits under the program were expanded on January 12, 2009 to increase the repayment term from 48 months to 60 months and remained in effect until February 16, 2009.

On March 24, 2009, Banorte launched a loan restructuring program for its Crediactivo SME clients that allowed clients to meet their obligations to Banorte by extending loan terms up to seven years and to a reduce rate of interest provided they were current on their monthly payments.

Other Restructurings

We have had ten significant restructurings since January 2007. Of those ten restructurings, one happened in 2008 and nine happened in 2009. The aggregate amount of those restructured loans is Ps.6,152 million as of March 31, 2010.

Workout and Credit Recovery

Our workout unit handles debt recovery from borrowers with non-performing loans. The workout unit focuses on consumer loan recovery, mortgage collections and commercial loan recovery.

Consumer Loan Recovery

For the year ended December 31, 2009, the consumer loan recovery unit settled 32,486 non-performing loan accounts amounting to more than Ps.1,185 million. As of March 31, 2010, this unit managed 636,171 accounts involving Ps.13,765 million. Commencing in 2004, we adopted a policy to write-off non-performing consumer loans that are six months or more past due and non-performing mortgage loans that are nine months or more past due.

Mortgage Collections

During 2009, 8,032 mortgage loans were settled in the aggregate amount of Ps.1,154 million. For the three months ended March 31, 2010, the unit settled 6,067 cases. The total number of cases settled for the three months ended March 31, 2010 represented an aggregate amount of Ps.3,392 million.

Commercial Loan Recovery

The commercial loan recovery unit focuses on recovering non-performing loans in excess of Ps.1 million which have missed three payments. For the year ended December 31, 2009 this unit has settled 3,808 cases representing a total value of Ps.1,472 million. As of March 31, 2010, this unit is negotiating 7,932 loans totaling Ps.6,273 million.

In the event that the credit recovery unit is unable to reach an agreement with a borrower in respect of non-performing loan amounts and the borrower fails to propose terms for an alternative restructuring agreement satisfactory to us, the unit submits the loan to our litigation department for the initiation of legal action to recover the amount outstanding on the loan. Foreclosure proceedings on collateral in Mexico can take a long time. The procedure requires the filing of a written petition with the competent court requesting the court's authorization to complete the foreclosure. This petition and the approval process is generally subject to significant delays and accordingly, the value of the collateral may be negatively affected. Loans with respect to which recovery has been unsuccessful despite the implementation of workout procedures and litigation are charged off.

BUSINESS OF BANORTE

General

We are a multiple purpose bank (*institución de banca múltiple*) with limited liability (*sociedad anónima*) incorporated in accordance with the laws of Mexico and licensed to operate as a commercial bank. We provide a full range of banking services, serving 1,556 corporate customers (which are customers that generally have revenues in excess of Ps.1,100 million) and approximately 8.1 million retail customers in Mexico as of March 31, 2010 (compared to 1,489 corporate customers and approximately 7.2 million retail customers in Mexico as of March 31, 2009). We conduct a wide range of commercial and retail banking activities in Mexico through our nationwide network of 1,098 branches.

As of March 31, 2010, we had total assets of Ps.549,163 million, total deposits of Ps.271,472 million and stockholders' equity of Ps.41,449 million. As of March 31, 2010, we ranked third among all Mexican banks both in terms of total loans and total deposits. We are the largest bank in Mexico that is not controlled by a foreign financial institution. In 2009, we generated net income of Ps.5,132 million and a return on average equity of 13.60% (average based on beginning and end-of-period balances), which includes non-recurring extraordinary income associated with a revaluation of our securitized mortgage and government loan portfolio pursuant to recently adopted accounting requirements issued by the CNBV. Without considering the non-recurring extraordinary income items, our return on average equity in 2009 was 13.25% (average based on beginning and end-of-period balances). In the first three months of 2010, we generated net income of Ps.1,435 million and a return on average equity of 14.16% (average based on beginning and end-of-period balances).

The number of our branches increased from 156 as of December 31, 1996 to 1,098 as of March 31, 2010. During that time, together with GFNorte, our parent company, we have been involved in several strategic transactions, including the acquisitions of Bancentro in 1996, Banpaís in 1997 and Bancrecer in 2001. Banpaís was merged into Banorte in 2000; Bancrecer and Banorte merged in 2002; and Bancentro was merged into Banorte on August 28, 2006. In the fourth quarter of 2006, we acquired 70% of the capital stock of INB Financial, a privately held bank holding company headquartered in McAllen, Texas, which in turn owns, through its wholly-owned subsidiary, INB Delaware, 100% of INB, a Texas regional commercial bank and INB Financial's principal subsidiary. In 2009, the other stockholders of INB Financial exercised their put option to sell to us the remaining 30% of the capital stock of INB Financial. In 2006, we acquired, UniTeller, a money transfer company. In December 2007, we acquired all of the capital stock of Motran, a money transfer and remittances company based in Los Angeles, California for a total investment of U.S.\$3 million. With the acquisition of Motran, we intend to further expand into an important market for money transfer and remittances business to complement Uniteller's operations.

On November 12, 2009, The IFC, a member of the World Bank group, and Banorte reached an agreement which included the IFC's investment of up to U.S.\$150 million in our capital stock, which represents approximately 4.48% of Banorte's equity as of December 31, 2009. In connection with the IFC's investment in Banorte, we issued to the IFC 3,371 million ordinary shares of capital stock for a total consideration of U.S.\$82.3 million in cash and the capitalization of a loan granted to us for U.S.\$67.7 million. Under the investment agreement, the IFC's partnership with Banorte will help support our expansion in SME financing, in other priority sectors like agribusiness, housing (low and medium-income) and infrastructure finance, and help support our presence in climate change and sustainability initiatives. Pursuant to the investment agreement, the IFC is required to maintain its equity share in Banorte for at least five years. After five years, the IFC has the option to sell its equity share to GFNorte, which GFNorte will be required to purchase with its own shares or with cash.

Our branches are located throughout Mexico, with approximately 32.79% located in northern Mexico (which includes the Monterrey region), 38.98% located in central Mexico (which includes the Mexico City region), 10.84% located in western Mexico (which includes the Guadalajara region) and 17.40% located in southern Mexico. We have increased the number of our ATMs from 4,170 as of March 31, 2009 to 4,539 as of March 31, 2010, 65% of which were not located in our branches. We have also increased the number of our banking transactions per month from approximately 32 million as of March 31, 2009 to approximately 36 million as of March 31, 2010, of which approximately 47% were conducted by means of ATMs.

We plan to open approximately 100 new branches in the next two years (50 in 2011 and 50 in 2012), approximately 50 of which will be located in Mexico City, which has been the main focus of our growth since 2005.

Based on our internal estimates, the following table sets forth our current market share in each region of Mexico in terms of the criteria specified below as of March 31, 2010.

Banorte's Regional Market Share

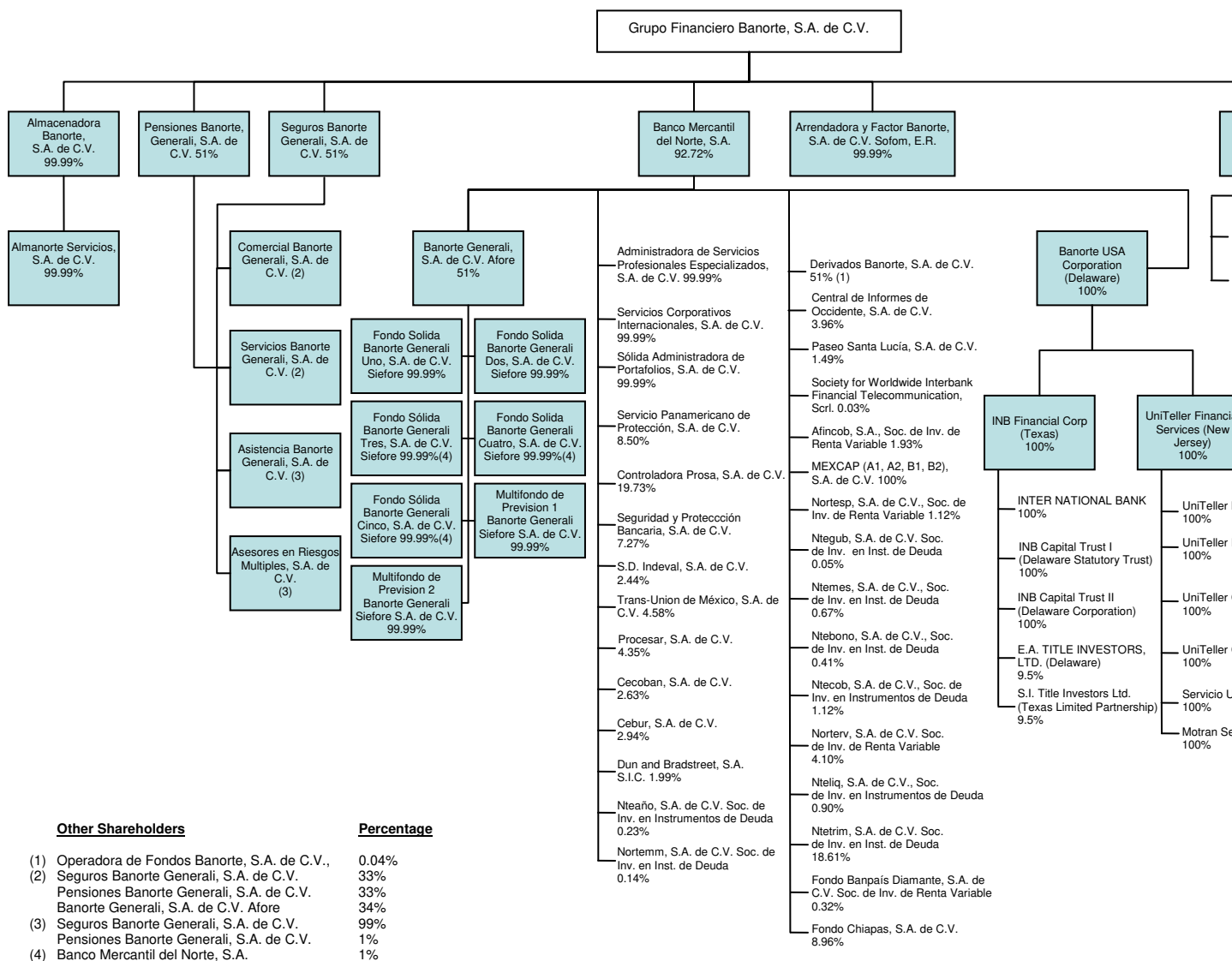
	Banorte's Percentage of the Total in Each Region of Mexico									
	North	Central	D.F. North	D.F. South	West	Northeast	Border	Peninsula	South	Isthmus
Branches.....	17.3%	14.5%	13.1%	12.6%	9.8%	12.2%	11.6%	15.3%	7.9%	9.2%
ATMs	25.1%	17.8%	17.0%	8.8%	13.6%	13.8%	20.6%	14.8%	7.3%	8.3%
Bank employees (full time).....	14.7%	12.5%	11.9%	3.1%	8.7%	9.4%	11.7%	11.9%	6.0%	6.1%
Deposits (principal amount).....	28.9%	22.0%	15.7%	9.1%	10.6%	14.1%	15.2%	14.0%	8.1%	8.8%
Loans (principal amount).....	24.3%	25.6%	14.8%	5.1%	15.0%	22.1%	16.0%	22.0%	9.3%	15.9%

We believe that we have developed a number of significant strengths that should help contribute to our future growth in the Mexican financial services industry, including our nationwide branch network, a service-oriented approach and a broad range of products.

Grupo Financiero Banorte

We are the banking subsidiary of GFNorte, the fourth-largest financial services holding company in Mexico based on total assets as of March 31, 2010. GFNorte holds 92.72% of our capital stock. Through us and its other subsidiaries, GFNorte provides a wide range of financial and related services in Mexico, including banking, stock brokerage, insurance, bonding, investment fund management, pension fund management, factoring and warehousing. As of March 31, 2010, we accounted for 96.51% of the total assets and 90.79% of the total equity of GFNorte.

The following chart presents our corporate structure and that of GFNorte, our parent company, indicating principal subsidiaries and respective ownership interests as of the date of this offering circular.



Strategy

We seek to enhance our position as one of the most profitable commercial and retail banks in Mexico, providing a wide variety of products and services. To achieve this goal, we are focused on the following objectives:

Integrate Strategic Acquisitions and Improve Operating Efficiencies

Banorte has expanded significantly since 1996 through strategic acquisitions, including the acquisitions of Bancentro in 1996, Banpaís in 1997, Bancreer in 2001 and the merger of Bancentro into Banorte in August 2006. We have successfully integrated these significant acquisitions and achieved cost reductions in an effort to improve our efficiency. From January 2002 to June 2006, we closed 262 unprofitable branches in order to improve operating efficiencies, reduced our total number of employees by approximately 26% and streamlined our senior management. Following our acquisitions of UniTeller and INB during the fourth quarter of 2006 and Motran in 2007, we expect to continue our emphasis on integration of strategic acquisitions and operating efficiency.

Benefits from our integration efforts have included: (i) a reduction in administrative expenses, (ii) technological efficiencies, (iii) revenue synergies from cross-selling products within GFNorte, (iv) the ability to offer a greater variety of services to our customers and (v) wider regional coverage. We expect to continue to pursue these integration efforts in the future.

Develop a Presence in the United States Through Strategic Acquisitions

We believe the U.S. commercial banking market offers important growth opportunities, due to, among other factors, the growing size and increasing average household income of the U.S. Hispanic population. Subject to regulatory constraints, we intend to take advantage of these growth opportunities by pursuing a long-term strategy of selective acquisitions of U.S.-based banking entities. We believe that our acquisitions of INB, UniTeller and Motran have enabled us to take advantage of opportunities for revenue growth in areas such as:

- cross-border real estate financing, including the financing of properties in Mexico for U.S. citizens or residents;
- cross-border retail banking products, including binational credit cards; and
- remittances, including bank-to-bank money transfers.

In particular, we believe that our acquisitions of UniTeller and Motran have provided us with technical experience and a market-tested and regulatory-compliant technology platform capable of supporting significant growth in the remittance business. Moreover, we believe that each of these acquisitions are consistent with and will facilitate our long-term strategy to provide financial services to the Hispanic market in the United States.

We are currently subject to regulatory requirements applicable to any such acquisitions in the United States as a result of agreements entered into with our regulators. See “—Litigation and Regulatory Proceedings.”

Increase Our Non-Interest Income

Our non-interest income is comprised primarily of commissions and fees, income from trading and foreign exchange activities and income from recovery bank activities. Increasing fee income is a central component of our business strategy. We seek to increase our fee income by: (i) continuously reviewing the fees associated with our products and services in order to find new opportunities or to adjust to market conditions and practices, (ii) increasing our cross-selling efforts within GFNorte, (iii) promoting the use of technological and electronic payment methods, as well as telephone and internet banking, (iv) establishing new relationships with businesses generating high volume point-of-sale transactions and (v) promoting our checking, ATM and debit card services.

In June 2009, Banorte Generali, S.A. de C.V. Afore acquired the retirement fund management and investment business of Afore IXE S.A. de C.V., a retirement management fund, for a total consideration of Ps.258 million. This business includes a portfolio of 312,489 clients and Ps.5,447 million in managed assets. In August 2009 and December 2009, we acquired the retirement fund management business of Afore Ahorra Ahora, S.A. de C.V. and Afore Argos S.A. de C.V., including 367,660 clients representing Ps.1,138 million in managed assets and 22,000 clients representing Ps.600 million in managed assets, for a total consideration of Ps.19 million and Ps.17 million, respectively.

Continue to Expand our Lending to Government Entities

We intend to increase our loans to Mexican federal, state and municipal governmental entities, which as of March 31, 2010 comprised 17.58% of our loan portfolio. We believe government lending presents an attractive opportunity for growth in our loan portfolio given its combined low level of credit risk and the ability to cross-sell our products and services to government employees. The suite of products and services include checking and payroll deposit accounts, cash management services, payment of money orders, fiduciary services, financings, investments, and tax bill collection services, which are available through branches and TELECOMM –TELEGRAFOS offices, and via payments made through the Internet, ATMs, government-owned web sites, and service modules. In addition, we believe that developing our relationships with government customers will provide us with access to a broader customer base to market our retail products and services, such as credit cards and mortgage products.

Increase Mortgage Lending to the Middle and High Income Segment

We plan to focus on increasing our sales of mortgage products to middle and high income customers, which we see as an increasingly profitable segment due to high margins, less competition and a relatively low level of credit risk. As of March 31, 2010, this segment accounted for 22.27% of our loan portfolio. In particular, we intend to attract customers in this segment by providing high-quality service through rapid approval response times and more frequent and customized interactions at the time of sale and afterwards.

Continue to Develop New Products and Services

We seek to continue to improve the variety of products we offer to our individual, corporate and middle-market customers in order to differentiate ourselves as much as possible from our competition. To this end, we have developed policies and procedures to work with our business partners in identifying the needs of our customers and fashioning products and services, including technological solutions, to address their needs, develop new business ideas, seek out new business opportunities and help expand our activities.

As part of our efforts to develop new products and services, we launched *Enlace Express* in 2005, a product that offers a debit card with a checkbook option that allows remittances from the United States to be deposited directly into the customer's debit account in Mexico, as well as complementary ATM and internet banking services and an attractive interest rate on related savings accounts. The number of clients for this product increased from 140,528 in the first three months of 2009 to 148,445 in the first three months of 2010. Other examples of new product offerings include:

- *Banorte Fácil*, an entry-level savings account available beginning in 2004 to all consumers without fees of any type and with no minimum balance requirements, which we believe caters to the segment of the Mexican population that traditionally has not had access to banking services. The number of clients for this product increased from 1,401,237 in the first three months of 2009 to 1,655,689 in the first three months of 2010.
- *Mujer Banorte*, a product created in 2004 and redesigned in 2005, aimed at women. It includes a checking and savings account offering an attractive interest rate, life and medical insurance coverage, medical and legal information assistance, savings at discount stores and assistance with other home services. The number of clients for this product increased from 226,856 in the first three months of 2009 to 243,889 in the first three months of 2010.
- *¡Ya Bájale!*, a low interest rate credit card balance transfer program created in 2005, the first of its kind in Mexico. The number of clients for this product decreased from 141,967 in the first three months of 2009 to 44,868 in the first three months of 2010.
- *Recompensa Total Banorte*, a customer rewards program developed in 2006 that rewards clients for their loyalty and business on the basis of both credit card use and use of other banking services generally.
- *Banorte Móvil*, an innovative service channel of e-banking developed in 2009 that operates through any cellular phone or mobile device with access to the Internet, or any telecommunication provider, and provides access to banking services (including balance inquiries, transfers, payments, special credit cards and the purchase of cellular phone air time), as an additional service to our e-banking clients at no additional charge. The number of downloads of the software application for this service by mobile device users increased to 240,621 for the quarter ended March 31, 2010 compared to 153,472 downloads for the quarter ended March 31, 2009.

- *Enlace Dólares*, a Visa electronic debit card established in 2009, which is denominated in U.S. dollars for residents of the U.S./Mexican border, featuring free withdrawals in more than 600 Banorte dual-currency ATMs located along the Mexican side of the border, and a preferred fee in more than 35,000 ATMs in the U.S. through the AllPoint Network, allowing our customers to make transactions on both sides of the border in U.S. dollars with a single account at a low cost. As of March 31, 2010, there were 21,288 clients using this service.
- *Banorte Fácil Credit Card*, a credit card product launched in May 2009 for clients with low incomes. We believe it is one of the most inexpensive credit cards on the market (source: Condusef).
- *Hipoteca de Aniversario* (Anniversary Mortgage), a mortgage product created to celebrate Banorte's 110th anniversary, was launched in the second quarter of 2009. This mortgage offer includes a 11.0% interest rate and 1.10% commission.
- *Cuenta Fuerte Banorte*, a package of services created for middle class customers, was introduced in September 2009. For a monthly fee, the account holder enjoys an attractive variety of services and financial products that includes a checking account, Banorte via Internet, Banorte Móvil, life insurance, investments and a credit card option.
- *Oferta Integral PyME*, a product package providing SMEs with more flexible financial management and offering important operational benefits that cover their main banking needs, including credit, checks, payroll processing, investments and electronic banking.

Our goal is to continue to provide for the needs of our customers and to increase our revenues through creative development of products and services.

Improve the Profitability of Our Branches

We seek to improve the profitability of our branches by: (i) increasing loan placements, particularly in the areas of consumer loans and mortgage loans, (ii) diversifying our deposit base, (iii) increasing non-interest income and (iv) implementing cost reductions. We will continue to review the profitability of our branch network by determining the optimal size of our network and seeking to identify branches that should be closed or relocated.

Promote Synergies Within the GFNorte Group

We intend to increase our market share and profitability by continuing to cross-sell services and products to our customers and customers of GFNorte. We have introduced processes that facilitate our ability to offer additional financial services to our customers and those of GFNorte, with an emphasis on service and innovation. We cross-sell consumer loan products, credit cards and mortgages to our checking and savings account customers and to GFNorte's insurance and pension fund customers. We plan to continue our cross-selling efforts within GFNorte.

In addition, we are always exploring the possibility of improving synergies and efficiencies within GFNorte.

Expand Our Credit Card Business

We intend to expand the number of credit cards issued to individuals and businesses throughout Mexico. We have created certain incentive programs to encourage the use of our credit cards and believe that we offer a competitive interest rate in the market. At the end of 2008, we implemented a restructuring strategy aimed at decreasing defaults by establishing more flexible scheduled payment terms and lower applicable interest rates in order to facilitate repayment of outstanding amounts. See "Business of Banorte—Credit Card Operations." As of March 31, 2010, we had 1,044,102 credit cards outstanding, of which 78% carried a balance. We plan to issue approximately 220,000 new credit cards in the remainder of 2010 and approximately 370,000 new credit cards in 2011.

History and Ownership

We were founded in 1899 and historically have had a strong regional presence in northeastern Mexico, particularly in the metropolitan area of Monterrey, which is the third most populous city and one of the most important industrial centers in Mexico. Together with other Mexican commercial banks, we were nationalized by the Mexican government on September 1, 1982. In 1987, under a Mexican government privatization initiative, the government sold approximately 34% of our capital

stock to the Mexican public. In 1990, the Mexican Constitution was amended to permit the total reprivatization of Mexican commercial banks, and the government enacted the Mexican Banking Law which provided for private ownership of Mexican commercial banks. The reprivatization of Mexican commercial banks began in 1991.

As part of the privatization process, Grupo Financiero Banorte, S.A. de C.V., our parent company, was incorporated as Grupo Financiero AFIN, S.A. de C.V. (“AFIN”) on July 21, 1992, as a Mexican limited liability company with variable capital (*a sociedad anónima de capital variable*). In September 1992, the Ministry of Finance and Public Credit authorized the operation of our parent company as a financial services holding company under the Financial Groups Law.

A group of Mexican investors led by Don Roberto González Barrera acquired 66.0% of our outstanding shares from the Mexican government in 1992. In September 1993, this same group of investors entered into an exchange offer whereby they purchased 186 million newly issued shares of AFIN, 89.3% of AFIN’s then outstanding shares, in exchange for AFIN’s purchase of the investors’ 66.0% interest in us. Following the exchange offer, we became a subsidiary of AFIN and our parent company was renamed Grupo Financiero Banorte, S.A. de C.V. In May 1993, GFNorte carried out a tender offer for the remaining 34.0% of our outstanding shares. As a result, GFNorte increased its ownership interest in us to 97.5%. GFNorte currently owns 92.72% of our capital stock.

The 1995 Mexican Peso crisis and the penetration of foreign institutions in Mexico prompted a consolidation of the Mexican banking system which resulted in the absorption of many smaller Mexican banks. With the objective of becoming a national financial institution and taking advantage of our relative strength in the Mexican banking system, GFNorte purchased Bancentro in 1996 and Banpaís in 1997. GFNorte’s primary goals in acquiring Bancentro were to gain additional market share and add 195 additional branches, 80% of which were located in the central and western regions of Mexico. GFNorte completed the acquisition of Bancentro on March 31, 1997, at which time it became formally integrated into GFNorte. On August 29, 1997, GFNorte also acquired 81% of Banpaís’s shares, enabling further expansion of GFNorte’s client base, geographical position and national coverage through the addition of 161 branches. In an effort to consolidate the banking activities of GFNorte and to strengthen our capitalization, we were merged with Banpaís in January 2000 and the banking operations of Bancentro, including its branch network, loan portfolio (including non-performing loans) and FOBAPROA notes (which were subsequently converted into IPAB notes), were transferred to us in December 2000.

In 2001 GFNorte acquired Bancrecre and on March 31, 2002, we merged with and into Bancrecre. Our assets, liabilities and stockholders’ equity were transferred to Bancrecre, thereby eliminating intercompany operations between the two entities. The surviving entity changed its name to “Banco Mercantil del Norte, S.A., Institución de Banca Múltiple, Grupo Financiero Banorte.” We implemented a single organizational structure in the first quarter of 2002 and transferred Bancrecre employees that were re-hired to our payroll and benefits plans. We established a new institutional pay scale and restructured the organization of personnel in our branches to standardize their positions and functions. We also provided intensive training to former Bancrecre employees regarding our sales policy and products.

On August 28, 2006, we merged Bancentro into us pursuant to an authorization received from the Ministry of Finance and Public Credit. Bancentro’s remaining assets, liabilities and stockholders’ equity were transferred to Banorte, eliminating intercompany loans to Bancentro, with Banorte as the surviving entity.

In 2006, Banorte expanded its operations into the United States, through the acquisition of INB, based in Texas, which is a regional bank with primary presence in the Rio Grande Valley and its headquarters in McAllen, Texas with 14 branches, and 20 branches throughout Texas as of March 31, 2010. At the time of acquisition it had 14 branches.

Also in 2006, Banorte acquired UniTeller, a New Jersey-based remittances company, and in 2007 Banorte acquired Motran, another money transfer company based in California.

In 2009 Banorte acquired three pension fund managers (AFORES) namely Afore IXE S.A. de C.V., Afore Ahorra Ahora S.A. de C.V. and Afore Argos S.A. de C.V.

Principal Business Activities

One of our principal goals is to efficiently deliver services and products to our clients. In an effort to meet this goal, we have organized our business operations into the following five businesses:

- retail banking;
- corporate banking and international business banking;

- middle-market banking;
- federal governmental banking; and
- recovery banking.

Each of these segments reports to the main office in one of our ten territories in Mexico: Northern, Central, Mexico City North, Mexico City South, West, Northeast, North Border, Peninsula, South, and Isthmus.

In addition, we have the treasury and the money market divisions, which, among other activities, are responsible for managing our assets and liabilities while maximizing our income in accordance with certain risk policies and limits established by our Risk Policy Committee (the “CPR Committee”). See “—Treasury and Money Market Divisions.”

Retail Banking

This segment targets individual customers and small businesses by providing them with non-specialized banking products and services through our distribution channels. See “—Distribution Channels.” Nearly all of the transactions taking place in this segment occur through our branches, telephone banking, on-line banking and ATMs.

Products and services offered through this segment include checking and deposit accounts, credit cards, mortgage loans and consumer loans. See “—Products and Services.” One of our main products in this segment, *CrediActivo Comercial*, is a loan issued in amounts of up to 900,000 UDIs (equivalent to approximately Ps.4 million, as of March 31, 2010) that is targeted towards small businesses.

Corporate Banking and International Business Banking

The corporate banking portion of this segment is committed to providing integrated financial solutions to our corporate customers through various types of specialized financing, including structured credits, syndicated loans, acquisition financing, and financing of investment plans. Other products and services offered to our corporate customers include cash management services and collection services. The customers in the corporate banking portion of this segment generally consist of Mexican and non-Mexican multinational companies, large Mexican companies and emerging Mexican companies. Our corporate customers consist of 1,556 large corporations. As of March 31, 2010, the average outstanding individual balances of our loans to corporations, of which there were 142, was Ps.270 million. Our corporate customers generally have revenues in excess of Ps.1,100 million.

The international business banking area of this segment seeks to develop new products and services relating to foreign commerce. Some of the products and services that our international business banking area offers include: (i) credit support for the export of goods and services, including letters of credit, payment orders and checking accounts denominated in U.S. dollars; (ii) consultation and credit support in connection with the importation of goods and services, including financing for the import of livestock and machinery, financing of working capital and investment projects, letters of credit and payment orders; (iii) hedging instruments protecting against currency fluctuations, including Peso futures; and (iv) exchange products, including currency exchange, travelers’ checks and remittances. These services are also offered to our middle-market and retail segments.

Middle-market Banking

Our middle-market banking segment specializes in high margin credit products for medium-sized business customers, as well as loans to state and local governments in Mexico. Our medium-sized business customers consist primarily of 17,516 enterprises, varying in size from medium businesses to sizable corporate enterprises operating in a broad range of industrial sectors with revenues between Ps.40 million and Ps.1,100 million. As of March 31, 2010, the average outstanding individual balances of loans to our medium-sized business customers was Ps.16 million.

Our main products in this segment are loans and lines of credit, *CrediActivo Empresarial*, a loan product partially guaranteed by NAFIN, cash management services, fiduciary services, checking account services and payroll services.

Federal Government Banking

We increased our presence in recent years as a provider of financial services to the Mexican federal government and its agencies, including social security institutions, public trusts, public works and quasi-governmental entities. Through specialized attention, we expect to maintain our commitment to providing services to this important sector of the economy.

The products and services offered by this segment include, among others, checking accounts, loans (typically subject to a bidding process), payroll processing, cash management, collection and payment processing services to government agencies. Serving these institutions also allows us to cross-sell checking accounts, credit card services, loan products, insurance products and collection services to their employees. As of March 31, 2010, the aggregate outstanding balance due from our loans in this segment was Ps.1,623 million.

Recovery Banking

The assets administered by our recovery banking segment are comprised of newly acquired or past due Banorte loan portfolios and foreclosed assets, including stocks and other securities. In addition, our consolidated subsidiary Sólida engages in workout and recovery activities with respect to its own portfolio. See “Risk Management—Individual Loan Credit Risk Measurement—Workout.” In addition, Sólida invests in housing, infrastructure and commercial projects. We recognize our 99.99% interest in Sólida as a permanent stock investment, and it is fully consolidated with us.

As of March 31, 2010, the aggregate amount of assets managed by the recovery banking segment and Sólida was Ps.67,223 million. For the three months ended March 31, 2010, Ps.2,713 million were recovered by this segment, of which Ps.1,642 million were recovered in cash, Ps.106 million in property, Ps.291 million in restructurings and Ps.674 million in debt settlements. Recoveries are ultimately recorded by the entity owning the relevant portfolio. The recovery banking segment contributed Ps.180 million to our net income for the three months ended March 31, 2010, equivalent to 11.4% of our net income.

Between 2000 and 2006, our recovery banking segment acquired distressed assets portfolios and other assets in an aggregate amount of Ps.31,177 million in nominal value, of which Ps.29,185 million in nominal value are loans and Ps.1,992 million in nominal value are real estate assets. As of March 31, 2010, the outstanding balance of these portfolios was Ps.16,364 million, with a book value of Ps.2,132 million.

Sólida has also made several portfolio acquisitions in the last few years. Between 2000 and 2006, it acquired loan portfolios and other assets in an aggregate amount of Ps.18,518 million in nominal value, of which Ps.15,860 million in nominal value are loans and Ps.2,659 million in nominal value are real estate assets. The outstanding balance of these portfolios as of March 31, 2010 is Ps.9,609 million in nominal value, with a book value of Ps.1,160 million.

Investments by Sólida in projects as of March 31, 2010 reached approximately Ps.4,400 million. These investments cover 41 projects nationwide.

Treasury and Money Market Divisions

Our treasury division is responsible for, among other activities, managing our assets and liabilities, minimizing funding costs and engaging in hedging transactions. Its goal is to maximize our income in accordance with certain risk policies and limits established by the CPR Committee. See “Risk Management—Risk Management Organizational Structure.” The treasury division is also responsible for managing our liquidity requirements and cash flows, monitoring market risks and funding costs, obtaining funding for certain loans and obtaining funding in the international market. The treasury division monitors our positions in fixed income securities, foreign currencies and derivatives positions for hedging and liquidity purposes.

Our money market division is responsible for our repurchase transactions, investments in domestic fixed and floating rate securities and the promotion of instruments and investment alternatives to our high net worth clients. This division also purchases futures to hedge its open risk positions or for trading purposes.

The treasury and money market divisions are monitored on a daily basis by our risk management unit. See “Risk Management—Market Risk.” Strategies relating to these divisions are assessed on a weekly basis by the Treasury Committee. We do not trade equity securities.

Products and Services

Checking and Deposit Accounts

We have emphasized increasing traditional deposits through the retail banking segment in order to reduce the cost of funds and increase our financial margin. The substantial growth in our branch network was primarily intended to further strengthen our core deposit base.

Our most popular deposit product is the interest-bearing checking account denominated *Enlace Global*. We also offer deposit products which fall into four categories: time and savings deposits, demand deposits, installment deposits and certificates of deposit. Time deposits generally require the customer to maintain a deposit for a fixed term during which interest accrues at a fixed rate and withdrawals may not be made without penalty. Savings deposits allow customers to deposit and withdraw funds at any time and accrue interest at a fixed rate that, in certain cases, increases over time. Demand deposits, which either do not accrue interest or accrue interest at a fixed rate, which is lower than the applicable time and savings deposits rates, allow customers to deposit and withdraw funds at any time and, in the case of “current” deposit accounts, to issue checks against the deposited amount. Installment deposits allow customers to make deposits either on a periodic basis or at any time during a fixed term, during which interest accrues at a fixed rate and there is a penalty for withdrawals. Certificates of deposit, which are sold in a variety of denominations and maturities and are negotiable, require an initial deposit of a fixed amount for a fixed term, during which interest accrues at a fixed rate and withdrawals may not be made without penalty.

During the first three months of 2010, we opened 233,104 new individual checking accounts and demand deposits. Our focus on the sale of deposit products and related strategic initiatives put into place during 2010 and 2009 led to an aggregate amount of Ps.271,472 million in checking and deposit accounts as of March 31, 2010. This growth in checking and deposit accounts represents an increase of approximately 6.33% compared to the first three months of 2009. In particular, we experienced an increase of approximately 4.74% in the aggregate amount of checking accounts and demand deposits and an increase of approximately 7.75% in the aggregate amount of time deposits over the same period. We have placed particular emphasis on increasing deposits for our low-cost products.

We have continued to develop new financial products that target the specific needs of our clients and different market segments. See “—Strategy.”

Our goal is to continue to provide for the needs of our customers, and to increase our revenues through creative development of products and services.

Credit Card Operations

We issue our own personal credit cards, associated with both MasterCard and VISA. As of March 31, 2010, we had 1,044,102 credit cards outstanding, of which 78% carried a balance and, of these, 7.56% carried a past-due balance. Credit card approvals are based on our internal credit scoring system, which we believe increases the quality of the portfolio and approval response time. Our credit cards can be used in 34,000 ATMs in Mexico, of which 4,539 are directly owned by us. Revenues from our credit card operations consist principally of merchant fees paid by retail and service establishments, cash advance fees, installment purchase fees, fees on late payments, variable and fixed interest rates charged on monthly account balances and annual membership fees paid by cardholders. Merchant fees paid by retailers and service establishments in Mexico range from 1.10% to 1.95%.

We currently rank third in number of transactions and third in total value of transactions in the Prosa system, an ATM and credit card processing system comprised of 10 Mexican banking institutions. Our market share based on outstanding balances of holders in the Mexican credit card business was 6.2% as of March 31, 2010. Currently, the most important method for promoting credit cards is through our branch network. We also promote our credit cards by cross-selling them to customers within GFNorte and offering special promotions.

We charge an average annual fee of Ps.430 per credit card. Credit card loans, which are fully underwritten by us, are unsecured, having an initial maturity of one to two years, generally accrue interest at effective annual fixed rates of 34.5% and range from Ps.3,000 to Ps.250,000. The average credit limit of our credit cards is Ps.28,800 and the minimum required monthly salary for all new cardholders is Ps.3,000. The past due rate on our credit card portfolio is 10.5% and charge-offs as a percentage of gross sales is 17.7%. The annual attrition rate with respect to our credit card customers is 11.3%.

We monitor our credit card accounts with an electronic system called “VISION,” which allows us to establish credit limit increases, pricing, credit card loan portfolio collection and overdraft protections on an individual cardholder basis.

Banorte adopted a series of measures for its credit card customers during December 2008 in response to the liquidity problems faced by individuals during the economic downturn. In connection with these initiatives, Banorte launched a campaign called “50/48” that allowed up to a 50% discount on applicable loan interest rates and extended repayment terms up to 48 months to customers who were seeking to refinance their debt and manage their credit rating. The benefits under the program were expanded on January 12, 2009 to increase the repayment term from 48 months to 60 months and remained in effect until February 16, 2009.

Mortgages

We offer long-term mortgage financing for individuals and families acquiring houses or apartments. Such financings are generally secured by the property being purchased and are denominated in Pesos with fixed interest rates for the entire life of the mortgage. The term of a mortgage ranges from five to 30 years for financing of up to 85% of the appraised value of the property. We offer financings exclusively for residential mortgages. Other products we offer are: home improvement, construction and land acquisition. We do not offer commercial mortgages, although we offer bridge loans to construction companies in order to finance residential construction projects. As of March 31, 2010, we provided mortgages to approximately 89,600 customers, and the aggregate outstanding balance due from our mortgages was Ps.51,083 million.

Currently, we are focusing on providing mortgages for mid-level, residential housing to persons of mid- to high levels of income, which we believe will allow us to grow and provide a stable source of revenue. In addition, we are exploring the development of credit programs with employees of other companies with a centralized charging system through their human resources departments. We have already implemented this program with Pemex, Mexico’s state owned oil and gas company.

Consumer Loans

Our consumer loans are denominated in Pesos, bear interest at fixed rates and have maturities of up to four years. We offer two main personal consumer loans: automotive financing and advance on payroll. We provide automotive financing through loans that bear interest at a fixed rate with maturities of up to four years. As of March 31, 2010, the aggregate outstanding balance due from our automotive financings was Ps.8,867 million and this product was utilized by approximately 88,900 customers. *CrediNómina* is a fixed rate advance loan on payroll of up to three months’ salary with maximum maturity of four years. As of March 31, 2010, this product was utilized by approximately 415,652 customers, and the aggregate outstanding balance due from our *CrediNómina* program was Ps.6,639 million.

Commercial Loans

We offer various loan products, including general commercial loans, syndicated loans and letters of credit, to our business customers. Our business customers vary from small and medium-sized businesses to large companies that have revenues in excess of Ps.100 million. Of our commercial loans, 72.52% are secured by collateral.

Collection Services

In 2002, we established an automatic payment collection processing service. This service allows individuals and companies to make payments for telephone bills, school tuition and cellular phone bills, among others, through our branch network or alternative distribution channels. In the first three months of 2010, we have handled 29.9 million transactions representing an 11% increase compared to the corresponding period in 2009. Collection services are complemented by invoice distribution through the Internet.

Payroll Services

Since 1993, we have offered our corporate customers *Suma Nómina*, a service through which they can pay their personnel payrolls via direct deposits. Currently, more than 17,000 businesses process payrolls of nearly 2.7 million employees with us. We believe that *Suma Nómina* improves customer retention and reduces risk in consumer lending by strengthening customer relationships. Every employee that is paid through *Suma Nómina* is automatically eligible for a personal loan of up to three months of salary and enjoys preferential interest rates on other types of loans.

Cash Management Services

Cash management services include collecting and disbursing funds on behalf of companies and their suppliers, distributors, clients and employees in order to facilitate cash flow, reduce operating costs and improve information management.

Distribution Channels

As of March 31, 2010, we believe we had the fifth-largest branch network in Mexico with 1,098 branches located throughout Mexico. Our strategy of branch expansion has lowered our funding costs by building a loyal customer base for deposits. We have added more than 950 branches since 1992. On average, each of our branches has 8 employees. We plan to open 100 new branches in the next two years (50 in 2011 and 50 in 2012), of which 50 will be located in Mexico City, which has been the main focus of our growth since 2005.

In addition to our nationwide branch network, we have increased the automation of our services and improved alternative channels of distribution which serve our customers by ATMs, telephone banking and electronic banking services, such as banking via Internet and personal computers. Approximately 68.49% of all our transactions are done through our ATMs, telephone banking or electronic banking services.

Our ATM network has grown from 1,341 ATMs as of December 31, 1999 to 4,539 as of March 31, 2010. We offer a number of additional electronic banking products and services, including a debit card, which can be used at all our ATMs, as well as at ATMs worldwide through our participation in the VISA and Plus ATM networks. We believe that further development and promotion of these and other electronic banking services will allow us to provide more convenient banking channels and reduce waiting time at our branches.

Banortel, our telephone banking system, allows our customers to check balances, transfer funds between their accounts at Banorte and at other banks and pay credit card bills or receive account statements via fax. Currently the system receives nearly 2.14 million calls per month. Approximately 80% of these calls are handled through our interactive voice recording system, with the rest being handled through our nearly 63 telephone banking customer service representatives.

Banorte x Internet is our on-line banking service for our retail and small and medium-sized business customers. It allows our customers to utilize the Internet to access their credit card and other account balances, transfer funds domestically and internationally, pay their taxes, credit card and other bills, and invest in mutual funds and certificates of deposit. Currently, more than 23,474 new customers register for this service each month, and we had 352,152 active users of our on-line banking service as of March 31, 2010, who log-in to their on-line accounts at least once a month.

Banorte en su Empresa is our corporate on-line banking service focusing on medium-sized and large companies. Through this service, our corporate customers can access many of the banking services offered at one of our branches such as fund transfers, payroll services and supplier payments. We had 55,863 active clients.

On September 30, 2009, TELECOMM-TELÉGRAFOS, a public agency of the Ministry of Transportation and Communications (SCT) and Banorte received the approval of the CNBV to offer financial services jointly on the national level with an emphasis on the provision of banking services in underserved areas. This new joint arrangement positions both institutions as the leading financial service providers allowing Banorte to operate through commissioned agents and approved third parties also commonly referred to as third party correspondents.

Anti-Fraud Measures

We have sophisticated tools to prevent fraud in connection with credit and debit cards, checks, branch transactions and internet banking. Our anti-fraud tool for credit and debit cards centers on a program that examines transactions occurring at the POS or ATM, while our anti-fraud tools for checks, branch transactions and internet banking are based on the examination of certain parameters and customer profiles. In each case, alerts as to possible fraud are immediately transmitted and evaluated by a team of our specialists. Any confirmed fraud in connection with credit and debit cards is reported to VISA or MasterCard, as applicable, and is subject to our internal procedures to block cards or accounts and reissue cards. Our anti-fraud department operates 24 hours a day, seven days a week, and is linked with other internal departments, such as investigations, audit, legal, security information and human resources, which are available to provide their support to anti-fraud activities.

Strategic Alliances

On November 12, 2009, The International Finance Corporation ("IFC"), a member of the World Bank, and Banorte reached an agreement which included IFC's investment of up to U.S.\$150 million in our capital stock, which represents approximately 4.48% of Banorte's equity as of December 31, 2009. In connection with IFC's investment in Banorte, we issued to IFC 3,371 million ordinary shares of capital stock for a total consideration of U.S.\$82.3 million in cash and a note for U.S.\$67.7 million. Under the investment agreement, IFC's partnership with Banorte will help support our expansion in

SME financing, in other priority sectors like agribusiness, housing (low and medium-income) and infrastructure finance, and help support our presence in climate change and sustainability initiatives.

IFC's expected development contribution to Banorte also includes support in adopting the environmental and social standards as a differentiation strategy as well as developing a plan to reduce its own footprint; and a catalyst in mobilizing additional resources and help enhance Banorte's image and credibility in international financial markets. Under the investment agreement with IFC, Banorte will be subject to certain performance requirements, including applicable national social and environmental laws and regulations; and the IFC Performance Standards. The IFC will review our social and environmental management system (SEMS) and, if necessary, suggest upgrades to ensure that the SEMS meets applicable requirements and cover all relevant financing operations.

On February 10, 2009, the China Development Bank and GF Banorte entered into a cooperation agreement to mutually serve clients of both institutions in China, Mexico and the U.S.

On August 6, 2007, Banorte and Banco Do Brasil formalized a commercial agreement in order to offer comprehensive banking and financial services to Mexican businesses and Banorte's customers with operations in Brazil, as well as to Brazilian companies, their executives, and citizens of that country that live in Mexico. The business platforms of both institutions will be used to provide each other's customers with financial and banking services such as international wire transfers, foreign currency exchange, credit and debit cards, electronic banking, insurance, and investment advice.

In May 2006, we signed a letter of intent with Mizuho Bank with the aim of extending our credit services to joint customers.

Establishment of GFNorte's Level I American Depositary Receipt (ADR) Facility

In June 2009, GFNorte launched a sponsored Level I American Depositary Receipt (ADR) facility in the United States, with The Bank of New York Mellon as depository bank for the facility. Each ADR represents five common shares of GFNorte and has full voting rights. Dividends, if any, are the same as for GFNorte's shares and are paid to investors in U.S. dollars. Dividends are generally converted into U.S. dollars by the depository bank at the prevailing rate. GFNorte's shares are listed and trade on the Mexican Stock Exchange. Through the ADR facility, GFNorte's shares also trade in the U.S. over-the-counter market, which we believe has increased GFNorte's exposure to the U.S. capital markets and enhanced the liquidity of its shares.

Listing of GFNorte on the Bolsa de Madrid (Madrid Stock Exchange) Latibex Index

On June 9, 2009, GFNorte listed its common shares on the Madrid Stock Exchange through its Latin American Stock Market "Latibex" index. The Bolsa de Madrid (Madrid Stock Exchange) is the largest and most international of Spain's four regional stock exchanges. GFNorte's shares trade in units representing ten common shares of GFNorte under the symbol "XNOR." and were included in FTSE Latibex TOP Index as of June 10, 2009, an index comprised of the 16 most important listed Latin American companies in this market. Being quoted in Euros will facilitate the decision to purchase GFNorte shares by investment fund administrators and European investors interested in Banorte's performance, as well as managing currency exchange risks. We believe that GFNorte's inclusion in the Latibex will likely encourage greater demand for its shares and promote greater long-term liquidity.

Competition

We face strong domestic competition in all aspects of our business from other Mexican financial groups, commercial banks, insurance companies and securities-brokerage houses, as well as from non-Mexican banks and international financial institutions. We compete for both commercial and retail customers with other large Mexican banks, including subsidiaries of foreign banks, which, like us, are a part of financial groups. In some areas of Mexico, we also compete with regional banks. We also compete with certain non-Mexican banks (principally those based in the United States and Spain) for the business of the largest Mexican industrial groups and government entities, as well as high net worth individuals. Our principal competitors are Scotiabank Inverlat, S.A., Institución de Banca Múltiple, Grupo Financiero Scotiabank Inverlat; BBVA Bancomer, S.A., Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer; Banco Nacional de México, S.A., Integrante del Grupo Financiero Banamex, which is part of Citigroup; Banco Santander (México), S.A., Institución de Banca Múltiple, Grupo Financiero Santander; HSBC México, S.A., Institución de Banca Múltiple, Grupo Financiero HSBC; and Banco Inbursa, S.A., Institución de Banca Múltiple, Grupo Financiero Inbursa. Some of the banks with which we compete are significantly larger and have more financial resources than us, including a larger asset size and capital base.

Competition is also likely to increase as a result of the entrance of new participants into the banking sector. The Mexican banking authorities have recently granted a number of banking licenses for the establishment and operation of several new banking institutions, including: (i) Banco Azteca, S.A., Institución de Banca Múltiple, (ii) Banco Ve por Mas, S.A., (iii) Banco Autofin México, S.A., Institución de Banca Múltiple, (iv) Barclays Bank México, S.A., Institución de Banca Múltiple, Grupo Financiero Barclays México, (v) Banco Compartamos, S.A., Institución de Banca Múltiple, (vi) Banco Ahorro Famsa, S.A., Institución de Banca Múltiple, (vii) Banco Wal-Mart de Mexico Adelante, S.A., (viii) Banco Amigo, S.A. and (ix) BanCoppel, S.A., Institución de Banca Múltiple. The CNBV is likely to continue granting banking licenses to new participants.

The table below sets forth our rank in, and market share of, the Mexican banking industry in the following categories as of March 31, 2010:

	March 31, 2010		December 31, 2009	
	Rank	Market Share	Rank	Market Share
Total Assets:	4	10.86%	4	11.10%
Commercial loans(1).....	4	11.70%	4	11.81%
Consumer loans(1).....	5	7.24%	5	7.09%
Mortgage loans(1).....	2	14.46%	2	14.45%
Total Deposits:	3	11.40%	3	11.02%
Demand deposits.....	5	9.83%	4	10.28%
Time deposits.....	3	13.26%	3	11.90%
Number of branches.....	5	10.19%	5	10.3%

Source: CNBV.

(1) Commercial, consumer and mortgage loans include only performing loans.

These figures reflect the combined operations of Serfin and Santander Mexicano, and of BBVA Bancomer and BBVA Bancomer Servicios.

Under Mexican law 100% foreign ownership of the equity of Mexican financial groups and commercial banks is allowed and any individual or corporation is permitted to acquire control, through one or more transactions, of Mexican financial groups and commercial banks; *provided, however*, that the authorization of the Ministry of Finance and Public Credit or the CNBV, for financial services holding companies or banks, respectively, is obtained if the acquired interest exceeds 5% of the total capital stock of such institution.

As of March 31, 2010, the Mexican banking system was comprised of 41 private-sector banks (of which 19 are affiliated with non-Mexican institutions) and six public-sector banks. According to the CNBV, 62.79% of the total assets and 65.98% of the total shareholders' equity of private-sector banks in Mexico were controlled by banks affiliated with foreign institutions, as of March 31, 2010.

Commercial banks in Mexico also compete in the retail market with non-banking institutions known as *sociedades financieras de objeto limitado* (limited purpose financial companies or "Sofoles") and *sociedades financieras de objeto múltiple* (multiple purpose financial companies or "Sofomes"), both of which focus primarily on offering consumer and mortgage loans to middle- and low-income individuals and limited purpose banks (known as *bancos de nicho*). Until recently, the commercial credit market for middle- and low-income individual customers has been serviced almost exclusively by Sofoles and Sofomes. Currently, Sofoles and Sofomes are licensed to operate in Mexico. Sofoles and Sofomes may engage in certain specific lending activities and may, in certain circumstances, be supervised by the same regulatory authorities as commercial banks, but are prohibited from engaging in many banking operations, including foreign trade financing, receiving deposits, offering checking accounts and engaging in foreign currency operations. Traditional banks have begun to extend their credit services to the markets previously dominated by Sofoles and Sofomes.

On February 1, 2008, several amendments to the Mexican Banking Law were enacted, which among other things allowed for the incorporation of limited purpose banks, which can only engage in those activities expressly authorized by the CNBV and set forth in their by-laws, and are subject to fewer regulatory requirements (including lower capital requirements) depending on such authorized activities. We could experience higher competition in certain sectors of our business should the CNBV grant many limited-purpose banking licenses.

Commercial banks also face increasing competition from other financial institutions that can provide larger companies with access to domestic and international capital markets as an alternative to bank loans. To the extent permitted by the Mexican Banking Law, we maintain a competitive position through our investment banking activities.

The following table sets out certain statistics on the Mexican commercial banking system as of March 31, 2009:

	Assets		Loans		Deposits		Shareholders' Equity	
	Amount	Market Share	Amount	Market Share	Amount	Market Share	Amount	Market Share
(Ps. millions as of March 31, 2010, except percentages)								
Domestic private-sector banks.....	1,289,338	22.11%	630,992	26.25%	629,698	24.82%	128,491	20.47%
Foreign-owned banks.....	3,662,147	62.79%	1,333,803	55.49%	1,566,507	61.75%	414,112	65.98%
Private-sector total	4,951,485	84.90%	1,964,795	81.74%	2,196,205	86.58%	542,603	86.45%
Public-sector banks	771,064	13.22%	345,878	14.39%	340,466	13.42%	63,705	10.15%
Total banking system	5,722,549	98.12%	2,310,673	96.13%	2,536,671	100%	606,308	96.60%
Non-banking institutions(1).	109,664	1.88%	93,119	3.87%	-	-%	21,352	3.40%
Financial system total	5,832,213	100%	2,403,792	100%	2,536,671	100%	627,660	100%

Source: the CNBV.

(1) Non-banking institutions are not allowed by law to receive deposits.

We acquired three U.S. based banking entities (INB in 2006, UniTeller in 2006 and Motran in 2007). We face strong competition in the U.S. from U.S. based financial groups, commercial banks and other financial institutions as a result of these acquisitions. In particular, we expect to face competition from Wells Fargo & Company, Bank of America Corporation, J.P. Morgan Chase & Company and Banco Bilbao Vizcaya Argentaria, each of which has a significant presence in the regions covered by INB and UniTeller.

Employees

As of March 31, 2010, we had 15,153 employees on an unconsolidated basis. Approximately 36% of our employees were unionized as of such date. All upper-level management positions are held by non-union employees. During each of the years ended December 31, 2009, 2008 and 2007 we had 15,105, 15,659 and 14,741 employees, respectively, on an unconsolidated basis. In general, we consider labor relations with our employees to be good. Since our privatization in 1992, we have never experienced a work stoppage or strike.

Employees and Labor Relations

Under Mexican labor law, we are liable for severance payments to employees terminated under certain circumstances and are obliged to pay seniority premiums to employees who have been employed for at least 15 years upon their voluntary departure from employment or upon their dismissal. In addition, we voluntarily provide pension benefits to qualified retired employees and disability and life insurance coverage on behalf of qualified employees. Under Mexican labor law, employees have the right to share in business profits. The percentage of profits to be distributed annually is currently 10% of our taxable income as calculated for profit-sharing purposes. In addition to the employee benefits required by Mexican labor law, we have instituted certain other employee benefits and incentive programs to upgrade our workforce.

Properties

As of March 31, 2010, the book value of our real property was Ps.3,680 million. Our principal executive offices are located in Mexico City and Monterrey, Mexico. We also have offices located throughout Mexico on 140 properties, comprising an aggregate of 210,218 square meters, of which we own 69 properties and lease 71 properties.

Our aggregate branch space is 470,204 square meters. As of March 31, 2010, we owned 220 of the properties on which our branches were located and leased 878 of the properties. The average size of our new branch space is approximately 250 square meters.

Litigation and Regulatory Proceedings

Due to the nature of our transactions, we frequently encounter judicial, administrative and arbitration proceedings. Customers, users or suppliers may also take legal action against us. We are currently subject to a number of other legal and regulatory proceedings, including tax and labor claims, arising in the ordinary course of our business, none of which our management believes is reasonably likely to have a material adverse effect on our financial position or results of operations. See Note 36 to our audited consolidated financial statements and Note 22 to our unaudited interim financial statements.

On September 21, 2009, the Office of the Comptroller of the Currency (the “OCC”) entered into a formal agreement with our subsidiary bank, INB (the “OCC Agreement”), as a result of the OCC’s finding of certain unsafe and unsound banking practices relating to increasing credit risk at INB. The formal agreement requires INB to undertake the following, among other actions: (a) adopt and implement a written action plan to improve its loan portfolio management; (b) take prompt and continuing action to protect its interest in the criticized assets, including developing a written program designed to eliminate the basis of criticism; (c) establish a program for the maintenance of an adequate allowance for loan and lease losses; (d) adopt and implement a written asset diversification program; (e) improve and ensure a continued effective loan review; and (f) adopt and implement a written three-year strategic plan. The management of INB is working to achieve compliance with all requirements of the OCC Agreement.

On January 27, 2010, GFNorte, Banorte, Banorte USA Corporation and INB Financial (together, the “Banorte Parties”) entered into an agreement (the “Reserve Bank Agreement”) with the Federal Reserve Bank of Dallas, pursuant to which the Banorte Parties agreed to cause INB to meet all of the requirements for depository institutions controlled by a financial holding company under the U.S. Bank Holding Company Act of 1956, as amended (the “Bank Holding Company Act”) and to take certain steps to strengthen INB’s management and improve its overall condition, as outlined in the corrective action plan submitted to the Board of Governors of the Federal Reserve System (the “Federal Reserve Board”) by the Banorte Parties on November 3, 2009, and required under the OCC Agreement. Pursuant to the Reserve Bank Agreement, the Banorte Parties have agreed that until the Federal Reserve Board determines that each of the Banorte Parties has met the requirements to be a financial holding company, the Banorte Parties will not engage in the United States in any additional financial services activities, as defined in Section 4(k) of the Bank Holding Company Act, nor to acquire control of any U.S. company that is engaged in financial services activities without the prior approval of the Federal Reserve Board.

In addition, INB and the OCC have agreed that INB is to achieve and maintain a leverage ratio of at least 8% and a total capital to risk weighted assets ratio of at least 12%. INB believes that it is currently in compliance with these requirements.

If the OCC determines that INB has not satisfactorily complied with the requirements set forth in the OCC Agreement by October 14, 2010, the Federal Reserve Board may take certain actions pursuant to Section 4(m) of the Bank Holding Company Act, including requiring the Banorte Parties to divest control of INB.

BANORTE CAYMAN

General

Banorte Cayman became a part of our branch network as a result of our merger with Bancrecre. Banorte Cayman was initially registered under Part IX of the Companies Law (2004 Revision) of the Cayman Islands on February 22, 1991 as Banco de Crédito y Servicio, S.N.C. By Special Resolution dated February 9, 1993, the name of that entity was changed to Bancrecre, S.A. On March 31, 2002, Banco Mercantil del Norte, S.A., which was registered under Part IX of the Companies Law (2004 Revision) on November 23, 1989, was merged into Bancrecre, the surviving entity, subsequent to which the surviving entity was renamed “Banco Mercantil del Norte, S.A., Institución de Banca Múltiple, Grupo Financiero Banorte.” The registered office of Banorte Cayman is at Butterfield Bank (Cayman) Limited, P.O. Box 705, Butterfield House, Grand Cayman KY1-1107, Cayman Islands. We operate Banorte Cayman under a Category “B” Banking License, under the Banks and Trust Companies Law (2009 Revision) (the “CI Banking Law”) of the Cayman Islands. This license is unrestricted allowing Banorte Cayman to conduct business with other licensees while prohibiting it from engaging in business locally with the public or residents of Cayman Islands, subject to the terms of local regulatory requirements. This license does not allow Banorte Cayman to take deposits from residents of the Cayman Islands, or invest in any asset representing a claim on any person resident in the Cayman Islands, subject to certain exceptions such as exempted or ordinary non-resident companies and other licensees.

Activities

The main activities of Banorte Cayman are:

- to obtain funding, principally for the purposes of lending to Mexican clients;
- to act as a deposit-taker, offering a range of demand and time deposits facilities to corporate clients;
- to offer a full range of trade financing services such as import and export financing, foreign currency and interest rate swaps and other forms of trade credit;
- to provide treasury, international banking and corporate finance services to clients; and
- to a lesser extent, to buy and sell securities in the international market and securities issued for funding purposes (such as certificates of deposit and U.S. dollar-denominated commercial paper).

Regulation of Banorte Cayman

Under Mexican law, the obligations of Banorte Cayman are obligations of Banorte as a whole. Indeed, Banorte Cayman is subject to the regulations issued by the CNBV and Banco de México, including liquidity requirements. See “Supervision and Regulation— Liquidity Requirements for Foreign Currency-Denominated Liabilities.”

The Cayman Islands Monetary Authority (the “Monetary Authority”) reviews all applications and grants licenses for banks and trust companies under the CI Banking Law. The requirements of the Monetary Authority when granting such licenses include:

- the applicant being a direct branch or affiliate of an international bank which has an established track record in the banking or finance industry; and
- the branch or new entity being or becoming a member of a group with acceptable home-based supervising regulation.

Under the CI Banking Law, there are two basic categories of bank licenses:

- an “A” license, which permits unrestricted domestic and off-shore business; and
- a “B” license, which permits only off-shore business. A “B” License may be restricted to dealings with certain clients.

Banorte Cayman has been granted an unrestricted “B” License.

There are no specified ratio or liquidity requirements under the Banks and Trust Companies Law (2009 Revision). However, the Monetary Authority will expect observance of prudent banking practices and adopts the guidelines and recommendations of the Basel Committee for Bank Regulation and Supervisory Practices for the calculation of capital adequacy ratios (risk asset ratios).

RISK MANAGEMENT

General

Our risk exposure consists of credit, liquidity, operational (including legal) and market risks. Credit risk is defined as the potential loss caused by the partial or total failure of a counterparty or issuer to perform an obligation to us. Credit risk can affect the performance of both our loan portfolio and investment portfolio. Liquidity risk encompasses funding liquidity risk, which refers to the inability to renew liabilities or acquire new ones at normal market conditions; and market liquidity risk, which refers to the inability to unwind or offset positions due to a lack of market depth, thereby affecting the value of an asset. Operational risk is the potential loss caused by failures or deficiencies in information systems and internal controls, or errors while processing transactions. Market risk is the potential loss due to adverse changes in market prices of financial instruments as a result of movements in interest rates, foreign exchange rates or equity prices, and the adverse effect on our traditional banking activities of interest rate and foreign exchange rate fluctuations. We consider risk management an essential activity that requires continuous improvement and adjustment according to our operations.

Mexican financial authorities have formulated rigorous risk management regulations for the banking sector. The CNBV issued a set of requirements regarding risk management practices for all banking institutions in Mexico, which became effective in February 1999. According to these requirements, by the end of 2000, all banks operating in Mexico were required to have adequate policies and procedures in place to manage credit, liquidity, operational (including legal) and market risks. These policies were further updated and supplemented during 2004 and 2005. Pursuant to the CNBV regulations, the management process must include sound measurement and monitoring methods. We have implemented policies and procedures, approved by our Board of Directors, that our management believes complies with the CNBV requirements.

Risk Management Organizational Structure

Our risk management has traditionally been delegated to a risk policy committee (“CPR Committee”), established in 1997 in advance of the Mexican regulatory requirement to do so. The CPR Committee designs the strategies to be followed in order to accomplish risk-return objectives. The CPR Committee currently (i) decides on the strategies and policies related to mitigating financial risks, including the setting of risk limits, (ii) evaluates our overall risk-return ratio, (iii) analyzes sensitivities and stress testing scenarios, (iv) defines and monitors the general strategy for asset and liability management, (v) defines our general pricing processes and monitors their effects, and (vi) analyzes the impact of operational risk events. Our Board of Directors reviews and approves the strategies and limits set by the CPR Committee. The CPR Committee includes three members of our Board of Directors (one of whom serves as Chairman), our Chief Executive Officer, our Corporate General Director, our General Director of Risk Management Office, our Business Area Directors (who do not have voting power on the CPR Committee) and our General Director of Auditing (who does not have voting power on the CPR Committee). The CPR Committee meets on a monthly basis or more frequently, as needed.

The CPR Committee receives information on a monthly basis with respect to credit risk, market risk, operational risk and liquidity risk. The policies and procedures of the Internal Operating Committees are subject to approval by the CPR Committee. The Internal Operating Committees also report to the CEO and are comprised as follows:

- credit committees and workout committees to review credit risk;
- the Treasury Committee to review market risk;
- the Assets and Liabilities Committee (the “ALCO Committee”) to review liquidity risk; and
- each of the Technology and Operations Committee, the Communications and Control Committee, the Fiduciary Business Committee, the Security Committee and the Integrity Committee to review operational risks.

Strategic and competitive risk is reviewed by the Operations Committee.

The Risk Management Office prepares a weekly report regarding liquidity. Our Risk Management Office is comprised of four specialized divisions: (i) credit risk management, (ii) market risk management, (iii) operational risk management and (iv) risk policy management.

Credit Risk

Credit Policies

Credit risk management is an essential activity for banks. Our credit policies and procedures are designed to centralize credit decisions to increase uniform application of credit criteria and minimize the risks associated with individual decision-making. Our credit policies include quantitative criteria to ensure minimum credit quality standards.

The CPR Committee determines the general credit policies for each of our different business areas. These policies are carried out by various credit committees that have been specifically organized to centralize and implement our credit approval policies. Credit committees are responsible for credit approval decisions. See “—Individual Loan Credit Risk Evaluation—Commercial Lending.”

We measure credit risk at two distinct levels: (i) individual loan risk with respect to both consumer lending and commercial lending and (ii) portfolio risk.

Individual Loan Credit Risk Evaluation

Consumer Lending

We perform credit analyses of our individual consumer loans through the computerized consumer credit scoring system known as “DIANA,” which we began to use in February 2000. DIANA is based on a scoring system used primarily in Europe and the United States in the financial and automotive sectors. DIANA considers such factors as a borrower’s income, expenses, repayment capacity, demographic data, personal assets and credit history. The implemented scoring systems were developed using internal statistical data for each product.

DIANA is available in each of our branches and is used to evaluate a wide array of consumer credit applications, including applications for residential mortgages, automobile loans, personal loans, credit cards and small and medium enterprise loans. Within each type of credit application, there can be several specially designed risk evaluation models. In addition, DIANA has on-line access to credit bureau information and our internal records.

Loan applications are rejected if, based on the risk level assigned by the scoring system, the applicant is deemed to pose an unacceptable credit risk.

In addition to DIANA, we utilize certain risk evaluation models and behavioral risk models, including one entitled “TRIAD,” in order to evaluate increases in credit limits and assess the probability of non-payment with respect to credit cards.

Commercial Lending

The evaluation process of a potential commercial borrower focuses primarily on the credit history of the owners and management, quality of production processes and facilities, historical and projected financial statements and collateral provided in connection with the loan. With respect to loans intended to finance a particular project, our evaluation relies primarily on the existence of technological alliances, the analysis of market conditions and the projected financial position of the borrower.

Account officers are responsible for reviewing commercial loan applications. Each commercial loan application is classified according to its industry sector and is then reviewed by a credit officer. In the case of loans exceeding 5,000,000 UDIs, the account officer must present a proposal to either: (i) one of our eight Territorial Credit Committees, (ii) our National Credit Committee or (iii) our Central Credit Committee, depending on the loan amount approval limits as indicated below:

Credit Committee	Loan Amount Approval Limits
Central Credit Committee.....	From 85,000,000 UDIs to 10% of our net capital
National Credit Committee.....	Up to 85,000,000 UDIs
Territorial Credit Committee (located in Northern and Southern Mexico).....	5,000,000 UDIs to 20,000,000 UDIs
Territorial Credit Committee (located in Northeastern, Northern and Western Mexico).....	5,000,000 UDIs to 15,000,000 UDIs
Territorial Credit Committee (located in Central and Southern Mexico and the Mexican Peninsula).....	5,000,000 UDIs to 8,000,000 UDIs

Loans for less than 5,000,000 UDIs do not need committee approval, but are approved by two of our officers, one of whom must be a senior credit officer. Loans above 10% of our net capital and loans to a related party must be approved by our Chief Executive Officer and must be presented to our CPR Committee and Board of Directors. In addition to our internal lending limits, we are also subject to certain lending limits imposed by law. For a discussion of these regulatory requirements, see “Supervision and Regulation—Lending Limits.”

Individual Loan Credit Risk Measurement

Individual loan credit risk is identified and measured by us through the use of target markets, risk acceptance criteria and an internal credit rating model. Since the first quarter of 2001, we have used our own credit grading system, CIR Banorte, which is based on the Loan Classification and Rating Rules, to calculate borrower risk. In addition, we also use the Loan Classification and Rating Rules to evaluate borrower risk and calculate a rating on a loan by loan basis. See “Selected Statistical Information—Grading of Loan Portfolio.” For small loans in the amount of up to approximately Ps.3.3 million, we utilize the DIANA scoring system. Mortgage loans, consumer loans and credit cards are classified using the Loan Classification and Rating Rules.

Credit Risk Rating Model—CIR Banorte

CIR Banorte operates in accordance with internationally accepted practices and is designed to provide a reliable and objective estimate of the quality of loan assets and to clearly identify the risk level represented by each borrower.

The Loan Classification and Rating Rules include a proposed methodology for assigning a rating to each client and a grade to each loan in order to estimate probable loss and define the percentage of necessary reserves. This regulation permits us to use an internal methodology to assign a risk rating per client with prior approval and certification from the CNBV.

The Loan Classification and Rating Rules stress the need of effective methods for rating loans based on the type of credit and allows loan institutions to rate and make estimates based on internal methodologies. Since June 2001, we have been using the CIR Banorte methodology for the commercial portfolio, after assessment and certification from the CNBV. See “Selected Statistical Information—Grading of Loan Portfolio.”

The score generated by CIR Banorte is determined based on the analysis of four risk criteria that are divided into seven factors and takes into consideration our target market, risk acceptance criteria and loan strategy concepts. Target markets are activities selected by region and economic activity and supported by economic and quality studies. Risk acceptance criteria are parameters that describe the identified risks for each industry. The types of risk considered in the risk acceptance criteria are financial, operational, market, business life cycle, legal, loan experience and management quality.

The four risk criteria utilized by CIR Banorte are (i) financial risk, (ii) industry risk, (iii) borrower’s experience risk and (iv) country risk. Financial risk measures financial structure and payment capability (using a financial ratio model, which renders a quantitative risk level), financing sources, management and decision-making and quality and timeliness of financial information. Industry risk measures positioning and the market in which it participates. Borrower’s experience risk measures a borrower’s experience in consultation with credit bureaus, in compliance with the Loan Classification and Rating Rules. Country risk assesses the relevant economic and political factors within the country in which the borrower is located.

The evaluation of the different criteria described above is reflected by a single credit risk grade using our CIR Banorte system. CIR Banorte grades range from 1 to 10, with 1 representing minimum risk and 10 representing maximum risk. To receive a loan, the risk grade must be between 1 and 6. Although our grading methodology is substantially different from that of the CNBV, the following table indicates the approximate equivalence between our grades and those of the CNBV:

<u>Risk Level</u>	<u>Banorte Grade</u>	<u>CNBV Grade</u>
Minimum.....	1	A1
Low.....	2	A2
	3	A2
Medium.....	4	B1
	5	B2
	6	B3

<u>Risk Level</u>	<u>Banorte Grade</u>	<u>CNBV Grade</u>
High	7	C1
	8	C2
	9	D
	10	E

In addition to our internal lending limits, we are also subject to certain lending limits imposed by law. For a discussion of these regulatory requirements, see “Supervision and Regulation—Lending Limits.”

Account officers are responsible for assigning risk ratings according to our CIR Banorte grading system. These ratings are used as a part of the credit risk review process with the objective of evaluating the quality of our loan assets, and identifying the risk level represented by each borrower through the assignment of an individual risk rating. The CIR Banorte grades are assigned depending on the overall credit exposure of the borrower rather than the default risk of an individual loan. In addition, the grades are based on the borrower’s credit history, current payment ability, projected payment ability and collateral support information.

The CIR Banorte grading system also serves as a basis for analyzing changes in the quality of our loan portfolio, estimating the probability of default and expected losses, standardizing the credit selection process and determining the allowance for loan losses necessary to cover our loan portfolio risk. The grades are subject to internal audit, are updated as the risk is perceived to change and are reviewed every three months by the associated account officer. Loans in excess of 4,000,000 UDIs, they are also reviewed at least once a year by the relevant credit committee. An account officer’s analysis of a loan application is accompanied by a summary of major sources of risk.

Monitoring

We operate a central compliance operations center in Monterrey, Mexico, that monitors compliance with the terms and conditions of loans. This central compliance operations center monitors the dates and payments of the loans, the conditions and covenants of the loans and any authorized exceptions to standard procedures.

The monitoring process also includes verification of the use of proceeds and contractual conditions, financial analysis of the borrower and guarantors, on-site visits to the borrower’s place of business, confirmation of credit bureau information and analysis of the economic environment, among others.

Workout

The workout and recovery of problem loans is performed through a specialized workout unit (referred to as the Recovery Bank) with the established aim of maximizing the recovery of non-performing and problem loans, as well as foreclosures and execution on collateral. See “Business of Banorte—Principal Business Activities—Recovery Banking.”

During 2006 we improved our established program to transfer non-performing and problem loans to our workout unit at earlier stages of loan deterioration in order to optimize their recovery and maximize our workout resources, while also allowing business areas to concentrate their efforts on more preventive measures and enhanced monitoring of performing customers in order to avoid credit problems.

Credit Exposure Resulting from Derivative Financial Instruments

Credit exposure from derivative financial instruments arises from the risk that customers or counterparties will default on their obligations to us. In order to reduce this risk, each customer or counterparty engaged in these transactions must have a trading line of credit, which takes into account the trading risk for each customer or counterparty. The amount of risk implied in derivative financial instrument transactions, measured as the potential credit exposure, is added to the total risk authorized for a specific customer and must be authorized by a credit committee. In order to quantify the amount of a line of credit utilized by a specific customer or counterparty in a derivative financial instrument transaction, the Risk Management Office calculates, by use of statistics and volatility levels, the maximum expected credit exposure within a pre-defined confidence level. This amount is the potential credit exposure and corresponds to an amount that must be withheld from the customer’s or counterparty’s line of credit. Lines of credit are monitored during the day by a support area of the Risk Management Office and by the Risk Management Office at the beginning and end of each day.

Line of credit limits are determined in terms of notional amounts in light of the underlying credit exposure. In addition, this risk is monitored on a daily basis in a counterparty credit risk report for the positions held by each counterparty. This report

is prepared by the Risk Management Office and distributed to our traders, the Treasury Division, our Chief Executive Officer and the Auditing Unit among others.

Portfolio Risk

We have an integrated bank-wide risk assessment system that provides us with sophisticated risk measurement tools and risk management practices. We use two measures for this purpose:

- Expected loss represents the average amount the bank anticipates losing for a credit portfolio during one year assuming standard operating and market conditions.
- Unexpected loss is the maximum loss in excess of the expected loss at a specific confidence level. This is also the Value-At-Risk given an extraordinary credit event.

We have designed a portfolio risk methodology utilizing internationally recognized practices in the identification, measurement, control and follow-up of portfolio risk. We have adapted these techniques and methodologies to the current conditions of the Mexican financial system in order to better assess portfolio risk.

This portfolio risk methodology involves calculating the current value of the portfolio, or loan exposure, which is subdivided into categories, including rating, geographical region, economic activity, currency and type of product, in order to better understand the characteristics of the portfolio and take action to guide it toward a diversification that will maximize profitability with the lowest risk.

In order to determine portfolio credit risk, it is necessary to calculate, with respect to each loan, expected cash flows, probability of default and the percentage of recovery in the event of a default. The results from these calculations help us to determine expected and unexpected loss at a one-year horizon. The expected loss is the portfolio's loss distribution average. The unexpected loss is the maximum loss suffered by the portfolio at a specific confidence level given the loss distribution average. The expected and unexpected loss calculations are used to make decisions and better diversify the portfolio in accordance with our strategy. The portfolio risk methodology and the underlying individual loan calculations are periodically reviewed and updated.

Liquidity Risk

Liquidity risk arises when an unusual increase in withdrawals of deposits creates the need to increase funding positions at a high cost or liquidate asset positions in the short-term at significantly reduced prices. The purpose of managing liquidity risk is to minimize the cost of funds through adequate coverage of liquidity needs that arise in either the ordinary course of business or from unforeseen events.

The Treasury Division is responsible for maintaining adequate liquidity levels in Pesos, UDIs and foreign currencies. Our principal sources of Peso funding are customer deposits, which are highly concentrated in non-interest-bearing checking accounts, short-term notes with interest due at maturity and interest-bearing demand and time deposits. Our principal source of dollar funding is provided by our customer deposits.

We believe that it is necessary to have an information system capable of identifying, measuring, monitoring and limiting our liquidity risk. In addition, we also believe it is necessary to evaluate the structure of our balance sheet in order to avoid unnecessary concentrations in funding sources and to measure the impact of the structure of our balance sheet and certain business decisions on our earnings and stockholders' equity.

Operational Risk

Operational risk is the risk of direct or indirect loss resulting from inadequate or failed internal processes, personnel, and systems or from external events, including legal risk, but excluding strategic risk.

In January 2003, the Chief Risk Office created the Operational Risk Management Unit. This unit is responsible for implementing the 2004-2007 strategic plan authorized by the CPR Committee pursuant to the CNBV requirements, including in relation to operational risk management, the filing of loss events and the calculation of the capital requirement.

The Operational Risk Management Unit works closely with our Internal Audit Unit and Internal Comptroller Unit in an effort to improve our internal controls, which are important factors in managing operational risk. The Operational Risk

Management Unit and Internal Comptroller Unit jointly establish policies and procedures designed to improve processes and mitigate operational risk.

Market Risk

Our exposure to market risk arises from trading and investment in financial instruments, where interest rates, foreign exchange rates (principally the Peso/U.S. dollar exchange rate) and Eurobond prices are the main sources of market risks, as well as from traditional banking services such as deposit taking and lending where the balance sheet is exposed to interest rate and foreign exchange risks.

Trading Position

Treasury and trading positions are evaluated on a daily basis for market risk using “Value-At-Risk” methodology. In addition, daily information regarding risk versus limits is assessed. For balance sheet risk and asset and liability risk management, simulation models and stress testing are used to evaluate risk in different scenarios and to improve performance of funding and investing strategies. Our treasury positions are intended to reduce balance sheet risk and to hedge certain long-term positions.

Our risk management unit uses non-parametric historical simulation to calculate Value-At-Risk through the simulation of the effect of the previous 500 historical scenarios. Our current portfolio is exposed to various factors directly affecting the valuation of portfolios (e.g., local interest rates, foreign interest rates and exchange rates, among others). Historical simulation is the central measure against which limits are compared.

Historical data of market parameters such as interest rate curves, foreign exchange prices and stock indexes for the last two years is available for Value-At-Risk calculations. The information presented below corresponds exclusively to our positions as of March 31, 2010. Value-At-Risk is calculated to represent the maximum loss at a 99% confidence level due to changes in market values of trading and structural positions. During the first three months of 2010, daily Value-At-Risk did not exceed Ps.4,856 million. The following table sets forth the average, maximum and minimum values of the weekly Value-At-Risk for the three months ended March 31, 2010:

	Average	Maximum (Ps. millions)	Minimum
Local interest rates	3,565	5,000	2,008
Foreign interest rates	568	667	503
Foreign exchange rates	133	316	42
Eurobonds prices.....	135	132	140
Total	3,442	4,767	2,086

The Value-At-Risk for each of the risk factors shown is determined by simulating 500 historical scenarios using each of the variables that make up each such factor while holding constant other variables that affect the other remaining risk factors. Similarly, the Total Value-At-Risk considers the correlations of all the risk factors that affect the portfolio valuation. For the foregoing reasons, the mathematical sum of the Value-At-Risk per risk factor does not match the Total Value-At-Risk shown.

Stress testing and scenario analysis methods are used to complement the Value-At-Risk methodology. Stress testing involves the creation of scenarios based on infrequent or catastrophic events in order to evaluate contingencies, and is of particular importance during periods of high volatility or illiquid markets. The scenario analysis method is used to create hypothetical or expected market shifts. Sensitivity analysis shows the effect on positions caused by predetermined changes in market variables (for example a 1% increase or decrease in interest rates).

Structural Interest Rate Risk

A majority of our non-trading interest-bearing Peso liabilities generally reprice more frequently than our interest-earning assets. For this reason, the ALCO Committee monitors our maturity exposures and positions. We seek to manage our assets and liabilities to reduce any potential adverse impact on our results of operations and financial position that might result from changes in interest rates.

As discussed in connection with our trading position, balance sheet risk and asset and liability risk management, simulation models and stress testing are used to evaluate risk in different scenarios and improve performance of funding and investment strategies. The two primary methods used to estimate the interest rate risk of the balance sheet portfolio are scenario analysis and interest rate simulation.

MANAGEMENT

Board of Directors

Management of our business is vested in our Board of Directors, which is currently composed of 15 regular members elected for one-year terms at our annual ordinary general meeting of shareholders and is responsible for the management of our business. Our Board of Directors can be contacted at the Bank's principal offices located at Avenida Revolución 3000, Colonia Primavera, Monterrey, Nuevo León, México 64830.

The following table sets forth our current directors and their alternates:

Directors	Alternate Directors
Roberto González Barrera (Chairman)	Bertha González Moreno
Rodolfo Barrera Villarreal (Vice Chairman)	Jesus L Barrera Lozano
Juan González Moreno	Javier Márquez Díez Canedo
José G. Garza Montemayor	Javier Martínez Abrego
David Villarreal Montemayor	Carlos Chavarria Garza
Francisco Alcalá de León (Independent)	Luis Manuel Merino de Villasante (Independent)
Eduardo Livas Cantú	Alfredo Livas Cantú
Eugenio Clariond Reyes-Retana (Independent)	Benjamin Clariond Reyes-Retana (Independent)
Herminio Blanco Mendoza (Independent)	Simon Nizri Cohen (Independent)
Manuel Aznar Nicolin (Independent)	Cesar Verdes Quevedo (Independent)
Jacobo Zaidenweber Cvilch (Independent)	Isaac Becker Kabacnik (Independent)
Alejandro Valenzuela del Río	Sergio García Robles-Gil
Isaac Hamui Mussali (Independent)	Miguel A Quiroz Pérez (Independent)
Everardo Elizondo Almaguer (Independent)	
Patricia Armendariz Guerra (Independent)	

Members of our Board of Directors receive cash fees per meeting equal to the market value of two Ps.50 gold coins commonly referred to as *centenarios*.

Our by-laws provide that the Board of Directors may designate committees. Our principal committees are the following:

Management Committee

Our Management Committee has five members and is responsible to make decisions on strategic matters for the Institution and its most relevant matters. The current members of the Management Committee are Roberto González Barrera, Alejandro Valenzuela del Río, Jesús O. Garza, Manuel Sescosse Varela, and Sergio García Robles-Gil. The Chairman of the Board of Directors calls the sessions. A quorum of four members must be present always including the Chairman of the Board of Directors and the Chief Executive Officer of GFNorte. Decisions are adopted through the unanimous vote of those present.

Audit and Corporate Practices Committee

The purpose, composition, authority and responsibilities of our Audit and Corporate Practices Committee have been established in a charter approved by the Board of Directors in accordance with Mexican law. The Audit and Corporate Practices Committee's primary purpose is to assist the Board of Directors in defining, verifying and assessing the effectiveness of our internal control system, overseeing the management and conduct of our business, and fulfilling shareholder resolutions. The Audit and Corporate Practices Committee is responsible for following up on external and internal audit activities and keeping the Board of Directors informed about their performance. Moreover, the Audit and Corporate Practices Committee oversees the preparation of financial reports in accordance with regulations and accounting principles applicable to financial institutions. The current members of the Audit and Corporate Practices Committee, all of whom are independent, are Francisco Alcalá de León, Herminio Blanco Mendoza, Manuel Aznar Nicolin, Patricia Armendariz Guerra, and Isaías Velázquez González, a management member of the Audit and Corporate Practices Committee.

Risk Policy Committee

(CPR Committee)

Our Risk Policy Committee is comprised of voting and non-voting members. The objective of the Risk Policy Committee is to manage our risk. The current voting members are: Eduardo Livas Cantú (Chairman), Francisco Alcalá de León, Manuel Aznar Nicolín, Alejandro Valenzuela del Río, Fernando Solís Soberón, Gerardo Zamora Nañez, Ricardo Acevedo de Garay, and Javier Márquez Diez-Canedo. Current members without voting rights are: Aurora Cervantes Martínez, Jesus O. Garza Martínez, Armando Rodal Espinosa, Sergio García Robles Gil, Luis Fernando Orozco Mancera, Alfredo Eduardo Thorne Vetter and Manuel Sescosse Varela.

Alternate Directors

Alternate Directors have been appointed at our annual shareholders' meeting to substitute for Directors in cases of permanent or temporary absences. An Alternate Director attends meetings of our Board of Directors when called to substitute for a Director.

Statutory Auditors

In addition to the Board of Directors, our by-laws provide for a statutory auditor to be designated at a meeting of shareholders and, if determined at such meeting, an alternate statutory auditor. Under Mexican law, the duties of statutory auditors include, among other things, the examination of the operations, books, records and any other documents of a company, the determination of whether accounting standards and policies have been followed, and the presentation of a report of such examination at the annual ordinary general meeting of shareholders. Our statutory auditors are Galaz, Yamazaki, Ruiz Urquiza, S.C., a member of Deloitte Touche Tohmatsu.

Principal Officers of Banorte

The following persons are our principal officers:

<u>Name</u>	<u>Position</u>	<u>Years with Banorte</u>	<u>Age</u>
Roberto González Barrera	Chairman and President	17	79
Alejandro Valenzuela del Río.....	Chief Executive Officer	6	48
Alfredo Eduardo Thorne Vetter.....	Managing Director, Global Markets	0	54
Sergio García Robles Gil.....	Managing Director, Chief Financial Officer	15	49
Jesús Oswaldo Garza Martínez	Managing Director, Commercial Banking	19	53
Luis Fernando Orozco Mancera	Managing Director, Recovery Banking	6	55
Aurora Cervantes Martínez	Managing Director, Legal Affairs	13	45
Javier Márquez Diez Canedo.....	Managing Director, Risk Management	1	69
Prudencio Frigolet Gómez.....	Managing Director, Technology	22	50
Carla Juan Chelala	Managing Director, Marketing	2	40
José Armando Rodal Espinosa	Managing Director, Corporate and Middle-market Banking	17	40
Ricardo Acevedo de Garay	Managing Director, Private Banking	21	53
Alejandro Garay Espinosa.....	Managing Director, Corporate Services	1	47
Manuel Sescosse Varela	Managing Director, Government	17	57
Fernando Solís Soberón.....	Managing Director, Long Term Savings	2	48

Each of our principal officers has extensive experience in the banking industry. Set forth below is biographical information for each of our principal officers.

Roberto González Barrera, 79, Chairman and President. Mr. González joined us in 1993. Mr. González is President of Grupo Maseca, S.A.B. de C.V. and GFNorte.

Alejandro Valenzuela del Río, 48, Chief Executive Officer. Mr. Valenzuela joined us in October 2003 and has a Ph.D. in Administration & Project Feasibility and a master's degree in Economics. He has previously worked at European Aeronautic Defense and Space Company, Ofavi, Banco de México and Mexico's Ministry of Finance.

Alfredo Eduardo Thorne Vetter, 54, Managing Director, Global Markets. Mr. Thorne joined us in November 2009 and has a Ph.D. in Economics. He has previously worked at JPMorgan Chase Bank and Banco Mundial.

Sergio García Robles Gil, 49, Managing Director, Chief Financial Officer. Mr. García joined us in October 1994 and has a master's degree in Business Administration. He has previously worked at Fina Consultores.

Jesús Oswaldo Garza Martínez, 53, Managing Director, Commercial Banking. Mr. Garza joined us in August 1999 and has a master's degree in Finance Administration. Other companies for which he has previously worked include BBV, Casa de Bolsa Probursa and Valores Finamex.

Luis Fernando Orozco Mancera, 55, Managing Director, Recovery Banking. Mr. Orozco joined us in January 2004 and has a master's degree in Business Administration. He has previously worked at Citibank México.

Aurora Cervantes Martínez, 45, Managing Director, Legal Affairs. Ms. Cervantes joined us in June 1996 and has a bachelor's degree in Law and Social Science. She has worked at Procuraduría General de la República.

Javier Márquez Diez Canedo, 69, Managing Director, Risk Management. Mr. Márquez joined us in March 2009 and has a Ph.D. in Mathematical Sciences. Other companies for which he has previously worked include FOBAPROA, Ixe/Fimsa Casa de Bolsa, ITAM and Operadora de Bolsa.

Prudencio Frigolet Gómez, 50, Managing Director, Technology. Mr. Frigolet joined us in January 1988 and has a master's degree in Business Direction. Other companies for which he has worked include Banca Quadrum, Hidelbrando, BBVA Probursa, Casa de Bolsa Probursa and Culliet Mexicana.

Carla Juan Chelala, 40, Managing Director, Marketing. Ms. Juan joined us in November 2007 and has a master's degree in Marketing and Advertising. Other companies for which she has worked include Grupo Financiero HSBC.

José Armando Rodal Espinosa, 40, Managing Director, Middle-market Banking. Mr. Rodal joined us in April 1993 and has a master's degree in Administration. He has previously worked as Managing Director Executive Corporative Middle-market Banking.

Ricardo Acevedo de Garay, 53, Managing Director, Private Banking. Mr. Acevedo joined us in November 1988 and is an Accountant. He has previously worked for Casa de Bolsa Banorte and Afin Casa de Bolsa.

Alejandro Garay Espinosa, 47, Managing Director, Corporative Services. Mr. Garay joined us in March 2009 and holds a Law degree. He has previously worked for Banco de México.

Manuel Sescosse Varela, 57, Managing Director, Government. Mr. Sescosse joined us in February 1993 and has a bachelor's degree in Business Administration. Other companies for which he has worked include Bancen, Multiva, Casa de Bolsa Probursa, Impresiones Sesvar and Sesscose Hnos. Constructores.

Fernando Solis Soberón, 48, Managing Director, Long Term Savings. Mr. Solis joined us in July 2007 and has a bachelor's degree and master's degree and a Ph.D. in Economics. Other companies for which he has worked include Grupo Nacional Provincial, Grupo Bal, CONSAR, and Comisión Nacional de Seguros y Fianzas.

RELATED PARTY TRANSACTIONS

Loans to Related Parties

Pursuant to Mexican rules and regulations, no loans may be made (i) to any bank officer or employee, except in connection with certain employee benefits; (ii) statutory auditors, including alternate statutory auditors; (iii) external auditors and (iv) certain close relatives of any of the persons mentioned in (i), (ii) and (iii) above. The Mexican Banking Law regulates transactions by a bank with affiliates and other “related party transactions” and limits the aggregate amount of these transactions to 50.0% of our Tier 1 capital. Related party transactions may only be undertaken by Mexican banks if agreed upon on market terms. The CNBV may, upon request, grant exemptions from these provisions. As permitted by Mexican Banking Law, we currently provide loans to our employees at favorable rates.

Articles 73, 73 Bis and 73 Bis 1 of the Mexican Banking Law regulate and limit our loans to related parties, including loans to (i) holders of 2% or more of our shares or the shares of GFNorte or of an affiliate of GFNorte; (ii) principal and alternate members of our Board, or of the Board of GFNorte or of an affiliate of GFNorte; (iii) relatives of a Board member or of a 2% or more shareholder mentioned in (i) and (ii) above; (iv) any person not an officer or employee of us who, nevertheless, is empowered to bind us contractually; (v) an entity in which we or any of our directors or officers, or any of the persons included in (i) to (iv), holds, directly or indirectly, 10% or more of the outstanding capital stock; and (vi) board members, officers and employees of entities mentioned in (v) above. A three-fourths majority of non-conflicted members of our Board of Directors present at the relevant Board meeting must approve such loans. Prior to such approval, however, the loan must undergo our customary review procedures for loans, which vary depending on the nature and amount of the loan, except that such loans must always be reviewed and recommended by the Credit Committee. Loans for amounts of less than 2 million UDIs, or 1% of our Tier 1 capital, whichever is greater, do not require Board approval. In addition, certain filings must be made with the CNBV with respect to such loans.

As of March 31, 2010, our loans to related parties under Articles 73, 73 Bis and 73 Bis 1 totaled Ps.7,465 million, which comprised 3.20% of our total loan portfolio at such date. Our loans to related parties are made on terms and conditions comparable to other loans of like quality and risk. Of all the related party loans outstanding on March 31, 2010, 94% were graded “A”, 3.26% were graded “B”, 0.07% were graded “C”, 1.82% were graded “D”, and 0.87% were graded “E” under the Loan Classification and Rating Rules.

Affiliated Transactions

No assurance can be given that transactions between us and our parent GFNorte or any of its subsidiaries or affiliates have been or will be conducted on a basis as favorable to us as could be obtained by us from unaffiliated parties. For instance, we have entered into certain services agreements with Seguros Banorte Generali, Banorte Generali Afore and Pensiones Banorte Generali to allow these companies to offer their products and services within our branch network in consideration for certain fees. In addition, we, GFNorte and other subsidiaries or affiliates have entered into a number of agreements providing for the sharing of revenues or expenses in connection with the performance of certain activities, including loan recovery. We are likely to continue to engage in transactions with our parent, its subsidiaries or affiliates, and no assurance can be given that we will do so on an arm’s length basis. In addition, future conflicts of interest between us and GFNorte or any of its subsidiaries or affiliates may arise, which are not required to be and may not be resolved in our favor.

See Note 25 to our audited consolidated financial statements and Note 14 to our unaudited interim financial statements for further information regarding our related party transactions with our parent, subsidiaries and other affiliated companies.

PRINCIPAL SHAREHOLDERS

As of March 31, 2010, 92.72% of our capital stock was owned by GFNorte. Accordingly, GFNorte is in a position to elect all of our directors and otherwise control the management and affairs of Banorte. The table below sets forth the ownership of our capital stock as of March 31, 2010:

<u>Shareholder</u>	<u>Series O Shares Owned</u>	<u>Percentage</u>
Grupo Financiero Banorte, S.A. de C.V.	69,770,242,062	92.72%
International Finance Corporation (IFC).....	3,370,657,357	4.48%
Other(1)	2,109,030,074	2.80%
Total	<u>75,249,929,493</u>	<u>100.00%</u>

(1) These shares are held by various third parties.

THE MEXICAN FINANCIAL SYSTEM

General

Mexico's financial system is currently comprised of commercial banks, national development banks, broker-dealers, development trust funds and other non-bank institutions, such as insurance and reinsurance companies, bonding companies, credit unions, savings and loans companies, foreign exchange houses, factoring companies, bonded warehouses, financial leasing companies, mutual fund companies, pension fund management companies, limited purpose financial institutions, multiple purpose financial institutions and limited purpose banks. In 1990, Mexico adopted the Financial Groups Law aimed at achieving the benefits of universal banking, which permits a number of financial services companies to operate as a single financial services holding company. Most major Mexican financial institutions are members of financial groups.

The principal financial authorities that regulate financial institutions are the Ministry of Finance and Public Credit, Banco de México, the CNBV, the National Commission for Retirement Savings (*Comisión Nacional del Sistema de Ahorro para el Retiro*, or CONSAR), the National Insurance and Bonding Commission (*Comisión Nacional de Seguros y Fianzas*, or the CNSF), the IPAB, and the National Commission for the Defense of Financial Service Users (*Comisión Nacional para la Protección y Defensa de los Usuarios de Servicios Financieros*, or CONDUSEF).

Financial Groups

The enactment of the Financial Groups Law in 1990 permitted the development of the universal banking model in Mexico. By July 1992, most major Mexican financial institutions had become part of financial groups controlled by a financial services holding company, such as GFNorte, and made up of a number of financial operating entities. The operations of financial services holding companies are generally restricted to holding shares representing the capital stock of financial services operating subsidiaries. Such subsidiaries, whether direct or indirect, may include Mexican banks, broker-dealers, insurance companies, bonding companies, mutual fund operators, mutual funds, auxiliary credit organizations (such as factoring, financial leasing and bond-warehousing companies), Sofoles, Sofomes, foreign exchange service providers and retirement fund administrators. Financial groups may be comprised by a holding company and any two financial institutions (which may be of the same type of financial institution), provided that a financial group may not be comprised solely by the holding company and two Sofomes.

The Financial Groups Law permits entities controlled by the same financial services holding company:

- to act jointly before the public, offer services that are supplemental to the services provided by the other and hold themselves out as part of the same group;
- use similar corporate names; and
- conduct their activities in the offices and branches of other entities as part of the same group.

In addition, the Financial Groups Law requires that each financial services holding company enter into an agreement with each of its financial services subsidiaries pursuant to which the holding company agrees to be responsible secondarily and without limitation for the satisfaction of the obligations incurred by its subsidiaries as a result of the activities that each such subsidiary is authorized to conduct under the applicable laws and regulations, and is fully responsible for certain losses of its subsidiaries, up to the total amount of the holding company's assets. We have entered into such agreements with our subsidiaries, as described under "Supervision and Regulation — Financial Groups Statutory Responsibility."

The Banking Sector

Banking activities in Mexico have been and continue to be affected by prevailing conditions in the Mexican economy, and the demand for and supply of banking services have been vulnerable to economic downturns and changes in government policies. Prior to the early 1990s, lending by Mexican banks to the private sector had fallen to very low levels. It is estimated, however, that by the end of 1994 average total indebtedness of the private sector to Mexican commercial banks had grown to represent approximately 40.7% of Mexican GDP, with mortgage loans and credit card indebtedness generally growing faster than commercial loans. The devaluation of the Mexican peso in December 1994 initiated a crisis, and the resulting high interest rates and contraction of the Mexican economy in 1995 severely impacted most borrowers' ability to both repay loans when due and meet debt service requirements. These effects, among others, caused an increase in the non-performing loan portfolio of Mexican financial institutions, particularly during 1995, which adversely affected the capitalization level of financial institutions.

Also, increased domestic interest rates and the deteriorating value of the peso made it more difficult for financial institutions to renew dollar-denominated certificates of deposit and credit lines.

From 1995 through the end of 1997, the CNBV had assumed or intervened in the operations of 13 banks and had adopted several measures designed to protect, stabilize and strengthen the Mexican banking sector. These measures included:

- creating a temporary capitalization program to assist banks;
- establishing a foreign exchange credit facility with Banco de México to help banks with dollar liquidity problems;
- increasing the level of required loan loss reserves;
- establishing a temporary program for the reduction of interest rates on certain loans;
- establishing various programs to absorb a portion of debt service cost for mortgage loan debtors (including debt restructuring and conversion support programs); and
- broadening the ability of foreign and Mexican investors to participate in Mexican financial institutions.

Reforms to Mexican Banking Law

On February 1, 2008, the Mexican Congress enacted a number of reforms to the Mexican Banking Law, which grant more power to the CNBV and establish new provisions on transparency and reliability on the disclosure of bank's information. The main objectives of the reforms include:

Enhancing the CNBV supervisory practices. The reforms grant ample authority to the CNBV for the supervision of the financial entities under the Mexican Banking Law. The CNBV may perform visits to banks, with the aim to review, verify, test and evaluate the operations, processes, systems of internal control and risk management among others elements that may affect the financial position of banks.

Additionally, the reforms permit the CNBV to partially suspend or restrict the execution of the authorized transactions referred to in Article 46 of the Mexican Banking Law, when such transactions are prohibited or not performed with the required infrastructure or internal controls. The order of suspension can be issued regardless of any other applicable sanctions under the Mexican Banking Law.

Increasing requirements for the granting of credits to customers. For the granting of credits, banks are required to analyze and evaluate the viability of payment by borrowers or counterparties, relying on an analysis based on quantitative and qualitative information that allows establishing their credit worthiness and ability of timely payment of the credit. Banks must issue guidelines and lending process manuals and credit procedures shall be performed in accordance with such policies.

Establishing new provisions on transparency and reliability. Banks are required to publicly disclose their corporate, financial, administrative, operational, economic and legal information, as determined by the CNBV. Banks must post on their website and in a national newspaper their balance sheets and other relevant information periodically.

Establishing fiscalization powers for the supervision of external auditors. The CNBV has powers of inspection and surveillance with respect to entities that provide external audit services to banks, including those partners or employees who are part of the audit team, in order to verify the compliance with the Mexican Banking Law. The CNBV is allowed to: (i) request any information and documentation related to the services rendered; (ii) practice inspection visits; (iii) require the attendance of partners, legal representatives and other employees; and (iv) issue audit procedures to be complied by the auditors, in connection with the tax opinions and practices performed by them.

Limited-purpose banks. The reform introduced limited-purpose banks (*bancos de nicho*), which can only engage in a limited amount of banking activities which are specifically set forth in their by-laws. The minimum required capital of limited-purpose banks can vary depending on the activities carried out by such entities, from a range of 90,000,000 UDIs to 36,000,000 UDIs.

Improvement of Creditors' Rights and Remedies

Mexico has enacted legislation to improve creditors' rights and remedies. These laws include collateral pledge mechanisms and a new bankruptcy law.

Collateral Mechanisms

On June 13, 2003, a congressional decree was published amending the Mexican Commerce Code (*Código de Comercio*), the General Law of Negotiable Instruments and Credit Transactions (*Ley General de Títulos y Operaciones de Crédito*), the former Securities Market Law, the Mexican Banking Law, the Insurance Companies Law (*Ley General de Instituciones y Sociedades Mutualistas de Seguros*), the Bond Companies Law (*Ley Federal de Instituciones de Fianzas*) and the General Law of Ancillary Credit Organizations and Activities (*Ley General de Organizaciones y Actividades Auxiliares del Crédito*). The purpose of the amendment was to provide an improved legal framework for secured lending and, as a consequence, encourage banks to increase their lending activities. Among its provisions, the decree eliminated a prior non-recourse provision applicable to non-possessory pledges (which allowed the creation of a pledge over all the assets used in the main business activity of the debtor, but limited recourse to the applicable collateral) and collateral trusts, to allow creditors further recourse against debtors in the event that proceeds derived from the sale or foreclosure of collateral are insufficient to repay secured obligations.

Bankruptcy Law

Mexico's bankruptcy law was enacted on May 12, 2000 and has, thereafter, been frequently used as a means to conclude complex insolvency situations affecting Mexican companies, by providing expedited and clear procedures, while at the same time granting creditors and other participants the certainty of an in-court solution. The law provides for a single insolvency proceeding encompassing two successive phases: a conciliatory phase of mediation between creditors and debtor, and bankruptcy.

Only IPAB or the CNBV may demand the declaration of insolvency of banking institutions, including Banorte. In the case of banking institutions, such as Banorte, with the declaration of bankruptcy (*concurso mercantil*) the judicial procedure is initiated in the bankruptcy phase and not, as in common procedures, in the conciliatory phase. The bankruptcy of a Mexican bank is viewed as an extreme measure (because it results in a liquidation and dissolution), which has not been resorted to in practice, and is preceded by a number of measures that seek to avoid it, such as precautionary measures taken by the CNBV, facilities made available by IPAB and an intervention led by the CNBV. Upon presentation of the declaration of insolvency, banking institutions must cease operations and suspend payment of all obligations.

The bankruptcy law establishes precise rules that determine when a debtor is in general default in its payment obligations. The principal indications are failure by a debtor to comply with its payment obligations in respect of two or more creditors, and the existence of any of the following two conditions: (i) 35.0% or more of a debtor's outstanding liabilities are 30 days past-due; or (ii) the debtor fails to have certain specifically defined liquid assets and receivables to support at least 80.0% of its obligations which are due and payable.

The law provides for the use and training of experts in the field of insolvency and the creation of an entity to coordinate their efforts. Such experts include the intervenor (*interventor*), conciliator (*conciliador*) and receiver (*síndico*). The IPAB acts as the receiver and the CONDUSEF may appoint up to three intervenors.

On the date the insolvency judgment is entered, all peso-denominated obligations are converted into UDIs, and foreign currency-denominated obligations are converted into pesos at the rate of exchange for that date and then converted into UDIs. Only creditors with a perfected security interest (*i.e.*, mortgage, pledge or security trust) continue to accrue interest on their loans. The bankruptcy law mandates the netting of derivative transactions upon the declaration of insolvency.

The bankruptcy law provides for a general rule as to the period when transactions may be scrutinized by the judge to determine if they were entered into for fraudulent purposes, which is 270 calendar days prior to the judgment declaring insolvency. This period is referred to as the retroactivity period. Nevertheless, upon the reasoned request of the conciliator, the intervenors, who may be appointed by the creditors to oversee the process, or any creditor, the judge may set a longer period.

A restructuring agreement must be entered into by the debtor, as well as recognized creditors representing more than 50.0% of the sum of the total recognized amount corresponding to common creditors and the total recognized amount

corresponding to secured or privileged creditors subscribing the agreement. The proposed agreement, once approved by the creditors, must be presented to the IPAB for its approval. Any such agreement, when confirmed by the court, becomes binding on all creditors, and the insolvency proceeding is then considered to be concluded. If an agreement is not reached, the debtor is declared bankrupt.

In December 2007, the bankruptcy law was amended to incorporate provisions relating to pre-agreed insolvency proceedings, frequently used in jurisdictions different from Mexico, that permit debtors and creditors to agree upon the terms of a restructuring and thereafter file, as a means to obtain the judicial recognition of a restructuring reached on an out-of-court basis. This also provides protection against dissident minority creditors.

Deregulation of Lending Entities and Activities

In July 2006, the Mexican Congress enacted reforms to the *Ley General de Organizaciones y Actividades Auxiliares del Crédito* (General Law of Auxiliary Credit Organizations and Credit Activities), the Mexican Banking Law and the *Ley de Inversión Extranjera* (Foreign Investment Law), with the objective of creating a new type of financial entity called multiple purpose financial entities (*sociedad financiera de objeto multiple* or “Sofom”) (the “Sofom Amendments”). The Sofom Amendments were published in the Official Gazette of Mexico on July 18, 2006.

The main purpose of the Sofom Amendments is to deregulate lending activities, including financial leasing and factoring activities. Sofomes are Mexican corporations (*sociedades anónimas*) that expressly include as their main corporate purpose in their by-laws, engaging in lending and/or financial leasing and/or factoring services. Pursuant to the Sofom Amendments, the Ministry of Finance and Public Credit has ceased to authorize the creation of new Sofoles, and all existing Sofol authorizations will automatically terminate on July 19, 2013. On or prior to that date, existing Sofoles must cease operating as a Sofol. Failure to comply with this requirement will result in dissolution or liquidation of the Sofol. Existing Sofoles also have the option of converting to Sofomes or otherwise extending their corporate purposes to include activities carried out by Sofomes.

Among others, Sofomes that are affiliates of Mexican credit institutions (*i.e.*, private or public banks) or the holding companies of financial groups that hold a credit institution will be regulated and supervised by the CNBV, and will be required to comply with a number of provisions and requirements applicable to credit institutions such as capital adequacy requirements, risk allocation requirements, related party transactions rules, write-offs and assignment provisions, as well as reporting obligations. Regulated Sofomes are required to include in their denomination the words “*Entidad Regulada*” (regulated entity) or the abbreviation thereof “*E.R.*” All other entities whose main purpose is engaging in lending, financial leasing and factoring activities are non-regulated Sofomes and must so indicate in their corporate denomination by including the words “*Entidad No Regulada*” (non-regulated entity) or the abbreviation thereof, “*E.N.R.*” Non-regulated Sofomes are not subject to the supervision of the CNBV.

Sofomes (regulated or non-regulated) will be subject to the supervision of the CONDUSEF as is the case with any other financial entity.

The Sofom Amendments also eliminated the restrictions on foreign equity investment applicable to Sofoles, financial leasing and factoring companies, which until the Sofom Amendments became effective, was limited to 49.0%. Accordingly, the Sofom Amendments may result in an increase in competition in the banking industry, from foreign financial institutions.

SUPERVISION AND REGULATION

Introduction

Our operations are primarily regulated by the Mexican Banking Law, and the rules issued thereunder by the Ministry of Finance and Public Credit and the CNBV, as well as rules issued by Banco de México and IPAB. The authorities that supervise our operations are the Ministry of Finance and Public Credit, Banco de México and the CNBV.

The Ministry of Finance and Public Credit, either directly or through the CNBV, the role of which has been expanded and improved, possesses broad regulatory powers over the banking system. Banks are required to report regularly to the financial regulatory authorities, principally the CNBV and Banco de México. Reports to bank regulators are often supplemented by periodic meetings between senior management of the banks and senior officials of the CNBV. Banks must submit their unaudited monthly and quarterly and audited annual financial statements to the CNBV for review, and must publish on their website and in a national newspaper their unaudited quarterly balance sheets and audited annual balance sheets. The CNBV may order a bank to modify and republish such balance sheets.

Additionally, banks must publish on their website, among other things:

- the bank's basic consolidated and audited annual financial statements, together with a report containing the management's discussion and analysis of the financial statements and the bank's financial position, including any important changes thereto and a description of the bank's internal control systems;
- a description of the bank's board of directors, identifying independent and non-independent directors and including their resume;
- a description and the total sum of compensation and benefits paid to the members of the board of directors and senior officers during the past year;
- any information requested by the CNBV to approve the accounting criteria and special registries;
- a detailed explanation regarding the main differences in the accounting used to prepare the financial statements;
- the credit rating of their portfolio;
- the capitalization level of the bank, its classification (as granted by the CNBV) and any modifications thereto;
- financial ratios;
- a brief summary of the resolutions adopted by any shareholders' meeting, debenture holders' meeting, or by holders of other securities or instruments; and
- the bank's by-laws.

The CNBV has authority to impose fines for failing to comply with the provisions of the Mexican Banking Law, or regulations promulgated thereunder. In addition, Banco de México has authority to impose certain fines and administrative sanctions for failure to comply with the provisions of the Law of Banco de México (*Ley del Banco de México*) and regulations that it promulgates and the Law for the Transparency and Ordering of Financial Services (*Ley para la Transparencia y Ordenamiento de los Servicios Financieros*), particularly as violations relate to interest rates, fees and the terms of disclosure of fees charged by banks to clients. Violations of specified provisions of the Mexican Banking Law are subject to administrative sanctions and criminal penalties.

Licensing of Banks

Authorization of the Mexican government is required to conduct banking activities. The CNBV, with the approval of its Governing Board and subject to the prior favorable opinion of Banco de México, has the power to authorize the establishment of new banks, subject to minimum capital standards, among other things. Approval of the CNBV is also required prior to the opening, closing or relocating offices, including branches, of any kind outside of Mexico or transfer of assets or liabilities between branches.

Intervention

The CNBV, with the approval of its Governing Board, may declare *intervención* (“managerial intervention”) of a banking institution pursuant to Articles 138 through 149 of the Mexican Banking Law and in such case the Governing Board of IPAB will appoint an *administrador cautelar* (“peremptory manager”) (the “CNBV Intervention”).

A CNBV Intervention pursuant to Articles 138 through 149 of the Mexican Banking Law, will only occur when (i) during a calendar month, the capitalization ratio of bank is reduced from a level equal to or above the minimum Capital Ratio required under the Mexican Capitalization Rules, to 50% or less than such minimum Capital Ratio; or (ii) a bank does not comply with any minimum corrective measure ordered by the CNBV pursuant to Article 134 Bis 1 of the Mexican Banking Law, does not comply with more than one additional special corrective measures ordered by the CNBV pursuant to such Article 134 Bis 1 or consistently does not comply with any such additional corrective measures ordered by the CNBV and, in the case of this clause (ii), it does not submit itself to the conditional management regime described under “—Improved Framework to Resolve/Support Commercial Banking Institutions—Financial Support—Conditional Management Regime.” In addition, a CNBV Intervention may occur when the CNBV in its sole discretion, determines the existence of irregularities that affect the stability or solvency of the bank or the public interest or the bank’s creditors.

The peremptory manager will be appointed by IPAB if IPAB has granted extraordinary financial support to a bank in accordance with the Mexican Banking Law. The peremptory manager appointed by IPAB will assume the authority of the Board of Directors. The peremptory manager will have the authority to represent and manage us with the broadest powers under Mexican law and will not be subject to our Board of Directors or our shareholders. The appointment of the peremptory manager must be registered in the Public Registry of Commerce of the corresponding domicile.

IPAB

The IPAB Law, which became effective January 20, 1999, provides for the creation, organization and functions of IPAB, the new bank savings protection agency. IPAB is a decentralized public entity that regulates the financial support granted to banks for the protection of bank guaranteed operations.

Only in exceptional cases may IPAB grant financial support to banking institutions.

IPAB will manage and sell the loans, rights, shares and any other assets that it acquires to perform its activity according to the IPAB Law, to maximize their recovery value. IPAB must ensure that the sale of such assets is made through open and public procedures. The Mexican President is required to present annually a report to Congress prepared by IPAB with a detailed account of the transactions conducted by IPAB in the prior year.

IPAB has a governing board of seven members: (i) the Minister of Finance and Public Credit, (ii) the Governor of Banco de México, (iii) the President of the CNBV, and (iv) four other members appointed by the President of Mexico, with the approval of two-thirds of the Senate.

The deposit insurance to be provided by IPAB to a bank’s depositors will be paid upon determination of the dissolution and liquidation, or bankruptcy of a bank. IPAB will act as liquidator or receiver in the dissolution and liquidation, or bankruptcy of banks, either directly or through designation of a representative. IPAB will guarantee obligations of banks to certain depositors and creditors only up to the amount of 400,000 UDIs (or approximately U.S.\$144,027 as of March 31, 2010, per person per bank.

Banks have the obligation to pay IPAB ordinary and extraordinary contributions as determined from time to time by the Governing Board of IPAB. Under IPAB’s Law, banks are required to make monthly ordinary contributions to IPAB, equal to 1/12 of 0.004% multiplied by the average of the daily outstanding liabilities of the respective bank in a specific month, less (i) holdings of term bonds issued by other commercial banks; (ii) financing granted to other commercial banks; (iii) financing granted by IPAB; (iv) subordinated debentures that are mandatorily convertible in shares representing the capital stock of the banking institution; and (v) restricted assets and liabilities resulting from the repurchase transactions (*reportos*) and lending of securities with the same counterparty, pursuant to the provisions issued by IPAB.

IPAB’s Governing Board also has the authority to impose extraordinary contributions in the case that, given the conditions of the Mexican financial system, IPAB does not have available sufficient funds to comply with its obligations. The determination of the extraordinary contributions is subject to the following limitations: (i) may not exceed, on an annual basis, the amount equivalent to 0.003% multiplied by the total amount of the liabilities outstanding of the banking institutions that are subject to IPAB contributions; and (ii) the aggregate amount of the ordinary and extraordinary contributions may not

exceed, in any event, on an annual basis, an amount equivalent to 0.008% multiplied by the total amount of the liabilities outstanding of the applicable banking institution.

The Mexican congress allocates funds to IPAB on a yearly basis to manage and service IPAB's liabilities. In emergency situations, IPAB is authorized to incur additional financing every three years in an amount not to exceed 6% of the total liabilities of Mexican banks.

Improved Framework to Resolve/Support Commercial Banking Institutions

In July 2006, certain amendments to the Mexican Banking Law, the Banking Deposit Insurance Law (*Ley de Protección al Ahorro Bancario*, the "IPAB Law") and the Financial Groups Law were enacted by Mexican congress, to provide an improved legal framework to resolve and grant financial support to commercial banking institutions undergoing financial difficulties.

Resolution and Payment of Guaranteed Obligations

Revocation of Banking License. In case that the CNBV revokes a license to organize and operate as a banking institution, IPAB's Governing Board will determine the manner under which the corresponding banking institution shall be dissolved and liquidated in accordance with Articles 122 Bis 16 through 122 Bis 29 of the Mexican Banking Law. In such a case, IPAB's Governing Board may determine to undertake the liquidation through any or a combination of the following transactions: (i) transfer the liabilities and assets of the banking institution in liquidation to another banking institution directly or indirectly through a trust incorporated for such purposes; (ii) constitute, organize and manage a new banking institution owned and operated directly by IPAB with the exclusive purpose of transferring the liabilities and assets of the banking institution in liquidation; or (iii) any other alternative that may be determined within the limits and conditions provided by the Mexican Banking Law that IPAB considers as the best and less expensive option to protect the interest of bank depositors.

Causes to Revoke a Banking License. The above mentioned amendments significantly expand the events upon which the CNBV may revoke a banking license. The following are among the most relevant events:

- (i) if the banking institution is dissolved or initiates liquidation or bankruptcy procedures (*concurso mercantil* or *quiebra*);
- (ii) if the banking institution (a) does not comply with any minimum corrective measures ordered by the CNBV pursuant to Article 134 Bis 1 of the Mexican Banking Law; (b) does not comply with any special corrective measure ordered by the CNBV pursuant to such Article 134 Bis 1; or (c) consistently does not comply with an additional special corrective measure ordered by the CNBV;
- (iii) if the banking institution does not comply with the minimum Capital Ratio required under the Mexican Banking Law and the Mexican Capitalization Rules; or
- (iv) if the banking institution defaults with respect to any of the following payment obligations (a) in the case of obligations in an amount greater than 20,000,000 UDIs or its equivalent: (1) loans granted by other banking institutions, foreign financial institutions or Banco de México, or (2) payments of principal or interest on securities issued, that have been deposited with a clearing system, and (b) in the case of obligations in an amount greater than 2,000,000 UDIs or its equivalent, if during two business days or more, (1) it does not pay its obligations with one or more participants in clearing systems or central counterparts, or (2) it does not pay in two or more of its branches, banking deposits claimed by 100 or more of its clients.

Upon publication of the resolution of the CNBV revoking a banking license in the Official Gazette of Mexico and two newspapers of wide distribution in Mexico and registration of such resolution with the corresponding Public Registry of Commerce, the relevant banking institution will be dissolved and liquidation will be initiated. Upon liquidation or the declaration of bankruptcy (*concurso mercantil*) of a banking institution, IPAB shall proceed to make payment of all "guaranteed obligations" of the relevant banking institution.

Obligations of a banking institution in liquidation that are not considered "guaranteed obligations" pursuant to the IPAB Law, and that are not effectively transferred out of the insolvent banking institution, will be treated as follows:

- (i) term obligations will become due (including interest accrued);

- (ii) unpaid principal amounts, interest and other amounts due in respect of unsecured obligations denominated in pesos or UDIs will cease to accrue interest;
- (iii) unpaid principal amounts, interest and other amounts due in respect of unsecured obligations denominated in foreign currencies, regardless of their place of payment, will cease to accrue interest and will be converted into pesos at the prevailing exchange rate determined by Banco de México;
- (iv) secured liabilities, regardless of their place of payment will continue to be denominated in the agreed currency, and will continue to accrue ordinary interest, up to an amount of principal and interest equal to the value of the assets securing such obligations;
- (v) obligations subject to a condition precedent, shall be deemed unconditional; and
- (vi) obligations subject to a condition subsequent, shall be deemed as if the condition had occurred, and the relevant parties will have no obligation to return the benefits received during the period in which the obligation subsisted.

Liabilities owed by the banking institution in liquidation will be paid in the following order of preference: (i) liquid and enforceable labor liabilities, (ii) secured liabilities, (iii) tax liabilities, (iv) liabilities to IPAB, as a result of the partial payment of obligations of the banking institution supported by IPAB in accordance with the Mexican Banking Law, (v) bank deposits, loans and credits as provide by Article 46, Section I and II of the Mexican Banking Law, to the extent not transferred to another banking institution, as well as any other liabilities in favor of IPAB different from those referred to clause (iv) above, (vi) any other liabilities other than those referred to in the following clauses, (vii) preferred subordinated debentures, (viii) non-preferred subordinated debentures, and (ix) the remaining amounts, if any, shall be distributed to stockholders.

Financial Support

Determination by the Financial Stability Committee. The newly created Financial Stability Committee (the “FSC”) includes representatives of the Ministry of Finance and Credit Public, Banco de México, the CNBV and IPAB. In case the FSC determines that if a bank were to default on its payment obligations and such default may (i) generate severe negative effects in one or more commercial banks or other financial entities, endangering their financial stability or solvency, and such circumstance may affect the stability or solvency of the financial system, or (ii) put the operation of the payments’ system at risk, then the FSC may determine, on a single-case basis, that a general percentage of all of the outstanding obligations of the troubled bank that are not considered “guaranteed obligations” under the IPAB Law and guaranteed obligations in amounts equal to or higher than the amount set forth under Article 11 of the IPAB Law (400,000 UDIs per person per entity), be paid as a means to avoid the occurrence of any of such circumstances. Notwithstanding the foregoing, under no circumstance may the transactions referred to in Sections II, IV and V of Article 10 of the IPAB Law (which include transactions such as liabilities or deposits in favor of shareholders, members of the board of directors and certain top level officers, and certain illegal transactions) or the liabilities derived from the issuance of subordinated debentures, such as the Notes, be covered or paid by IPAB or any other Mexican governmental agency.

Types of Financial Support. In case that the FSC makes the determination referred to in the prior paragraph, then IPAB’s Governing Board will determine the manner according to which the troubled bank will receive financial support, which may be through either of the following options:

- (a) If the FSC determines that the full amount of all of the outstanding liabilities of the relevant troubled commercial bank (guaranteed and non-guaranteed) must be paid, then the financial support may be implemented through (i) capital contributions granted by IPAB in accordance with Articles 122 Bis 2 through 122 Bis 6 of the Mexican Banking Law, or (ii) credit support granted by IPAB in accordance with Articles 122 Bis 7 through 122 Bis 15 of the Mexican Banking Law, and in either case the CNBV shall refrain from revoking the banking license granted to such commercial bank.
- (b) If the FSC determines that less than the full amount of all the outstanding liabilities of the troubled commercial bank (guaranteed and non-guaranteed) must be paid, then the support will consist of transferring the assets and liabilities of such commercial bank to a third party, as set forth in Articles 122 Bis 27 or 122 Bis 29 of the Mexican Banking Law.

Conditional Management Regime. As an alternative to revoking the banking license, a new conditional management regime was created, that may apply to commercial banks with a Capital Ratio below the minimum required pursuant to the Mexican Capitalization Rules. To adopt this regime, the relevant bank must voluntarily request to the CNBV, with prior

approval of its shareholders, the application of the conditional management regime. In order to qualify for such regime, the relevant commercial bank should (i) deliver to the CNBV a plan for the reconstitution of its capital, and (ii) transfer at least 75% of its shares to an irrevocable trust.

Banking institutions with a Capital Ratio equal to or below 50% of the minimum Capital Ratio required by the Mexican Capitalization Rules may not adopt the conditional management regime.

Capitalization

The minimum subscribed and paid-in capital for banks is set in accordance with the transactions it may engage. Pursuant to the General Rules applicable to Mexican Banks, banks may perform any of the activities and render the services as provided under Article 46 of the Mexican Banking Law, as well as those permitted under other laws. Applicable corporate by-laws of all banks shall provide for the performance of at least one credit activity and one funding activity.

The minimum equity capital required for banks that engage in all banking activities under the Mexican Banking Law (such as Banorte) is 90,000,000 UDIs (approximately Ps.376.6 million as of December 31, 2009); however, the minimum equity capital may vary from 54,000,000 UDIs to 36,000,000 for limited-purpose banks, depending on the activities each bank is allowed to carry out.

Banks are required to maintain a net capital (*capital neto*) relative to market risk, risk-weighted assets incurred in its operation, and operations risk, which may not be less than the capital required in respect of each type of risk. The Mexican Capitalization Rules set forth the methodology to determine the net capital relative to market risk, risk-weighted assets and operations risk. Under the relevant regulations, the CNBV may impose additional capital requirements and Banco de México may, with the CNBV's recommendation, grant temporary exceptions to such requirements. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Capital."

The Mexican Capitalization Rules provide capitalization standards for Mexican banks similar to international capitalization standards, particularly with respect to the recommendations of the Basel Committee on Banking Supervision (although Mexico does not fully implement such requirements), and has not fully implemented the last amendment).

Under the Mexican Capitalization Rules, Mexican banks are required to maintain a minimum Capital Ratio of 10.0% to avoid the imposition of any of the corrective measures described below. Aggregate net capital consists of Tier 1 capital and Tier 2 capital. At all times, Tier 1 capital must represent at least 50.0% of our aggregate net capital. The Mexican Capitalization Rules subtract from Tier 1 capital, among others, certain subordinated debt instruments, capital investments in certain financial entities and in non-financial, non-publicly traded companies, certain investments in the equity of venture-capital funds and investments in related companies, reserves pending to be created, loans and other transactions that contravene applicable law, and intangibles (including goodwill).

The Mexican Capitalization Rules and the Rules for Capitalization authorize banks to issue capitalization instruments. The proceeds from these instruments may constitute Tier 1 or Tier 2 capital depending on their terms. However, such proceeds may only qualify as Tier 1 capital up to an amount not greater than 15.0% of aggregate net Tier 1 capital (without taking into account other convertible and non-convertible subordinated debentures).

Failure to meet the capital requirements may result in the imposition of certain corrective measures, such as suspension of payment of dividends to shareholders and bonuses to high level executives, and suspension of payment of interests or principal due under capitalization instruments. We and our subsidiaries operating in the financial sector are in compliance with all applicable Mexican Capitalization Rules.

Every Mexican bank must create certain legal reserves (*fondo de reserva de capital*), included as part of Tier 1 capital. Banks must allocate 10.0% of their net income to such reserve each year until the legal reserve equals 100.0% of their paid-in capital (without adjustment for inflation). The balance of net income, to the extent not distributed to shareholders, is added to the retained earnings account. Under Mexican law, dividends may not be paid out of the legal reserve. As of March 31, 2010, we had set aside Ps.4,492 million in legal reserves compared to paid-in capital of Ps.13,978 million (without adjustment for inflation).

Corrective Measures

Pursuant to the Mexican Capitalization Rules, the CNBV classifies Mexican banks in several categories based on their Capital Ratio and orders corrective measures to prevent and correct problems that may affect the stability or solvency of banks if a bank fails to meet the minimum required Capital Ratio.

Reserve and Compulsory Deposit Requirements

The compulsory reserve requirement is one of the monetary policy instruments used as a mechanism to control the liquidity of the Mexican economy to reduce inflation. The objective of Banco de México's monetary policy is to maintain the stability of the purchasing power of the Mexican peso and in this context, to maintain a low inflation level. Given the historic inflation levels in Mexico, the efforts of Banco de México have been directed towards a restrictive monetary policy.

Under the Law of Banco de México, Banco de México has the authority to order the percentage of the liabilities of financial institutions that must be deposited in interest or non-interest-bearing deposits with Banco de México. These deposits may not exceed 20% of the aggregate liabilities of the relevant financial institution. Banco de México also has the authority to order that 100% of the liabilities of Mexican banks resulting from specific funding purposes or pursuant to special legal regimes, be invested in specific assets created in respect of any such purpose or regime.

To manage its maturity exposures to the Mexican financial markets, Banco de México has been extending the maturities of its liabilities for longer terms to avoid the need for continuing refinancing of its liabilities. Those liabilities have been restructured into voluntary and compulsory deposits (*Depósitos de Regulación Monetaria*), and into investment securities such as longer-term government bonds (*Bondes*) and compulsory monetary regulatory bonds (*Brems*). At the same time, Banco de México has elected to hold short-term assets, thus allowing it the ability readily to refinance its positions of assets and reduce its maturity exposure to the financial markets.

Banco de México imposes reserve and compulsory deposit requirements on Mexican commercial banks. Bulletin 36/2008 published on August 1, 2008, stated that the total compulsory reserve deposit required of Mexican commercial banks was Ps.280.0 billion, which had to be deposited in eight installments by eight deposits of Ps.35.0 billion each on August 21 and 28; September 4, 11, 18 and 25; and October 2 and 9, 2008. The amount of the deposit that each bank had to make was determined based on each bank's pro rata share of total Mexican financial institution time deposits allocated as of May 31, 2008.

The compulsory deposit reserves required under the terms of the Bulletin 36/2008 have an indefinite term. During the time these reserves are maintained on deposit with Banco de México, each banking institution receives interest on such deposits every 28 days. Banco de México will provide advance notice of the date and the procedure to withdraw the balance of these compulsory deposits at such time, if any, that the compulsory deposit reserves are suspended or terminated.

Classification of Loans and Allowance for Loan Losses

The Loan Classification and Rating Rules set forth under the General Rules for Banks, provide a methodology to classify (i) consumer loans (*i.e.*, each of credit card exposure and loans to individuals, divided as separate groups) considering as principal elements (a) for credit card exposure, the possibility of non-payment and potential losses (taking into account collateral received), and (b) for loans to individuals, the possibility of non-payment, potential losses (taking into account collateral received), and credit exposure (net of reserves created); (ii) mortgage loans (*i.e.*, residential, including loans for construction, remodeling or improvements), considering as principal elements delinquency periods, possibility of non-payment and potential losses (taking into account collateral and guarantees received); and (iii) commercial loans, based principally on an evaluation of the borrower's ability to repay its loan (including country risk, financial risk, industry risk and payment history) and an evaluation of the related collateral and guarantees. Although the Loan Classification and Rating Rules also permit banks, subject to prior approval by the CNBV, to develop and adopt specific internal procedures within certain parameters to grade the loans in their loan portfolio, we follow the methodology set forth in the Loan Classification and Rating Rules.

The Loan Classification and Rating Rules require that consumer loans to individuals be stratified, considering the number of unpaid billing periods applicable to the relevant loans, and that a statutory percentage be applied to loans that are past due for each level, as a means to create reserves; reserves may be decreased as the maturity of the applicable loan approaches and past due payments are made. Credit card loans must be reserved, on a loan-by-loan basis, considering amounts due, amounts paid to the relevant date, credit limits, and minimum payments required. Consumer loans to individuals may be classified as A, B, C, D or E, depending upon the percentage of reserves required (from 0% to 100%); credit card consumer loans may be classified as A, B-1, B-2, C, D or E also depending upon the percentage of reserves required.

Under the Loan Classification and Rating Rules, mortgage loans must also be stratified, considering the number of unpaid monthly installments applicable to the relevant loans, and a statutory percentage must be applied to loans that are past due for each level, as a means to create reserves; reserves may be decreased in respect of restructured mortgage loans.

Mortgage loans to individuals may be classified as A, B, C, D or E, depending upon the percentage of reserves required (ranging from 0% to 100%).

The Loan Classification and Rating Rules establish the following categories corresponding to levels of risk, applicable reserves and set forth procedures for the grading of commercial loans: A-1, A-2, B-1, B-2, B-3, C-1, C-2, D and E.

The grading of commercial loan portfolios is determined by an analysis of the financial risk, industry risk, country risk and the credit experience, which include the following risk factors: financial structure and payment capacity, sources of financing, administration and decision making, integrity of the financial information, market position and the specific collateral or guarantees that cover the credits.

The Loan Classification and Rating Rules require that Mexican banks grade their commercial loan portfolio (except loans made to or guaranteed by the Mexican federal government) as of the end of each quarter and the classification must be reported to the CNBV. The classification of mortgage and consumer loans is required to be made monthly and reported to the CNBV.

The loan loss reserves are held in a separate account on our balance sheet and all write-offs of uncollectible loans are charged against this reserve. Mexican banks are required to obtain authorization from their board of directors to write-off loans. In addition, Mexican banks are required to inform the CNBV after such write-offs have been recorded.

The determination of the allowance for loan losses, particularly for commercial loans, requires management's judgment. The loan loss reserve calculation that results from using the estimated and prescribed loss percentages may not be indicative of future losses. Differences between the estimate of the loan loss reserve and the actual loss will be reflected in our financial statements at the time of charge-off.

Liquidity Requirements for Foreign Currency-Denominated Liabilities

Pursuant to regulations of Banco de México, the total amount of maturity-adjusted (by applying a factor, depending upon the actual maturity of the relevant liability) net liabilities denominated or indexed to foreign currencies that Mexican banks, their subsidiaries or their foreign agencies or branches may maintain (calculated daily), are limited to 1.83 times the amount of their Tier 1 capital. To calculate such limit, maturity-adjusted foreign currency-denominated or indexed assets (including liquid assets, assets with a maturity of less than one year, short term derivatives and spot foreign exchange transactions) are subtracted from maturity-adjusted foreign currency-denominated or indexed liabilities, and the aforementioned factor is applied to the resulting amount.

The maturity-adjusted net liabilities of Mexican banks denominated or indexed to foreign currencies (including dollars) are subject to a liquidity coefficient (*i.e.*, to maintaining sufficient foreign currency-denominated or indexed liquid assets). These permitted liquid assets include, among others:

- U.S. dollar-denominated cash or cash denominated in any other currency freely convertible;
- deposits with Banco de México;
- treasury bills, treasury bonds and treasury notes issued by the United States government or debt certificates issued by agencies of the United States government, which have the unconditional guarantee of the United States government;
- demand deposits or one to seven-day deposits in foreign financial institutions rated at least P-2 by Moody's Investor Services Inc., or "Moody's", or A-2 by Standard & Poor's Rating Services, or "S&P";
- investments in mutual or similar funds or companies approved by Banco de México, that satisfy certain requirements; and
- unused lines of credit granted by foreign financial institutions rated at least P-2 by Moody's or A-2 by S&P, subject to certain requirements.

Such liquid assets may not be posted as collateral, lent or subject to repurchase transactions or any other similar transactions that may limit their transferability.

We are in compliance with the applicable reserve requirement and liquidity coefficients in all material aspects.

Lending Limits

In accordance with the General Rules for Banks, limits relating to the diversification of a bank's lending transactions are determined in accordance with the bank's compliance with Mexican Capitalization Rules. For a bank with:

- a capitalization ratio greater than 8.0% and up to 9.0%, the maximum financing exposure to a person or a group of persons representing common risk to the bank, is limited to 12.0% of the bank's Tier 1 capital;
- a capitalization ratio greater than 9.0% and up to 10.0%, the maximum financing exposure to a person or a group of persons representing common risk to the bank is limited to 15.0% of the bank's Tier 1 capital;
- a capitalization ratio greater than 10.0% and up to 12.0%, the maximum financing exposure to a person or a group of persons representing common risk to the bank is limited to 25.0% of the bank's Tier 1 capital;
- a capitalization ratio greater than 12.0% and up to 15.0%, the maximum financing exposure to a person or a group of persons representing common risk to the bank is limited to 30.0% of the bank's Tier 1 capital; and
- a capitalization ratio greater than 15.0%, the maximum financing exposure to a person or a group of persons representing common risk to the bank is limited to 40.0% of the bank's Tier 1 capital.

The limits mentioned in the prior paragraphs are required to be measured on a quarterly basis. The CNBV has discretion to reduce the aforementioned limits, if internal control or the risk management of the bank is inadequate.

Financings guaranteed by unconditional and irrevocable security interests or guarantees, that may be enforced immediately and without judicial action, granted by foreign financial institutions with investment grade ratings and established in a country member of the European Union or the Organization for Economic Cooperation and Development (which guarantees must be accompanied with a legal opinion as to their enforceability), securities issued by the Mexican government, and cash (transferred to the bank lender under a deposit that may be freely disposed of by the lender) are exempted from the aforementioned limits, but such financings may not exceed 100.0% of a bank's Tier 1 capital.

Likewise, financings granted to Sofomes for which the bank owns at least 99% of its capital stock, are exempted from the aforementioned guidelines, but such financings may not exceed 100% of a bank's Tier 1 capital. Notwithstanding, if the Sofomes maintain or grant financing (regardless the origin of the resources) to a person or a group of persons representing common risk, such financing shall comply with the aforementioned limits.

The aggregate amount of financings granted to the three largest borrowers of a bank may not exceed 100.0% of the bank's Tier 1 capital. The aforementioned limits also do not apply to financings made to other Mexican banks and to government-controlled companies and decentralized agencies, but may not exceed 100.0% of such bank's Tier 1 capital.

Banks are not obligated to comply with the aforementioned limits with respect to financings made to the Mexican government, local governments (subject to such financings being guaranteed by the right to receive certain Federal taxes), Banco de México, IPAB and development banks guaranteed by the Mexican government.

Banks are required to disclose, in the notes to their financial statements, (i) the number and amount of financings that exceed 10.0% of Tier 1 capital, and (ii) the aggregate amount of financings made to their three largest borrowers.

Funding Limits

In accordance with the General Rules for Banks, Mexican banks are required to diversify their funding risks. In particular, a Mexican bank is required to notify the CNBV, the business day following the occurrence of the event, in the event it receives funds from a person or a group of persons acting in concert that represent in one or more funding transactions, more than 100% of a bank's Tier 1 capital. None of our liabilities to a person or group of persons exceeds the 100% threshold.

Related Party Loans

Pursuant to the Mexican Banking Law, the total amount of the transactions with related parties may not exceed 50% of the bank's Tier 1 capital. For the case of loans and revocable credits, only the disposed amount will be counted. See "Related Party Transactions—Loans to Related Parties."

Foreign Currency Transactions

Banco de México regulations govern transactions by banks, denominated in foreign currencies. Mexican banks may, without any specific additional approval, engage in spot, foreign exchange transactions (*i.e.*, transactions having a maturity not exceeding four business days). Other foreign currency transactions are deemed derivative transactions and require approvals as discussed below. At the end of each trading day, banks are generally obligated to maintain a balanced foreign currency position (both in the aggregate and by currency). However, short and long positions are permitted in the aggregate, so long as such positions do not exceed 15% of a bank's Tier 1 capital. In addition, Mexican banks must maintain liquid assets, prescribed by regulations issued by Banco de México, in connection with maturities of obligations denominated in foreign currencies (as discussed under "Liquidity Requirements Foreign Currency-Denominated Liabilities" above).

Derivative Transactions

Certain Banco de México rules apply to derivative transactions entered into by Mexican banks. Mexican banks are permitted to enter into swaps, credit derivatives, forwards and options with respect to the following underlying assets:

- specific shares, groups of shares or securities referenced to shares, that are listed in a securities exchange,
- stock exchange indexes,
- Mexican currency, foreign currencies and UDIs,
- inflation indexes,
- gold or silver,
- nominal or real interest rates with respect to any debt instrument,
- loans or other advances, and
- futures, options and swaps with respect to the underlying assets mentioned above.

Mexican banks require an express general approval, issued in writing by Banco de México to enter into, as so-called intermediaries, derivative transactions, with respect to each class or type of derivative. Mexican banks that have not received the relevant general approval, would require a specific approval from Banco de México to enter into such derivative transactions (or even if in possession of such general approval, to enter into derivative transactions with underlying assets different from the assets specified above). Mexican banks may, however, enter into derivatives without the authorization of Banco de México, if the exclusive purpose of such derivatives is to hedge the relevant bank's existing risks. Authorizations may be revoked if, among other things, the applicable Mexican bank fails to comply with Mexican Capitalization Rules, does not timely comply with reporting requirements, or enters into transactions that contravene applicable law or sound market practices.

Banks that execute derivative transactions with related parties or with respect to underlying assets of which the issuer or debtor are related parties, shall comply with the corresponding provisions established in the Mexican Banking Law.

Institutions may guarantee the compliance of the derivative transactions through cash deposits, receivables and/or securities of its portfolio. In the case of derivative transactions that take place in OTC markets, the above guarantees may be only granted when the counterparties are credit institutions, brokerage firms, foreign financial institutions, mutual funds, mutual funds manager of pension funds, Sofoles, and any other counterpart authorized by Banco de México. Mexican banks are required to periodically inform their board of directors with respect to the derivatives entered into, and whether or not the Mexican bank is in compliance with limits imposed by the board of directors and any applicable committee. Mexican banks must also inform Banco de México periodically of derivative transactions entered into and whether any such transaction was entered into with a related party. The counterparties in respect of derivatives transactions entered into by Mexican banks, must be other Mexican banks, Mexican financial entities authorized to enter into such derivatives by Banco de México or foreign financial institutions. Derivatives must be entered into pursuant to master agreements that must include international terms and guidelines, such as ISDA master agreements. As an exception to applicable rules, Mexican banks may pledge cash, receivables and securities to secure obligations resulting from their derivative transactions.

We have received approval from Banco de México to engage in swaps, forwards and options related to interest rates and foreign currencies.

Limitations on Investments in Other Entities

Under the Financial Groups Law, subsidiaries of a financial services holding company may not acquire more than 1.0% of the capital stock of another Mexican financial institution, and under no circumstances may they own capital stock of their own financial services holding company, of other subsidiaries of their financial services holding company or of entities that are shareholders of their own financial services holding company or of other subsidiaries of their financial services holding company. In addition, entities member of a financial group may not extend credit in connection with the acquisition of their capital stock, the capital stock of their financial services holding company or the capital stock of other subsidiaries of their financial services holding company. Without the prior approval of the Ministry of Finance and Public Credit (which shall take into consideration the opinions of Banco de México and the primary Mexican regulatory commission supervising the financial entity), entities member of a financial group may not accept as collateral shares of capital stock of Mexican financial institutions. Mexican banks may not acquire or receive as collateral, certain securities issued by other Mexican banks. The approval of the Ministry of Finance and Public Credit is required prior to acquisition of shares of capital stock of non-Mexican financial entities.

The Mexican Banking Law imposes certain restrictions on investments by Mexican banks in equity securities of companies engaged in non-financial activities. Mexican banks may own equity capital in such companies in accordance with the following guidelines: (i) up to 5.0% of the capital of such companies at any time, without any approval; (ii) more than 5.0% and up to 15.0% of the capital of such companies, for a period not to exceed three years, upon prior authorization of a majority of the members of the bank's board of directors; and (iii) higher percentages and for longer periods, or in companies engaged in new long-term projects or carrying out development related activities, whether directly or indirectly, with prior authorization of the CNBV. The total of all such investments (divided considering investments in listed and in non-listed companies) made by a bank may not exceed 30.0% of such bank's Mexican Tier 1 capital.

A Mexican bank requires the prior approval of the CNBV to invest in the capital stock of companies that render auxiliary services to such bank and of companies that hold real estate where the offices of the applicable bank may be located.

Under the Mexican Banking Law, the approval of the CNBV is required prior to the merger of a commercial bank with any other entity.

Restrictions on Liens and Guarantees

Under the Mexican Banking Law, banks are specifically prohibited from (i) pledging their securities or other assets as collateral (except (a) if Banco de México or the CNBV so authorizes, including as described above with respect to derivative transactions or (b) for obligations in favor of Banco de México, IPAB, Mexican development banks or governmental trusts) and (ii) guaranteeing the obligations of third parties, except, generally, in connection with letters of credit and bankers' acceptances.

Bank Secrecy Provisions; Credit Bureaus

Pursuant to the Mexican Banking Law, a Mexican bank may not provide any information relating to the identity of its customers or specific deposits, services or any other banking transactions (including loans) to any third parties (including any purchaser, underwriter or broker, or holder of any of the bank's securities), other than (i) the depositor, debtor, accountholder or beneficiary and their legal representatives or attorneys-in-fact, (ii) judicial authorities in trial proceedings in which the accountholder is a party or defendant, (iii) the Mexican federal tax authorities for tax purposes, (iv) the Ministry of Finance and Public Credit for purposes of the implementation of measures and procedures to prevent terrorism and money laundering, (v) the Federal Auditor (*Auditoría Superior de la Federación*), to exercise its supervisory authority, (vi) the supervisory unit of the Federal Electoral Agency, and (vii) the federal attorney general's office (*Procuraduría General de la República*) for purposes of criminal proceedings, among others. In most cases, the information needs to be requested through the CNBV.

The CNBV is authorized to furnish foreign financial authorities with certain protected information under the Mexican bank secrecy laws, provided that an agreement must be in effect between the CNBV and such authority for the reciprocal exchange of information. The CNBV must abstain from furnishing information to foreign financial authorities if, in its sole discretion, such information may be used for purposes other than financial supervision, or by reason of public order, national security or any other cause set forth in the relevant agreement.

Banks and other financial entities are allowed to provide credit related information to duly authorized Mexican credit bureaus.

Money Laundering Regulations

Mexico has in effect rules relating to money laundering; the most recent set of rules have been in effect since April 21, 2009 (the “Money Laundering Rules”).

Under the Money Laundering Rules, we are required to satisfy various requirements, including:

- the establishment and implementation of procedures and policies, including client identification and know-your-customer policies, to prevent and detect actions, omissions or transactions that might favor, assist or cooperate in any manner with terrorism or money laundering activities (as defined in the Mexican Federal Criminal Code (*Código Penal Federal*));
- implementing procedures for detecting relevant, unusual and suspicious transactions (as defined in the Money Laundering Rules);
- reporting of relevant, unusual and suspicious transactions to the Ministry of Finance and Public Credit, through the CNBV; and
- the establishment of a communication and control committee (which, in turn, must appoint a compliance officer) in charge of, among other matters, supervising compliance with anti-money laundering provisions.

We are also required to organize and maintain a file before opening an account or entering into any kind of transaction, for the identification of each client (each, an “Identification File”).

An individual’s Identification File shall include, among other information, a copy of the following documentation or data (which must be maintained updated): (i) full name, (ii) date of birth, (iii) nationality and country of birth, (iv) tax identification number and the certificate evidencing the tax identification number issued by the Ministry of Finance or the population registry identification number and evidence thereof issued by the Ministry of Interior, as the case may be, (v) occupation, profession, main activity or line of business, (vi) complete domicile (including telephone number), (vii) e-mail address, if any, and (viii) advanced electronic signature series number, when applicable.

An entity’s Identification File shall include, among other information, a copy of the following documentation or data (which must be maintained updated): (i) corporate name, (ii) domicile, (iii) nationality, (iv) name of the sole administrator, the members of the board of directors, the general manager or any relevant attorney-in-fact, (v) main activity or line of business, (vi) tax identification number and the certificate evidencing the tax identification number issued by the Ministry of Finance, (vii) advanced electronic signature series number, when applicable, and (viii) copy of the public deed containing its constitutive documents.

Identification Files shall be maintained for the complete duration of the corresponding agreement entered into with such client, and for a minimum term of ten years from the date such agreement is terminated.

Under the Money Laundering Rules, we must provide to the Ministry of Finance and Public Credit, through the CNBV, (i) quarterly reports (within ten business days from the end of each quarter) with respect to transactions equal to, or exceeding, U.S.\$10,000, (ii) monthly reports (within 15 business days from the end of the month) with respect to international funds transfers, received or sent by a client, with respect to transactions equal to, or exceeding, U.S.\$10,000, (iii) reports of unusual transactions, within 60 calendar days counted from the date an unusual transaction is detected by our systems, and (iv) periodic reports of suspicious transactions, within 60 calendar days counted from the date the suspicious transaction is detected.

In June 2010 new regulations were issued by the Ministry of Finance and Public Credit which restrict cash transactions denominated in U.S. dollars that may be entered into by Mexican banks. Pursuant to such regulations, Mexican banks are not permitted to receive physical cash amounts, in U.S. dollars, from individuals in excess of U.S.\$4,000 per month for deposits. Mexican banks are also not permitted to receive physical cash amounts, in U.S. dollars, from their corporate clients, except in very limited circumstances.

Also, Mexican banks are not permitted to receive physical cash amounts, in U.S. dollars, from individuals, in excess of U.S.\$300 per day for individual foreign exchange transactions. In each case, the monthly amount per individual for such transactions cannot exceed U.S.\$1,500.

In addition, the newly enacted regulations set forth certain reporting obligations for Mexican banks regarding their U.S. dollar cash transactions, to the Ministry of Finance and Public Credit (through the CNBV).

Rules on Interest Rates

Banco de México regulations limit the number of reference rates that may be used by Mexican banks as a basis for determining interest rates on loans. For peso-denominated loans, banks may choose any of a fixed rate, TIIE, CETES, CCP (*costo de captación promedio a plazo*), the rate determined by Banco de México as applied to loans funded by or discounted with NAFIN, the rate agreed to with development banks in loans funded or discounted with them, the weighted bank funding rate (*tasa ponderada de fondeo bancario*) and the weighted governmental funding rate (*tasa ponderada de fondeo gubernamental*). For UDI-denominated loans, the reference rate is the UDIBONOS. For foreign currency-denominated loans, banks may choose any of a fixed rate or floating market reference rates that are not unilaterally determined by a financial institution, including LIBOR or the rate agreed upon with international or national development banks or funds, for loans funded by or discounted with such banks or funds. For dollar denominated loans, banks may choose either a fixed rate or any of the rates referred to in the prior sentence or CCP-Dollars, as calculated and published in the Official Gazette by Banco de México.

The rules also provide that only one reference rate can be used for each transaction and that no alternative reference rate is permitted, unless the selected reference rate is discontinued, in which event a substitute reference rate may be established. A rate or the mechanism to determine a rate, may not be modified unilaterally by a bank. Rates must be calculated annually, based upon 360-day periods.

On July 11, 2008, Banco de México published new rules that regulate the issuance, use and include certain card users protection provisions.

Fees

Under Banco de México regulations, Mexican banks, Sofoles and Sofomes may not, in respect of loans, deposits or other forms of funding and services with their respective clients, (i) charge fees that are not included in their respective, publicly disclosed, aggregate annual cost (*costo anual total*), (ii) charge alternative fees, except if the fee charged is the lower fee, and (iii) charge fees for the cancellation of credit cards issued. In addition, among other things, Mexican banks may not (i) charge simultaneous fees, in respect of demand deposits, for account management and relating to not maintaining minimum amounts, (ii) charge fees for returned checks received for deposit in a deposit account or as payment for loans granted, (iii) charge fees for cancellation of deposit accounts, debit or teller cards, or the use of electronic banking services, or (iv) charge different fees depending upon the amount subject of a money transfer. Under the regulations, fees arising from the use of ATMs must be disclosed to users.

Mexican banks, Sofoles and Sofomes permitting customers the use of, or operating, ATMs must choose between two options for charging fees to clients withdrawing cash or requesting balances: (i) specifying a fee for the relevant transactions, in which case, Mexican banks, Sofoles and Sofomes issuing credit or debit cards ("Issuers") may not charge cardholders any additional fee (Issuers are entitled to charge operators the respective fee), or (ii) permit Issuers to charge a fee to clients, in which case, banks, Sofoles and Sofomes may not charge additional fees to clients.

Banco de México, on its own initiative or as per request from the CONDUSEF (*Comisión Nacional para la Defensa de los Usuarios de las Instituciones Financieras*), banks, Sofoles or Sofomes, may assess whether reasonable competitive conditions exist in connection with fees charged by banks, Sofoles or Sofomes in performing financial operations. Banco de México must obtain the opinion of the Federal Competition Commission (*Comisión Federal de Competencia*) in carrying out this assessment. Banco de México may take measures to address these issues.

On October 12, 2009, Banco de México published Circular 24/2009, which modifies the rules on ATM-user fees and became effective on April 30, 2010. This new regulation may result in changes to our current ability to charge fees for ATM use to our clients or the amount of such charges.

Law for the Protection and Defense of Financial Service Users

A Law for the Protection and Defense of Financial Service Users (*Ley de Protección y Defensa al Usuario de Servicios Financieros*) is in effect in Mexico. The purpose of this law is to protect and defend the rights and interests of users of financial services. To this end, the law provides for the creation of CONDUSEF, an autonomous entity that protects the interests of users of financial services and that has very wide authority to protect users of financial services (including imposing fines). CONDUSEF acts as arbitrator in disputes submitted to its jurisdiction and seeks to promote better

relationships among users of financial institutions and the financial institutions. As a banking institution, we must submit to CONDUSEF's jurisdiction in all conciliation proceedings (initial steps of a dispute) and may choose to submit to CONDUSEF's jurisdiction in all arbitration proceedings that may be brought before it. The law requires banks to maintain an internal unit designated to resolve any and all controversies submitted by clients. We maintain such a unit.

CONDUSEF maintains a Registry of Financial Service Providers (*Registro de Prestadores de Servicios Financieros*), in which all financial services providers must be registered, that assists CONDUSEF in the performance of its activities. CONDUSEF is required to publicly disclose the products and services offered by financial service providers, including interest rates. To satisfy this duty, CONDUSEF has wide authority to request any and all necessary information from financial institutions. Furthermore, CONDUSEF may scrutinize banking services provided by using standard accession agreements.

We may be required to provide reserves against contingencies which could arise from proceedings pending before CONDUSEF. We may also be subject to recommendations by CONDUSEF regarding our standard agreements or information used to provide our services. We may be subject to coercive measures or sanctions imposed by CONDUSEF. We are not the subject of any material proceedings before CONDUSEF.

Law for the Transparency and Ordering of Financial Services

The Transparency and Ordering of Financial Services Law (*Ley para la Transparencia y Ordenamiento de los Servicios Financieros*) was published in the Official Gazette of Mexico in June, 2007. The purpose of this law is to regulate (i) the fees charged to clients of financial institutions for the use and/or acceptance of means of payment, as with debit cards, credit cards, checks and orders for the transfer of funds, (ii) the fees that financial institutions charge to each other for the use of any payment system, (iii) interest rates that may be charged to clients, and (iv) other aspects related to financial services, all in an effort to make financial services more transparent and protect the interests of the users of such services. This law grants Banco de México the authority to regulate interest rates and fees and establish general guidelines and requirements relating to payment devices and credit card account statements (see "Rules on Interest Rates" and "Fees" above). Banco de México has the authority to specify the basis upon which each bank must calculate its aggregate annual cost (*costo anual total*), which comprises interest rates and fees, on an aggregate basis, charged in respect of loans and other services. The aggregate annual cost must be publicly disclosed by each bank. The law also regulates the terms that banks must include in standard accession agreements and the terms of any publicity and of information provided in account statements. We must inform Banco de México of any changes in fees at least 30 (thirty) calendar days before they become effective.

Financial Groups Statutory Responsibility

The Financial Groups Law requires that each financial services holding company, such as GFNorte, enter into an agreement with each of its financial services subsidiaries, which includes us. Pursuant to such agreements, the financial services holding company is responsible secondarily and without limitation for performance of the obligations incurred by its subsidiaries as a result of the authorized activities of such subsidiaries, and is fully responsible for certain losses of its subsidiaries, up to the total amount of the financial services holding company's assets. For such purposes, a subsidiary is deemed to have losses if (i) its stockholders' equity represents an amount that is less than the amount the subsidiary is required to have as minimum paid-in capital under applicable law, (ii) its capital and reserves are less than the subsidiary is required to have under applicable law, or (iii) in the judgment of the regulatory commission supervising the subsidiary's activities, the subsidiary is insolvent and cannot fulfill its obligations.

The financial services holding company has to inform the CNBV of the existence or potential existence of any such obligation or loss. The financial services holding company would only have to respond with respect to the obligations of its financial services subsidiaries fifteen business days after the CNBV (or any other principal regulator) delivers notice of its approval of the enforceability of such obligations. The financial services holding company responds to the losses of its subsidiaries by making capital contributions to such subsidiaries (no later than 30 days counted from the date the applicable losses shall arise).

No subsidiary is responsible for the losses of the financial services holding company or of the financial services holding company's subsidiaries. GFNorte has entered into such an agreement with Banorte and its other financial services subsidiaries and such agreement is in effect.

Ownership Restrictions; Foreign Financial Affiliates

Ownership of a financial services holding company's capital stock is no longer limited to specified persons and entities under the Financial Groups Law. Series O Shares can be subscribed to by both Mexican and non-Mexican investors.

Notwithstanding the above, under the Financial Groups Law, foreign entities with governmental authority cannot purchase a financial services holding company's capital stock. Mexican financial entities, including those that form part of a financial group, cannot purchase a financial services holding company's capital stock, unless such entities are institutional investors as defined in the Financial Groups Law.

In accordance with the Mexican Banking Law, (i) the outstanding Series A and Series B shares of Mexican banks were required to be exchanged into voting Series O shares, which may be owned by both Mexican and non-Mexican investors; (ii) any transfer of shares representing more than 2% of the outstanding capital stock of a Mexican bank is required to be reported to the CNBV; (iii) the CNBV has been granted broader discretion to authorize the acquisition of more than 5% of the outstanding shares of a Mexican bank; (iv) for the transfer of more than 20% of the outstanding shares or the control of the bank pursuant to the Mexican Banking Law, a previous authorization from the CNBV is required; and (v) the composition of the boards of directors of Mexican banks has been limited to a total of 15 members and their alternates (as opposed to the former rule of 11 members or multiples thereof), 25% or more of which must qualify as independent.

The change in foreign ownership rules continued the liberalization of the Mexican banking system initiated by NAFTA. Pursuant to NAFTA and applicable Mexican laws and regulations, foreign financial entities incorporated in the United States, Canada, member states of the European Union and other countries with which Mexico has executed relevant international trade agreements, or financial group holding companies formed in Mexico by such foreign financial entities, will be treated the same as Mexican investors when investing in affiliate banks and other financial entities. However, such foreign financial institutions may be subject to certain restrictions and will not be permitted to establish branches or subsidiaries outside of Mexican territory. A holder that acquires shares in violation of the foregoing restrictions, or in violation of the percentage ownership restrictions, will have none of the rights of a stockholder with respect to such shares and will be required to forfeit such shares in accordance with procedures set forth in the Mexican Banking Law and Financial Groups Law.

Law on Transparency and Development of Competition for Secured Credit

On December 30, 2002, the Mexican congress enacted the *Ley de Transparencia y de Fomento a la Competencia en el Crédito Garantizado*, as amended on June 15, 2007 (Law on Transparency and Development of Competition for Secured Credit or the "Secured Credit Law"). The Secured Credit Law provides a legal framework for financial activities and certain other services performed by private credit institutions (as opposed to governmental entities) in connection with secured loans relating to real property in general and housing in particular (*i.e.*, purchase, construction, restoration or refinancing). In particular, the Secured Credit Law established specific rules requiring the following: (i) the disclosure of certain information by credit institutions to their clients prior to the execution of the relevant loan agreement, including the disclosure of certain terms relating to interest rates, aggregate costs and expenses payable; (ii) the compliance by credit institutions and borrowers with certain requirements in the application process; (iii) that offers made by credit institutions granting secured loans shall have binding legal effect; (iv) the inclusion of mandatory provisions in loan agreements; and (v) the assumption of certain obligations by public officers (or notaries) before whom secured loans are granted.

In addition, the Secured Credit Law seeks to foster competition among credit institutions by permitting security interests underlying a secured loan to survive any refinancing thereof, even if such loans were granted by different credit institutions. This provision of the Secured Credit Law is designed to reduce expenditures made by borrowers in connection with refinancings.

Cayman Islands Banking Supervision and Regulation

In order to carry on banking business from the Cayman Islands, all banks are required to be licensed by the Monetary Authority pursuant to the CI Banking Law. We are the holder of a Category "B" Banking license pursuant to the CI Banking Law. A Category "A" Banking license permits the carrying on of local and overseas banking business. An unrestricted Category "B" Banking license permits the carrying on of banking business anywhere in the world but restricts activities in the Cayman Islands to banking activities only in furtherance of the licensee's offshore activities.

The Monetary Authority was established in 1996 with responsibility for, among other things, supervising the banking industry in the Cayman Islands. The Monetary Authority operates now under the auspices of the Monetary Authority Law (2008 Revision).

As a licensee not incorporated in the Cayman Islands, we are required to provide a copy of the audited annual accounts of our head office to the Monetary Authority within three months of the end of our financial year. The Monetary Authority has a duty to maintain a general review of banking practice in the Cayman Islands, to carry out investigations to determine that each

licensee is in a sound financial position, to investigate any offenses against the laws of the Cayman Islands which it has reasonable grounds to believe has, or may have been, committed by a licensee or any of its directors or officers in their capacity as such, and to examine accounts and audited accounts forwarded to it and to provide reports thereon to the Governor of the Cayman Islands. Violations of certain provisions of the CI Banking Law are subject to administrative sanctions (including cancellation of licenses), fines and criminal penalties.

Confidentiality

We are subject to two confidentiality regimes applicable in the Cayman Islands: English common law, pursuant to which a bank is under a duty to keep its customers' affairs confidential, and statute, whereby the Confidential Relationships (Preservation) Law (2009 Revision) (the "CI Confidentiality Law") makes it a criminal offense, *inter alia*, to divulge information defined by the CI Confidentiality Law as confidential. Unless an exemption under the CI Confidentiality Law applies, any person in possession of confidential information, however obtained, who divulges it or attempts, offers or threatens to divulge it or willfully obtains or attempts to obtain confidential information is guilty of an offense and liable on summary conviction to a fine and to a term of imprisonment.

Subject to certain exceptions, the CI Confidentiality Law is deemed to apply to all confidential information with respect to business of a professional nature which arises in, or is brought into, the Cayman Islands, and to all persons coming into possession of such information at any time thereafter whether they be within the jurisdiction or outside it. "Confidential information" is very broadly defined as including information concerning any property which the recipient thereof is not, other than in the normal course of business, authorized by the principal to divulge. The CI Confidentiality Law purports to have extra-territorial effect.

The CI Confidentiality Law has no application to the seeking, divulging, or obtaining of confidential information in the following circumstances: (i) in compliance with the directions of the Grand Court of the Cayman Islands; (ii) by or to (a) any professional person acting in the normal course of business or with the consent, express or implied, of the relevant principal; (b) a constable of the rank of inspector or above investigating an offence committed or alleged to have been committed within the jurisdiction; (c) a constable of the rank of inspector or above specifically authorized by the Governor in that capacity, investigating an offence committed or alleged to have been committed outside the Cayman Islands which offence, if committed in the Cayman Islands, would be an offence against such laws; (d) the Financial Secretary of the Cayman Islands (the "Financial Secretary"), the Monetary Authority or, in relation to particular information specified by the Governor, such other person as the Governor may authorize; (e) a bank in any proceedings, cause or matter when and to the extent it is reasonably necessary for the protection of the bank's interest either as against its customers or as against third parties in respect of transactions of the bank for, or with, its customer; or (f) the relevant professional person with the approval of the Financial Secretary when necessary for the protection of himself or any other person against crime; or (iii) in accordance with the CI Confidentiality Law or any other law.

"Normal course of business" is defined as being the ordinary and necessary routine involved in the efficient carrying out of the instructions of a principal, including compliance with such law and legal process as arises out of and in connection therewith, and the routine exchange of information between licensees.

Under Section 17(3) of the CI Banking Law, the Monetary Authority is entitled, in the performance of its functions under the CI Banking Law (which include a duty of general supervision of banking practice in the Cayman Islands and the assisting in the investigation of any offence against the laws of the Cayman Islands which it has reasonable grounds to believe has or may have been committed by a bank or by any of its directors or officers in its capacity of such), at all reasonable times (a) to have access to such books, records, vouchers, documents, cash and securities of any bank; and (b) to request any information, matter, or thing from any person whom it has reasonable grounds to believe is carrying on banking or trust business in the Cayman Islands without a license, as it may reasonably require. The Monetary Authority has additional powers to compel disclosure of confidential information from licensees and persons reasonably believed to have information relevant to the inquiry by the Monetary Authority in connection with the exercise of its own regulatory functions and powers to direct the provision of information, documentation or assistance in connection with inquiries by overseas regulators. A bank will still remain under a duty not to disclose information other than in accordance with the CI Confidentiality Law.

Anti-Money Laundering

In order to comply with regulations aimed at the prevention of money laundering in any applicable jurisdictions, Banorte Cayman may require prospective investors to provide evidence to verify their identity. Accordingly, Banorte Cayman reserves the right to request such information as it considers necessary to verify the identity of a prospective investor. Banorte Cayman may refuse to accept any subscription application if a prospective investor delays in producing or fails to produce any

information required by Banorte Cayman for the purpose of verification and, in that event, any funds received by Banorte Cayman will be returned without interest to the account from which the moneys were originally debited.

If any person resident in the Cayman Islands knows or suspects that another person is engaged in money laundering or is involved with terrorism or terrorist property and the information for that knowledge or suspicion came to his attention in the course of his trade, profession, business or employment he is required to report such belief or suspicion to either the Financial Reporting Authority of the Cayman Islands pursuant to the Proceeds of Crime Law (2008) if the disclosure relates to money laundering or to a police officer of the rank of constable or higher if the disclosure relates to involvement in terrorism or terrorist property, pursuant to the Terrorism Law (2009 Revision). Such report shall not be treated as a breach of confidence or of any restriction upon the disclosure of information imposed by any enactment or otherwise.

DESCRIPTION OF THE NOTES

The Notes will be issued pursuant to an indenture originally dated as of July 19, 2010, as supplemented by a supplemental indenture to be dated as of July 19, 2010 between The Bank of New York Mellon, as trustee, and us.

The indenture provides for the issuance of the Notes but does not limit the aggregate principal amount of Notes that may be issued under the indenture, and provides that, subject to certain conditions, additional Notes may be issued under the indenture from time to time. The indenture does not limit the amount of additional indebtedness or other obligations that we may incur.

The terms of the Notes include those stated in the indenture and those made part of the indenture by reference to the Trust Indenture Act of 1939, as amended, or the “TIA.”

This Description of the Notes describes the general terms and provisions of the Notes and the indenture and does not purport to be a complete description of all of the terms therein. The following is subject to, and qualified in its entirety by reference to, the provisions of the Notes and the indenture. Capitalized terms not otherwise defined herein have the meanings given to them elsewhere in this Offering Circular. You may obtain a copy of the indenture and the form of the Notes by contacting the trustee at the address indicated in this offering circular and, for so long as the Notes are admitted to listing on the Official List of the Luxembourg Stock Exchange and to trading on Euro MTF market at the office of the paying agent in Luxembourg.

Ranking

The Notes will be our direct, unconditional and unsecured general obligations and will, other than as set forth below, at all times rank *pari passu* in right of payment with all of our other unsecured obligations other than obligations that are, by their terms, expressly subordinated in right of payment to the Notes. The Notes will be effectively subordinated to (i) all of our secured indebtedness with respect to the value of our assets securing that indebtedness, (ii) certain direct, unconditional and unsecured general obligations that in case of our insolvency are granted preferential treatment pursuant to Mexican law and (iii) all of the existing and future liabilities of our subsidiaries, including trade payables.

As of March 31, 2010, we had approximately Ps.11,310 million (approximately U.S.\$917 million) aggregate principal amount of indebtedness outstanding that ranked *pari passu* with the Notes and Ps.271,472 (U.S.\$22,016) outstanding demand obligations to depositors that ranked senior to the Notes.

Principal, Maturity and Interest

We are issuing \$300,000,000 aggregate principal amount of Notes. The Notes will mature on July 19, 2015. Interest on the Notes will accrue at a fixed rate of 4.375% per annum. The Notes will not be entitled to the benefit of any sinking funds. Interest on the Notes will be payable semi-annually in arrears on each January 19 and July 19 of each year (each, an “Interest Payment Date”), commencing on January 19, 2011. Interest on the Notes will accrue from the date of original issuance, or if interest has already been paid, from the date it was most recently paid.

Redemption at Maturity

The outstanding principal amount of the Notes will be paid upon maturity unless required to be earlier repaid as a result of the occurrence and continuation of an Event of Default (as defined herein) or for tax reasons as described below.

Redemption Prior to Maturity Solely for Taxation Reasons

We may at our election, subject to applicable Mexican law, redeem the Notes in whole, but not in part, upon giving not less than 30 nor more than 60 days’ notice to the holders of the Notes, at their principal amount, plus Additional Amounts (as defined herein), if any, together with interest accrued to the date fixed for redemption, if:

- (i) we certify to the trustee immediately prior to the giving of such notice that we have or will become obligated to pay or will be liable for more than a *de minimis* payment of Additional Amounts in respect of the Notes in excess of the gross amount of Additional Amounts payable in respect of such Notes prior to a Change in Tax Law, as defined below, as a result of a Change in Tax Law, and

(ii) such obligation cannot be avoided by us taking reasonable measures available to us (such measures not involving any material cost to us or the incurring by us of any other tax or penalty). For the avoidance of doubt, reasonable measures shall include a change in the jurisdiction of the paying agent(s).

“Change in Tax Law” means (a) any change in or amendment (including any announced prospective change) to the laws, treaties or regulations of Mexico or the Cayman Islands (each, a “Relevant Jurisdiction”) or any political subdivision or governmental authority thereof or (b) any judicial decision, official administrative announcement or regulatory procedure, of any Relevant Jurisdiction (each an “Administrative Action”), or (c) any amendment to or change in the official position or the official interpretation of such Administrative Action that provides for a position with respect to such Administrative Action that differs from the theretofore generally accepted position, in each case, by any legislative body, court, governmental authority or regulatory body having appropriate jurisdiction, irrespective of the manner in which such amendment or change is made known, which amendment or change is effective or such pronouncement or decision is announced on or after the date of issuance of such series of Notes. Before giving notice of redemption, we shall deliver to the trustee an officers’ certificate stating that we are entitled to effect such redemption in accordance with the terms set forth in the indenture and setting forth in reasonable detail a statement of the facts relating thereto. The statement will be accompanied by a written opinion of counsel to the effect, among other things, that:

(i) we have become obligated to pay or will be liable for more than a *de minimis* payment of Additional Amounts payable in respect of the Notes in excess of the gross amount of Additional Amounts payable in respect of such Notes prior to such change or amendment, as described above,

(ii) we cannot avoid payment of such Additional Amounts by taking reasonable measures available to us, and

(iii) all governmental approvals necessary for us to effect the redemption have been obtained and are in full force and effect or specifying any such necessary approvals that as of the date of such opinion have not been obtained.

Payment and Administration of the Notes

The Notes will bear interest at the rate specified above. See “Principal, Maturity and Interest” above. Interest on the Notes will be paid on the dates specified above to the person in whose name a Note is registered at the close of business on the 15th day preceding the respective Interest Payment Date (such date, a “record date,” whether or not a Business Day). A Business Day means each day which is neither a Saturday, Sunday or other day on which banking institutions in the City of New York or Mexico are authorized or required by law or executive order to be closed.

If any Note Interest Payment Date or maturity date for the Notes falls on a day that is not a Business Day, the related payment of principal or interest will be made on the next succeeding Business Day as if it were made on the date such payment was due, and no interest will accrue on the amount so payable for the period from and after such Interest Payment Date or maturity date, as the case may be.

Any interest on the Notes which is payable, but is not paid or duly provided for, on any Note Interest Payment Date shall cease to be payable to the noteholder on the regular Note record date, and such defaulted interest may be paid by us to the persons in whose name the Notes are registered at the close of business on a date fixed by the trustee not more than 15 nor less than 10 days prior to the date of the proposed payment and not less than 10 days after the receipt by the trustee of the notice of the proposed payment (such date, a “special record date”). Interest on the Notes will be computed on the basis of a 360-day year of twelve 30-day months. Except as described in “—Book-Entry System; Delivery and Form,” we will pay principal and interest by check and may mail interest checks to a holder’s registered address.

The principal of and interest on the Notes will be payable in U.S. dollars or in such other coin or currency of the United States of America as is legal tender for the payment of public and private debts at the time of payment.

The Notes will be issued in denominations of \$100,000 and any integral multiple of \$1,000 in excess thereof and only in the form of beneficial interests in respect of one or more global notes registered in the name of Cede & Co., as nominee of The Depository Trust Company, or DTC. Beneficial interests in respect of the global notes will be held through financial institutions acting on behalf of the beneficial holders of such interests as direct or indirect participants in DTC. Except in limited circumstances, owners of beneficial interests in respect of the global notes will not be entitled to receive physical delivery of Notes in certificated form. See “—Book-Entry System; Delivery and Form.” No service charge will be

made for any registration of, transfer or exchange of Notes, but we may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith.

Initially, the trustee will act as paying agent, transfer agent and registrar for the Notes. The Notes may be presented for registration of transfer and exchange at the offices of the registrar for the Notes.

Highly Leveraged Transactions; Change of Control

The indenture does not include any debt covenants or other provisions which afford holders of the Notes protection in the event of a highly leveraged transaction or a change of control.

Indebtedness, Liens, Dividends, Reserves and Maintenance of Properties

The indenture does not limit our ability to incur additional indebtedness (including additional Notes), our ability to grant liens on our assets and properties, our payment of dividends or require us to create or maintain any reserves.

We may not dispose of and must maintain and keep in good condition any tangible property useful in the conduct of our business, unless such disposal or the discontinuance of its maintenance is, in our judgment, desirable in the conduct of our business and not disadvantageous in any material respect to the holders of the Notes.

Covenants

We have agreed to restrictions on our activities for the benefit of holders of the Notes. The following restrictions will apply separately to the Notes:

Consolidation, Merger, Sale or Conveyance

We may not consolidate with or merge into any other corporation or convey or transfer our properties and assets substantially as an entirety to any person, unless:

(i) the successor corporation shall be a corporation organized and existing under the laws of Mexico or the United States of America or any state thereof, and shall expressly assume by a supplemental indenture, delivered to and in a form satisfactory to the trustee, the due and punctual payment of the principal of, premium, if any and interest on all the outstanding Notes and the performance of every covenant in the indenture on our part to be performed or observed,

(ii) immediately after giving effect to such transaction, no Event of Default, and no event which, after notice or lapse of time or both would become an Event of Default, shall have happened and be continuing, and

(iii) we shall have delivered to the trustee an officers' certificate and an opinion of counsel, each stating that such consolidation, merger, conveyance or transfer and such supplemental indenture comply with the foregoing provisions relating to such transaction and all conditions precedent in the indenture relating to such a transaction have been complied with. In case of any such consolidation, merger, conveyance or transfer, such successor corporation will succeed to and be substituted for us as obligor on the Notes with the same effect as if it had issued the Notes. Upon the assumption of our obligations by any such successor corporation in such circumstances subject to certain exceptions, we will be discharged from all obligations under the Notes and the indenture.

Periodic Reports

So long as any Notes of a particular series are outstanding, we will furnish to the trustee:

(a) Within 120 days following the end of each of our fiscal years, (i) our consolidated audited income statements, balance sheets and cash flow statements and the related Notes thereto for the two most recent fiscal years in accordance with Mexican Banking GAAP ("GAAP"), which need not, however, contain any reconciliation to U.S. GAAP or otherwise comply with Regulation S-X as promulgated by the U.S. Securities and Exchange Commission, together with an audit report thereon by our independent auditors, (ii) the English version of our

annual financial statements and (iii) our annual financial information included in the English version of the annual report of GFNorte as provided to GFNorte's shareholders; and

(b) Within 60 days following the end of the first three fiscal quarters in each of our fiscal years, (i) quarterly reports containing unaudited balance sheets, statements of income, statements of shareholders equity and statements of cash flows and the related Notes thereto for us and our consolidating subsidiaries on a consolidated basis, in each case for the quarterly period then ended and the corresponding quarterly period in the prior fiscal year and prepared in accordance with GAAP, which need not, however, contain any reconciliation to U.S. GAAP or otherwise comply with Regulation S-X as promulgated by the U.S. Securities and Exchange Commission and (ii) our quarterly financial information included in the English version of the quarterly report of GFNorte as provided to GFNorte's shareholders.

None of the information provided pursuant to the preceding paragraph shall be required to comply with Regulation S-K as promulgated by the U.S. Securities and Exchange Commission. In addition, we shall furnish to the holders of each series of the Notes and to prospective investors, upon the requests of such holders, any information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act so long as such Notes are not freely transferable under the Exchange Act by any individual, corporation, partnership, limited liability company, joint venture, association, company, trust, unincorporated organization or government or any agency or political subdivision thereof (each, a "Person") who are not "affiliates" under the Securities Act.

In addition, if and so long as the Notes of a particular series are admitted to listing on the Official List of the Luxembourg Stock Exchange and to trading on the Euro MTF market and the rules of the Luxembourg Stock Exchange so require, copies of such reports and information furnished to the trustee will also be made available at the specified office of the paying agent in Luxembourg.

Listing

After the Notes have been admitted to listing on the Official List of the Luxembourg Stock Exchange (the "LSE") and to trading on the Euro MTF market, we will use our reasonable best efforts to maintain such listing, *provided* that if we determine that it is unduly burdensome to maintain a listing on the LSE, we may delist the Notes from the Euro MTF market in accordance with the rules of the Luxembourg Stock Exchange and seek an alternative admission to listing, trading and/or quotation for the Notes on a different section of the Luxembourg Stock Exchange or by such other listing authority, stock exchange and/or quotation system inside or outside the European Union as we may decide. Although there is no assurance as to the liquidity that may result from a listing on the LSE, delisting the Notes from the LSE may have a material effect on the ability of holders of the Notes to resell the Notes in the secondary market.

Events of Default

An "Event of Default," with respect to the Notes is defined in the indenture as:

- (i) our default in the payment of any principal of any of the Notes, when due and payable, whether at maturity or otherwise; or
- (ii) our default in the payment of any interest or any Additional Amounts when due and payable on any of the Notes and the continuance of such default for a period of 30 days; or
- (iii) our default in the performance or observance of any other term, covenant, warranty, or obligation in respect of the Notes or the indenture, not otherwise expressly defined as an Event of Default in (i) or (ii) above, and the continuance of such default for more than 60 days after written notice of such default has been given to us by the trustee or the holders of at least 25% in aggregate principal amount of the Notes outstanding specifying such default or breach and requiring it to be remedied and stating that such notice is a "Notice of Default;" or
- (iv) certain events of bankruptcy or insolvency (including *concurso mercantil* or *quiebra*), liquidation or dissolution with respect to us; or
- (v) if any of our Indebtedness (as defined below) or that of our subsidiaries becomes due and repayable prematurely by reason of an event of default (however described) or we or any of our subsidiaries fails to make any payment in respect of any Indebtedness on the due date for such payment or within any originally applicable grace period or any security given by us or any of our subsidiaries for any Indebtedness becomes enforceable and steps are taken to enforce the same or if we or any of our subsidiaries default in making any payment when due (or within any originally applicable grace period in respect thereof) under any guarantee and/or indemnity given by us or such subsidiary (as the case may be) in relation to any Indebtedness of any other person,

provided that no such event as aforesaid shall constitute an Event of Default unless such Indebtedness either alone or when aggregated with other Indebtedness in respect of which one or more of the events mentioned in this paragraph (iv) has occurred shall amount to at least U.S.\$50,000,000 (or its equivalent in any other currency on the basis of the middle spot rate for any relevant currency against the U.S. dollar as quoted by any leading bank on the day on which this paragraph operates).

For purposes of the above, “Indebtedness” means money borrowed and premiums and accrued interest in respect thereof evidenced by any bonds, notes, debentures, or similar instruments.

The indenture provides that (i) if an Event of Default (other than an Event of Default described in clause (iv) above) shall have occurred and be continuing with respect to the Notes, either the trustee or the holders of not less than 25% of the total principal amount of the Notes then outstanding may declare the principal of all outstanding Notes and the interest accrued thereon, if any, to be due and payable immediately and (ii) if an Event of Default described in clause (iv) above shall have occurred, the principal of all outstanding Notes and the interest accrued thereon, if any, shall become and be immediately due and payable without any declaration or other act on the part of the trustee or any holder of Notes. The indenture provides that the Notes owned by us or any of our affiliates shall be deemed not to be outstanding for, among other purposes, declaring the acceleration of the maturity of the Notes. Upon the satisfaction by us of certain conditions, the declaration described in clause (i) of this paragraph may be annulled by the holders of a majority of the total principal amount of the Notes then outstanding. Past defaults, other than non-payment of principal, interest and compliance with certain covenants, may be waived by the holders of a majority of the total principal amount of the Notes outstanding.

Payment of Additional Amounts

Because interest payments under the Notes are made by our Grand Cayman Branch, we are not required by Mexican or Cayman Island law to deduct withholding taxes from payments of interest to investors who are not residents of Mexico for tax purposes.

If, however, any withholding taxes, under the laws of Mexico or the Cayman Islands, are imposed on interest payments made on the Notes to holders of the Notes that are not resident of Mexico for Mexican tax purposes, Banorte (the “Company”) will pay to holders of the Notes all additional amounts that may be necessary so that every net payment of interest (including any premium paid upon redemption of the Notes) or principal to the holder will not be less than the amount provided for in the Notes (such additional amounts, “Additional Amounts”). By net payment, we mean the amount we or our paying agent pay the holder after deducting or withholding an amount for or on account of any present or future taxes, duties, assessments or other governmental charges imposed with respect to that payment by a taxing authority in a Relevant Jurisdiction.

Our obligation to pay Additional Amounts is subject to several important exceptions, however. We will not pay Additional Amounts to any holder of Notes for or solely on account of any of the following:

- any taxes, duties, assessments or other governmental charges imposed solely because at any time there is or was any connection between the holder or beneficial owner of a note and the Relevant Jurisdiction (or any political subdivision or territory or possession thereof), including such holder or beneficial owner (i) being or having been a citizen or resident thereof or (ii) maintaining or having maintained an office, permanent establishment, or branch subject to taxation therein,
- any estate, inheritance, gift or similar tax, assessment or other governmental charge imposed with respect to the Notes,
- any taxes, duties, assessments or other governmental charges imposed solely because the holder or any other person fails to comply with any certification, identification, information, documentation or other reporting requirement concerning the nationality, residence, identity or connection with the Relevant Jurisdiction (or any political subdivision or territory or possession thereof) of the holder or any beneficial owner of a note if compliance is required by law or regulation (including without limitation the Mexican Administrative Tax Rules (*Resolución Miscelánea Fiscal*), if applicable), of the taxing jurisdiction or by an applicable income tax treaty to which the Relevant Jurisdiction is a party and which is in effect, as a precondition to exemption from, or reduction in the rate of, the tax, assessment or other governmental charge and we have given the holders of Notes at least 30 days’ notice prior to the first payment date with respect to which such certification, identification, information, documentation or reporting requirement is required to the effect that holders will be required to provide such information and identification,
- any tax, duty, assessment or other governmental charge payable otherwise than by deduction or withholding from payments on the Notes,

- any taxes, duties, assessments or other governmental charges with respect to a note presented for payment more than 30 days after the date on which the payment became due and payable or the date on which payment thereof is duly provided for and notice thereof given to holders of Notes, whichever occurs later, except to the extent that the holder of such note would have been entitled to such Additional Amounts on presenting such note for payment on any date during such 30-day period, and
- any payment on a note to a holder thereof that is a fiduciary or partnership or a person other than the sole beneficial owner of any such payment, to the extent that a beneficiary or settlor with respect to such fiduciary, a member of such a partnership or the beneficial owner of the payment would not have been entitled to the Additional Amounts had the beneficiary, settlor, member or beneficial owner been the holder of the note.

The limitations on our obligations to pay Additional Amounts stated in the third bullet point above will not apply (i) if the provision of information, documentation or other evidence described in the applicable bullet point would be materially more onerous, in form, in procedure or in the substance of information disclosed, to a holder or beneficial owner of a note, taking into account any relevant differences between U.S. and the law of the Relevant Jurisdiction, regulation or administrative practice, than comparable information or other reporting requirements imposed under U.S. tax law (including the United States-Mexico Income Tax Treaty), regulation (including proposed regulations) and administrative practice, or (ii) unless (a) the provision of the information, documentation or other evidence described in the applicable bullet point becomes expressly required by the applicable Mexican law, rules, regulations and administrative practices of general applicability, and (b) we otherwise would not meet the requirements for application of the reduced Mexican tax rate.

In addition, such third bullet point does not require that any person, including any non-Mexican pension fund, retirement fund or any financial institution, of any nature, register with the Ministry of Finance and Public Credit to establish eligibility for an exemption from, or a reduction of, Mexican withholding tax.

Upon request, the Company will provide the trustee with documentation satisfactory to the trustee evidencing the payment of Mexican taxes in respect of which we have paid any Additional Amount. We will make copies of such documentation available to the holders of the Notes or the relevant paying agent upon request.

To give effect to the foregoing, we will, upon the written request of any holder, indemnify and hold harmless and reimburse the holder for the amount of any such taxes (including interest and penalties) described above (other than any taxes for which the holder would not have been entitled to receive Additional Amounts pursuant to any of the conditions described above) so imposed on, and paid by, such holder as a result of any payment of principal or interest on the Notes, so that the net amount received by such holder after such reimbursement will not be less than the net amount the holder would have received if such tax had not been imposed or levied and so paid. Holders will be obligated to provide reasonable documentation in connection with the foregoing.

We will also pay any stamp, administrative, court, documentary, excise or similar taxes arising in Mexico (or a jurisdiction through which payments on the Notes are made) in connection with the notes and will indemnify the holders for any such taxes paid by holders.

Any reference in this offering circular, the indenture or the Notes to principal, premium, interest or any other amount payable in respect of the Notes by us will be deemed also to refer to any Additional Amount that may be payable with respect to that amount under the obligations referred to in this subsection.

In the event that Additional Amounts actually paid with respect to the Notes pursuant to the preceding paragraphs are based on rates of deduction or withholding of withholding taxes in excess of the appropriate rate applicable to the holder of such Notes, and as a result thereof such holder is entitled to make a claim for a refund or credit of such excess from the authority imposing such withholding tax, then such holder shall, by accepting such Notes, be deemed to have assigned and transferred all right, title and interest to any such claim for a refund or credit of such excess to us. However, by making such assignment, the holder makes no representation or warranty that we will be entitled to receive such claim for a refund or credit and incurs no other obligation with respect thereto, including making any filing.

For a discussion of Mexican withholding taxes applicable to payments under or with respect to the Notes, see “Taxation.”

Modification of the Indenture

We and the trustee may, without the consent of the holders of the Notes, amend, waive or supplement the indenture or the Notes for certain specified purposes, including, among other things, curing ambiguities, defects, omissions or inconsistencies, to conform the text of the indenture or the Notes to any provision in this “Description of the Notes” or making any other provisions with respect to matters or questions arising under the indenture or the Notes or making any other change as shall not adversely affect the interests of any holder of the Notes in any material respect.

In addition, with certain exceptions, we and the trustee may amend, waive or supplement the indenture or the Notes with the consent of the holders of at least a majority in aggregate principal amount of the Notes then outstanding, but no such modification may be made without the consent of the holder of each outstanding Note affected thereby which would:

- (i) change the maturity of any payment of principal of or any installment of interest on any Note, or reduce the principal amount thereof or the interest or premium payable thereon, or change the method of computing the amount of principal thereof or interest or premium, if any, payable thereon on any date or change any place of payment where, or the coin or currency in which, any Note or interest or premium thereon are payable, or impair the right of holders to institute suit for the enforcement of any such payment on or after the date when due,
- (ii) reduce the percentage in aggregate principal amount of the outstanding Notes, the consent of whose holders is required for any such modification or the consent of whose holders is required for any waiver of compliance with certain provisions of the indenture or certain defaults thereunder and their consequences provided for in the indenture, or
- (iii) modify any of the provisions of certain sections of the indenture with respect to the Notes, including the provisions summarized in this paragraph, except to increase any such percentage or to provide that certain other provisions of the indenture cannot be modified or waived without the consent of the holder of each outstanding Note affected thereby.

The indenture provides that the Notes owned by us or any of our affiliates shall be deemed not to be outstanding for, among other purposes, consenting to any such modification.

Without the consent of any holder, we and the trustee may amend the indenture to evidence the assumption by a successor corporation of our covenants contained in the indenture, to add to our covenants, or to surrender any right or power conferred by the indenture upon us, for the benefit of the holders of the Notes, to add such provisions as may be expressly permitted by the Trust Indenture Act of 1939, as amended, excluding the provisions in Section 316(a)(2), to establish any form of security as provided for in the indenture and the issuance of and terms thereof, to add to the rights of the holders of the Notes, to evidence and provide for the acceptance of a successor trustee and to provide for the issuance of Notes in bearer form with coupons as well as fully registered form.

Registrar, Transfer Agent and Paying Agents

The Bank of New York Mellon will act as our agent as registrar for the Notes. The Bank of New York Mellon will also act as transfer agent and paying agent for the Notes. We have the right at any time to vary or terminate the appointment of any paying agents and to appoint additional or successor paying agents in respect of the Notes. Registration of transfers of the Notes will be effected without charge, but upon payment (with the giving of such indemnity as we may require) in respect of any tax or other governmental charges that may be imposed in relation to it. We will not be required to register or cause to be registered the transfer of the Notes after the Notes have been called for redemption. Application has been made to admit the Notes for listing on the Official List of the Luxembourg Stock Exchange and to trading on the Euro MTF market. As long as the Notes are listed on this market, the Company will also maintain a payment agent and a transfer agent in Luxembourg.

The Trustee

The Bank of New York Mellon is the trustee under the indenture and has been appointed by us as registrar, transfer agent and paying agent with respect to the Notes. The indenture provides that during the existence of an Event of Default, the trustee will exercise the rights and powers vested in it by the indenture, using the same degree of care and skill as a prudent man would exercise or use under the circumstances in the conduct of his own affairs. In the absence of an Event of Default, the trustee need only perform the duties specifically set forth in the indenture. The indenture does not contain limitations on the rights of the trustee under the indenture, should it become our creditor, to obtain payment of claims. The trustee is not precluded from engaging in other transactions and, if it acquires any conflicting interest, it is not required to eliminate such conflict or resign. The address of the trustee is The Bank of New York Mellon, 101 Barclay Street, Floor 4 East, New York, New York 10286.

Governing Law; Submission to Jurisdiction

The indenture provides that it and the Notes will be governed by, and be construed in accordance with, the laws of the State of New York, without giving effect to the applicable principles of conflict of laws.

We have consented to the jurisdiction of any court of the State of New York or any United States Federal court sitting, in each case, in the Borough of Manhattan, The City of New York, New York, United States, and any appellate court from any of these courts, and to the courts of our own corporate domicile, in respect of actions brought against us as defendants, and have waived any immunity from the jurisdiction of these courts over any suit, action or proceeding that may be brought by the trustee or a holder based upon the indenture and the Notes and have waived any right to be sued in any other jurisdiction to which we may be entitled on account of place of residence and domicile. We have appointed CT Corporation System as our initial authorized agent upon which all writs, process and summonses may be served in any suit, action or proceeding brought by the trustee or a holder based upon the indenture or the Notes against us in any court of the State of New York or any United States Federal court sitting in the Borough of Manhattan, The City of New York and have agreed that such appointment shall be irrevocable so long as any of the Notes remain outstanding or until the irrevocable appointment by us of a successor in The City of New York as its authorized agent for such purpose and the acceptance of such appointment by such successor.

Prescription

Under New York's statute of limitations, any legal action upon the Notes in respect of interest or principal must be commenced within six years after the payment thereof is due.

Book-entry System; Delivery and Form

The Notes are being offered and sold in connection with the initial offering thereof solely to "qualified institutional buyers," as that term is defined in Rule 144A under the Securities Act, pursuant to Rule 144A, and in offshore transactions to persons other than "U.S. persons," as defined in Regulation S under the Securities Act, in reliance on Regulation S. Following the initial offering of the Notes, the Notes may be resold to qualified institutional buyers pursuant to Rule 144A, non-U.S. persons in offshore transactions in reliance on Regulation S, and pursuant to Rule 144 under the Securities Act, as described under "Transfer Restrictions."

The Global Notes

Rule 144A Global Note

Notes offered and sold to qualified institutional buyers pursuant to Rule 144A will initially be issued in the form of one or more registered Notes in global form, without interest coupons. The Rule 144A global Note will be deposited on the date of the closing of the sale of the Notes with, or on behalf of, The Depository Trust Company, or DTC and registered in the name of Cede & Co., as nominee of DTC, and will remain in the custody of The Bank of New York Mellon, as custodian pursuant to the FAST Balance Certificate Agreement between DTC and The Bank of New York Mellon, as custodian. Interests in the Rule 144A global note will be available for purchase only by qualified institutional buyers.

Regulation S Global Note

Notes offered and sold in offshore transactions to non-U.S. persons in reliance on Regulation S under the Securities Act will initially be issued in the form of one or more registered notes in global form, without interest coupons. The Regulation S global note will be deposited upon issuance with, or on behalf of, a custodian for DTC in the manner described in the preceding paragraph for credit to the respective accounts of the purchasers, or to such other accounts as they may direct, at Euroclear Bank S.A./N.V., as operator of the Euroclear System ("Euroclear") or Clearstream Banking, société anonyme ("Clearstream") as participants in DTC.

Investors may hold their interests in the Regulation S global note directly through Euroclear or Clearstream, if they are participants in such systems, or indirectly through organizations which are participants in such systems. After the expiration of the Restricted Period (defined below under "—Exchanges Among the Global Notes"), investors may also hold such interests through organizations other than Euroclear or Clearstream that are participants in the DTC system. Euroclear and Clearstream will hold such interests in the Regulation S global note on behalf of their participants through customers' securities accounts in their respective names on the books of their respective depositaries. Such depositaries, in turn, will

hold such interests in the Regulation S global note in customers' securities accounts in the depositories' names on the books of DTC.

Except as set forth below, the Rule 144A global note and the Regulation S global note, collectively referred to in this section as the "global notes," may be transferred, in whole and not in part, solely to another nominee of DTC or to a successor of DTC or its nominee. Beneficial interests in respect of the global notes may not be exchanged for Notes in physical, certificated form (referred to as "certificated notes") except in the limited circumstances described below.

The Notes will be subject to certain restrictions on transfer and will bear a restrictive legend as set forth under "Transfer Restrictions."

All interests in the global notes, including those held through Euroclear or Clearstream, may be subject to the procedures and requirements of DTC. Those interests held through Euroclear or Clearstream may also be subject to the procedures and requirements of such systems.

Exchanges Among the Global Notes

Prior to the 40th day after the later of the commencement of the offering of the Notes and the date of the closing of the sale of the Notes (through and including the 40th day, the "Restricted Period"), transfers by an owner of a beneficial interest in respect of the Regulation S global note to a transferee who takes delivery of this interest through the Rule 144A global note will be made only in accordance with applicable procedures and upon receipt by the trustee of a written certification from the transferor of the beneficial interest in the form provided in the indenture to the effect that such transfer is being made to a person whom the transferor reasonably believes is a qualified institutional buyer within the meaning of Rule 144A in a transaction meeting the requirements of Rule 144A. Such written certification will no longer be required after the expiration of the Restricted Period.

Transfers by an owner of a beneficial interest in respect of the Rule 144A global note to a transferee who takes delivery of such interest through the Regulation S global note, whether before or after the expiration of the Restricted Period, will be made only upon receipt by the trustee of a certification from the transferor in the form provided in the indenture to the effect that such transfer is being made in accordance with Regulation S or (if available) Rule 144 under the Securities Act and that, if such transfer is being made prior to the expiration of the Restricted Period, the interest transferred will be held immediately thereafter through Euroclear or Clearstream.

Any beneficial interest in respect of one of the global notes that is transferred to a person who takes delivery in the form of an interest in another global note will, upon transfer, cease to be an interest in such global note and become an interest in the other global note and, accordingly, will thereafter be subject to all transfer restrictions, if any, and other procedures applicable to beneficial interests in such other global note for as long as it remains such an interest.

Certain Book -Entry Procedures for the Global Notes

The descriptions of the operations and procedures of DTC, Euroclear and Clearstream set forth below are provided solely as a matter of convenience. These operations and procedures are solely within the control of the respective settlement systems and are subject to change by them from time to time. Neither we, the trustee nor the initial purchaser take any responsibility for these operations or procedures, and investors are urged to contact the relevant system or its participants directly to discuss these matters.

DTC has advised us that it is (i) a limited purpose trust company organized under the laws of the State of New York, (ii) a "banking organization" within the meaning of the New York Banking Law, (iii) a member of the Federal Reserve System, (iv) a "clearing corporation" within the meaning of the Uniform Commercial Code, as amended, and (v) a "clearing agency" registered pursuant to Section 17A of the Exchange Act. DTC was created to hold securities for its participants and facilitates the clearance and settlement of securities transactions between participants through electronic book-entry changes to the accounts of its participants, thereby eliminating the need for physical transfer and delivery of certificates. DTC's participants include securities brokers and dealers (including the initial purchaser), banks and trust companies, clearing corporations and certain other organizations. Indirect access to DTC's system is also available to other entities such as banks, brokers, dealers and trust companies, or indirect participants that clear through or maintain a custodial relationship with a participant, either directly or indirectly. Investors who are not participants may beneficially own securities held by or on behalf of DTC only through participants or indirect participants.

We expect that pursuant to procedures established by DTC (i) upon deposit of each global note, DTC will credit the accounts of participants designated by the initial purchaser with an interest in the global note and (ii) ownership of the Notes will be shown on, and the transfer of ownership thereof will be effected only through, records maintained by DTC (with respect to the interests of participants) and the records of participants and the indirect participants (with respect to the interests of persons other than participants).

The laws of some jurisdictions may require that certain purchasers of securities take physical delivery of such securities in definitive form. Accordingly, the ability to transfer interests in the Notes represented by a global note to such persons may be limited. In addition, because DTC can act only on behalf of its participants, who in turn act on behalf of persons who hold interests through participants, the ability of a person having an interest in Notes represented by a global note to pledge or transfer such interest to persons or entities that do not participate in DTC's system, or to otherwise take actions in respect of such interest, may be affected by the lack of a physical definitive security in respect of such interest.

So long as DTC or its nominee is the registered owner of a global note, DTC or such nominee, as the case may be, will be considered the sole owner or holder of the Notes represented by the global note for all purposes under the indenture. Except as provided below, owners of beneficial interests in respect of a global note will not be entitled to have Notes represented by such global note registered in their names, will not receive or be entitled to receive physical delivery of certificated Notes, and will not be considered the owners or holders thereof under the indenture for any purpose, including with respect to the giving of any direction, instruction or approval to the trustee thereunder. Accordingly, each holder owning a beneficial interest in respect of a global note must rely on the procedures of DTC and, if such holder is not a participant or an indirect participant, on the procedures of the participant through which such holder owns its interest, to exercise any rights of a holder of Notes under the indenture or such global note. We understand that under existing industry practice, in the event that we request any action of holders of Notes, or a holder that is an owner of a beneficial interest in respect of a global note desires to take any action that DTC, as the holder of such global note, is entitled to take, DTC would authorize the participants to take such action and the participants would authorize holders owning through such participants to take such action or would otherwise act upon the instruction of such holders. Neither we nor the trustee or any paying agent, registrar or transfer agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of Notes by DTC, or for maintaining, supervising or reviewing any records of DTC relating to such Notes.

Payments with respect to the principal of, premium, if any, liquidated damages, if any, and interest on any Notes represented by a global note registered in the name of DTC or its nominee on the applicable record date will be payable by the trustee to or at the direction of DTC or its nominee in its capacity as the registered holder of the global note representing such Notes under the indenture. Under the terms of the indenture, we and the trustee may treat the persons in whose names the Notes, including the global notes, are registered as the owners thereof for the purpose of receiving payment thereon and for any and all other purposes whatsoever. Accordingly, neither we nor the trustee has or will have any responsibility or liability for the payment of such amounts to owners of beneficial interests in respect of a global note (including principal, premium, if any, liquidated damages, if any, and interest). Payments by the participants and the indirect participants to the owners of beneficial interests in respect of a global note will be governed by standing instructions and customary industry practice and will be the responsibility of the participants or the indirect participants and DTC.

Transfers between participants in DTC will be effected in accordance with DTC's procedures, and will be settled in same-day funds. Transfers between participants in Euroclear or Clearstream will be effected in the ordinary way in accordance with their respective rules and operating procedures.

Subject to compliance with the transfer restrictions applicable to the Notes, cross-market transfers between the participants in DTC, on the one hand, and Euroclear or Clearstream participants, on the other hand, will be effected through DTC in accordance with DTC's rules on behalf of Euroclear or Clearstream, as the case may be, by its respective depository. However, such cross-market transactions will require delivery of instructions to Euroclear or Clearstream, as the case may be, by the counterparty in such system in accordance with the rules and procedures and within the established deadlines (Brussels time) of such system. Euroclear or Clearstream, as the case may be, will, if the transaction meets its settlement requirements, deliver instructions to its respective depository to take action to effect final settlement on its behalf by delivering or receiving interests in the relevant global notes in DTC, and making or receiving payment in accordance with normal procedures for same-day funds settlement applicable to DTC. Euroclear participants and Clearstream participants may not deliver instructions directly to the depositories for Euroclear or Clearstream.

Because of time zone differences, the securities account of a Euroclear or Clearstream participant purchasing an interest in a global note from a participant in DTC will be credited, and any such crediting will be reported to the relevant Euroclear or Clearstream participant, during the securities settlement processing day (which must be a business day for Euroclear and Clearstream) immediately following the settlement date of DTC. Cash received in Euroclear or Clearstream as

a result of sales of interest in a global note by or through a Euroclear or Clearstream participant to a participant in DTC will be received with value on the settlement date of DTC but will be available in the relevant Euroclear or Clearstream cash account only as of the business day for Euroclear or Clearstream following DTC's settlement date.

Although DTC, Euroclear and Clearstream have agreed to the foregoing procedures to facilitate transfers of interests in the global notes among participants in DTC, Euroclear and Clearstream, they are under no obligation to perform or to continue to perform such procedures, and such procedures may be discontinued at any time. Neither we nor the trustee or any paying agent, registrar or transfer agent will have any responsibility for the performance by DTC, Euroclear or Clearstream or their respective participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

Certificated Notes

If (i) we notify the trustee in writing that DTC is no longer willing or able to act as a depository or DTC ceases to be registered as a clearing agency under the Exchange Act and a successor depository is not appointed within 90 days of such notice or cessation, (ii) we, at our option, notify the trustee in writing that we elect to cause the issuance of Notes in definitive form under the indenture or (iii) upon the occurrence of certain other events as provided in the indenture, then, upon surrender by DTC of the global notes, certificated notes will be issued to each person that DTC identifies as the beneficial owner of the Notes represented by the global notes. Upon any such issuance, the trustee is required to register such certificated notes in the name of such person or persons (or the nominee of any thereof) and cause the same to be delivered thereto.

Neither we nor the trustee shall be liable for any delay by DTC or any participant or indirect participant in identifying the beneficial owners of the related Notes and each such person may conclusively rely on, and shall be protected in relying on, instructions from DTC for all purposes (including with respect to the registration and delivery, and the respective principal amounts, of the Notes to be issued).

Notices

Notice to holders of the Notes will be given by mail to the addresses of such holders as they appear in the security register.

So long as the Notes are admitted for listing on the official list of the Luxembourg Stock Exchange and to trading on the Euro MTF market, all notices to holders will be published in English:

(1) in a leading newspaper having a general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*); or

(2) if such Luxembourg publication is not practicable, in one other leading English language newspaper being published on each day in morning editions, whether or not it shall be published in Saturday, Sunday or holiday editions; or

(3) on the website of the Luxembourg Stock Exchange at www.bourse.lu.

Notices shall be deemed to have been given on the date of publication as aforesaid or, if published on different dates, on the date of the first such publication. In addition, notices will be mailed to holders of Notes at their registered addresses in Luxembourg.

Replacement of Notes

In case of mutilated, destroyed, lost or stolen Notes, application for replacement thereof may be made to the trustee or us. Any such Note shall be replaced by the trustee in compliance with such procedures, on such terms as to evidence and indemnification as the trustee and we may require and subject to any applicable law or regulation. All such costs as may be incurred in connection with the replacement of any Notes shall be borne by the applicant. Mutilated Notes must be surrendered before new ones will be issued.

PLAN OF DISTRIBUTION

Under the terms and subject to the conditions contained in a purchase agreement dated July 14, 2010 we have agreed to sell to the initial purchaser, the following amount of the Notes:

Initial Purchaser of the Notes	Principal Amount
J.P. Morgan Securities Inc.	U.S.\$300,000,000

The purchase agreement provides that the initial purchaser is obligated to purchase all of the Notes if any are purchased.

The initial purchaser proposes to offer the Notes initially at the offering price on the cover page of this offering circular and may also offer the Notes to selling group members at the offering price less a selling concession. After the initial offering, the offering price may be changed. The offering of the Notes by the initial purchaser is subject to receipt and acceptance and subject to the initial purchaser's right to reject any order in whole or in part.

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except to qualified institutional buyers in reliance on Rule 144A under the Securities Act and to persons in offshore transactions in reliance on Regulation S under the Securities Act. The initial purchaser has agreed that, except as permitted by the purchase agreement, it will not offer, sell or deliver the Notes (1) as part of its distribution at any time, or (2) otherwise until 40 days after the later of the commencement of this offering and the closing date, within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each broker/dealer to which it sells the Notes in reliance on Regulation S during such 40-day period, a confirmation or other notice detailing the restrictions on offers and sales of such Notes within the United States, or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act. Resales of the Notes are restricted as described under "Transfer Restrictions."

In addition, until 40 days after the commencement of this offering, an offer or sale of the Notes within the United States by a broker/dealer (whether or not it is participating in the offering), may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than pursuant to Rule 144A.

European Economic Area

Other than as contemplated in this offering circular, the offering circular has been prepared on the basis that all offers of Notes will be made pursuant to an exemption under the Prospectus Directive, as implemented in member states of the European Economic Area (the "EEA"), from the requirement to produce a prospectus for offers of securities. Accordingly any person making or intending to make any offer within the EEA of Notes which are the subject of the placement contemplated in this offering circular should only do so in circumstances in which no obligation arises for the Issuer to produce a prospectus for such offer. The Issuer has not authorized, nor does it authorize, the making of any offer of Notes through any financial intermediary, other than as described herein.

In relation to each Member State of the EEA which has implemented the Prospectus Directive (each, a "Relevant Member State"), an offer to the public of any Notes may not be made in that Relevant Member State, except that an offer to the public in that Relevant Member State of any Notes may be made at any time under the following exemptions under the Prospectus Directive, if they have been implemented in that Relevant Member State:

(a) to legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities; or

(b) to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts; or

(c) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes shall result in a requirement for the publication by the Issuer of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an “offer to the public” in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and any Notes to be offered so as to enable an investor to decide to purchase any Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression “Prospectus Directive” means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

This EEA selling restriction is in addition to any other selling restrictions set out in this offering circular.

United Kingdom

The Stabilizing Manager represents, warrants and agrees that:

(i) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (the “FSMA”)) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer; and

(ii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

Mexico

The Notes have not been and will not be registered with the National Securities Registry (*Registro Nacional de Valores*) maintained by the CNBV, and may not be offered or sold publicly, or otherwise be subject of brokerage activities in Mexico, except offered to institutional and qualified investors pursuant to a private placement exemption set forth under Article 8 of the Mexican Securities Market Law. As required under the Mexican Securities Market Law, we will notify the CNBV of the offering of the Notes outside of Mexico. Such notice will be submitted to the CNBV to comply with a legal requirement and for information purposes and the delivery and the acceptance by the CNBV of such notice, does not imply any certification as to the investment quality of the Notes or our solvency, liquidity or credit quality.

Cayman Islands

No invitation, whether directly or indirectly, may be made to the public in the Cayman Islands to subscribe for the Notes, unless the Issuer is listed on the Cayman Islands Stock Exchange.

General

Purchasers of notes sold outside the United States may be required to pay stamp taxes and other charges in compliance with the laws and practices of the country of purchase in addition to the price to investors on the cover page of this offering circular.

The initial purchaser and its affiliates are full-service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. The initial purchaser or its affiliates have in the past engaged, and may in the future engage, in transactions with and perform services, including commercial banking, financial advisory and investment banking services, for us and our affiliates in the ordinary course of business, for which it or such affiliate receives customary compensation.

In the ordinary course of their various business activities, the initial purchaser and its affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the issuer.”

We have agreed to indemnify the initial purchaser against liabilities or to contribute to payments which they may be required to make in that respect.

We have applied to have the Notes admitted for listing on the Official List of the Luxembourg Stock Exchange and to trading on the Euro MTF market. The initial purchaser has advised us that it intends to make a market in the Notes as permitted by applicable law. It is not obligated, however, to make a market in the Notes and any market-making may be discontinued at any time at its sole discretion. Accordingly, no assurance can be given as to the development or liquidity of any market for the Notes.

The initial purchaser may engage in over-allotment, stabilizing transactions, covering transactions and penalty bids.

- Over-allotment involves sales in excess of the offering size, which creates a short position for the initial purchaser.
- Stabilizing transactions permit bids to purchase the underlying security so long as the stabilizing bids do not exceed a specified maximum.
- Covering transactions involve purchases of the Notes in the open market after the distribution has been completed in order to cover short positions.
- Penalty bids permit the initial purchaser to reclaim a selling concession from a broker/dealer when the Notes originally sold by such broker/dealer are purchased in a stabilizing or covering transaction to cover short positions.

These stabilizing transactions, covering transactions and penalty bids may cause the price of the Notes to be higher than it would otherwise be in the absence of these transactions. These transactions, if commenced, may be discontinued at any time.

TRANSFER RESTRICTIONS

The Notes are subject to restrictions on transfer as summarized below. By purchasing Notes you will be deemed to have made the following acknowledgements, representations to and agreements with the initial purchaser and us:

1. You acknowledge that:

- The offering is being made in accordance with Rule 144A and Regulation S under the Securities Act;
- the Notes have not been registered under the Securities Act or any other securities laws and are being offered for resale in transactions that do not require registration under the Securities Act or any other securities laws; and
- unless so registered, the Notes may not be offered, sold or otherwise transferred except under an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act or any other applicable securities laws, and in each case in compliance with the conditions for transfer set forth in paragraph (4) below.

2. You represent that you are not an affiliate (as defined in Rule 144 under the Securities Act) of ours, that you are not acting on our behalf and that either:

- you are a qualified institutional buyer (as defined in Rule 144A under the Securities Act) and are purchasing Notes for your own account or for the account of another qualified institutional buyer, and you are aware that the initial purchaser is selling the Notes to you in reliance on Rule 144A; or
- you are not a U.S. person (as defined in Regulation S under the Securities Act) or purchasing for the account or benefit of a U.S. person, other than a distributor, and you are purchasing Notes in an offshore transaction in accordance with Regulation S.

3. You acknowledge that neither we nor the initial purchaser nor any person representing us or the initial purchaser has made any representation to you with respect to us or the offering of the Notes, other than the information contained in this offering circular. You represent that you are relying only on this offering circular in making your investment decision with respect to the Notes. You agree that you have had access to such financial and other information concerning us and the Notes as you have deemed necessary in connection with your decision to purchase Notes, including an opportunity to ask questions of and request information from us.

4. You represent that you are purchasing Notes for your own account, or for one or more investor accounts for which you are acting as a fiduciary or agent, in each case not with a view to, or for offer or sale in connection with, any distribution of the Notes in violation of the Securities Act, subject to any requirement of law that the disposition of your property or the property of that investor account or accounts be at all times within your or their control and subject to your or their ability to resell the Notes pursuant to Rule 144A or any other available exemption from registration under the Securities Act. You agree on your own behalf and on behalf of any investor account for which you are purchasing Notes, and each subsequent holder of the Notes by its acceptance of the Notes will agree, that until the end of the Resale Restriction Period (as defined below), the Notes may be offered, sold or otherwise transferred only:

- (a) to us or any of our subsidiaries;
- (b) under a registration statement that has been declared effective under the Securities Act;
- (c) for so long as the Notes are eligible for resale under Rule 144A, to a person the seller reasonably believes is a qualified institutional buyer that is purchasing for its own account or for the account of another qualified institutional buyer and to whom notice is given that the transfer is being made in reliance on Rule 144A;
- (d) through offers and sales that occur outside the United States to non-U.S. purchasers within the meaning of Regulation S under the Securities Act; or
- (e) under any other available exemption from the registration requirements of the Securities Act,

subject in each of the above cases to any requirement of law that the disposition of the seller's property or the property of an investor account or accounts be at all times within the seller's or account's control.

You also acknowledge that:

- the above restrictions on resale will apply from the closing date until the date that is one year (in the case of Rule 144A Notes) or 40 days (in the case of Regulation S Notes) after the later of the closing date and the last date that we or any of our affiliates was the owner of the Notes or any predecessor of the Notes (the "Resale Restriction Period"), and will not apply after the applicable Resale Restriction Period ends;
- we and the trustee reserve the right to require in connection with any offer, sale or other transfer of Notes under clauses (d) and (e) above the delivery of an opinion of counsel, certifications and/or other information satisfactory to us and the trustee; and
- each Note will contain a legend substantially to the following effect:

THIS IS A GLOBAL NOTE WITHIN THE MEANING OF THE INDENTURE REFERRED TO
HEREINAFTER.

UNLESS THIS CERTIFICATE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY, A NEW YORK CORPORATION ("DTC"), NEW YORK, NEW YORK TO THE BANK OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT, AND ANY CERTIFICATE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC (AND ANY PAYMENT IS MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF HAS AN INTEREST HEREIN.

TRANSFERS OF THIS GLOBAL SECURITY SHALL BE LIMITED TO TRANSFERS IN WHOLE, BUT NOT IN PART, TO NOMINEES OF DTC OR TO A SUCCESSOR THEREOF OR SUCH SUCCESSOR'S NOMINEE AND TRANSFERS OF PORTIONS OF THIS GLOBAL SECURITY SHALL BE LIMITED TO TRANSFERS MADE IN ACCORDANCE WITH THE RESTRICTIONS SET FORTH IN THE INDENTURE REFERRED TO ON THE REVERSE HEREOF.

UNTIL IN THE CASE OF THE 144A NOTES ONE YEAR, AND IN THE CASE OF THE REGULATION S NOTES 40 DAYS AFTER THE COMMENCEMENT OF THE OFFERING, AN OFFER OR SALE OF SECURITIES WITHIN THE UNITED STATES BY A DEALER (AS DEFINED IN THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT")) MAY VIOLATE THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT IF SUCH OFFER OR SALE IS MADE OTHERWISE THAN IN ACCORDANCE WITH RULE 144A THEREUNDER.

THE NOTE REPRESENTED HEREBY HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT, OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY IN COMPLIANCE WITH THE SECURITIES ACT AND OTHER APPLICABLE LAWS AND ONLY (1) PURSUANT TO A REGISTRATION STATEMENT THAT HAS BEEN DECLARED EFFECTIVE UNDER THE SECURITIES ACT, (2) TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON THE HOLDER'S BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT, PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER, IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A AND WHOM THE HOLDER HAS INFORMED, IN EACH CASE, THAT SUCH OFFER, SALE, PLEDGE OR OTHER TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, (3) PURSUANT TO OFFERS AND SALES THAT OCCUR OUTSIDE THE UNITED STATES IN ACCORDANCE WITH RULES 903 OR 904 OF REGULATION S UNDER THE SECURITIES ACT, (4) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER (IF AVAILABLE), (5) PURSUANT TO ANOTHER EXEMPTION FROM

THE REGISTRATION REQUIREMENTS UNDER THE SECURITIES ACT, ACCOMPANIED BY AN OPINION OF COUNSEL REGARDING THE AVAILABILITY OF SUCH EXEMPTION OR (6) TO THE ISSUER OR AN AFFILIATE OF THE ISSUER AND THE HOLDER WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY PURCHASER OF THIS NOTE FROM IT OF THE RESALE RESTRICTIONS REFERRED TO IN THIS LEGEND.

5. You represent that either (i) you are not, and you are not purchasing the Notes with the assets of, or for or on behalf of, (1) an employee benefit plan (as defined in Section 3(3) of ERISA), (2) any other plan or arrangement that is subject to ERISA or Section 4975 of the Code, or (3) any governmental, church or non-U.S. plan or other arrangement (a “Non-ERISA Arrangement”), that is subject to any federal, state, local or non-U.S. or other laws or regulations that are substantially similar to the provisions of Title I of ERISA or Section 4975 of the Code (“Similar Laws”), (each of (1), (2), and (3), a “Plan”), or any entity whose underlying assets are deemed to be the assets of a Plan pursuant to 29 C.F.R. Section 2510.3-101 (as modified by Section 3 (42) of ERISA) or otherwise or (ii) your purchase, holding and disposition of the Notes is exempt from the prohibited transaction provisions of Section 406 of ERISA and Section 4975 of the Code (or, in the case of a governmental, church or non-U.S. plan, from any Similar Laws) pursuant to the exemption provided by U.S. Department of Labor Prohibited Transaction Class Exemption 96-23, 95-60, 91-38, 90-1 or 84-14, the service provider exemption (as described in “Certain ERISA Considerations”) or another applicable statutory or administrative exemption (or, in the case of any governmental, church or non-U.S. plan, a substantially similar exemption under Similar Law).

6. You acknowledge that we, the initial purchaser and others will rely upon the truth and accuracy of the above acknowledgments, representations and agreements. You agree that if any of the acknowledgments, representations or agreements you are deemed to have made by your purchase of Notes is no longer accurate, you will promptly notify us and the initial purchaser. If you are purchasing any Notes as a fiduciary or agent for one or more investor accounts, you represent that you have sole investment discretion with respect to each of those accounts and that you have full power to make the above acknowledgments, representations and agreements on behalf of each account.

Each purchaser that is acquiring Notes pursuant to Regulation S under the Securities Act represents that it is not acquiring the Notes with a view to the resale, distribution or other disposition thereof to a U.S. person or in the United States.

TAXATION

Certain United States Federal Income Tax Considerations

CIRCULAR 230 NOTICE: THE DISCUSSION BELOW IS NOT GIVEN IN THE FORM OF A COVERED OPINION, WITHIN THE MEANING OF CIRCULAR 230 ISSUED BY THE UNITED STATES SECRETARY OF THE TREASURY. THUS, THE COMPANY IS REQUIRED TO INFORM YOU THAT THIS SUMMARY OF CERTAIN UNITED STATES FEDERAL INCOME TAX CONSIDERATIONS WITH RESPECT TO AN INVESTMENT IN THE NOTES WAS NOT INTENDED OR WRITTEN, AND CANNOT BE USED BY ANY INVESTOR, FOR THE PURPOSE OF AVOIDING UNITED STATES FEDERAL TAX PENALTIES THAT MAY BE IMPOSED ON SUCH INVESTOR. THIS SUMMARY HAS BEEN WRITTEN TO SUPPORT THE PROMOTION AND MARKETING OF THE NOTES. PROSPECTIVE INVESTORS ARE URGED TO SEEK ADVICE BASED UPON THEIR OWN PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

The following is a summary of certain United States federal income tax consequences of the purchase, ownership, and disposition of the Notes. This summary is based upon laws, regulations, rulings and decisions now in effect, all of which are subject to change (including retroactive changes) or possible differing interpretations. The discussion below deals only with Notes held as capital assets by a holder who purchases the Notes on original issue at the initial offering price and does not purport to deal with persons in special tax situations, such as banks, financial institutions, insurance companies, regulated investment companies, dealers in securities or currencies, traders in securities that elect to mark to market, tax-exempt entities, persons holding the Notes in a tax-deferred or tax-advantaged account, or persons holding the Notes as a hedge against currency risks, as a position in a “straddle” or as part of a “hedging” or “conversion” or integrated transaction for tax purposes.

This summary does not address all of the tax consequences that may be relevant to an investor in the Notes. In particular, this summary does not address:

- the United States federal income tax consequences to shareholders in, or partners or beneficiaries of, an entity that is a holder of the Notes;
- the United States federal estate, gift or alternative minimum tax consequences of the purchase, ownership or disposition of the Notes;
- U.S. holders (as defined below) who hold the Notes whose functional currency is not the United States dollar; or
- any state, local or foreign tax consequences of the purchase, ownership or disposition of the Notes.

Persons considering the purchase of the Notes should consult their own tax advisors concerning the application of the United States federal income tax laws to their particular situations as well as any consequences of the purchase, ownership and disposition of the Notes arising under the laws of any other taxing jurisdiction.

A U.S. holder is a beneficial owner of the Notes that is:

- a citizen or resident of the United States;
- a corporation or partnership, including any entity treated as a corporation or partnership for United States federal income tax purposes, created or organized in or under the laws of the United States, any state thereof or the District of Columbia;
- an estate if its income is subject to United States federal income taxation regardless of its source; or
- a trust if (1) a court within the United States is able to exercise primary supervision over the administration of the trust, and (2) one or more United States persons have the authority to control all substantial decisions of the trust.

Notwithstanding the preceding sentence, certain trusts in existence on August 20, 1996, and treated as United States persons prior to such date that elect to continue to be treated as a United States person, may also be treated as U.S. holders. As used herein, the term “non-U.S. holder” means a beneficial owner of a Note that is not a U.S. holder.

Interest Income and Original Issue Discount

The notes are expected to be issued for an amount equal to their stated redemption price at maturity and, accordingly, should not be considered to be issued with original issue discount. As a result, each holder of notes should include interest income on the notes in its income in accordance with its normal method of accounting. Payments of interest on a note (which may include Additional Amounts) will generally be taxable to a U.S. holder as ordinary interest income when such interest is accrued or received, in accordance with the U.S. holder's regular method of tax accounting. For purposes of the United States foreign tax credit limitations, interest on the Notes generally will be foreign source income and generally will be subject to separate limitations for "passive income." Subject to complex limitations, a U.S. holder generally will be entitled to a foreign tax credit against its United States federal income tax liability or a deduction in computing its United States federal taxable income in respect of any Mexican withholding taxes. U.S. holders should consult their own tax advisors as to the consequences of any Mexican withholding taxes and the availability of a foreign tax credit or deduction.

Redemption and Sale of Notes

Under certain circumstances described herein (see "Description of the Notes—Redemption Prior to Maturity Solely for Taxation Reasons"), the Notes may be redeemed for cash and the proceeds of such redemption distributed to the holders of such Notes. Under current law, such a redemption would, for United States federal income tax purposes, constitute a taxable disposition of the redeemed Notes, and a holder thereof would recognize gain or loss as if it had sold such redeemed Notes for cash as described below.

A holder that sells Notes will recognize gain or loss equal to the difference between the amount realized on the sale of the Notes (less an amount equal to any accrued but unpaid interest, which will be treated as such) and the holder's adjusted tax basis in such Notes. A U.S. holder's adjusted tax basis in a Note generally will equal the amount paid therefor. Gain or loss recognized on the sale or other disposition of the Notes will be capital gain or loss and will be long-term capital gain or loss if the Notes have been held for more than one year at the time of sale.

Certain Non-U.S. Holders

Subject to the discussion of backup withholding below, interest on the Notes paid to a non-U.S. holder, and gain recognized by a non-U.S. holder on the sale, exchange or other disposition, including a redemption, of the Notes, will not be subject to United States federal income tax unless the interest or gain is "effectively connected" with the conduct by the non-U.S. holder of a trade or business within the United States (and, if required under an applicable income tax treaty, is attributable to a permanent establishment maintained in the United States by the non-U.S. holder), or, in the case of gain recognized by a non-U.S. holder who is an individual, the holder is present in the United States for a total of 183 days or more during the taxable year in which such gain is recognized and certain other conditions are met.

A corporate non-U.S. holder may, under certain circumstances, be subject to an additional "branch profits tax" at a 30% rate (or such lower rate as may be specified by an applicable income tax treaty) on any "effectively connected" interest paid or gain recognized on the Notes.

Information Reporting and Backup Withholding

A U.S. holder (other than an "exempt recipient," including a corporation and certain other persons that, when required, demonstrate their exempt status) may be subject to backup withholding at the applicable statutory rate on, and to information reporting requirements with respect to, payments of principal or interest on, and to proceeds from the sale, exchange or other disposition, including a redemption, of the Notes. In general, if a non-corporate U.S. holder subject to information reporting fails to furnish a correct taxpayer identification number or otherwise fails to comply with applicable backup withholding requirements, backup withholding may apply. The backup withholding tax is not an additional tax and may be credited against a U.S. holder's regular United States federal income tax liability or refunded by the IRS.

Non-U.S. holders are generally exempt from information reporting and backup withholding provided, if necessary, they demonstrate their exemption. Any backup withholding tax generally will be allowed as a credit or refund against the non-U.S. holder's United States federal income tax liability, provided that the required information is furnished to the IRS.

Recently enacted legislation requires certain U.S. holders to report information with respect to their investment in Notes not held through a custodial account with a U.S. financial institution to the IRS. Investors who fail to report required information could become subject to substantial penalties. Prospective investors are encouraged to consult with their own tax advisors regarding the possible implication of this new legislation on their investment in Notes.

THE UNITED STATES FEDERAL INCOME TAX DISCUSSION SET FORTH ABOVE IS INCLUDED FOR GENERAL INFORMATION ONLY AND MAY NOT BE APPLICABLE DEPENDING UPON A HOLDER'S PARTICULAR SITUATION. HOLDERS SHOULD CONSULT THEIR TAX ADVISORS WITH RESPECT TO THE TAX CONSEQUENCES TO THEM OF THE PURCHASE, OWNERSHIP AND DISPOSITION OF THE NOTES, INCLUDING THE TAX CONSEQUENCES UNDER STATE, LOCAL, FOREIGN AND OTHER TAX LAWS AND THE POSSIBLE EFFECTS OF CHANGES IN UNITED STATES FEDERAL OR OTHER TAX LAWS.

Certain Mexican Income Tax Consequences

The following summary contains a description of the principal Mexican Federal tax consequences of the purchase, ownership and disposition of Notes by a Non-Mexican Holder (as defined below). It does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a decision to purchase, hold or dispose of the Notes. In addition, it does not describe any tax consequences (i) arising under the laws of any taxing jurisdiction other than Mexico, (ii) arising under laws other than the federal income tax laws of Mexico (excluding the laws of any state or municipality within Mexico), or (iii) that are applicable to a resident of Mexico for tax purposes.

A "Non-Mexican Holder" is a holder who is not a resident of Mexico for tax purposes, as defined by the Mexican Federal Fiscal Code (*Código Fiscal de la Federación*), or that does not conduct a trade or business in Mexico through a permanent establishment for tax purposes in Mexico. Under Mexico's tax laws, a natural person is a resident of Mexico for tax purposes if the individual has established his or her permanent home in Mexico. In the event the individual also has a permanent home in another jurisdiction different from Mexico, the individual shall be considered to be a resident of Mexico for tax purposes if his or her "center of vital interests" is in Mexico. A "center of vital interests" is deemed to exist in Mexico if, among other considerations: (i) the source of wealth of more than 50% of the total income obtained by the individual in a given calendar year is located in Mexico, or (ii) when an individual's principal center of professional activities is located in Mexico. Except if proven otherwise, individuals who are Mexican nationals are presumed to be residents of Mexico. Individuals or legal entities who cease to be residents of Mexico must give notice of such fact to the taxing authorities not later than 15 days prior to the date on which the change of tax residence occurs. Individuals of Mexican nationality who evidence having a new residence for tax purposes located in a country or territory wherein their income is subject to a preferred tax regime as provided in the Mexican Income Tax Law (*Ley del Impuesto Sobre la Renta*) shall not lose their status as residents of Mexico in the fiscal year in which the notice is submitted and for the three succeeding fiscal years. This shall not apply when the country for which the new tax residence is evidenced has entered into an agreement for the exchange of tax information with Mexico. A legal entity is a resident of Mexico for tax purposes if it has established in Mexico its principal place of business or has its factual seat of management in Mexico.

This summary is based upon the Mexican Income Tax Law and the Mexican Federal Fiscal Code in effect as of the date of this offering circular, which are subject to change. Prospective purchasers of the Notes should consult their own tax advisers as to the Mexican or other tax consequences of the purchase, ownership and disposition of Notes, including, in particular, the effect of any foreign state or municipal or local tax laws.

Mexico has entered into, and is negotiating several, tax treaties with various countries, that may affect the Mexican withholding tax liability of Non-Mexican Holders. Prospective purchasers of the Notes should consult their own tax advisers as to the tax consequences, if any, of such treaties.

Under the Mexican Income Tax Law, and the regulations thereunder, payments of principal and interest on the Notes (which includes any amounts paid in excess of the issue price for the Notes, which under Mexican law is deemed to be interest) made by us, through our Grand Cayman Branch, to a Non-Mexican Holder, will not be subject to Mexican withholding or other similar taxes.

Capital gains realized from the sale or other disposition of the Notes by a Non-Mexican Holder, will not be subject to Mexican income taxes.

A Non-Mexican Holder will not be liable for Mexican estate, gift, inheritance or similar taxes with respect to the acquisition, ownership, or disposition of the Notes, nor will it be liable for any Mexican stamp, issue, registration or similar taxes.

Certain Cayman Islands Income Tax Consequences

The following is a discussion of certain Cayman Islands income tax consequences of an investment in the Notes. The discussion is a general summary of present law, which is subject to prospective and retroactive change. It is not intended as tax advice, does not consider any investor's particular circumstances, and does not consider tax consequences other than those arising under Cayman Islands law.

Under existing Cayman Islands laws:

- Payments of interest and principal on the Notes will not be subject to taxation in the Cayman Islands and no withholding will be required on the payment of interest and principal to any holder of the Notes, nor will gains derived from the disposal of the Notes be subject to Cayman Islands income or corporation tax. The Cayman Islands currently have no income, corporation or capital gains tax and no estate duty, inheritance tax or gift tax;
- No stamp duty is payable in respect of the issue or transfer of the Notes although duty may be payable if Notes are executed in or brought into the Cayman Islands; and
- Certificates evidencing the Notes in registered form, to which title is not transferable by delivery, should not be subject to Cayman Islands stamp duty. However, an instrument transferring title to a Note if brought to or executed in the Cayman Islands, would be subject to Cayman Islands stamp duty.

CERTAIN ERISA CONSIDERATIONS

ERISA imposes certain requirements on “employee benefit plans” (as defined in Section 3(3) of ERISA) subject to ERISA, including entities such as collective investment funds and separate accounts whose underlying assets include the assets of such plans (collectively, “ERISA Plans”) and on those persons who are fiduciaries with respect to ERISA Plans. Investments by ERISA Plans are subject to ERISA’s general fiduciary requirements, including the requirement of investment prudence and diversification and the requirement that an ERISA Plan’s investments be made in accordance with the documents governing the ERISA Plan.

Section 406 of ERISA and Section 4975 of the Code prohibit certain transactions involving the assets of an ERISA Plan (as well as those plans that are not subject to ERISA but which are subject to Section 4975 of the Code, such as individual retirement accounts (together with ERISA Plans, “Plans”)) and certain persons (referred to a “parties in interest” or “disqualified persons”) having certain relationships to such Plans, unless a statutory or administrative exemption is applicable to the transaction. A party in interest or disqualified person who engages in a non-exempt prohibited transaction may be subject to excise taxes and other penalties and liabilities under ERISA and the Code. In addition, the fiduciary of the Plan that engages in such a non-exempt prohibited transaction may be subject to penalties and liabilities under ERISA and the Code.

Prohibited transactions within the meaning of Section 406 of ERISA or Section 4975 of the Code may arise if any Notes are acquired by a Plan with respect to which the Issuer or any of its subsidiaries is a party in interest or a disqualified person. Certain exemptions from the prohibited transaction provisions of Section 406 of ERISA and Section 4975 of the Code may be applicable, however, depending in part on the type of Plan fiduciary making the decision to acquire Notes and the circumstances under which such decision is made. Those exemptions include, without limitation:

- PTCE 96-23 (for certain transactions determined by in-house asset managers);
- PTCE 91-38 (for certain transactions involving bank collective investment funds);
- PTCE 95-60 (for certain transactions involving insurance company general accounts);
- PTCE 90-1 (for certain transactions involving insurance company pooled separate accounts);
- PTCE 84-14 (for certain transactions determined by independent qualified professional asset managers); and
- Section 408(b)(17) of ERISA or Section 4975(d)(20) of the Code (for certain transactions with service providers).

There can be no assurance that any class exemption, statutory exemption or other exemption will be available with respect to any particular transaction involving the Notes, or that, if an exemption is available, it will cover all aspects of any particular transaction. By its purchase of any Notes, the purchaser thereof will be deemed to have represented and agreed either that (i) it is not and for so long as it holds Notes will not be a Plan, an entity whose underlying assets include the assets of any such Plan, or a governmental, church or other plan or arrangement which is subject to any federal, state, local or non-U.S. or other laws or regulations that are substantially similar to the provisions of Title I of ERISA or Section 4975 of the Code (“Similar Law”) or (ii) its purchase, holding and any subsequent disposition of the Notes will not result in a prohibited transaction under Section 406 of ERISA or Section 4975 of the Code (or, in the case of a governmental, church or other plan or arrangement, any Similar Law) for which an exemption is not available. Similarly, each transferee of any Notes, by virtue of the transfer of such Notes to such transferee, will be deemed to have represented and agreed either that (i) it is not and for so long as it holds Notes will not be a Plan, an entity whose underlying assets include the assets of any such Plan or a governmental, church or other plan or arrangement which is subject to any Similar Law or (ii) its purchase, holding and any subsequent disposition of the Notes will not result in a prohibited transaction under Section 406 of ERISA or Section 4975 of the Code (or, in the case of a governmental, church or other plan or arrangement, any Similar Law) for which an exemption is not available.

Governmental plans and certain other church or other plans or arrangements, while not subject to the fiduciary responsibility provisions of Title I of ERISA or the provisions of Section 4975 of the Code, may nevertheless be subject to federal, state, local or non-U.S. or other laws or regulations that are substantially similar to the foregoing provisions of ERISA and the Code. Fiduciaries of any such plans should consult with their counsel before purchasing any Notes.

The foregoing summary is general in nature and not intended to be all encompassing. This summary does not purport to be complete, and future legislation, court decisions, administrative regulations, rulings or administrative pronouncements could significantly modify the requirements summarized above. Any of these changes may be retroactive and may thereby apply to transactions entered into prior to the date of their enactment or release. Any Plan fiduciary or other persons who proposes to cause a Plan to purchase any Notes should consult with its counsel regarding the potential applicability of ERISA, Section 4975 of the Code or Similar Law to such an investment, and the availability of an applicable exemption.

The sale of Notes to a Plan is in no respect a representation by the Issuer that such an investment meets all relevant requirements with respect to investments by Plans generally or any particular Plan, or that such an investment is appropriate for Plans generally or any particular Plan.

LEGAL MATTERS

Certain matters relating to the validity of the Notes will be passed upon for us by White & Case, S.C., Mexico, Milbank, Tweed, Hadley & McCloy LLP, New York, New York, and Maples and Calder, Grand Cayman, Cayman Islands. Certain legal matters will be passed upon for the initial purchaser by Ritch Mueller, S.C., Mexico, and Cleary Gottlieb Steen & Hamilton LLP, New York, New York. Cleary Gottlieb Steen & Hamilton LLP, New York, New York, may rely upon Ritch Mueller, S.C., Mexico, with respect to matters governed by Mexican law. Ritch Mueller, S.C., Mexico, may rely upon Cleary Gottlieb Steen & Hamilton LLP with respect to matters governed by New York and U.S. federal law.

INDEPENDENT AUDITOR

Our audited consolidated financial statements as of December 31, 2009 and December 31, 2008 and for the years ended December 31, 2009, 2008 and 2007 included in this offering circular have been audited by Galaz, Yamazaki, Ruiz Urquiza, S.C., a member of Deloitte Touche Tohmatsu, independent auditors, as stated in their report.

GENERAL INFORMATION

Clearing Systems

The Notes have been accepted for clearance through Euroclear and Clearstream and for trading in book-entry form by DTC. For the Rule 144A Global, the ISIN number is US05962GAA76, the CUSIP number is 05962GAA7 and the common code is 048780733. For the Regulation S Global Note, the ISIN number is USP14008AA79, the CUSIP number is P14008AA7 and the common code is 048780695.

Listing

Application has been made to the Luxembourg Stock Exchange to trade the Notes on the Euro MTF market. Copies of our bylaws, the indentures, as may be amended or supplemented from time to time, our published annual audited consolidated financial statements and any published quarterly unaudited consolidated financial statements will be available at our principal executive offices, as well as at the offices of the Trustee, registrar, paying agent and transfer agent, and at the offices of the Luxembourg listing agent, paying agent and transfer agent, as such addresses are set forth in this offering circular. We believe the auditor's reports included herein have been accurately reproduced. We will maintain a paying and transfer agent in Luxembourg for so long as any of the Notes are listed on the Official list of the Luxembourg Stock Exchange.

The Notes will not be registered with the Mexican National Securities Registry maintained by the CNBV and, pursuant to the Mexican Securities Market Law, may not be offered or sold publicly or otherwise be subject to brokerage activities in Mexico, except that the Notes may be offered in Mexico to institutional and qualified investors pursuant to a private placement exemption set forth in Article 8 of the Mexican Securities Market Law. As required under the Mexican Securities Market Law, we will notify the CNBV of the offering of the Notes outside of Mexico. Such notice will be submitted to the CNBV to comply with a legal requirement and for information purposes only, and the delivery to and the receipt by the CNBV of such notice does not imply any certification as to the investment quality of the Notes, our solvency, liquidity or credit quality or the accuracy or completeness of the information included in this offering circular.

Authorization

We have obtained all necessary consents, approvals and authorizations in connection with the issuance and performance of the Notes. The issuance of the notes was authorized by the Board of Directors of Banorte on April 29, 2010.

No Material Adverse Change

Except as disclosed in this offering memorandum, since December 31, 2009, there has been no material change (or any development or event involving a prospective change of which we are or might reasonably be expected to be aware) which is materially adverse to our financial condition and that of our subsidiaries taken as a whole.

Litigation

Except as disclosed in "Business of Banorte—Litigation and Regulatory Proceedings", Banorte is not involved in any legal or arbitration proceedings (including any such proceedings which are pending or threatened) relating to claims or amounts which may have or have had during the 12 months prior to the date of this offering memorandum a material adverse effect on the financial position of Banorte and its subsidiaries taken as a whole.

SIGNIFICANT DIFFERENCES BETWEEN MEXICAN BANKING GAAP AND U.S. GAAP

Mexican banks prepare their financial statements in accordance with Mexican Banking Accounting Criteria (“Mexican Banking GAAP”) as prescribed by the CNBV. Mexican Banking GAAP encompasses general accounting rules for banks as issued by the CNBV and Mexican Financial Reporting Standards (“MFRS”) prescribed by the CINIF to the extent that the aforementioned accounting criteria do not address or supersede the accounting to be followed. Mexican Banking GAAP differs in certain significant respects from U.S. GAAP. Such differences might be material to the financial information contained in this offering circular. A summary of the significant differences is presented below. We have made no attempt to identify or quantify the impact of those differences. In making an investment decision, investors must rely upon their own examination of the Company, including the terms of this offering and the financial information contained in this offering circular. Potential investors should consult with their own professional advisors for an understanding of the differences between Mexican Banking GAAP and U.S. GAAP, and how those differences might affect the financial information herein.

This summary should not be taken as exhaustive of all differences between Mexican Banking GAAP and U.S. GAAP. No attempt has been made to identify all disclosure, presentation or classification differences that would affect the manner in which transactions or events are presented in financial statements, including the notes thereto. We have not included in this offering circular a reconciliation of our Mexican Banking GAAP financial statements to U.S. GAAP.

Loan Loss Reserve

On December 2, 2005, “General Regulations Applicable to Credit Institutions” became effective (amended through December 24, 2009) which include the accounting criteria applicable to banks. These accounting criteria also include the methodology for bank loan portfolio ratings. These provisions require the rating and creation of allowances for loan losses for each type of loan, providing for the assignment of a rating based on risk (*i.e.*, country, financial and industry), payment records and the value of guarantees for each borrower balance that exceeds 4,000,000 UDIS. The remainder is classified parametrically based on the number of months elapsed as of the first default. This rating is used, among other things, to estimate a potential loan loss provision. However, as in our case, the new provisions continue to allow the loan rating and creation of loan loss reserves based on internal methodologies previously authorized by the CNBV. Also, the CNBV allows the creation of additional reserves based on preventive criteria.

We assign an individual risk category to each commercial loan based on the borrower’s financial and operating risk level, its credit experience and the nature and value of the loans’ collateral. A loan loss reserve is determined for each loan based on a prescribed range of reserves associated to each risk category. In the case of the consumer and mortgage loan portfolio, the risk rating procedure and the establishment of loan reserves considers the accounting periods reporting past due, the probability of noncompliance, the severity of the loss based on its balance and the nature of any loan guarantees or collateral.

The outstanding balance of past-due loans is recorded as non-performing as follows: (1) when there is evidence that the customer has declared bankruptcy; (2) loans with a single payment of principal and interest at maturity are considered past due 30 calendar days after the date of maturity; (3) loans with a single payment of principal at maturity and with scheduled interest payments are considered past due 30 calendar days after principal becomes past due and 90 calendar days after interest becomes past due; (4) loans whose payment of principal and interest had been agreed to in scheduled payments are considered past due 90 days after the first installment is past due; (5) in the case where a revolving line of credit is granted, loans are considered past due when payment has not been received for two normal billing periods or, when the billing period is not monthly, 60 calendar days following maturity; and (6) customer bank accounts showing overdrafts are reported as non-performing loans at the time the overdraft occurs.

The U.S. GAAP methodology for recognition of loan losses is provided by the Financial Accounting Standards Board (“FASB”) Accounting Standard Codification (“ASC”) 450 *Contingencies* (previously Statement of Financial Accounting Standard (“SFAS”) No. 5, “Accounting for Contingencies”) and ASC 310 *Receivables* (previously SFAS No. 114, “Accounting by Creditors for Impairment of a Loan”), which establish that an estimated loss should be accrued when, based on information available prior to the issuance of the financial statements, it is probable that a loan has been impaired at the date of the financial statements and the amount of the loss can be reasonably estimated. For larger non-homogeneous loans, all individual loans should be assessed for impairment under ASC 310 (except for large groups of smaller-balance homogeneous loans which are collectively evaluated for impairment). Specific provisions are calculated when it is determined that it is probable that a bank will not recover the full contractual principal and interest on a loan (impaired loan),

in accordance with the original contractual terms.

Under U.S. GAAP, estimated losses on impaired loans that are individually assessed are required to be measured at the present value of expected future cash flows discounted at the loan's effective rate, the loan's observable market price or at the fair value of the collateral if the loan is collateral dependent. To calculate the allowance required for smaller-balance impaired loans and unimpaired loans, historical loss ratios are determined by analyzing historical loss trends. These ratios are determined by loan type to obtain loss estimates for homogeneous groups of clients. Such historical loss ratios are updated to incorporate the most recent data reflective of current economic conditions, in conjunction with industry performance trends, geographic or obligor concentrations within each portfolio segment, and any other pertinent information. These updated ratios serve as the basis for estimating the allowance for loan losses for such smaller-balance impaired loans and nonimpaired loans.

Under Mexican Banking GAAP, loans may be written-off when collection efforts have been exhausted or when they have been fully provisioned. On the other hand, for U.S. GAAP, loans (or portions of particular loans) should be written-off in the period that they are deemed uncollectible.

Non-Accrual Loans

Under Mexican Banking GAAP, the recognition of interest income is suspended when loans become past due based on the number of past due periods as established by the CNBV.

Under U.S. GAAP, the accrual of interest is generally discontinued when, in the opinion of management, it is expected that the borrower will not be able to fully pay its principal and interest. Generally this occurs when loans are 90 days or more past due. Any accrued but uncollected interest is reversed against interest income at that time.

Foreclosed Assets

Under Mexican Banking GAAP, there are two categories of foreclosed assets: (1) those received as payment in-kind and (2) those that are repossessed by judicial order. For both categories, foreclosed assets are recorded at the lesser of cost or estimated net realizable value.

On date of foreclosure, if the book value (contractual value) of the loan to be foreclosed is higher than net realizable value of the foreclosed asset the difference will be charged to the loan loss allowance. If the book value (contractual value) of the loan to be foreclosed is lower than the net realizable value of the repossessed asset, the carrying amount of the foreclosed asset is the book value of the loan. Foreclosed assets are subsequently adjusted by standard provisions as issued by the CNBV. The provisions depend on the nature of the foreclosed asset and the number of months outstanding.

Under U.S. GAAP, as required by ASC 470 *Debt* (previously SFAS No. 15, "Accounting by Debtors and Creditors for Troubled Debt Restructurings"), foreclosed assets received in full satisfaction of a receivable are reported at the time of foreclosure or physical possession at their estimated fair value less estimated costs of sale. If the foreclosed asset qualifies as an asset held for a long lived asset to be disposed by sale in accordance with ASC 360 *Property, Plant and Equipment* (previously SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets"), such asset is thereafter carried at the lower of its carrying amount or fair value less estimated sale costs. Those assets not eligible for being considered as assets to be disposed of by sale are considered assets to be held and used and are depreciated based on their useful lives and are subject to impairment tests under ASC 360.

Investment Valuation

Under Mexican Banking GAAP, investments are divided into the following categories:

- Trading securities are defined as those in which management invests to obtain gains from short-term price fluctuations. The unrealized gains or losses resulting from the mark-to-market of these investments are recognized in the statement of income for the period.
- For-sale securities are those in which management invests to obtain medium-term earnings. The unrealized gains or losses resulting from the mark-to-market of equity securities, net of deferred taxes, is recognized in stockholders' equity.
- Held-to-maturity investments are those instruments in which management invests with the intention of holding them until maturity and are recorded at amortized cost. Furthermore, on November 9, 2009, the CNBV issued the Ruling to amend the "General Rules for Banks," which allows securities to be reclassified to the category of securities held

to maturity or from the category of trading securities to that of securities available for sale, albeit with the prior express authorization of the CNBV.

Under Mexican Banking GAAP, the fair value amounts are determined by independent third party price quotes or in certain cases based on internal valuation methods. The fair value adjustment for for-sale equity securities is reflected in equity and includes the related deferred income tax effects and loss from monetary position (if determined). All amounts are reversed into earnings upon sale or maturity of the securities.

Under Mexican Banking GAAP, provisions must be made for permanent impairment of for-sale or held-to-maturity securities. If the conditions that led to the provision being established improve sufficiently, then the provision can be reversed.

For U.S. GAAP, under ASC 320 *Investments—Debt and Equity Securities* (previously SFAS No. 115, “Accounting for Certain Investments in Debt and Equity Securities”):

- Debt securities must be classified, according to management’s intent and ability to hold the security, within one of the following categories: held-to-maturity, trading, or available-for-sale. Marketable equity securities must be classified as either trading securities or available-for-sale securities.
- Trading securities are those actively bought and sold. Such securities are recorded at fair value, with resulting unrealized gains and losses recognized in the statement of income.
- Securities which management has the intent and ability to hold to maturity are classified as held-to-maturity, a classification allowed only for debt securities, except for preferred stock with required redemption dates. Held-to-maturity securities are carried at amortized cost.
- All other debt securities and marketable equity securities that are not classified as debt securities or held-to-maturity securities are classified as available-for-sale securities. Available-for-sale securities are recorded at fair value with the resulting unrealized gains and losses recorded net of applicable deferred taxes as other comprehensive income (“OCI”), a separate component of shareholders’ equity until realized, at which time the realized gain or loss is recorded in the income statement. Non-marketable equity securities are valued at cost, less a provision for other-than temporary impairment in value.

U.S. GAAP has specific criteria limiting reclassifications of securities within the held-to-maturity classification. If any sales are made from the held-to-maturity portfolio other than in certain specific circumstances, then all held-to-maturity securities are deemed to be tainted and are consequently classified as available-for-sale.

U.S. GAAP does not contemplate the monetary position effect which is presently recognized under Mexican Banking GAAP. Nevertheless, under U.S. GAAP, if there is a decline in carrying amount of an available-for-sale or held-to-maturity security below its fair value, it is judged to be other-than-temporary, the cost basis of the individual security is written down to its fair value and the amount of the write-down is recorded as charged to income. The new written down value of the security forms the new cost basis of the security. An impairment loss cannot be reversed if conditions improve.

For Mexican Banking GAAP purposes, any foreign currency effects on available-for-sale debt securities are reported in earnings. However, under U.S. GAAP and per ASC 310-10-35 (*Fair Value Changes of Foreign-Currency-Denominated Available-for-Sale Debt Securities* paragraphs 36-37) (formerly EITF 96-15 “Accounting for the Effects of Changes in Foreign Currency Exchange Rates on Foreign-Currency-Denominated Available-for-Sale Debt Securities”), the entire change in the fair value of foreign-currency-denominated available-for-sale debt securities should be reported in stockholders’ equity. This fair value serves as the basis under which other-than temporary impairment is considered.

Fair Value of Financial Instruments

Mexican Banking GAAP defines fair value as the amount an interested and informed market participant would be willing to exchange for the purchase or sale of an asset or to assume or settle a liability in a free market. This definition can consider either an entry or an exit price.

U.S. GAAP defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This definition only considers an exit price. Consideration must be given to the principal and most advantageous market and the highest and best use of the asset.

Furthermore, U.S. GAAP establishes a three-level hierarchy to be used when measuring and disclosing fair value in a company’s financial statements. Categorization within the fair value hierarchy is based on the lowest level of significant

input to its valuation. The following is a description of the three hierarchy levels:

- Level 1—Listed prices for identical instruments in active markets.
- Level 2—Listed prices for similar instruments in active markets; listed prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.
- Level 3—Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

Repurchase Agreements

Under Mexican Banking GAAP, at the contracting date of the repurchase transaction, when the financial institution is the reselling party, the entry of cash or a debit settlement account, and an account payable at fair value, initially at the agreed-upon price, is recorded and represents the obligation to reconstitute cash to the repurchasing party. Subsequently, during the term of the repurchase transaction, the account payable is valued at fair value by recognizing the interest on the repurchase agreement using the effective interest method in results of the year. In relation to the collateral granted, the credit institution will reclassify the financial assets in its balance sheet as restricted, which will be valued based on the criteria described above in this note until the maturity of the repurchase transaction.

When an entity acts as repurchasing party, the withdrawal of funds available is recognized on the contracting date of the repurchase transaction or a credit settlement account, with an account receivable recorded at fair value, initially at the agreed-upon price, which represents the right to recover the cash paid. The account receivable will be valued subsequently during the term of the repurchase agreement at fair value through the recognition of interest on the repurchase agreement based on the effective interest method in the results of the year. Similarly, if the repurchasing party becomes a reselling party based on the performance of another repurchase transaction with the collateral received in guarantee for the initial transaction, the interest generated by the second repurchase transaction must be recognized in the results of the year when accrued, according to the effective interest method, and also affects the valued account payable according to the applied cost.

Under U.S. GAAP, repurchase agreements are transfer transactions subject to specific provisions and conditions that must be met in order for a transaction to qualify as a sale rather than a secured borrowing. In most cases, banks in the U.S. enter into repurchase transactions that qualify as secured borrowings. Accordingly, our assets subject to a repurchase agreement would not be derecognized.

Derivatives

Under Mexican Banking GAAP, the assets and/or liabilities arising from transactions with derivative financial instruments are recognized or cancelled in the financial statements on the date the transaction is carried out, regardless of the date of settlement or delivery of the asset. Financial institutions initially recognize all derivatives as assets or liabilities in the balance sheet at fair value, taking into consideration the execution price. Any transaction costs that are directly attributable to the acquisition of the derivative are directly recognized in results. All derivatives are valued at fair value without deducting any estimated sale costs or other types of disposal. The period net valuation effects are recognized in the results of the period as trading gain/loss.

Under Mexican Banking GAAP, a financial institution should consider the following the CNBV requirements for the purposes of classifying a derivative financial instrument:

- Hedging of an open risk position - Consists of the purchase or sale of derivative financial instruments to reduce the risk of a transaction or group of transactions. If they are fair value hedges, the primary position covered is valued at market and the net effect of the derivative hedge instrument is recorded in results of the period. If they are cash flow hedges, the hedge derivative instrument is valued at market and the valuation for the effective portion of the hedge is recorded within other comprehensive income account in stockholders' equity. Any ineffective portion is recorded in results.
- Trading positions - Consist of the positions assumed by the financial institution as market participant for purposes other than hedging risk positions. In forward and futures contracts, the balances represent the difference between the fair value of the contract and the contracted forward price. If the difference is positive, it is considered as surplus value and presented under assets; however, if negative, it is considered as a shortfall and presented under liabilities. In options, their balance represents the fair value of the premium and they are valued at fair value, recognizing the valuation effects in the results for the year. In swaps, the balance represents the difference between the fair value of the swap asset and liability.

Under U.S. GAAP, ASC 815 *Derivatives and Hedging* (previously SFAS No. 133, “Accounting for Derivative Instruments and Hedging Activities”) provides that:

- Derivative financial instruments, although considered to be an effective hedge from an economic perspective that have not been designated as a hedge for accounting purposes are recognized in the balance sheet at fair value with changes in the fair value recognized in earnings concurrently with the change in fair value of the underlying assets and liabilities.
- For all derivative instruments that qualify as fair value hedges for accounting purposes, of existing assets, liabilities or firm commitments, the change in fair value of the derivative should be accounted for in the statement of income, and be fully or partially offset in the statement of income by the change in fair value of the underlying hedged item.
- For all derivative contracts that qualify as hedges of cash flows for accounting purposes, the change in the fair value of the derivative should be initially recorded OCI in stockholders’ equity. Once the effects of the underlying hedged transaction are recognized in earnings, the corresponding amount in OCI is reclassified to the statement of income to offset the effect of the hedged transaction.
- All derivative instruments that qualify as hedges are subject to periodic effectiveness testing. Effectiveness is the derivative instrument’s ability to generate offsetting changes in the fair value or cash flows of the underlying hedged item. The ineffective portion of the change in fair value for a hedged derivative is immediately recognized in earnings, regardless of whether the hedged derivative is designated as a cash flow or fair value hedge.

Under Mexican Banking GAAP, the designation of a derivative instrument as a hedge of a net position (“macro hedging”) is allowed. However, macro hedging is not permitted under U.S. GAAP.

However under U.S. GAAP, certain implicit or explicit terms included in host contracts that affect some or all of the cash flows or the value of other exchanges required by the contract in a manner similar to a derivative instrument, must be separated from the host contract and accounted for at fair value. Under Mexican Banking GAAP, the recognition of embedded derivative instruments is required beginning in 2009.

Securitized Transactions and the Consolidation of Special-Purpose Entities

Under Mexican Banking GAAP, as of January 1, 2009, securitized transactions must fulfill the requirements established in accounting criterion C-1 “Recognition and derecognition of financial assets” in order to be considered a sale and transfer of assets. If this is not the case, these assets must remain on the balance sheet, together with the respective debt issuances and the effects on results based on this criterion. Furthermore, a company must consolidate a special-purpose entity (SPE) when the economic basis of the relationship between both entities shows that the SPE is controlled by the former.

Under U.S. GAAP, ASC 860 *Transfers and Servicing* (previously SFAS No. 140, “Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities a replacement of FASB Statement 125”) provides accounting and reporting standards for transfers and servicing of financial assets and extinguishments of liabilities. The guidance focuses on control. Under that approach, after a transfer of financial assets (*e.g.* a securitization), an entity recognizes the financial and servicing assets it controls and the liabilities it has incurred, derecognizes financial assets when control has been surrendered, and derecognizes liabilities when extinguished. This Statement provides consistent standards for distinguishing transfers of financial assets that are sales from transfers that are secured borrowings.

A transfer of financial assets in which the transferor surrenders control over those assets is accounted for as a sale to the extent that consideration other than beneficial interests in the transferred assets is received in exchange. The transferor has surrendered control over transferred assets if and only if all of the following conditions are met:

- The transferred assets have been isolated from the transferor (beyond the reach of the transferor and its creditors), even in bankruptcy;
- Each transferee (or, if the transferee is a qualifying special-purpose entity (“QSPE”) (see section on control that eliminates the QSPE exemption under U.S. GAAP beginning in 2010), each holder of its beneficial interests) has the right to pledge or exchange the assets (or beneficial interests) it received, and no condition both constrains the transferee (or holder) from taking advantage of its right to pledge or exchange and provides more than a trivial benefit to the transferor; and
- The transferor does not maintain effective control over the transferred assets through either (1) an agreement that both entitles and obligates the transferor to repurchase or redeem them before their maturity, (2) the ability to unilaterally cause the holder to return specific assets, other than through a clean-up call, or (3) an agreement that

permits the transferee to require the transferor to repurchase the transferred financial assets at a price that is so favorable to the transferee that it is probable that the transferee will require the transferor to repurchase them.

Insurance and postretirement activities

According to the accounting practices prescribed by the Mexican National Insurance and Surety Commission (Mexican Insurance GAAP), commissions and costs at the origination of each policy are charged to income as incurred. In addition, for life insurance policies, any amount received from individuals is considered as premium income. As required by U.S. GAAP, commissions and costs at origination are capitalized and amortized over the life of the policy using the effective interest method (deferred acquisition costs). Furthermore, premiums received in excess for life insurance policies are recorded as premium income.

Also, under the accounting practices prescribed by the National System of Saving for the Retirement Commission, the direct costs associated with the reception of new clients for the administration of the bills of retirement is recognized in income as incurred. Under U.S. GAAP the costs are capitalized and amortized over the time in which the borrowed service is yielded, which the time is based on average in which the clients remain active in the company.

Under Mexican Insurance GAAP, certain reserves (disaster) are calculated using internal models previously approved by the Mexican National Insurance and Surety Commission. Generally pension reserves are based on the present value of benefits to be paid together with fees suggested by this Commission. U.S. GAAP establishes the use of a fee that allows policy benefits to be covered through premiums collected for pension reserves. Under U.S. GAAP, provisions for disaster reserves are based on actuarial calculations for losses incurred using the experience of the Financial Group.

The Financial Group records a reserve for catastrophic events under Mexican GAAP as a liability which is not allowed by U.S. GAAP.

Business Combinations

Through December 31, 2004, under Mexican Banking GAAP, the excess of the purchase price over the adjusted book value of net assets acquired was recorded as goodwill and amortized over 20 years (negative goodwill if book value exceeded the purchase price was recognized over a period not exceeding five years). Upon the adoption of NIF B-7, “Business Acquisitions,” which is similar to the required accounting practices established by U.S. GAAP, requires the purchase price to be ascribed to the fair value of separately identifiable assets and liabilities acquired and that the difference between the purchase price and the fair value of identifiable assets and liabilities be allocated to goodwill or negative goodwill, as applicable.

Under U.S. GAAP, prior to January 1, 2009, SFAS No. 141, “Business Combinations” required the purchase price over the book value of assets and liabilities acquired to be allocated to the fair value of separately identifiable assets and liabilities acquired.

Under U.S. GAAP, beginning in January 1, 2009, ASC 805-10 (SFAS No. 141(R), “Business Combinations – a replacement of FASB No. 141”), now requires an acquirer in a business combination to (a) recognize assets acquired, liabilities assumed, and any noncontrolling interest in the acquiree at fair value as of the acquisition date, and (b) expense all acquisition-related costs. ASC 805-10 (SFAS No. 141(R)), also amends ASC 740-10 (SFAS No. 109, “Accounting for Income Taxes”) to require that any reductions to an acquired entity’s valuation allowances on deferred taxes and acquired tax contingencies that occur after the measurement period be recorded as a component of income tax expense.

Employee Retirement Obligations

Mexican Banking GAAP requires the recognition of a severance indemnity liability calculated based on actuarial computations. Similar recognition criteria under U.S. GAAP are established in ASC 712 *Compensation—Nonretirement Postemployment Benefits* (previously SFAS No. 112, “Employers’ Accounting for Post-employment Benefits”), which requires that a liability for certain termination benefits provided under an ongoing benefit arrangement such as these statutorily mandated severance indemnities, be recognized when the likelihood of future settlement is probable and the liability can be reasonably estimated.

Mexican Banking GAAP allows amortization of the transition obligation related to the adoption of revised NIF D-3 over the expected service life of the employees. However, under U.S. GAAP, it does not exist, which results in a difference in the amount recorded under the two accounting principles.

Under Mexican Banking GAAP, pension and seniority premium obligations are determined in accordance with NIF D-3. Under U.S. GAAP, such costs are accounted for in accordance with ASC 715 *Compensation—Retirement Benefits* (previously SFAS No. 87, “Employers’ Accounting for Pensions”), whereby the liability is measured, similar to Mexican Banking GAAP, using the projected unit credit method at net discount rates. The U.S. GAAP standard became effective on January 1, 1989 whereas NIF D-3 became effective on January 1, 1993. Therefore, a difference between Mexican Banking GAAP and U.S. GAAP exists due to the accounting for the transition obligation at different implementation dates.

Post-retirement benefits are accounted for under U.S. GAAP in accordance with ASC 715 (previously SFAS No. 106, “Employers’ Accounting for Postretirement Benefits Other Than Pensions”), which applies to all post-retirement benefits, such as life insurance provided outside a pension plan or other postretirement health care and welfare benefits expected to be provided by an employer to current and former employees. The cost of postretirement benefits is recognized over the employees’ service periods and actuarial assumptions are used to project the cost of health care benefits and the present value of those benefits. For Mexican Banking GAAP purposes, as required by NIF D-3, we account for such benefits in a manner similar to U.S. GAAP. SFAS No. 106 became effective on January 1, 2003 whereas NIF D-3 became effective on January 1, 1993. Therefore, a difference between Mexican Banking GAAP and U.S. GAAP exists due to the accounting for the transition obligation at different implementation dates.

In addition, under U.S. GAAP, the accounting for defined benefit postretirement plans, which include seniority premiums within Mexico, was amended in 2006 such that an employer is required to recognize the overfunded or underfunded status of a defined benefit postretirement plan (other than a multiemployer plan) as an asset or liability in its statement of financial position, recognizing changes in that funded status in the year in which the changes occur through other comprehensive income. Accordingly, unrecognized items may exist in Mexican FRS which are included as part of the employee benefit liability under U.S. GAAP.

Guarantees

For U.S. GAAP purposes, guarantees are accounted for under ASC 460 *Guarantees* (previously FIN 45, “Guarantor’s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others—an interpretation of FASB Statements No. 5, 57, and 107 and rescission of FASB interpretation No. 34”), which requires that an entity recognizes, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing such guarantee.

For Mexican Banking GAAP purposes, guarantees are recorded at cost at inception and disclosed in memorandum accounts unless payments in connection with the guarantee are probable, where the amounts expected to be paid are recorded.

Equity Method Investees

Under Mexican Banking GAAP, investments in associated companies in which we have more than a 10% ownership, are accounted for by the equity method.

For U.S. GAAP purposes, investments in associated companies in which we have a 20 to 50% ownership over which we can exert significant influence on the company, but do not have a controlling interest, are accounted for by the equity method. Investments in which we have less than a 20% ownership are generally accounted for under the cost method.

Retained Earnings Adjustments

Where specific approval is given by the CNBV, certain adjustments and provisions which are created during the year may be charged to retained earnings and not to the statement of income for the period.

Under U.S. GAAP, when adjustments which relate to correction of errors in the prior year occur, the prior period financial statements are required to be restated. Under U.S. GAAP, loss provisions or other operating and non-operating expenses are recognized as a charge to income.

Deferred Income Tax

Mexican Banking GAAP is similar to U.S. GAAP with respect to accounting for deferred income taxes in that an asset and liability approach is required. Under Mexican Banking GAAP, deferred tax assets must be reduced by a valuation allowance if it is “highly probable” that all or a portion of the deferred tax assets will not be realized. The determination of

the need for a valuation allowance must consider future taxable income and the reversal of temporary taxable differences. Net deferred income tax assets or liabilities are presented within long-term assets or liabilities.

During 2007, the Mexican tax authorities issued a new Business Flat Tax or IETU. For Mexican Banking GAAP purposes, based on projections of taxable income, companies must determine whether they will be subject to regular income tax or IETU in the future and, accordingly, must recognize deferred taxes based on the tax they expect to pay. Therefore, deferred taxes are calculated by scheduling the reversal of temporary differences under each tax regime and applying either the income tax or IETU rate to such temporary differences. If a company determines, based on its projections, that it will be both subject to IETU and ISR in the future, the company is required to schedule out the reversal of temporary differences under each tax regime and record the amount that represents the larger liability or the smaller benefit.

Under U.S. GAAP, deferred income taxes are also accounted for using the asset and liability approach. However, under U.S. GAAP, a valuation allowance is recognized if, based on the weight of all positive and negative available evidence, it is “more likely than not” that all or a portion of the deferred tax asset will not be realized. In order to make this determination, entities must consider future reversals of taxable temporary differences, future taxable income, taxable income in prior carryback years and tax planning strategies. Additionally, if the company has experienced recurring losses, little weight, if any, may be placed on future taxable income as objective evidence to support the recoverability of a deferred income tax asset. U.S. GAAP requires that deferred tax assets and liabilities be classified as current or long-term depending on the classification of the asset or liability to which the deferred relates.

In addition, with respect to IETU, similar to Mexican Banking GAAP, companies must determine whether they will be subject to regular income tax or IETU in the future based on company projections, and accordingly recognize deferred taxes based on the tax they expect to pay in each period. However, if a company’s projections indicate that it will be subject to both IETU and ISR in the future, it is required to record deferred taxes based on what they expect to pay in each future year, which could potentially result in the recognition of a deferred tax asset or liability that includes both income tax and IETU effects.

Consolidation

Under Mexican Banking GAAP, an entity is required to consolidate subsidiaries over which it has established control, despite not holding a majority of the voting common stock of the subsidiary. Determining whether an entity has control is based on an analysis of corporate governance and economic risk and benefits.

Under U.S. GAAP, when a company has a controlling financial interest (either through a majority voting interest or through the existence of other control factors) in an entity, such entity’s financial statements should be consolidated, irrespective of whether the activities of the subsidiary are non-homogeneous with those of the parent. In addition to the traditional concept of consolidation, on January 17, 2003, the Financial Accounting Standards Board (“FASB”) issued FASB Interpretation No. 46, “Consolidation of Variable Interest Entities- an Interpretation of ARB No. 51,” replaced in December 2003, by Interpretation ASC 810 Consolidation (previously No. 46(R) “Consolidation of Variable Interest Entities- an interpretation of APB 51” (“FIN 46R”)), which contained certain clarifications to address accounting for variable interest entities. The primary purpose of ASC 810 is to provide guidance on the identification of, and financial reporting for, entities over which control is achieved through means other than voting rights; such entities are known as variable-interest entities (“VIEs”). Generally, VIEs are to be consolidated by the primary beneficiary which represents the enterprise that will absorb the majority of the VIEs’ expected losses if they occur, receive a majority of the VIEs’ residual returns if they occur, or both. Through 2009, QSPEs and certain other entities are exempt for the consolidation provisions of FIN 46R. As described in ASC 840-40 Transfers to Qualifying Special Purpose Entities (previously SFAS No. 140, par. 35), a QSPE is a trust or other legal vehicle that meets certain conditions. Under U.S. GAAP, a QSPE is not consolidated in the financial statements of a transferor or its affiliates.

Effective beginning January 1, 2010, Accounting Standards Update No. 2009-16, seeks to improve financial reporting by eliminating the exceptions for qualifying special-purpose entities from the consolidation guidance and the exception that permitted sale accounting for certain mortgage securitizations when a transferor has not surrendered control over the transferred financial assets. In addition, the amendments require enhanced disclosures about the risks that a transferor continues to be exposed to because of its continuing involvement in transferred financial assets. Comparability and consistency in accounting for transferred financial assets will also be improved through clarifications of the requirements for isolation and limitations on portions of financial assets that are eligible for sale accounting

Effects of Inflation

Through December 31, 2007, Mexican Banking GAAP required that the effects of inflation be recorded in financial information and that financial statements be restated to constant Pesos as of the latest balance sheet date presented. Beginning January 1, 2008, Mexican Banking GAAP modified the accounting for the recognition of the effects of inflation and defines two economic environments: (i) an “inflationary environment”, in which the cumulative inflation of the three preceding years is 26% or more, in which case the effects of inflation should be recognized using the comprehensive method; and (ii) a “non-inflationary environment”, in which the cumulative inflation of the three preceding years is less than 26%, in which case, no inflationary effects should be recognized in the financial statements.

Under U.S. GAAP, historical costs must be maintained in the basic financial statements. Business enterprises are encouraged to disclose certain supplemental information concerning changing prices on selected statement of income and balance sheets items. Typically, however, no gain or loss on monetary position is recognized in the financial statements. However, specific rules and regulations established by the Securities and Exchange Commission (SEC) allow for the presentation of inflation in a company’s reconciliation from local GAAP to U.S. GAAP for companies registering securities with the SEC for sale in the United States, when, for local purposes, such company prepares comprehensive price-level adjusted financial statements, as required or permitted by their home-country GAAP.

The recording of appraisals of fixed assets is prohibited, with the objective of maintaining historical cost in the balance sheet. Although the effects of inflation are not recognized in the financial statements under U.S. GAAP, the SEC recognizes that presentation indicating the effects of inflation is more meaningful than historical cost-based financial reporting for Mexican entities because it represents a comprehensive measure of the effects of price level changes in the inflationary Mexican economy. For this reason, the effects of inflation accounting are generally not eliminated from the financial statements of Mexican companies making offerings in the United States securities markets in situations when Mexican MFRS or Mexican Banking GAAP are reconciled to U.S. GAAP.

In addition, under MFRS, NIF B-15, “Foreign Currency Transactions and Translation of Financial Statements of Foreign Operations” allows the restatement of information for prior periods in order to compare such information to information of the most current period presented, based on a weighted average restatement factor that reflects the relative inflation and currency exchange movements of the countries in which we operate. The restatement provisions of NIF B-15 do not meet the SEC’s Regulation S-X requirement that the financial statements be stated in the same currency for all periods, because changes in foreign currency exchange rates are included in the restatement factor. Under U.S. GAAP, the primary financial statements should be presented in the same constant reporting currency for all periods.

Statements of Changes in Financial Positions and Cash Flows

Through April 27, 2009, Mexican Banking GAAP required the presentation of a statement of changes in financial position, which presented sources and uses of resources, determined based on the change in assets and liabilities in the balance sheet in constant pesos. Therefore, changes in financial position not affecting cash were not necessarily excluded from the statement of changes in financial position. No supplemental disclosures were required.

Beginning April 27, 2009, new Mexican Banking GAAP standards require the presentation of a cash flow statement, using either the direct or indirect method, presented in nominal pesos. The Company presents a statement of cash flows for the year ended December 31, 2009.

Under U.S. GAAP, ASC 230 *Statement of Cash Flows* (previously SFAS No. 95, “Statement of Cash Flows”), establishes the standards for providing a statement of cash flows in general purpose financial statements. Under U.S. GAAP, presentation of a statement of cash flows describing the cash flow provided by or used in operating, investing and financing activities is required. ASC 230 does not provide guidance with respect to financial statements adjusted for inflation.

However, the AICPA International Practices Task Force has issued guidance for Mexican companies for the preparation of price-level adjusted cash flow statements. Under such guidance, a fourth caption, in addition to operating, financing, and investing activities named “Effects of inflation on cash and cash equivalents” is presented, which is similar to the concept of the effects of exchange rate on cash and cash equivalents as prescribed by ASC 230.

Recent Mexican Banking GAAP Accounting Standards

As part of its efforts to converge Mexican standards with international standards, in 2009, CINIF issued the following Mexican Financial Reporting Standards (NIFs), Interpretations to Financial Information Standards (INIFs) and

improvements to NIFs applicable to profitable entities which become effective for fiscal years that begin on January 1, 2010 as follows:

NIF C-1, “Cash”, changes the “cash” concept to be consistent with the definition in NIF B-2, Statement of Cash Flows”, and introduces definitions for restricted cash, cash equivalents and readily available investments.

“Improvements to NIFs for 2010” – The main improvements generating accounting changes that must be recognized retroactively are:

NIF B-1, “Accounting Changes and Correction of Errors”, requires further disclosures in case the Company applies a particular Standard for the first time.

NIF B-2, “Statement of Cash Flows”, requires recognition of the effects of fluctuations in exchange rates used for translating cash in foreign currencies, and changes in fair value of cash in the form of precious metal coins, and other cash items, at fair value, in a specific line item.

NIF B-7, “Business Acquisitions”, requires that, when intangible assets or provisions are recognized because the acquired business has a contract whose terms and conditions are favorable or unfavorable with respect to market, it only applies when the acquired business is the lessee in an operating lease. This accounting change should be recognized retroactively and not go further than January 1, 2009.

NIF C-7, “Investments in Associated Companies and Other Permanent Investments”, modifies how the effects derived from increases in equity percentages in an associated company are determined. It also establishes that the effects due to an increase or decrease in equity percentages in associated companies should be recognized under equity in income (loss) of associated companies, rather than in the non-ordinary line item within the statement of income.

NIF C-13, “Related Parties”, requires that, if the direct or ultimate controlling entity of the reporting entity does not issue financial statements available for public use, the reporting entity should disclose the name of the closest, direct/indirect, controlling entity that issues financial statements available for public use.

At the date of issuance of these consolidated financial statements, Banorte’s management is in the process of assessing the effects of adopting these new standards on its financial information.

International Financial Reporting Standards

In January 2009, the Commission published amendments to the Mexican Securities Law, including the obligation to prepare and present financial statements using International Financial Reporting Standards (“IFRS”) beginning in 2012. Financial institutions such as the Financial Group are prohibited from presenting IFRS for purposes of their local filings and must continue to present their basic financial statements in accordance with Mexican Banking GAAP. However, the Financial Group’s equity method investor Gruma, S.A.B. de C.V. (“Gruma”) is required to comply with the changes to the Mexican Securities Law and therefore the Financial Group is in the process of assessing the impacts of IFRS on its financial information for purposes of providing such information to Gruma for their future filings

Recent U.S. GAAP Accounting Standards

In October 2009, FASB ASC (“FASB ASC”) 105-10 (SFAS No. 168), The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles was issued. FASB ASC 105-10 (SFAS No. 168) establishes the FASB Accounting Standards Codification (the “Codification”) as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial standards in conformity with U.S. GAAP. FASB ASC 105-10 (SFAS No. 168) is effective for interim and annual periods ending after September 15, 2009. On the effective date, all then-existing non-SEC accounting and reporting standards are superseded, with the exception of certain items listed in FASB ASC 105-10 (SFAS No. 168). The purpose of the Codification is not to create new accounting and reporting guidance, but rather to simplify user access to all authoritative U.S. GAAP.

The disclosure requirements of ASC 820-10 (SFAS No. 157, Fair Value Measurements) in relation to nonfinancial assets and liabilities became effective in 2009.

In January 2009, ASC 810-10 (SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51), which establishes the accounting and reporting standards for the noncontrolling interest in a subsidiary and the deconsolidation of a subsidiary, and also amends certain consolidation guidance for consistency with revised standards regarding business combinations was issued. The accounting provisions of ASC 810-10 (SFAS No. 160) must be applied prospectively starting at the beginning of the fiscal year in which the provisions are initially adopted, while the presentation and disclosure requirements must be applied retrospectively, to provide comparability in the financial statements. ASC 810-10 (SFAS No. 160) was effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008.

In January 2009, ASC 805-10 (SFAS No. 141(R), Business Combinations – a replacement of SFAS No. 141 (R)) was issued and, which among other changes, requires an acquirer in a business combination to (a) recognize assets acquired, liabilities assumed, and any noncontrolling interest in the acquiree at fair value as of the acquisition date, and (b) expense all acquisition-related costs. ASC 805-10 also amends ASC 740-10 (SFAS No. 109, Accounting for Income Taxes) to require that any reductions to an acquired entity's valuation allowances on deferred taxes and acquired tax contingencies that occur after the measurement period be recorded as a component of income tax expense. FASB ASC 805-10 (SFAS No. 141(R)) must be applied prospectively to all business combinations for which the acquisition date occurs during fiscal years beginning on or after December 15, 2008, with the exception to the amendments to ASC 740-10, which will also be applied to business combinations with acquisition dates prior to the effective date of this standard.

In July 2009, the ASC 855-10 (SFAS 165, Subsequent Events). ASC 855-10 (SFAS 165) was issued and establishes accounting and reporting standards for events that occur after the balance sheet date but before financial statements are issued or are available to be issued. In addition, ASC 855-10 requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for selecting that date, that is, whether that date represents the date the financial statements were issued or were available to be issued. ASC 855-10 was effective for fiscal years and interim periods ending after June 15, 2009.

On June 12, 2009, ASC 860-10 (SFAS No. 166, Accounting for Transfer of Financial Assets – an amendment of FASB Statement No. 140), was issued, which eliminates the concept of a QSPE and modifies the derecognition provisions of a previously issued accounting standard. ASC 860-10 (SFAS No. 166) also required additional disclosures which focus on the transferor's continuing involvement with the transferred assets and the related risks retained. ASC 860-10 (SFAS No. 166) is effective for financial asset transfers occurring after the beginning of an entity's first fiscal year that begins after November 15, 2009. Early adoption is prohibited.

On June 12, 2009, ASC 810-10 (SFAS No. 167, Amendments to FASB Interpretation No. 46 (R)) was issued, which amends the consolidation guidance that applies to variable interest entities. The new guidance requires an entity to carefully reconsider its previous consolidation conclusions, including (1) whether an entity is a variable interest entity (VIE), (2) whether the enterprise is the VIE's primary beneficiary, and (3) what type of financial statement disclosures are required. ASC 810-10 (SFAS No. 167) is effective as of the beginning of the first fiscal year that begins after November 15, 2009. The amendments to the consolidation guidance affect all entities and enterprises currently within the scope of ASC 810-10 (SFAS No. 167), as well as qualifying special-purpose entities that are currently outside the scope of ASC 810-10 (FIN 46(R)). Early adoption is prohibited.

In October 2009, the FASB issued Accounting Standards Update (ASU) 2009-13, which contains new guidance on accounting for revenue arrangements with multiple deliverables. When vendor specific objective evidence or third party evidence for deliverables in an arrangement cannot be determined, a best estimate of the selling price is required to separate deliverables and allocate arrangement consideration using the relative selling price method. The new guidance includes new disclosure requirements on how the application of the relative selling price method affects the timing and amount of revenue recognition. The guidance in the ASU will be effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning after June 15, 2010. Early adoption is permitted.

On January 21, 2010, the FASB issued ASU 2010-06. The ASU amends ASC 820, Fair Value Measurements and Disclosures (SFAS No. 157) to add new requirements for disclosures about transfers into and out of Levels 1 and 2 and separate disclosures about purchases, sales, issuances, and settlements relating to Level 3 measurements. It also clarifies existing fair value disclosures about the level of disaggregation and about inputs and valuation techniques used to measure fair value. This ASU amends guidance on employers' disclosures about postretirement benefit plan assets under ASC 715, Compensation – Retirement Benefits, to require that disclosures be provided by classes of assets instead of by major categories of assets. The guidance in the ASU is effective for the first reporting period (including interim periods) beginning after December 15, 2009, except for the requirement to provide the Level 3 activity of purchases, sales, issuances, and settlements on a gross basis, which will be effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. In the period of initial adoption, entities will not be required to provide the amended disclosures for any previous periods presented for

comparative purposes. However, those disclosures are required for periods ending after initial adoption. Early adoption is permitted.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

**BANCO MERCANTIL DEL NORTE, S.A., INSTITUCIÓN DE BANCA MÚLTIPLE,
GRUPO FINANCIERO BANORTE AND CONSOLIDATED SUBSIDIARIES**

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Independent Auditor's Report

To the Board of Directors and Stockholders of Banco Mercantil del Norte, S.A., Institución de Banca Múltiple, Grupo Financiero Banorte

We have audited the accompanying consolidated balance sheets of Banco Mercantil del Norte, S.A., Institución de Banca Múltiple, Grupo Financiero Banorte, its subsidiaries and UDI Trusts (the "Institution") as of December 31, 2009 and 2008, and the related consolidated statements of income and changes in stockholders' equity for each of the three years in the period ended December 31, 2009, of cash flows for the year ended December 31, 2009, and of changes in financial position for the years ended December 31, 2008 and 2007. These consolidated financial statements are the responsibility of the Institution'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. An audit also includes assessing the accounting practices used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Note 1 to the accompanying consolidated financial statements describes the Institution's principal operations. Note 4 to the accompanying consolidated financial statements describes the accounting criteria established by the Commission in the "General Provisions Applicable to Banking Institutions", which the Institution adheres to for the preparation of its financial information, as well as the modifications to such accounting criteria that became effective during 2009, some of which were applied prospectively, affecting the comparability with the 2008 and 2007 figures.

As disclosed in Note 12 to the accompanying consolidated financial statements, in August 2009 the Commission issued modifications to the consumer loan rating methodology allowing financial institutions to record the initial cumulative effect with a charge to stockholders' equity or to recognize it in earnings over a 24-month period. The Institution chose to record the initial cumulative effect of Ps.704 million, net of deferred taxes, with a charge to stockholders' equity.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Banco Mercantil del Norte, S. A., Institución de Banca Múltiple, Grupo Financiero Banorte, its subsidiaries and UDI Trusts as of December 31, 2009 and 2008, and the results of their operations and changes in their stockholders' equity for each of the three years in the period ended December 31, 2009, their cash flows for the year ended December 31, 2009 and changes in their financial position for the years ended December 31, 2008 and 2007, in conformity with the accounting practices prescribed by the Mexican National Banking and Securities Commission.

Our audit also comprehended the translation of the Mexican peso amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 3. The translation of the financial statement amounts into U.S. dollars and the translation of the financial statements into English have been made solely for the convenience of readers in the United States of America.

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

C.P.C. Carlos A. García Cardoso
Monterrey, N.L., México

February 19, 2010

June 15, 2010 for the translation of Mexican pesos into U.S. dollars in conformity with the basis stated in Note 3.

**BANCO MERCANTIL DEL NORTE, S.A.,
INSTITUCIÓN DE BANCA MÚLTIPLE, GRUPO FINANCIERO BANORTE
CONSOLIDATED BALANCE SHEETS OF THE INSTITUTION, ITS SUBSIDIARIES AND UDI TRUSTS
AS OF DECEMBER 31, 2009 AND 2008**

(In millions of Mexican pesos and in millions of U.S. dollars)

ASSETS	2009	2009	2008
CASH AND CASH EQUIVALENTS	US\$ 4,806	Ps. 59,262	Ps. 54,387
MARGIN SECURITIES	1	18	6
INVESTMENTS IN SECURITIES			
Trading securities	1,633	20,131	5,577
Available for sale securities	1,017	12,538	11,791
Held to maturity securities	15,406	189,964	221,268
	18,056	222,633	238,636
DEBTOR BALANCES UNDER REPURCHASE AND RESALE AGREEMENTS	-	2	1
DERIVATIVE FINANCIAL INSTRUMENTS			
For trading purposes	391	4,824	5,325
For hedging purposes	86	1,056	2,843
	477	5,880	8,168
CURRENT LOAN PORTFOLIO			
Commercial loans			
Business loans	8,543	105,338	114,446
Loans to financial institutions	724	8,923	14,331
Government loans	3,161	38,982	26,977
Consumer loans	2,085	25,704	29,364
Housing mortgage loans	4,045	49,881	46,282
TOTAL CURRENT LOAN PORTFOLIO	18,558	228,828	231,400
PAST-DUE LOAN PORTFOLIO			
Commercial loans			
Business loans	248	3,060	1,591
Consumer loans	157	1,942	2,499
Housing mortgage loans	85	1,049	746
TOTAL PAST-DUE LOAN PORTFOLIO	490	6,051	4,836
LOAN PORTFOLIO	19,048	234,879	236,236
(Minus) Allowance for loan losses	(597)	(7,358)	(6,582)
LOAN PORTFOLIO, net	18,451	227,521	229,654
ACQUIRED LOAN PORTFOLIOS	207	2,548	3,049
TOTAL LOAN PORTFOLIO, net	18,658	230,069	232,703
SECURITIZATION TRANSACTION RECEIVABLES	35	433	796
OTHER ACCOUNTS RECEIVABLE, net	902	11,123	9,161
FORECLOSED ASSETS, net	75	928	864
PROPERTY, FURNITURE AND FIXTURES, net	580	7,153	6,649
PERMANENT STOCK INVESTMENTS	104	1,288	952
DEFERRED TAXES, net	119	1,466	481
OTHER ASSETS			
Other assets, deferred charges and intangible assets	745	9,175	10,307
TOTAL ASSETS	US\$ 44,558	Ps. 549,430	Ps. 563,111

See accompanying notes to these consolidated financial statements.

LIABILITIES	2009	2009	2008
DEPOSITS			
Demand deposits	US\$ 11,160	Ps. 137,607	Ps. 128,367
Time deposits			
General public	10,879	134,141	118,740
Money market	269	3,313	13,799
	22,308	275,061	260,906
INTERBANK AND OTHER LOANS			
Demand loans	2	21	1,245
Short-term loans	503	6,207	17,886
Long-term loans	410	5,058	8,105
	915	11,286	27,236
ASSIGNED SECURITIES PENDING SETTLEMENT	13	159	-
CREDITOR BALANCES UNDER REPURCHASE AND RESALE AGREEMENTS	14,757	181,959	192,581
COLLATERAL SOLD OR PLEDGED			
Repurchase or resale agreements (creditor balance)	-	2	2
DERIVATIVE FINANCIAL INSTRUMENTS			
For trading purposes	369	4,553	5,269
For hedging purposes	310	3,822	5,477
	679	8,375	10,746
OTHER PAYABLES			
Income tax	47	580	242
Employee profit sharing	54	672	896
Creditors from liquidation settlements	180	2,223	2,405
Sundry creditors and other payables	679	8,373	10,151
	960	11,848	13,694
SUBORDINATED DEBENTURES	1,473	18,168	20,613
DEFERRED CREDITS AND ADVANCED COLLECTIONS	127	1,566	1,291
TOTAL LIABILITIES	41,232	508,424	527,069
STOCKHOLDERS' EQUITY			
PAID-IN CAPITAL			
Common stock	932	11,488	10,955
Additional paid-in capital	202	2,490	853
	1,134	13,978	11,808
OTHER CAPITAL			
Capital reserves	378	4,659	4,005
Retained earnings from prior years	1,487	18,339	13,426
Result from valuation of available for sale securities	26	315	(237)
Result from valuation of cash flow hedging instruments	(114)	(1,404)	(1,626)
Cumulative foreign currency translation adjustment	(55)	(679)	1,123
Effect of holding non-monetary assets	-	-	87
Net income	416	5,132	6,543
	2,138	26,362	23,321
NONCONTROLLING INTEREST	54	666	913
TOTAL STOCKHOLDERS' EQUITY	3,326	41,006	36,042
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	US\$ 44,558	Ps. 549,430	Ps. 563,111

**BANCO MERCANTIL DEL NORTE, S.A.,
INSTITUCIÓN DE BANCA MÚLTIPLE, GRUPO FINANCIERO BANORTE
CONSOLIDATED STATEMENTS OF INCOME OF THE INSTITUTION, ITS SUBSIDIARIES AND UDI TRUSTS
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007**
(In millions of Mexican pesos and in millions of U.S. dollars)

	2009	2009	2008	2007
Interest income	US\$ 3,565	Ps. 43,956	Ps. 48,605	Ps. 38,973
Interest expense	(1,748)	(21,550)	(26,858)	(21,793)
Monetary position loss, net	-	-	-	(298)
FINANCIAL MARGIN	1,817	22,406	21,747	16,882
Provision for loan losses	(663)	(8,181)	(6,722)	(2,588)
FINANCIAL MARGIN AFTER PROVISION FOR LOAN LOSSES	1,154	14,225	15,025	14,294
Commission and fee income	611	7,552	7,857	7,033
Commission and fee expense	(102)	(1,261)	(1,174)	(1,034)
Brokerage revenues	77	953	876	898
Other revenues	80	987	746	304
	666	8,231	8,305	7,201
NET OPERATING REVENUES	1,820	22,456	23,330	21,495
Administrative and promotional expenses	(1,315)	(16,203)	(15,813)	(14,566)
OPERATING INCOME	505	6,253	7,517	6,929
Other income	119	1,469	2,398	1,920
Other expenses	(49)	(608)	(782)	(321)
INCOME BEFORE INCOME TAX	575	7,114	9,133	8,528
Current income tax	(198)	(2,451)	(2,642)	(2,728)
Deferred income taxes, net	44	537	231	462
	(154)	(1,914)	(2,411)	(2,266)
INCOME BEFORE EQUITY IN EARNINGS OF ASSOCIATED COMPANIES	421	5,200	6,722	6,262
Equity in earnings of associated companies	6	73	1	34
INCOME BEFORE NONCONTROLLING INTEREST	427	5,273	6,723	6,296
Noncontrolling interest	(11)	(141)	(180)	(145)
NET INCOME	US\$ 416	Ps. 5,132	Ps. 6,543	Ps. 6,151

See accompanying notes to these consolidated financial statements.

BANCO MERCANTIL DEL NORTE, S.A.,
INSTITUCIÓN DE BANCA MÚLTIPLE, GRUPO FINANCIERO BANORTE
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY OF THE INSTITUTION, ITS SUBSIDIARIES AND UDI TRUSTS
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007
(In millions of Mexican pesos)

	PAID-IN CAPITAL		OTHER CAPITAL			
	Common stock	Additional paid-in capital	Capital reserves	Retained earnings from prior years	Result from valuation of available for sale securities	Result from valuation of cash flow hedging instruments
Balances, January 1, 2007	Ps. 10,745	Ps. 1,153	Ps. 3,616	Ps. 7,197	(Ps. 31)	(Ps. 596)
TRANSACTIONS APPROVED BY STOCKHOLDERS						
Transfer of prior year's result	-	-	-	5,466	-	-
Creation of reserves as per General Stockholders' meeting on March 30, 2007	-	-	532	(532)	-	-
Reorganization of the stockholders' equity accounts as per General Stockholders' meeting on March 30, 2007	210	(297)	(759)	(886)	-	-
Dividend declared at the General Stockholders' meeting on October 3, 2007	-	-	-	(626)	-	-
Total transactions approved by stockholders	210	(297)	(227)	3,422	-	-
COMPREHENSIVE INCOME						
Net Income	-	-	-	-	-	-
Result from valuation of available for sale securities	-	-	-	-	427	-
Effect of holding non-monetary assets	-	-	-	-	-	-
Foreign currency translation adjustments	-	-	-	-	-	-
Result from valuation of cash flow hedging instruments	-	-	-	-	-	(320)
Changes in accounting principles	-	-	-	(83)	-	596
Total comprehensive income	-	-	-	(83)	427	276
Noncontrolling interest	-	-	-	-	-	-
Change in credit card loan rating criterion	-	-	-	(103)	-	-
Balances, December 31, 2007	10,955	856	3,389	10,433	396	(320)
TRANSACTIONS APPROVED BY STOCKHOLDERS:						
Transfer of prior year's result	-	-	-	6,151	-	-
Creation of reserves as per General Stockholders' meeting on April 29, 2008	-	-	616	(616)	-	-
Dividend declared at the General Stockholders' meeting on October 6, 2008	-	-	-	(603)	-	-
Total transactions approved by stockholders	-	-	616	4,932	-	-
COMPREHENSIVE INCOME						
Net income	-	-	-	-	-	-
Result from valuation of available for sale securities	-	-	-	-	(633)	-
Effect of subsidiaries, affiliates and mutual funds	-	(3)	-	(10)	-	-
Effect of holding non-monetary assets	-	-	-	-	-	-
Cumulative foreign currency translation adjustment	-	-	-	-	-	-
Result from valuation of cash flow hedging instruments	-	-	-	-	-	(1,306)
Changes in accounting principles (NIF B-10)	-	-	-	(1,938)	-	-
Movement of 2007 revenues from Controladora Prosa, S.A. from the effect of negotiations with VISA	-	-	-	9	-	-
Total comprehensive income	-	(3)	-	(1,939)	(633)	(1,306)
Noncontrolling interest	-	-	-	-	-	-
Balances, December 31, 2008	10,955	853	4,005	13,426	(237)	(1,626)
TRANSACTIONS APPROVED BY STOCKHOLDERS:						
Transfer of prior year's result	-	-	-	6,543	-	-
Creation of reserves as per General Stockholders' meeting on April 30, 2009	-	-	654	(654)	-	-
Dividend declared at the General Stockholders' Meeting on October 5, 2009	-	-	-	(166)	-	-
Merger of Créditos Pronegocio, S. A. de C. V. SOFOL	196	-	-	(147)	-	-
Stockholders' equity contribution	337	1,642	-	-	-	-
Total transactions approved by stockholders	533	1,642	654	5,576	-	-
COMPREHENSIVE INCOME						
Net income	-	-	-	-	-	-
Result from valuation of available for sale securities	-	-	-	-	552	-
Effect of subsidiaries, affiliates and mutual funds	-	(3)	-	20	-	-
Cumulative foreign currency translation adjustment	-	-	-	-	-	-
Result from valuation of cash flow hedging instruments	-	-	-	-	-	222
Application of the effect of holding non-monetary assets	-	(2)	-	21	-	-
Change in credit card loan rating methodology (net of deferred taxes)	-	-	-	(704)	-	-
Total comprehensive income	-	(5)	-	(663)	552	222
Noncontrolling interest	-	-	-	-	-	-
Balances, December 31, 2009	Ps. 11,488	Ps. 2,490	Ps. 4,659	Ps. 18,339	Ps. 315	(Ps. 1,404)

See accompanying notes to these consolidated financial statements.

	OTHER CAPITAL							
	Cumulative foreign currency translation adjustment	Insufficiency in restated stockholders' equity	Effect of holding non-monetary assets	Cumulative effects of deferred taxes	Net income	Total majority interest	Noncontrolling interest	Total stockholders' equity
Balances, January 1, 2007	Ps. 37	(Ps. 2,782)	(Ps. 548)	(Ps. 325)	Ps. 5,466	Ps. 23,932	Ps. 743	Ps. 24,677
TRANSACTIONS APPROVED BY STOCKHOLDERS								
Transfer of prior years' result	-	-	-	-	(5,466)	-	-	-
Creation of reserves as per General Stockholders' meeting on March 30, 2007	-	-	-	-	-	-	-	-
Reorganization of the stockholders' equity accounts as per General Stockholders' meeting on March 30, 2007	-	844	563	325	-	-	-	-
Dividend declared at the General Stockholders' meeting on October 3, 2007	-	-	-	-	-	(626)	-	(626)
Total transactions approved by stockholders	-	844	563	325	(5,466)	(626)	-	(626)
COMPREHENSIVE INCOME								
Net Income	-	-	-	-	6,151	6,151	-	6,151
Result from valuation of available for sale securities	-	-	-	-	-	427	-	427
Effect of holding non-monetary assets	-	-	76	-	-	76	-	76
Foreign currency translation adjustments	(22)	-	-	-	-	(22)	-	(22)
Result from valuation of cash flow hedging instruments	-	-	-	-	-	(320)	-	(320)
Changes in accounting principles	-	-	-	-	-	513	-	513
Total comprehensive income	(22)	-	76	-	6,151	6,825	-	6,825
Minority interest	-	-	-	-	-	-	38	38
Change in credit card loan rating criterion	-	-	-	-	-	(103)	-	(103)
Balances, December 31, 2007	15	(1,938)	91	-	6,151	30,028	781	30,805
TRANSACTIONS APPROVED BY STOCKHOLDERS:								
Transfer of prior year's result	-	-	-	-	(6,151)	-	-	-
Creation of reserves as per General Stockholders' meeting on April 29, 2008	-	-	-	-	-	-	-	-
Dividend declared at the General Stockholders' meeting on October 6, 2008	-	-	-	-	-	(603)	-	(603)
Total transactions approved by stockholders	-	-	-	-	(6,151)	(603)	-	(603)
COMPREHENSIVE INCOME								
Net income	-	-	-	-	6,543	6,543	-	6,543
Result from valuation of available for sale securities	-	-	-	-	-	(633)	-	(633)
Effect of subsidiaries, affiliates and mutual funds	-	-	-	-	-	(13)	-	(13)
Effect of holding non-monetary assets	-	-	(4)	-	-	(4)	-	(4)
Cumulative foreign currency translation adjustment	1,108	-	-	-	-	1,108	-	1,108
Result from valuation of cash flow hedging instruments	-	-	-	-	-	(1,306)	-	(1,306)
Changes in accounting principles (NIF B-10)	-	1,938	-	-	-	-	-	-
Movement of 2007 revenues from Controladora Prosa, S.A. from the effect of negotiations with VISA	-	-	-	-	-	9	-	9
Total comprehensive income	1,108	1,938	(4)	-	6,543	5,704	-	5,704
Noncontrolling interest	-	-	-	-	-	-	132	132
Balances, December 31, 2008	1,123	-	87	-	6,543	35,129	913	36,043
TRANSACTIONS APPROVED BY STOCKHOLDERS								
Transfer of prior year's result	-	-	-	-	(6,543)	-	-	-
Creation of reserves as per General Stockholders' meeting on April 30, 2009	-	-	-	-	-	-	-	-
Dividend declared at the General Stockholders' meeting on October 5, 2009	-	-	-	-	-	(166)	-	(166)
Merger of Créditos Pronegocio, S. A. de C. V. SOFOL	-	-	-	-	15	64	-	64
Stockholders' equity contribution	-	-	-	-	-	1,979	-	1,979
Total transactions approved by stockholders	-	-	-	-	(6,528)	1,877	-	1,877
COMPREHENSIVE INCOME								
Net income	-	-	-	-	5,117	5,117	-	5,117
Result from valuation of available for sale securities	-	-	-	-	-	552	-	552
Effect of subsidiaries, affiliates and mutual funds	-	-	-	-	-	17	-	17
Cumulative foreign currency translation adjustment	(1,870)	-	-	-	-	(1,870)	-	(1,870)
Result from valuation of cash flow hedging instruments	-	-	-	-	-	222	-	222
Application of the effect of holding non-monetary assets	68	-	(87)	-	-	-	-	-
Change in credit card loan rating methodology (net of deferred taxes)	-	-	-	-	-	(704)	-	(704)
Total comprehensive income	(1,802)	-	(87)	-	5,117	3,334	-	3,334
Noncontrolling interest	-	-	-	-	-	-	(247)	(247)
Balances, December 31, 2009	(Ps. 679)	Ps. -	Ps. -	-	Ps. 5,132	Ps. 40,340	Ps. 666	Ps. 41,008

**BANCO MERCANTIL DEL NORTE, S.A.,
INSTITUCIÓN DE BANCA MÚLTIPLE, GRUPO FINANCIERO BANORTE
CONSOLIDATED CASH FLOWS STATEMENT OF THE INSTITUTION, ITS SUBSIDIARIES AND UDI TRUSTS FOR THE YEAR
ENDED DECEMBER 31, 2009**

(In millions of Mexican pesos and in millions of U.S. dollars)

	2009	2009
	US\$ 416	Ps. 5,132
Net Income		
Items not requiring (generating) resources:		
Provision for loan losses	663	8,181
Provision for uncollectible or doubtful accounts receivable	14	182
Depreciation and amortization	49	609
Other provisions	(156)	(1,928)
Current and deferred income tax	155	1,914
Equity in earnings of unconsolidated subsidiaries and associated companies	6	68
	1,147	14,158
OPERATING ACTIVITIES:		
Changes in margin securities	(1)	(11)
Changes in investments in securities	1,312	16,187
Changes in debtor balances under repurchase and resale agreements	-	(2)
Changes in derivative financial instrument asset)	41	501
Change in loan portfolio	(612)	(7,544)
Changes in acquired loan portfolios	41	502
Changes in securitization transaction receivables	30	364
Change in foreclosed assets	(8)	(95)
Change in other operating assets	(135)	(1,668)
Change in deposits	1,246	15,359
Change in interbank and other loans	(1,295)	(15,974)
Change in creditor balances under repurchase and sale agreements	(849)	(10,463)
Change in derivative financial instrument liability	(58)	(717)
Change in subordinated debentures	(197)	(2,430)
Change in other operating liabilities	(170)	(2,101)
Change in hedging instruments (operating activities related hedged items)	29	355
Net operating activity cash flows	521	6,421
INVESTING ACTIVITIES:		
Proceeds on disposal of property, furniture and fixtures	1	9
Acquisition of property, furniture and fixtures	(90)	(1,105)
Acquisition of subsidiaries and associated companies	(181)	(2,234)
Sale of other permanent investments	-	1
Acquisition of other permanent investments	-	(1)
Dividends received	3	34
Net investing activity cash flows	(267)	(3,296)
FINANCING ACTIVITIES:		
Charges for issuing shares	160	1,979
Dividends paid	(13)	(166)
Net financing activity cash flows	147	1,813
Net increase in cash and cash equivalents	401	4,938
Adjustments to cash flows from variation in the foreign exchange rate	(5)	(63)
Cash and cash equivalents at the beginning of the year	4,410	54,387
Cash and cash equivalents at the end of the year	US\$ 4,806	Ps. 59,262

BANCO MERCANTIL DEL NORTE, S.A.,
BANCO MERCANTIL DEL NORTE, S.A., INSTITUCIÓN DE BANCA MÚLTIPLE, GRUPO FINANCIERO BANORTE
CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION OF THE INSTITUTION, ITS SUBSIDIARIES AND UDI
TRUSTS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007
(In millions of Mexican pesos)

	2008	2007
OPERATING ACTIVITIES:		
Net Income	Ps. 6,543	Ps. 6,151
Items not generating (requiring) resources:		
Fair value adjustments of financial instruments	(269)	(194)
Allowance for loan losses	6,722	2,588
Depreciation and amortization	777	752
Deferred taxes	(231)	(462)
Provisions for other obligations	43	2,466
Minority interest	180	145
Equity in earnings of subsidiaries and associated companies	(1)	(34)
	13,764	11,412
Increase or decrease in operation accounts:		
Increase in deposits	57,373	27,612
Increase in loan portfolio	(51,293)	(48,330)
(Increase) decrease in treasury transactions	(221,096)	10,846
Decrease (increase) in transactions with securities and derivative financial instruments	193,247	(2,669)
Increase from bank and other loans	13,142	1,664
Increase of deferred taxes	(40)	(64)
Net resources generated in operating activities	5,097	471
FINANCING ACTIVITIES:		
Increase (decrease) in subordinated debentures	10,403	(1,551)
Increase (decrease) in other payables	1,181	(572)
Dividends paid	(603)	(626)
Net resources generated by (used in) financing activities	10,981	(2,749)
INVESTING ACTIVITIES:		
Acquisition of property, furniture and fixtures, net	(850)	(834)
Decrease (increase) in permanent stock investments	1,118	(19)
Increase in deferred charges and credits	(1,139)	(1,011)
Increase in foreclosed assets	(479)	(6)
(Increase) decrease in other accounts receivable	(1,940)	862
Net resources used in investing activities	(3,290)	(1,008)
Net increase (decrease) in cash and cash equivalents	12,788	(3,286)
Cash and cash equivalents available at the beginning of the year	41,599	44,885
Cash and cash equivalents available at the end of the year	Ps. 54,387	Ps. 41,599

**BANCO MERCANTIL DEL NORTE, S.A.,
INSTITUCIÓN DE BANCA MÚLTIPLE, GRUPO FINANCIERO BANORTE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS OF THE INSTITUTION, ITS SUBSIDIARIES AND UDI
TRUSTS
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007
(In millions of Mexican pesos, except exchange rates)**

1 – ACTIVITY AND REGULATORY ENVIRONMENT

Banco Mercantil del Norte, S.A., Institución de Banca Múltiple, Grupo Financiero Banorte (the “Institution”) is a full-service banking institution whose main activities are regulated by the Credit Institutions Law (LIC), Banco de México and the Mexican National Banking and Securities Commission (the “Commission”). Its activities consist of receiving deposits, accepting and granting loans and credits, attracting public funds, making investments in securities, carrying out repurchase agreements, performing transactions with derivative financial instruments (futures, swaps, options and forward contracts), together with other full service banking operations, in accordance with the LIC.

The principal regulatory aspects require that the Institution maintain a minimum capitalization ratio in relation to the market and credit risks derived from its operations, compliance with certain acceptance limits for deposits, debt securities and other types of funding which may be denominated in foreign currency, and establish minimum limits for paid in capital and capital reserves, with which requirements the Institution has satisfactorily complied as of December 31, 2009.

The Institution is a 92.72% owned subsidiary of Grupo Financiero Banorte, S. A. B. de C. V. (the “Financial Group”)

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

The Institution's financial statements were approved by the Board of Directors on January 28, 2010.

2 - SIGNIFICANT EVENTS DURING THE YEAR

a. Prepayment of Subordinated Debentures

On February 17, 2009 the Institution exercised its prepayment option on non-convertible subordinated debentures issued in 2004 scheduled to mature in 2014 for USD 300 million, which were listed on the Luxembourg Stock Exchange.

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

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

c. Acquisition of the remaining 30% of INB

On April 1, 2009, the Institution announced the completion of the purchase transaction of the remaining 30% of the capital stock of INB Financial Corp. (“INB”), a holding company for “Inter National Bank”, which is a bank based in the State of Texas in the United States of America. This acquisition concludes the original plan established in January 2006, when the acquisition of 70% of the capital stock of INB through the Institution's subsidiary Banorte USA Corporation, was announced and concluded on November 2006. The cost of the remaining 30% of the acquisition was USD 146.6 million, which the Institution funded with its own resources. This acquisition did not affect the Institution's regulatory capitalization ratio. The effect on the Institution was reflected as an increase in the investment in the subsidiary Banorte USA Corporation.

d. Issue of subordinated debentures

In March 2009, the Institution issued an aggregate principal amount of Ps. 2,200 of subordinated debentures to strengthen its regulatory capital. The preferred non-convertible subordinated debentures have a term of 10-years and pay interest at the 28-day Interbank Equilibrium Interest Rate (TIIE) + 2%.. Moody's rated the issue as Aaa.mx, and Fitch rated it as AA(mex).

e. International Finance Corporation's (IFC) Investment in the Institution

At the Institution's Extraordinary Stockholders' Meeting held on October 23, 2009, stockholders approved an increase in ordinary shareholders' equity and a modification to the bylaws in connection with IFC's investment of up to USD 150 million in the Institution. In November 2009, the Institution issued to IFC, 3,370,657,357 ordinary nominative "O" Series shares, Ps. 10 (ten cents) nominal value for a total consideration of USD 82.3 million in cash and a note for USD 67.7 million. Pursuant to its investment IFC is required to maintain its equity share in the Institution for at least five years. After five years IFC may put its equity share to the Financial Group, which will it have to purchase with its own shares or cash.

f. Afore Banorte Generali, S.A. de C.V. loan acquisitions (AFORE Banorte)

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

Furthermore, in August 2009, AFORE Banorte acquired AFORE Ahora's management rights to a portfolio of 367,660 clients, which represents Ps. 1,138 in managed assets for a total consideration of Ps. 19.

Additionally, in December 2009, AFORE Banorte acquired AFORE Argos' management rights to a portfolio of over 22 thousand clients, which represents managed assets of approximately Ps. 600 for a total consideration of Ps. 17.

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

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

3 – BASIS OF PRESENTATION

Explanation for translation into English

The accompanying consolidated financial statements have been translated from Spanish into English for the convenience of users. These consolidated financial statements are presented on the basis of accounting practices prescribed by the Commission. Certain accounting practices applied by the Institution may not conform to accounting principles generally accepted outside of Mexico.

The consolidated financial statements are stated in millions of Mexican pesos ("Ps.") the currency of the country in which the Institution is incorporated and has its principal operations. The translations of Mexican pesos into U.S. dollars ("US\$") are included solely for the convenience of the readers and have been made at the rate of Ps. 12.3306 per one U.S. dollar on March 31, 2010, as issued by the Banco de Mexico. Such translation should not be construed as representations that the Mexican peso amounts have been, could have been, or could in the future, be converted into U.S. dollars at this rate or at any other rate, if at all.

Monetary unit of the financial statements

The financial statements and notes as of December 31, 2009, 2008 and 2007 and for the years then ended include balances and transactions in Mexican pesos of purchasing power of such dates.

Consolidation of financial statements

The accompanying consolidated financial statements include those of the Institution, the restructured credit portfolio trusts in Investment Units (UDI), which were created to manage the Institution's restructured portfolio through credit support programs, in which the Institution acts as settlor and trustee, and the Federal Government as beneficiary, and those of its subsidiaries. Permanent investments in mutual funds, as well as investments in associated companies, are stated by the equity method in accordance with accounting criteria established by the Commission.

The UDI trusts have been stated and consolidated based on the accounting guidelines established by the Commission, which include the following:

- a) The trust asset and liability accounts denominated in UDI are valued in Mexican pesos by applying the UDI value published by Banco de México on the last day of the year.
- b) The profit and loss accounts of the trusts denominated in UDI are valued in accordance with the average daily value of the UDIS for the period presented.

All significant intercompany balances and transactions have been eliminated in consolidation.

As of December 31, 2009 and 2008, the Institution's ownership percentages in consolidated subsidiaries are:

Derivados Banorte, S.A. de C.V.	51.00%
Banorte Generali, S.A. de C. V., AFORE	51.00%
Banorte USA, Corporation and Subsidiaries	100.00%
Sólida Administradora de Portafolios, S.A. de C.V.	99.99%
Administradora de Servicios Profesionales Especializados, S.A. de C.V.	99.99%

The subsidiaries' main activity involves financial operations such as providing full service banking services in the United States, retirement fund management, purchase and sale of distressed receivables .

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

In order to consolidate the financial statements of Banorte USA, they are first adjusted in the recording and functional currency (U.S. dollar) to conform to the accounting criteria established by the Commission. The financial statements are then converted to Mexican pesos according to the following methodology:

Foreign operations of branches and subsidiaries whose recording and functional currency are the same convert their financial statements using the following exchange rates: a) year-end rate for assets and liabilities, b) historical rates for stockholders' equity, and c) weighted average rate of the period for income, costs and expenses. The conversion effects are presented in stockholders' equity.

Comprehensive income

Comprehensive income is the change in stockholders' equity during the year as result of items other than distributions and change in contributed common stock, and is comprised of the net income for the year, plus other comprehensive income (loss) items for the same period, which are presented directly in stockholders' equity without affecting the consolidated statements of income, in accordance with the accounting practices established by the Commission. In 2009 and 2008, comprehensive income includes the net income for the year, the result from valuation of available for sale securities, the effect of subsidiaries, the result from the valuation of cash flow hedging instruments, the conversion effects of foreign operations and the change in credit card loan rating methodology.

4 – SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies of the Institution are in conformity with practices prescribed by the Commission's accounting circulars, and other general and specific purpose official letters issued for such purpose, which require management to make certain estimates and use certain assumptions to determine the valuation of certain items included in the consolidated financial statements. Although these estimates and assumptions are based on management's considerations of current events, actual results may differ.

Pursuant to accounting Circular A-1, "Basic Scheme of the Set of Accounting Criteria Applicable to Banking Institutions", prescribed by the Commission, the institutions' accounting adheres to Mexican Financial Reporting Standards (NIF), defined by the Mexican Board for Research and Development of Financial Reporting Standards (CINIF), except when the Commission deems it necessary to apply a specific accounting standard or Circular in light of the specialized operations performed by financial institutions .

Changes in accounting policies

On September 1, 2008, the Commission issued a resolution that modifies the "General Provisions Applicable to Banking Institutions" replacing accounting Circular C-2, "Securitization Operations". These provisions became effective January 1, 2009.

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

The main changes in accounting principles applicable to the Institution are mentioned below:

- Circular B-2, "Investments in securities", introduces the concept of amortized cost for the valuation of securities held to maturity; it considers the loss of value due to the deterioration of securities available for sale and securities held to maturity with; such loss recorded in the results of operations. It allows reclassifying securities held to maturity as available for sale, provided there is no intention or capability of holding them to maturity. The Commission's expressed authorization is required to reclassify securities held to maturity from trading to securities available for sale. The result of selling the securities is recorded as the result of a purchase and sale agreement instead of as a valuation result. Furthermore, the transaction costs in respect of the acquisition of an investment in securities is required to be recorded differently base on the classification of these securities with trading securities recorded in the results of operations, and securities available for sale and held to maturity securities they will be included in the cost of the investment.

- Circular B-5, “Derivatives and hedging transactions”, establishes the recognition of purchase sale transaction agreements as embedded derivatives. Assets and liabilities valued at their fair value through results may be hedged items. Tests of effectiveness are required for hedging in all cases, with the ineffective portion of the hedge recorded in the results of operations. The presentation of these items in the balance sheet is modified. Furthermore, the transaction costs associated with the acquisition of derivative financial instruments must be recorded directly in the results of the period in which they were incurred.
- Circular B-6, “Loan portfolio”, indicates that the annual credit card fees charged by banking institutions, the fees for unused credit lines, as well as the associated costs and expenses, be amortized in 12 months. Costs and expenses associated with the initial granting of the credit are recorded as a deferred expense to be amortized as interest expense over the same period in which the fee income is recorded. This applies only to those costs and expenses that are considered incremental. These changes will be applied prospectively given the practical impossibility of determining them for prior years.
- According to Circular C-2, “Securitization operations,” as of January 1, 2009, securitization operations must meet the requirements set forth in Circular C-1, “Recognition and derecognition of financial assets”, in order to be considered as a sale. Otherwise, the securitized assets are required to remain on the balance sheet, and the resulting liability must be recorded. On the other hand, an entity is required to consolidate a special purpose entity (EPE) created on or after January 1, 2009, when the economic substance of the relationship indicates that the EPE is controlled by the entity.
- A cash flow statement must be prospectively presented instead of a statement of changes in financial position; therefore, a statement of cash flows and a statement of changes in financial position for the years ended December 31, 2009 and 2008, respectively, are presented.
- Employee profit sharing (PTU) should be presented in 2009 as part of operating expenses and not as part of income taxes.
- In general, the financial statement structure is changed, and there are more disclosure requirements in various concepts, mainly concerning derivative financial instruments and related parties.
- On August 12, 2009, the Commission issued a resolution modifying the “General Provisions applicable to Banking Institutions”, which modifies the consumer loan rating methodology to show the expected loss in these operations based on the current environment.

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

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

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

Retrospective application of the changes in accounting principles

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

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

ITEMS OF THE CONSOLIDATED BALANCE SHEET			
ASSETS	As reported	As adjusted	Variance
CASH AND CASH EQUIVALENTS	Ps. 54,393	Ps. 54,387	(Ps. 6)
MARGIN SECURITIES	-	6	6
INVESTMENTS IN SECURITIES	239,432	238,636	(796)
SECURITIZATION TRANSACTION RECEIVABLES	-	796	796
TOTAL ASSETS	563,111	563,111	-
LIABILITIES			
OTHER PAYABLES:			
Income tax	1,138	242	(896)
Employee profit sharing	-	896	896
Creditors from liquidation settlements	-	2,405	2,405
Sundry creditors and other payables	12,556	10,151	(2,405)
TOTAL OTHER PAYABLES	Ps. 13,694	Ps. 13,694	Ps. -

ITEMS OF THE CONSOLIDATED STATEMENT OF INCOME	As reported	As adjusted	Variance
Interest income	Ps. 48,604	Ps. 48,605	Ps. 1
Brokerage revenues	877	876	(1)
Other revenues	-	746	746
Administrative and promotional expenses	(14,936)	(15,813)	(877)
Other income	3,190	2,398	(792)
Other expenses	(828)	(782)	46
Current income tax	(3,519)	(2,642)	877
NET INCOME	Ps. 6,543	Ps. 6,543	Ps. -

The significant accounting policies followed by the Institution are described below:

Recognition of the effects of inflation in financial information

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

The cumulative Mexican inflation over the three years prior to 2009 and 2008 was 15.03% and 11.26%, respectively. Therefore, the Mexican economy qualifies as non-inflationary. As of January 1, 2008, the Institution discontinued recording the effects of inflation. However, assets, liabilities and stockholders' equity as of December 31, 2009 and 2008 include the restatement effects recorded up until December 31, 2007.

Up until December 31, 2007, such recording resulted mainly in inflationary gains or losses on non-monetary and monetary items, which are shown in the financial statements under "Insufficiency in restated stockholders' equity" and "Effect of holding non-monetary assets".

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

Cash and cash equivalents

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

Trading securities

Trading securities are securities owned by the Institution, acquired with the intention of selling for a profit from the difference in prices resulting from the short-term purchase and sale operations made by the Institution as a market participant.

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

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

The trading securities valuation result is recorded in net income for the period.

Available-for-sale securities

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

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

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

Held-to-maturity securities

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

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

General valuation standards

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

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

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

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

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

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

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

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

Customer repurchase agreements

This is a transaction by which the purchaser acquires ownership of credit instruments for a sum of money and is obligated to transfer instruments of the same kind to the seller within the agreed term and in exchange for the same price, plus a premium. The purchaser keeps the premium unless otherwise agreed.

Repurchase transactions are recorded according to their economic substance, which is financing with collateral, by which the Institution, acting as the purchaser, gives cash as financing in exchange for financial assets as guarantee in the event of noncompliance.

On the repurchase agreement transaction contract date, the Institution acting as the seller, records the cash income or outlay, as well as receivable or payable account at its fair value, initially at the agreed price, which represents the obligation to reimburse the cash to the purchaser. The account payable is subsequently valued over the term of the repurchase agreement at amortized cost by recognizing the repurchase agreement interest in the earnings of the year using the effective interest method. As to the collateral, the Institution reclassifies the financial asset in its balance sheet as restricted and values it according to the criteria mentioned earlier in this note through the maturity of the repurchase agreement.

The Institution, acting as the purchaser, on the repurchase transaction contract date records cash and cash equivalents, with an account receivable at its fair value, initially at the agreed price, which represents the right to recover the cash that was delivered. The receivable is subsequently valued over the life of the repurchase agreement at amortized cost by recognizing the repurchase agreement interest in the earnings of the year using the effective interest method. As to the collateral received, the Institution records it in memorandum accounts through the repurchase agreement's maturity, following the guidelines of Circular B-9, "Asset custody and management", issued by the Commission.

Derivative financial instruments

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

Transactions to hedge the Institution's exposed position: Such transactions involve purchasing or selling derivative financial instruments to mitigate the risk resulting from a given transaction or group thereof.

Transactions entered into for trading purposes: The Institution enters into such transactions as a market participant for reasons other than to hedge its exposed position.

Transactions with derivative financial instruments are presented in assets or liabilities, as applicable, under the heading "Derivative financial instruments", separating derivatives for trading purposes from those for hedging purposes.

When entering into transactions involving derivative financial instruments, the Institution'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 Banco de Mexico to enter into this type of transaction. Before entering into these types of transactions with corporate customers, a preauthorized credit line must be granted by the Institution's Credit Committee or collateral posted through a securitized collateral contract. Transactions entered into with medium and small sized companies and individuals required the posting of collateral pursuant to 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 regardless of the respective settlement or delivery date of the underlying asset..

Forward and futures contracts

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

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

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.

Option contracts

Options are contracts which, by paying a premium, grant the right but not the obligation of buying or selling a financial asset or underlying instrument at a given price within established term.

Options are divided into: buy options (calls) and sell options (puts). Both can be used as trading or hedging instruments.

Options can be executed on a specific date or within a certain period of time. The price is agreed in the option and may be exercised at the discretion of the buyer. The instrument pursuant to which the price is established is the reference or underlying value.

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

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

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

The Institution records the option premium as an asset or liability on the transaction date. The fluctuations of the option's premium market valuation are recorded in the income statement under "Trading" thereby affecting the corresponding account's balance.

Swaps

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

They are recorded at fair value which corresponds to the net amount between the asset and liability portion for the rights and obligations agreed upon, valuing the future flows to receive or give at the current value according to the forecast of future applicable rates, discounting the market rate on the valuation date with curves provided by the price provider. The result of such valuation is recorded in the year's results.

Management's policy with regards to hedge contracts is to protect the Institution's individual balances and stockholders' equity by anticipating interest rate and exchange rate fluctuations.

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

The Institution documents hedging transactions from the moment the derivative instruments are designated as such. A hedge file is drawn up for each transaction in order to have documented proof as per Circular B-5 paragraph 71, which establishes the conditions for hedge accounting.

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

- A cash flow hedging transaction is recorded as follows:
 - a. The effective portion of the hedging instrument's gain or loss is recorded as a component of other comprehensive income in stockholders' equity using an asset or liability account called "derivative financial instruments" as a contra-account. The ineffective portion is measured by performing retrospective tests, and in the case of over-hedging, they are immediately recorded in the period's income statement.
 - b. The effective hedging instrument component stated in stockholders' equity associated with the hedged item is adjusted to equal the lower value (in absolute terms) of:
 - i. The accumulated gain or loss of the hedging instrument from its inception; and
 - ii. The accumulated change in the expected future cash flow fair value from the beginning of the hedging transaction.

Valuation method

As the derivative products transacted are considered conventional, the standard valuation models contained in the derivative transaction systems and the Institution's risk management are used.

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

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

Operation strategies

Trading

The Institution participates in the derivative instrument market with trading purposes, and the risk exposures generated are computed within its overall VaR limit.

The trading strategy is submitted on a weekly basis to the Institution's Treasury Committee, which analyzes the current risks to make decisions.

Hedging

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

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

Embedded derivatives

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

Loan portfolio

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

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.
- 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.

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

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

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

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

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

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

Allowance for loan losses

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

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

Since June 2001, the Institution has the Commission's approval to apply its own methodology, called Internal Risk Classification (CIR Banorte) to commercial loans. CIR Banorte applies to the commercial loans equal to or greater than 4 million UDIS or its equivalent in Mexican pesos. This methodology is explained below.

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

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

In connection with the acquisition of INB in 2006, the Institution applied the loan classification methodologies established by the Commission to INB's loans, conforming the risk degrees and adjusting the allowance for loan losses derived from applying such methodologies.

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

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

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

The Institution applied the internal risk classification methodology, CIR Banorte, authorized by the Commission to rate the debtor, except in financings 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 Institution applied procedures established by the Commission.

When evaluating a debtor's credit quality according to 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. Positioning and market in which debtor participates - Target markets - Risk acceptance criteria
3. Borrower's experience	6. Borrower's experience
4. Country risk	7. Country risk

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

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

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

Acquired loan portfolios

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

Cost Recovery Method - Payments received are applied against the acquisition cost of the loan portfolio until the balance equals zero. Recoveries in excess of the acquisition cost are recognized in current earnings.

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

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

For its portfolios valued using the interest method, the Institution evaluates twice a year to verify if the cash flow estimate of its collection rights is consistent with actual recoveries and therefore considered to be effective. The Institution uses the cost recovery method on those collection rights in which the expected cash flow estimate is not effective. The expected cash flow estimate is considered as "highly effective" if the ratio of collected cash flows to the expected cash flows is between 0.8 and 1.25 at the time when effectiveness is determined.

Securitizations involving transfer of ownership

the Institution uses securitization transactions to transfer ownership of mortgage and government loans by means of a trust. The trust may issue securities through an intermediary to the investing public. The securities represent the right to the yield on the securitized loan portfolio and, as compensation the Institution receives cash and a receipt, which grants it the right over the trust's residual cash flow after paying amounts due on the securities. The amounts received by the Institution are recorded at fair value under "Receivable benefits from securitization transactions."

The Institution also provides management services for the transferred financial assets and records the revenue in "Other income."

Other accounts receivable and payable

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

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

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

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

Foreclosed assets, net

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

When the value of the asset or the accrued or past due amortizations leading to the foreclosure, net of allowance for credit losses, is higher than the value of the foreclosed property, the difference is recorded in the period's results under "Other revenues."

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

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

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

I. In the case of collection rights and 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 foreclosed property, received as payment in kind or awarded in a court proceeding.

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

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

III. In the case of real 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 accounting criteria. Furthermore, when problems are identified regarding the realization of the value of the foreclosed property, the Institution records additional reserves based on management's best estimates. On December 31, 2009 there are no reserves in addition to those created by the percentage applied based on the accounting criteria that would indicate realization problems with the values of the foreclosed properties.

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

Property, furniture and fixtures

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

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

Permanent stock investments

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

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

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

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

Intangible assets

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

Goodwill

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

Deposits

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

Interbank and other loans

These loans are recorded based on the contractual value, recognizing the interest in the year's earnings as accrued. The Institution records the direct national and foreign bank loans obtained by loan bids with Banco de México and development fund financing. Furthermore this includes discounted portfolio loans from funds provided by banks specializing in financing economic, productive or development activities.

Provisions

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

Employee retirement obligations

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

Defined benefit plan

The Institution records a liability for seniority premiums, pensions and postretirement medical services as incurred, based on calculations by independent actuaries using the projected unit credit method at nominal interest rates. 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.

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

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

Defined contribution plan

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

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

The initial payment to the defined contribution plan for past services was financed with funds established originally for the defined benefit plan that was early extinguished and recognized in accordance with the requirements of NIF D-3.

The labor obligations derived from the defined contribution pension plan do not require an actuarial valuation as established in NIF D-3, because the cost of this plan is equivalent to the Institution's contributions made to the plan's participants.

Foreign currency conversion

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

Interest on outstanding subordinated debentures

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

Transfer of financial assets

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

Share-based payments

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

The Institution records its stock option plans according to the guidelines of NIF D-8, "Share-based payments." The compensation expense is recorded at fair value as of the date the stock options are granted. According to the NIF D-8 and as the Institution grants shares to the Institution, the Institution recognizes the expense as if the plans were payable in cash, which is restated at fair value of each period.

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

5 – MAIN DIFFERENCES WITH MEXICAN FINANCIAL REPORTING STANDARDS

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

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

6 – CASH AND CASH EQUIVALENTS

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

	2009	2008
Cash	Ps. 9,415	Ps. 8,419
Banks	45,943	39,995
Other deposits and available funds	3,904	5,973
	Ps. 59,262	Ps. 54,387

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

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

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

	Mexican pesos		Denominated in US dollars		Total	
	2009	2008	2009	2008	2009	2008
Call money	Ps. 2,447	Ps. 3,184	Ps. 653	Ps. -	Ps. 3,100	Ps. 3,184
Deposits with foreign credit institutions	-	-	15,928	6,866	15,928	6,866
Domestic banks	364	494	-	-	364	494
Banco de México	26,510	29,405	41	46	26,551	29,451
	Ps. 29,321	Ps. 33,083	Ps. 16,622	Ps. 6,912	Ps. 45,943	Ps. 39,995

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

As of December 31, 2009 and 2008, the total sum of restricted cash and cash equivalents is Ps. 33,289 and Ps. 35,476, respectively. This includes monetary regulation deposits, futures placed in the domestic and foreign market, call money and contracted transactions pending liquation in 24 and 48 hours.

The interbank loans are documented and accrued at an average rate of return of 0.167% and 0.086% in USD and 4.5% and 8.25% in pesos, as of December 31, 2009 and 2008, respectively.

7 – INVESTMENTS IN SECURITIES

a. Trading securities

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

	2009			2008	
	Acquisition cost	Accrued interest	Valuation increase (decrease)	Book value	Book value
CETES	Ps. 518	Ps. -	Ps. -	Ps. 518	Ps. -
Bonds	519	1	-	520	-
Development bonds	2,464	2	(2)	2,464	-
Saving protection bonds (BPAS)	9,007	28	(5)	9,030	1
Bank securities	7,277	-	(3)	7,274	5,551
Commercial paper	-	-	-	-	25
Securitization certificates	259	1	-	260	-
Treasury notes	65	-	-	65	-
	Ps. 20,109	Ps. 32	(Ps. 10)	Ps. 20,131	Ps. 5,577

During 2009 and 2008, the Institution recognized under "Brokerage revenues" a loss and a profit of (Ps. 25) and Ps. 108, respectively, for the fair value valuation of these instruments.

As of December 31, 2009 there are Ps. 15,791 in restricted trading securities associated with repurchase operations.

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

	From 1 to 179 days	More than 2 years	Total
CETES	Ps. 518	Ps. -	Ps. 518
Bonds	519	-	519
Development bonds	2,464	-	2,464
Saving protection bonds (BPAS)	9,007	-	9,007
Bank securities	7,277	-	7,277
Securitization certificates	259	-	259
Treasury notes	-	65	65
	Ps. 20,044	Ps. 65	Ps. 20,109

b. Available for sale securities

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

	2009			2008	
	Acquisition cost	Accrued interest	Valuation increase (decrease)	Book value	Book value
US Government bonds	Ps. 6,387	Ps. 26	Ps. 190	Ps. 6,603	Ps. 6,227
UMS	342	12	7	361	516
Shares	834	-	256	1,090	572
Bonds	2,624	34	60	2,718	3,708
EUROBONDS	978	17	(53)	942	564
PEMEX bonds	781	8	35	824	204
	Ps. 11,946	Ps. 97	Ps. 495	Ps. 12,538	Ps. 11,791

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

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

	From 1 to 179 days	More than 1 year	Total
US Government bonds	Ps. -	Ps. 6,387	Ps. 6,387
UMS	-	342	342
Shares	-	834	834
Bonds	2,624	-	2,624
EUROBONDS	-	978	978
PEMEX bonds	-	781	781
	Ps. 2,624	Ps. 9,322	Ps. 11,946

c. Held to maturity securities

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

Medium and long-term debt instruments:

	2009			2008
	Acquisition cost	Accrued interest	Book value	Book value
Government bonds- support program for Special Federal Treasury Certificates	Ps. 722	Ps. 3	Ps. 725	Ps. 690
CETES	-	-	-	3
Government bonds	604	27	631	655
Development bonds	33,078	49	33,127	33,062
Saving protection bonds (BPAS)	103,257	502	103,759	124,868
UMS	2,405	65	2,470	2,609
UDIBONOS	3	-	3	3
Separable securitization certificates	26	1	27	33
Bank securities	25,563	74	25,637	31,557
PEMEX bonds	4,897	94	4,991	5,463
Private securitization certificates	18,509	73	18,582	21,770
Structured notes	-	-	-	520
US Government bonds	12	-	12	13
Subordinated securities	-	-	-	22
	Ps. 189,076	Ps. 888	Ps. 189,964	Ps. 221,268

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

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

	From 1 to 179 days	More than 2 years	Total
Government bonds- support program for Special Federal Treasury Certificates	Ps. -	Ps. 722	Ps. 722
Government bonds	-	604	604
Development Bonds	33,078	-	33,078
Saving protection bonds (BPAS)	103,257	-	103,257
UMS	-	2,405	2,405
UDIBONOS	-	3	3
Separable securitization certificates	-	26	26
Bank securities	25,563	-	25,563
PEMEX bonds	-	4,897	4,897
Private securitization certificates	18,509	-	18,509
US Government bonds	-	12	12
	Ps. 180,407	Ps. 8,669	Ps. 189,076

Some of the investments in securities are given as collateral in derivative transactions without restrictions. Therefore, the receiver has the right to trade them and offer them as collateral.

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

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

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

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

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

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

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

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

8 - CREDITOR BALANCES UNDER REPURCHASE AND RESALE AGREEMENTS

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

Acting as seller

Instrument	2009	2008			
	Creditor repurchase agreement	Asset position	Liability position	Debit difference	Credit difference
		Value of securities receivable	Creditor repurchase agreement		
CETES	Ps. 399	Ps.	Ps. 3	Ps. -	Ps. 3
Development bonds	35,487	-	33,093	-	33,093
Bonds 182	-	-	5	-	5
Bonds IPAB	551	-	351	-	351
Quarterly IPAB bonds	86,150	3,113	102,957	1	99,845
Semi-annual IPAB bonds	25,587	1,135	25,304	-	24,169
7-year bonds	-	-	2	-	2
10-year bonds	625	-	647	-	647
20-year bonds	491	-	5	-	5
UDIBONOS	1	-	-	-	-
10-year UDIBONDS	3	-	4	-	4
Government securities	149,294	4,248	162,371	1	158,124
Promissory notes	2,970	-	-	-	-
CEDES	9,035	-	10,266	-	10,266
CEBUR Bank	7,628	-	8,892	-	8,892
Bank securities	19,633	-	19,158	-	19,158
Private paper	9,114	-	11,428	-	11,428
CEBUR government short term	2,481	-	-	-	-
Mortgage certificates	212	-	269	-	269
CEBUR government	1,200	-	3,602	-	3,602
Securitization certificates referred to commercial paper	25	-	-	-	-
Private securities	13,032	-	15,299	-	15,299
	Ps. 181,959	Ps. 4,248	Ps. 196,828	Ps. 1	Ps. 192,581

With the Institution acting as the vendor, accrued premiums were charged to the results of operations up to December 31, 2009 and 2008, total Ps. 11,463 and Ps. 15,880, respectively.

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

Acting as purchaser

Instrument	2009				2008			
	Repurchase agreement from debtors	Received, sold collateral in repurchase	Debit difference	Credit difference	Liability position	Asset position		
					Value of securities deliverable	Repurchase agreement from debtors	Debit difference	Credit difference
CETES	Ps. 400	Ps. 400	Ps. -	Ps. -	Ps. 1,667	Ps. 1,667	Ps. -	Ps. -
Development bonds	7,112	7,114	-	2	-	-	-	-
Quarterly IPAB bonds					2,003	2,003	-	-
Semi-annual IPAB bonds	390	390	-	-	-	-	-	-
7-year bonds					1,248	1,248	-	-
10-year bonds	221	219	2	-	576	578	-	2
20-year bonds	73	73	-	-	4,001	4,001	-	-
10-year UDIBONDS	1,120	1,120	-	-	-	-	-	-
Government securities	9,316	9,316	2	2	9,495	9,497	-	2
Promissory notes	1,785	1,785	-	-	-	-	-	-
Bank securities	1,785	1,785	-	-	-	-	-	-
	Ps. 11,101	Ps. 11,101	Ps. 2	Ps. 2	Ps. 9,495	Ps. 9,497	Ps. -	Ps. 2

With the Institution acting as the purchaser, accrued premiums were charged to the results of operations up to December 31, 2009 and 2008, total Ps. 376 and Ps. 510, respectively.

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

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

9 – DERIVATIVE FINANCIAL INSTRUMENTS

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

As of December 31, 2009, the Institution has evaluated the effectiveness of transactions entered into involving derivative financial instruments for hedging purposes and has concluded that they are all highly effective.

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

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

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

The contracted hedges and main underlying instruments are as follows:

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

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

Transactions entered into for hedging purposes have maturities from 2010 to 2018 and are intended to mitigate the financial risk derived from long-term loans offered by the Institution at fixed rates, as well as the exchange rate risk generated by market instruments in the Institution's portfolio.

The book value of collateral used to ensure compliance with obligations derived from currency swap contracts as of December 31, 2009, is USD 704,841 thousand and EUR 20,255 thousand, and as of December 31, 2008 total USD 876,379 thousand and EUR 20,110 thousand. Futures transactions are made through recognized markets, and as of December 31, 2009 they represent 0.85% of the nominal amount of all the derivatives contracts; the remaining 99.15% correspond to option and swap transactions in OTC markets.

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

As of December 31, 2009 and 2008, the Institution had no instruments received as collateral in derivative transactions.

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

The net amount of estimated gains or losses originated by transactions or events that are recorded in cumulative other comprehensive income to date in the financial statements and that are expected to be reclassified to earnings within the next 12 months totals Ps. 4.

As of December 31, 2009 and 2008, the main positions hedged by the Institution and the derivatives designated to cover such positions are:

Cash flow hedging. The Institution has cash flow hedges as follows:

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

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

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

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

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

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

10 – LOAN PORTFOLIO

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

	Current portfolio		Past-due portfolio		Total	
	2009	2008	2009	2008	2009	2008
Commercial loans						
Denominated in domestic currency						
Commercial	Ps. 78,290	Ps. 80,771	Ps. 2,222	Ps. 1,370	Ps. 80,512	Ps. 82,141
Rediscounted portfolio	4,831	6,129	-	-	4,831	6,129
Denominated in USD						
Commercial	21,471	27,041	838	221	22,309	27,262
Rediscounted portfolio	746	505	-	-	746	505
Total commercial loans	105,338	114,446	3,060	1,591	108,398	116,037
Loans to financial institutions	8,923	14,331	-	-	8,923	14,331
Consumer loans						
Credit card	11,801	15,067	1,610	2,140	13,411	17,207
Other consumer loans	13,903	14,297	332	359	14,235	14,656
Housing mortgage loans	49,881	46,282	1,049	746	50,930	47,028
Government loans	38,982	26,977	-	-	38,982	26,977
	123,490	116,954	2,991	3,245	126,481	120,199
Total loan portfolio	Ps. 228,828	Ps. 231,400	Ps. 6,051	Ps. 4,836	Ps. 234,879	Ps. 236,236

As of December 31, 2009, the deferred fee balance is Ps. 1,508, and the amount recorded in results was Ps. 578. Furthermore, the deferred balance of costs and expenses associated with the initial loan grant is Ps. 167, and the amount recorded in results was Ps. 33. The average term over which the deferred fee balance and the costs and expenses will be recorded is equivalent to the average term of the portfolio balance.

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

During the periods ended on December 31, 2009 and 2008, the balance of fully hedged past-due loans that were written off was Ps. 8,278 and Ps. 3,387, respectively.

On December 31, 2009 and 2008, revenues from recoveries of previously written-off or eliminated loan portfolios were Ps. 846 and Ps. 683, respectively.

The loans granted grouped into economic sectors as of December 31, 2009 and 2008, are shown below:

	2009		2008	
	Amount	Reserve percentage	Amount	Reserve percentage
Private (companies and individuals)	Ps. 108,398	46.16%	Ps. 116,037	49.12%
Financial institutions	8,923	3.79%	14,331	6.07%
Credit card and consumer	27,646	11.77%	31,863	13.48%
Housing	50,930	21.68%	47,028	19.91%
Government loans	38,982	16.60%	26,977	11.42%
	Ps. 234,879	100.00%	Ps. 236,236	100.00%

Loan support programs

Special accounting consideration of various support programs granted by the influenza outbreak

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

I. Emergency SMBs support plan, consisting of:

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

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

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

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

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

- a) Consider renewable loans as performing when renewed without demanding the requirement set forth in Circular B-6 paragraph 52 and 53 "Loan Portfolio", by which the borrower liquidates all the accrued interest as per the terms and conditions originally agreed and 25% of the original loan. The above is applicable to performing loans as of April 15, 2009, as per paragraph 8 of Circular B-6.

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

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

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

CURRENT LOAN PORTFOLIO

Commercial loans	
Business loans	Ps. 104,690
Loans to financial institutions	8,923
Government loans	38,982
Consumer loans	25,704
Housing mortgage loans	49,881
TOTAL CURRENT LOAN PORTFOLIO	228,180

PAST-DUE LOAN PORTFOLIO

Commercial loans	
Business loans	3,764
Consumer loans	1,943
Housing mortgage loans	1,049
TOTAL PAST-DUE LOAN PORTFOLIO	6,756

LOAN PORTFOLIO	234,936
(Minus) Allowance for loan losses	(7,573)
LOAN PORTFOLIO, net	227,363
ACQUIRED LOAN PORTFOLIOS	2,548
TOTAL LOAN PORTFOLIO, net	Ps. 229,911

Moreover, the period revenue would have been Ps. 4,875 as a result of the additional Ps. 215 allowance for loan losses and Ps. 42 reductions in interest income from the suspension of accrued interest derived from transferring loans to the past-due portfolio that would have been created without providing such support to the borrowers.

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

Policies and procedures for granting loans

The granting, control and recovery of loans are regulated by the Institution'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 Institution has manuals establishing the policies and procedures to be utilized for credit risk management purposes.

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

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

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

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

	2009	2008
Distressed portfolio	Ps. 1,247	Ps. 1,692
Total rated portfolio	240,438	241,492
Distressed portfolio/total rated portfolio	0.52%	0.70%

The Institution's Treasury Department is the central unit responsible for balancing resource requirements 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

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

	2009	2008
Current portfolio	Ps. 542	Ps. 622
Current accrued interest	2	2
Past-due portfolio	14	35
Past-due accrued interest	1	1
	Ps. 559	Ps. 660

12 – ALLOWANCE FOR LOAN LOSSES

The Institution's portfolio classification, which serves as the basis for recording the allowance for loan losses, is detailed below.

Risk category	2009				
	Loan portfolio	Required allowances for losses			Total
		Commercial portfolio	Consumer portfolio	Mortgage portfolio	
Exempt portfolio	Ps. 56	Ps. -	Ps. -	Ps. -	Ps. -
Risk A	58,169	-	63	159	222
Risk A1	99,132	494	-	-	494
Risk A2	52,042	501	-	-	501
Risk B	6,269	-	102	184	286
Risk B1	5,620	71	266	-	337
Risk B2	8,241	84	509	-	593
Risk B3	2,533	263	-	-	263
Risk C	2,494	-	795	131	926
Risk C1	1,357	284	-	-	284
Risk C2	798	378	-	-	378
Risk D	2,589	242	1,356	264	1,862
Risk E	1,148	885	272	-	1,157
Unclassified	(10)	-	-	-	-
	Ps. 240,438*	Ps. 3,202	Ps. 3,363	Ps. 738	Ps. 7,303
Minus: Recorded allowance					7,358
Additional allowance					Ps. 55

Risk category	2008				
	Loan portfolio	Required allowances for losses			Total
		Commercial portfolio	Consumer portfolio	Mortgage portfolio	
Exempt portfolio	Ps. 76	Ps. -	Ps. -	Ps. -	Ps. -
Risk A	54,333	-	60	148	208
Risk A1	98,447	490	-	-	490
Risk A2	56,827	554	-	-	554
Risk B	5,800	-	107	168	275
Risk B1	17,016	49	352	-	401
Risk B2	1,791	55	183	-	238
Risk B3	1,269	139	-	-	139
Risk C	2,109	-	938	90	1,028
Risk C1	354	72	-	-	72
Risk C2	213	87	-	-	87
Risk D	1,682	153	835	190	1,178
Risk E	1,580	1,474	101	-	1,575
Unclassified	(5)	-	-	-	-
	Ps. 241,492*	Ps. 3,073	Ps. 2,576	Ps. 596	Ps. 6,245
Minus: Recorded allowance					6,582
Additional allowance					Ps. 337

*The sum of the rated loan portfolio includes Ps. 3,288 and Ps. 2,463 in loans granted to subsidiaries whose balance was eliminated in the consolidation process as of December 31, 2009 and 2008, respectively.

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

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

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

As of December 31, 2009 and 2008, the allowance for loan losses represents 122% and 136%, respectively, of the past-due portfolio.

The estimated allowance includes the classification of loans granted in foreign currency, which are evaluated at the exchange rate in effect as of December 31, 2009 and 2008.

Credit card rating

Modification of the credit card consumer loan rating methodology

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

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

The Institution recorded the aforementioned effect with a charge of Ps. 1,136 to "Retained earnings from prior years" in stockholders' equity and a credit for the same amount to the "Allowance for loan losses". Furthermore, the corresponding deferred tax asset of Ps. 432 was also recorded through "Retained earnings from prior years" in stockholders' equity.

If the aforementioned effect had been recorded in the results of 2009, the affected items and amounts that the Institution would have recorded in the balance sheet and statement of income as of December 31, 2009 would be:

<u>Balance Sheet</u>		Effect	Would be presented
Stockholders' Equity			
Retained earnings from prior years	Ps. 18,339	Ps. 704	Ps. 19,043
Controlling interest net income	5,132	(704)	4,428
Total stockholders' equity	Ps. 41,006	Ps. -	Ps. 41,006
<u>Statements of Income</u>			
Provision for loan losses	8,181	1,136	9,317
Financial margin after allowance for loan losses	14,225	(1,136)	13,089
Deferred income taxes, net	(537)	(432)	(969)
Net income	Ps. 5,132	(704)	Ps. 4,428

Roll forward of allowance for loan losses

A roll forward of the allowance for loan losses is detailed below:

	2009	2008
Balance at the beginning of the year	Ps. 6,582	Ps. 3,707
Increase charged to results	8,103	6,661
Debt forgiveness and write-offs	(8,458)	(3,956)
Valuation in foreign currencies and UDIS	(19)	108
Rebates granted to housing debtors	(46)	(77)
Created with profit margin (UDIS Trusts)	59	48
Recognized against retained earnings from prior years	1,136	103
Other	1	(12)
Year-end balance	Ps. 7,358	Ps. 6,582

As of December 31, 2009, the net amount of preventive loan loss reserves charged to the income statement totaled Ps. 8,177 and is comprised of Ps. 8,181 directly accredited to the estimate and Ps. 4 charged to other operating expenses. As of December 31, 2008, the net amount of preventive loan loss reserves charged to the income statement totaled Ps. 6,709 and is comprised of Ps. 6,722 directly credited to the estimate and Ps. 13 charged to other operating expenses.

13 – ACQUIRED PORTFOLIOS

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

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

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

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

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

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

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

14 – OTHER ACCOUNTS RECEIVABLE, NET

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

	2009	2008
Loans to officers and employees	Ps. 1,134	Ps. 1,162
Debtors from liquidation settlement	2,706	2,643
Real property portfolios	1,183	982
Fiduciary rights	4,104	3,083
Sundry debtors in Mexican pesos	1,113	1,131
Sundry debtors in foreign currency	876	35
Other	267	203
	11,383	9,239
Allowance for doubtful accounts	(260)	(78)
	Ps. 11,123	Ps. 9,161

The real property portfolios include Ps. 300 that corresponds to the collection rights of the INVEX trust that is valued applying the interest method.

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

15 – FORECLOSED ASSETS, NET

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

	2009	2008
Personal property	Ps. 67	Ps. 71
Real property	1,230	1,101
Goods pledged for sale	14	26
	1,311	1,198
Allowance for losses on foreclosed assets	(383)	(334)
	Ps. 928	Ps. 864

16 – PROPERTY, FURNITURE AND FIXTURES, NET

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

	2009	2008
Furniture and equipment	Ps. 3,209	Ps. 2,636
Property intended for offices	5,180	5,304
Installation costs	2,744	2,340
	11,133	10,280
Less - Accumulated depreciation and amortization	(3,980)	(3,631)
	Ps. 7,153	Ps. 6,649

The depreciation recorded in the results of 2009 and 2008 was Ps. 649 and Ps. 618, respectively.

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

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

17 – PERMANENT STOCK INVESTMENTS

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

	Share %	2009	2008
SIEFORES Básicas	99.00%	Ps. 719	Ps. 537
Servicio Pan Americano de Protección, S.A. de C.V.	8.50%	115	97
Controladora PROSA, S.A. de C. V.	19.73%	49	60
Banorte investment funds	Various	121	114
Transporte Aéreo Técnico Ejecutivo, S.A. de C.V. (Sólida)	45.33%	72	89
Fideicomiso Marhnos (Sólida)	100%	156	-
Other	Various	56	55
		Ps. 1,288	Ps. 952

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

18 – DEFERRED TAXES, NET

The tax reported by the Institution is calculated based on the current tax result of the year and enacted tax regulations. However, due to temporary differences between accounting and tax balance sheet accounts, the Institution has recognized a recoverable net deferred tax asset of Ps.1,466 and Ps.481 as of December 31, 2009 and 2008, respectively, as detailed below:

	2009			2008		
	Temporary differences	Deferred effect		Temporary differences	Deferred effect	
		ISR	PTU		ISR	PTU
<u>Temporary differences - Assets</u>						
Unrealized gain on available-for-sale securities						
	(Ps. 190)	(Ps. 67)	Ps. -	(Ps. 48)	(Ps. 17)	Ps. -
Tax loss carryforwards of Uniteller and Banorte USA	113	40	-	111	38	-
Allowance for possible credit losses	314	110	-	196	68	-
State tax on deferred assets	6	2	-	-	-	-
Surplus preventive allowances for credit risks over the net tax limit	4,757	1,332	476	936	262	94
Excess of tax over book value of foreclosed and fixed asset	1,132	308	52	1,418	390	94
PTU	775	232	77	896	252	90
Fees collected in advance	-	-	-	3	1	-
Non-deductible provisions	1,422	427	135	1,254	352	121
Total deferred assets	Ps. 8,329	Ps. 2,384	Ps. 740	Ps. 4,766	Ps. 1,346	Ps. 399

	2009			2008		
	Temporary differences	Deferred effect		Temporary differences	Deferred effect	
		ISR	PTU		ISR	PTU
<u>Temporary differences Liabilities</u>						
Contribution to pension fund	Ps. 1,500	Ps. 420	Ps. 150	Ps. 1,000	Ps. 280	Ps. 100
Portfolios acquired	2,302	655	111	2,083	583	100
Capitalizable project expenses	528	159	53	258	72	26
Unrealized capital gain from special reserve	125	38	-	87	24	-
Federal Home Loan Bank dividends	4	2	-	4	2	-
Intangible assets	87	30	-	109	38	-
Payable ISR on UDIS trusts	145	40	-	139	39	-
Total deferred liabilities	Ps. 4,691	Ps. 1,344	Ps. 314	Ps. 3,680	Ps. 1,038	Ps. 226
Net accumulated asset	Ps. 3,638	Ps. 1,040	Ps. 426	Ps. 1,086	Ps. 308	Ps. 173
Deferred tax			Ps. 1,466			Ps. 481

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

Derived from consolidating Banorte USA, a net amount of Ps. 2 million was added to deferred taxes determined at a rate of 35% as per the tax law of the USA. The Banorte USA's deferred tax assets and liabilities are determined using the liability method or balance sheet method. According to this method, the net asset or liability of deferred taxes is determined based on the tax effects of temporary differences between the book and tax base of assets and liabilities.

19 – OTHER ASSETS

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

	2009	2008
Plan assets held for employee pension plans	Ps. 4,160	Ps. 3,371
Other amortizable expenses	2,016	2,071
Accumulated amortization of other expenses	(93)	(480)
Goodwill	3,092	5,345
	Ps. 9,175	Ps. 10,307

As of December 31, 2009, goodwill was Ps. 3,092 and was comprised of the following: Ps. 2,838 for the purchase of INB and Ps. 254 for the purchase of Uniteller; whereas as of December 31, 2008 there is a balance of Ps. 5,345 comprised of Ps. 3,001 for the purchase of INB; Ps. 2,082 for the purchase option program for the remaining 30% of INB shares and Ps. 262 for the purchase of Uniteller. As mentioned in Note 4, goodwill is not amortized and is subject to annual impairment tests. No impairment to goodwill value was detected by December 31, 2009 and 2008.

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

20 – DEPOSITS

Liquidity coefficient

The "Investment regime for transactions in foreign currency and conditions to be fulfilled during the term of transactions in such currency" designed for credit institutions by Banco de México establishes the mechanism for determining the liquidity coefficient of liabilities denominated in foreign currency.

In accordance with such regime, during 2009 and 2008 the Institution generated a liquidity requirement of USD 755,917 thousand and USD 412,843 thousand, respectively, and held investments in liquid assets of USD 1,230,740 thousand and USD 661,959 thousand, representing a surplus of USD 474,823 thousand and USD 249,116 thousand, respectively.

Deposits

The liabilities derived from traditional deposits are comprised as follows:

	2009	2008
Immediately due and payable deposits		
Checking accounts earning no interest:		
Cash deposits	Ps. 59,334	Ps. 56,247
Checking accounts in US dollars for individual residents of the Mexican border	662	573
Demand deposit accounts	4,142	3,433
Checking accounts earning interest:		
Other bank checks deposit	35,420	35,488
Savings accounts	268	234
Checking accounts in US dollars for individual residents of the Mexican border	2,055	2,166
Demand deposit accounts	35,706	30,212
IPAB checking accounts	20	14
	137,607	128,367
Time deposits		
General public:		
Fixed term deposits	25,711	20,681
Over-the-counter investments	49,156	43,436
Promissory note with interest payable at maturity (PRLV) primary market for individuals	57,819	53,270
PRLV primary market for business entities	1,195	1,056
Foreign resident deposits	83	78
Provision for interest	177	219
	134,141	118,740
Money market:		
Fixed term deposits	586	308
Over the counter promissory notes	1,430	12,323
Provision for interest	1,297	1,168
	3,313	13,799
	137,454	132,539
	Ps. 275,061	Ps. 260,906

The funding rates which the Institution 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:

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

Time deposits:

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

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

	2009			
	From 1 to 179 days	From 6 to 12 months	More than 1 year	Total
General public				
Fixed term deposits	Ps. 15,740	Ps. 6,972	Ps. 2,999	Ps. 25,711
Over-the-counter investments	49,105	51	-	49,156
PRLV primary market for individuals	57,337	418	64	57,819
PRLV primary market for business entities	1,170	25	-	1,195
Foreign resident deposits	20	20	43	83
Provision for interest	162	13	2	177
	123,534	7,499	3,108	134,141
Money market:				
Fixed term deposits	-	-	586	586
Over the counter promissory notes	-	-	1,430	1,430
Provision for interest	-	11	1,286	1,297
	-	11	3,302	3,313
	Ps. 123,534	Ps. 7,510	Ps. 6,410	Ps. 137,454
	2008			
	From 1 to 179 days	From 6 to 12 months	More than 1 year	Total
General public				
Fixed term deposits	Ps. 12,643	Ps. 4,400	Ps. 3,638	Ps. 20,681
Over-the-counter investments	43,361	75	-	43,436
PRLV primary market for individuals	52,902	330	38	53,270
PRLV primary market for business entities	1,021	26	9	1,056
Foreign resident deposits	29	28	21	78
Provision for interest	201	18	-	219
	110,157	4,877	3,706	118,740
Money market:				
Fixed-term deposits	-	-	308	308
Over the counter promissory notes	7,972	3,000	1,351	12,323
Provision for interest	32	48	1,088	1,168
	8,004	3,048	2,747	13,799
	Ps. 118,161	Ps. 7,925	Ps. 6,453	Ps. 132,539

21 – INTERBANK AND OTHER LOANS

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

	Mexican pesos		Denominated in US dollars		Total	
	2009	2008	2009	2008	2009	2008
Immediately due						
Domestic banks (Call money)	Ps. 21	Ps. -	Ps. -	Ps. 1,245	Ps. 21	Ps. 1,245
	21	-	-	1,245	21	1,245
Short-term						
Banco de México	-	11,123	1,964	-	1,964	11,123
Commercial banking	682	732	-	1,634	682	2,366
Development banking	11	32	433	-	444	32
Public trusts	2,801	3,595	314	514	3,115	4,109
Other agencies	-	-	-	121	-	121
Provision for interest	-	116	2	19	2	135
	3,494	15,598	2,713	2,288	6,207	17,886
Long-term						
Commercial banking	-	-	1,314	3,270	1,314	3,270
Development banking	77	156	311	-	388	156
Public trusts	3,236	3,664	116	139	3,352	3,803
Other agencies	-	-	-	876	-	876
Provision for interest	-	-	4	-	4	-
	3,313	3,820	1,745	4,285	5,058	8,105
	Ps. 6,828	Ps. 19,418	Ps. 4,458	Ps. 7,818	Ps. 11,286	Ps. 27,236

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

The average interest rates are shown below:

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

Banorte USA liabilities accrue interest at an average rate of 4.49% and 1.43% as of December 31, 2009 and 2008, respectively.

22 - SUNDRY CREDITORS AND OTHER PAYABLES

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

	2009	2008
Cashier and certified checks and other negotiable instruments	Ps. 796	Ps. 795
Provision for employee retirement obligations	2,774	2,505
Provisions for sundry obligations	2,183	4,332
Other	2,620	2,519
	Ps. 8,373	Ps. 10,151

23 – EMPLOYEE RETIREMENT OBLIGATIONS

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

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

2009				
	Pension plan	Seniority premiums	Medical services	Total
Projected benefit obligation (PBO)	(Ps. 664)	(Ps. 138)	(Ps. 1,633)	(Ps. 2,435)
Fund market value	1,026	243	1,749	3,018
Fund status	362	105	116	583
Transition asset (obligation)	19	(10)	246	255
Unrecognized prior service cost	-	(4)	-	(4)
Unrecognized actuarial losses	178	4	488	670
Net projected asset (liability)	Ps. 559	Ps. 95	Ps. 850	Ps. 1,504

2008				
	Pension plan	Seniority premiums	Medical services	Total
Projected benefit obligation (PBO)	(Ps. 662)	(Ps. 126)	(Ps. 1,318)	(Ps. 2,106)
Fund market value	853	201	1,357	2,411
Fund status	191	75	39	305
Transition asset (obligation)	26	(13)	328	341
Unrecognized prior service cost	-	(4)	-	(4)
Unrecognized actuarial losses	155	2	203	360
Net projected asset (liability)	Ps. 372	Ps. 60	Ps. 570	Ps. 1,002

The Institution has a net prepayment (net prepaid asset) of Ps. 4 generated from transferring personnel from Sólida Administradora de Portafolios, S.A. de C.V. (Sólida) to Banorte. Moreover, as of December 31, 2009, a separate fund amounting to Ps. 3,018, (Ps. 2,411 in 2008) has been set aside to meet the above-mentioned obligations, in accordance with NIF D-3 and is recorded under "Other assets".

For the years ended December 31, 2009 and 2008, the net periodic cost for pensions, seniority premiums and retiree medical coverage is as follows:

	2009	2008
Service cost	Ps. 91	Ps. 78
Interest cost	190	175
Expected return on plan assets	(262)	(202)
Amortizations of unrecognized items:		
Transition obligation	85	85
Effects of curtailment and reduction of obligations	-	2
Variations in assumptions	14	15
Net periodic pension cost	Ps. 118	Ps. 153

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

Concept	2009 Nominal	2008 Nominal
Discount rate	9.25%	9.25%
Rate of wage increase	4.50%	4.50%
Rate of increase in costs and expenses of other postretirement benefits	5.57%	5.57%
Long-term inflation rate	3.50%	3.50%
Expected long-term rate of return on plan assets	10.0%	9.75%

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

Concept	2009	2008
Defined and projected benefit obligations	(Ps. 152)	(Ps. 150)
Funded status	(152)	(150)
Transition obligation	60	80
Net projected liability	(Ps. 92)	(Ps. 70)

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

Concept	2009	2008
Service cost	Ps. 26	Ps. 25
Interest cost	12	11
Transition obligation	20	20
Variations in assumptions	7	(1)
Net periodic pension cost	Ps. 65	Ps. 55

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

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

24 – SUBORDINATED DEBENTURES

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

	2009	2008
Preferred subordinated debentures, non-convertible into Shareholders' Equity, maturing in April 2014, denominated in US dollars, at an interest rate of 5.875%, payable semi-annually with a final principal payment upon maturity (10-year term).	Ps. -	Ps. 4,150
Preferred subordinated debentures, non-convertible into Shareholders' Equity, maturing in April 2016, denominated in US dollars, at an interest rate of 6.135%, payable semi-annually with a final principal payment upon maturity (10-year term).	5,226	5,533
Non-preferred subordinated non-convertible debentures (Q BANORTE 08 debentures), maturing in February 2018, interest at the 28-day TIIE rate plus 0.60%.	3,000	3,000
Non-preferred subordinated non-convertible debentures (Q BANORTE 08-2 debentures), maturing in June 2018, interest at the 28-day TIIE rate plus 0.77%.	2,750	2,750
Preferred subordinated non-convertible debentures, BANORTE 09 debentures maturing in March 2019, interest at the 28-day TIIE rate plus 2%, payable in 130 periods of 28 days each.	2,200	-
Non-preferred subordinated non-convertible debentures, maturing in April 2021, denominated in US dollars, at an interest rate of 6.862%, payable semiannually with a final principal payment at maturity (15-year term).	2,613	2,766
Preferred subordinated non-convertible debentures, Q BANORTE 08-U maturing in February 2028, interest at a 4.95% annual rate.	1,941	1,871
Preferred subordinated debentures, non-convertible into Shareholders' Equity, maturing in June 2034, denominated in US dollars, at an interest rate of 2.75%	135	143
Preferred subordinated debentures, non-convertible into Shareholders' Equity, maturing in April 2034, denominated in US dollars, at an interest rate of 2.72%	135	143
Accrued interest	168	257
	Ps. 18,168	Ps. 20,613

The costs related to these debentures are amortized using the straight-line method over the term of the debt. The amortization charged to results was Ps. 8 and Ps. 15 in 2009 and 2008, respectively.

25 – TRANSACTIONS AND BALANCES WITH SUBSIDIARIES AND ASSOCIATED COMPANIES

The balances and transactions with subsidiaries and associated companies as of December 31, 2009, 2008 and 2007 are made up as follows:

Institution	Revenues			Accounts receivable	
	2009	2008	2007	2009	2008
Arrendadora Banorte, S.A. de C.V.	Ps. 240	Ps. 284	Ps. 196	Ps. 1,787	Ps. 2,981
Casa de Bolsa Banorte, S.A. de C.V.	266	364	379	19	-
Almacenadora Banorte, S.A. de C.V.	19	15	7	39	176
Créditos Pronegocio, S.A. de C.V.	-	49	63	-	372
Total	Ps. 525	Ps. 712	Ps. 645	Ps. 1,845	Ps. 3,529

Institution	Expenses			Accounts payable	
	2009	2008	2007	2009	2008
Grupo Financiero Banorte, S. A.B. de C. V.	Ps. 7	Ps. 13	Ps. 15	Ps. 127	Ps. 23
Arrendadora y Factor Banorte, S.A. de C.V.	105	91	110	23	14
Casa de Bolsa Banorte, S. A. de C. V.	1,738	1,994	1,587	1	2
Almacenadora Banorte, S. A. de C. V.	1	2	2	2	28
Créditos Pronegocio, S. A. de C. V.	-	1	-	-	70
Total	Ps. 1,851	Ps. 2,101	Ps. 1,714	Ps. 153	Ps. 137

The premiums paid and collected in repurchase operations with Banorte Brokerage House are among the most significant transactions, as well as the account receivable from Banorte Leasing corresponding to loans granted. All balances and transactions with the subsidiaries indicated in Note 3 have been eliminated in consolidation.

Pursuant to article 73 of the LIC, the loans granted by the Institution to related parties (belonging to the financial sector or not) cannot exceed 50% of the basic portion of their net capital. As of December 31, 2009 and 2008, the amount of the loans granted to related parties is Ps. 7,362 and Ps. 8,216, respectively, representing 46.2% and 54%, respectively, of the limit established by the LIC.

Loan portfolio sales

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

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

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

Pursuant to the foregoing, below is a summary of the activity of the loan portfolio sold to Sólida since August 2002 and for the years of 2008 and 2009:

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

(1) Allowances required based on the classification methodology applied in the Institution that maintained a 99.9% equity interest in Sólida during 2009 and 2008.

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

Type of portfolio	Mexican pesos		Foreign currency		Total	
	Dec 09	Dec 08	Dec 09	Dec 08	Dec 09	Dec 08
Commercial loans	Ps. 133,823	Ps. 129,995	Ps. 11,316	Ps. 15,377	Ps. 145,139	Ps. 145,372
Consumer loans	25,525	29,116	-	-	25,525	29,116
Housing mortgage loans	47,378	43,784	-	-	47,378	43,784

Current portfolio	206,726	202,895	11,316	15,377	218,042	218,272
Commercial loans	2,583	1,738	150	153	2,733	1,891
Consumer loans	2,014	2,570	-	-	2,014	2,570
Housing mortgage loans	1,151	1,098	-	-	1,151	1,098
Past-due portfolio	5,748	5,406	150	153	5,898	5,559
Total portfolio	212,474	208,301	11,466	15,530	223,940	223,831
Allowance for loan losses	7,425	6,950	384	285	7,809	7,235
Net portfolio	Ps. 205,049	Ps. 201,351	Ps. 11,082	Ps. 15,245	Ps. 216,131	Ps. 216,596
Allowance for loan losses					132.40%	130.15%
% of past-due portfolio					2.63%	2.48%

26 – INFORMATION BY SEGMENT

The main operations and balances by concept and/or business segment reflected in the Institution's consolidated general balance sheet and the statement of income are as follows:

a. Interest income and fees by type of credit are made up as follows:

2009						
	Interest income		Fee income		Total	
	MXP	Foreign currency	MXP	Foreign currency	MXP	Foreign currency
Commercial loans	Ps. 13,280	Ps. 934	Ps. 375	Ps. -	Ps. 13,655	Ps. 934
Housing mortgage loans	5,362	-	93	-	5,455	-
Consumer loans	7,210	-	110	-	7,320	-
Total	Ps. 25,852	Ps. 934	Ps. 578	Ps. -	Ps. 26,430	Ps. 934

2008						
	Interest income		Fee income		Total	
	MXP	Foreign currency	MXP	Foreign currency	MXP	Foreign currency
Commercial loans	Ps. 13,817	Ps. 831	Ps. 342	Ps. -	Ps. 14,159	Ps. 831
Housing mortgage loans	4,859	-	109	-	4,968	-
Consumer loans	7,514	-	65	-	7,579	-
Total	Ps. 26,190	Ps. 831	Ps. 516	Ps. -	Ps. 26,706	Ps. 831

b. The composition of interest expense, segmented by type of deposit, is as follows:

	2009			2008		
	MXP	Foreign currency	Total	MXP	Foreign currency	Total
Immediately due and payable deposits:						
Checking accounts	Ps. 584	Ps. 4	Ps. 588	Ps. 787	Ps. 20	Ps. 807
Savings accounts	159	-	159	143	-	143
	743	4	747	930	20	950
Time deposits:						
General public	4,675	646	5,321	4,296	680	4,976
Money market	1,301	32	1,333	2,009	30	2,039
	5,976	678	6,654	6,305	710	7,015
Total	Ps. 6,719	Ps. 682	Ps. 7,401	Ps. 7,235	Ps. 730	Ps. 7,965

c. The composition of interest and commission expense, segmented by type of loan, is as follows:

	2009			2008		
	MXP	Foreign currency	Total	MXP	Foreign currency	Total
Call Money	Ps. 115	Ps. -	Ps. 115	Ps. 230	Ps. -	Ps. 230
Banco de México	548	17	565	426	-	426
Commercial banks	71	76	147	123	222	345
Development banking	421	1	422	527	8	535
Other agencies	37	-	37	52	-	52
Total	Ps. 1,192	Ps. 94	Ps. 1,286	Ps. 1,358	Ps. 230	Ps. 1,588

d. For the years ended December 31, 2009 and 2008, brokerage revenues are as follows:

	2009	2008
Valuation results		
Trading securities	(Ps. 25)	Ps. 108
Repurchase or resale agreement	(153)	48
Derivative financial instruments	20	(172)
Total valuation results	(158)	(16)
Purchase-sale results		
Trading securities	33	(136)
Available for sale securities	22	(178)
Derivative financial instruments	180	428
Total securities purchase sale	235	114
Spot foreign currency	731	712
Foreign currency forwards	154	48
Foreign currency futures	(1)	1
Foreign currency valuation	(20)	6
Minted metals purchase sales	4	5
Minted metals valuation	8	6
Total foreign currency purchase sale	876	778
Total purchase-sale results	1,111	892
Total trading results	Ps. 953	Ps. 876

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

Economic sector	2009				
	Geographical location				
	North	Central	West	South	Total
Agriculture	Ps. 2,314	Ps. 1,167	Ps. 581	Ps. 732	Ps. 4,794
Mining	347	18	14	13	392
Manufacturing	7,872	4,725	1,661	688	14,946
Construction	6,042	6,236	546	1,828	14,652
Public utilities	43	252	2	1	298
Commerce	10,543	7,241	3,307	6,031	27,122
Transportation	1,308	6,173	105	269	7,855
Financial services	10,801	11,280	130	1,473	23,684
Communal social services	2,524	4,242	1,514	369	8,649
Business groups	12	457	2	6	477
Public administration and services	21,403	12,938	2,070	2,516	38,927
INB	-	-	-	-	14,100
Credit card	-	-	-	-	11,801
Consumer	-	-	-	-	13,726
Housing mortgage	-	-	-	-	47,351
Other	-	-	-	-	54
Current loan portfolio	Ps. 63,209	Ps. 54,729	Ps. 9,932	Ps. 13,926	Ps. 228,828

Economic sector	2008				
	Geographical location				
	North	Central	West	South	Total
Agriculture	Ps. 2,576	Ps. 1,317	Ps. 571	Ps. 737	Ps. 5,201
Mining	58	20	11	30	119
Manufacturing	8,502	5,159	1,879	874	16,414
Construction	6,819	6,215	870	971	14,875
Public utilities	48	154	2	1	205
Commerce	13,870	9,345	3,477	6,359	33,051
Transportation	1,464	6,724	126	201	8,515
Financial services	12,847	13,385	242	1,713	28,187
Communal social services	2,904	3,728	1,651	822	9,105
Business groups	22	56	2	23	103
Public administration and services	14,668	8,382	1,626	2,413	27,089
International organization services	1	-	-	-	1
INB	-	-	-	-	15,618
Credit card	-	-	-	-	15,067
Consumer	-	-	-	-	14,053
Housing mortgage	-	-	-	-	43,750
Other	-	-	-	-	47
Current loan portfolio	Ps. 63,779	Ps. 54,485	Ps. 10,457	Ps. 14,144	Ps. 231,400

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

Economic sector	2009				
	Geographical location				
	North	Central	West	South	Total
Agriculture	Ps. 77	Ps. 129	Ps. 33	Ps. 20	Ps. 259
Mining	2	3	1	7	13
Manufacturing	121	175	73	46	415
Construction	89	105	12	27	233
Commerce	363	298	147	195	1,003
Transportation	41	27	13	19	100
Financial services	8	15	1	6	30
Communal social services	74	49	47	37	207
Business groups	1	-	-	-	1
INB	-	-	-	-	1,047
Credit card	-	-	-	-	1,610
Consumer	-	-	-	-	332
Housing mortgage	-	-	-	-	801
Past-due loan portfolio	Ps. 776	Ps. 801	Ps. 327	Ps. 357	Ps. 6,051

Economic sector	2008				
	Geographical location				
	North	Central	West	South	Total
Agriculture	Ps. 30	Ps. 80	Ps. 16	Ps. 19	Ps. 145
Mining	4	2	1	6	13
Manufacturing	72	129	57	43	301
Construction	24	73	4	23	124
Commerce	214	206	95	122	637
Transportation	19	14	9	10	52
Financial services	2	11	-	3	16
Communal social services	39	31	13	33	116
Business groups	-	1	-	-	1
INB	-	-	-	-	225
Credit card	-	-	-	-	2,140
Consumer	-	-	-	-	359
Housing mortgage	-	-	-	-	705
Other past-due loans	-	-	-	-	2
Past-due loan portfolio	Ps. 404	Ps. 547	Ps. 195	Ps. 259	Ps. 4,836

g. The assigned loan portfolio by responsibilities is made up as follows:

	2009			
	Commercial	Corporate	INB	Total
Commercial	Ps. 102,162	Ps. 39,634	Ps. 11,391	Ps. 153,187
Consumer loans	25,525	-	179	25,704
Housing mortgage loans	47,351	-	2,530	49,881
Punto Final and Fovi	56	-	-	56
Total current loan portfolio	175,094	39,634	14,100	228,828
Commercial	2,230	32	798	3,060
Consumer loans	1,941	-	1	1,942
Housing mortgage loans	801	-	248	1,049
Total past-due loan portfolio	4,972	32	1,047	6,051
Total loan portfolio	180,066	39,666	15,147	234,879
Allowance for loan losses				(7,358)
Loan portfolio, net				227,521
Collection rights				2,548
Total loan portfolio, net				Ps. 230,069

	2008			
	Commercial	Corporate	INB	Total
Commercial	Ps. 97,939	Ps. 44,900	Ps. 12,839	Ps. 155,678
Consumer loans	29,116	-	248	29,364
Housing mortgage loans	43,750	-	2,532	46,282
Punto Final and Fovi	76	-	-	76
Total current loan portfolio	170,881	44,900	15,619	231,400
Commercial	1,408	-	183	1,591
Consumer loans	2,498	-	1	2,499
Housing mortgage loans	705	-	41	746
Total past-due loan portfolio	4,611	-	225	4,836
Total loan portfolio	175,492	44,900	15,844	236,236
Allowance for loan losses				(6,582)
Loan portfolio, net				229,654
Collection rights				3,049
Total loan portfolio, net				Ps. 232,703

h. Deposits grouped by product and geographical area are made up as follows:

Product	2009							
	Geographical location							Total
	Monterrey	México	West	Northeast	Southeast	Treasury and other	Foreign	
Non-interest checking accounts	Ps. 13,235	Ps. 19,770	Ps. 5,845	Ps. 7,773	Ps. 7,963	Ps. 70	Ps. -	Ps. 54,656
Interest-earning checking accounts	6,417	23,033	4,041	6,192	8,039	162	-	47,884
Savings accounts	1	1	-	-	-	-	-	2
Current account in pesos and preestablished	3,449	5,232	1,492	2,733	2,556	122	-	15,584
Non-interest bearing demand deposits, USD	834	848	199	1,085	221	-	3,694	6,881
Interest bearing demand deposits, USD	2,454	1,570	577	2,463	238	-	5,012	12,314
Savings accounts in USD	-	-	-	-	-	-	265	265
Over the counter promissory notes	11,362	25,040	6,358	7,245	9,009	1,474	-	60,488
Time deposits, USD	3,328	4,095	1,775	2,255	897	17	13,427	25,794
Money desk customers	19,493	14,858	6,953	4,588	2,877	127	-	48,896
Financial intermediaries	-	-	-	-	-	2,277	-	2,277
FOBAPROA checking earning interest	20	-	-	-	-	-	-	20
Total deposits	Ps. 60,593	Ps. 94,447	Ps. 27,240	Ps. 34,334	Ps. 31,800	Ps. 4,249	Ps. 22,398	Ps. 275,061

Product	2008							
	Geographical location							Total
	Monterrey	México	West	Northeast	Southeast	Treasury and other	Foreign	
Non-interest checking accounts	Ps. 14,381	Ps. 18,134	Ps. 5,506	Ps. 6,334	Ps. 7,625	Ps. 72	Ps. -	Ps. 52,052
Interest-earning checking accounts	7,550	21,108	2,546	6,157	7,554	145	-	45,060
Savings accounts	1	1	-	-	1	-	-	3
Current account in pesos and preestablished	3,392	4,275	1,328	2,236	2,247	149	-	13,627
Non-interest bearing demand deposits, USD	585	480	69	957	227	1	3,507	5,826
Interest bearing demand deposits, USD	2,390	1,634	359	2,136	242	-	4,792	11,553
Savings accounts in USD	-	-	-	-	-	-	231	231
Over the counter promissory notes	11,852	22,783	5,671	5,570	8,450	1,387	-	55,713
Time deposits, USD	2,199	3,804	1,677	1,595	931	18	10,535	20,759
Money desk customers	15,069	15,738	4,987	3,531	3,918	23	-	43,266
Financial intermediaries	-	-	-	-	-	12,802	-	12,802
FOBAPROA checking earning interest	14	-	-	-	-	-	-	14
Total deposits	Ps. 57,433	Ps. 87,957	Ps. 22,143	Ps. 28,516	Ps. 31,195	Ps. 14,597	Ps. 19,065	Ps. 260,906

27 – TAX ENVIRONMENT

The Institution is subject to ISR and IETU in 2009 and in 2008.

ISR

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

Book to tax reconciliation

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

PTU

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

Business Flat Tax

Revenues, as well as deductions and certain tax credits, are determined based on cash flows generated for each period. The rate is 17.0% and 16.5% for 2009 and 2008, respectively, and 17.5% as of 2010. The Asset Tax Law was repealed upon enactment of LIETU; however, under certain circumstances, asset taxes paid in the ten years prior to the year in which ISR is paid, may be refunded, according to the terms of the law. As of December 31, 2009, the Institution has no recoverable asset taxes.

Based on financial projections, as per INIF 8, the Institution determined it will pay ISR, therefore it recognizes only deferred ISR.

28 – STOCKHOLDERS' EQUITY

At the Stockholders' Ordinary General Meeting held on April 30, 2009, it was agreed to apply Ps. 5,889 of 2008 income to the results of previous periods and to increase the legal reserve by Ps. 654.

At the Stockholders' Ordinary General Meetings held on October 5, 2009, it was agreed to distribute a Ps. 166 cash dividend, equivalent to Ps. 0.002311 pesos per share.

As mentioned in note 2 b), the merger of the Institution with Créditos Pronegocio S.A. de C.V. SOFOL was approved at the Extraordinary Stockholders' Meeting held on April 30, 2009, thereby increasing stockholders' equity by Ps. 64.

Furthermore, as set forth in Note 2 e), IFC contributed Ps. 1,979 in capital in November 2009.

The Institution's common stock as of December 31, 2009 and 2008 is made up as follows:

	Number of shares with a nominal value of Ps. 0.10	
	2009	2008
	Paid-in capital	Paid-in capital
"O" Series	75,249,929,493	70,009,272,136

	Historical accounts	
	2009	2008
	Paid-in capital	Paid-in capital
"O" Series	Ps. 7,525	Ps. 7,001
Restatement in Mexican pesos of December 2007	3,963	3,954
	Ps. 11,488	Ps. 10,955

Restrictions on profits

Stockholders' equity distributions, except restated paid-in capital and tax retained earnings, will be subject to a tax payable by the Institution at the rate in effect when the dividend is distributed. Any tax paid on such distribution may be credited against the income tax payable of the year in which the tax on the dividend is paid and the two fiscal years following such payment against the year's tax and its partial payments.

The Institution's net profit is subject to Art. 99 A of the LIC that requires that net income of each year be transferred to the legal reserve until the reserve equals 10% of capital stock at par value. The legal reserve may not be distributed to the stockholders during the life of the Institution, except in the form of a stock dividend. As of December 31, 2009, the legal reserve is Ps. 4,492 and represents 39% of paid-in capital.

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 for December 31, 2009 sent to Banco de Mexico to review is shown below.

The capitalization ratio of Banorte as of December 31, 2009 was 16.77% of total risk (market and credit), and 24.42% of credit risk, which in both cases exceed the current regulatory requirements.

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

Net capital as of December 31, 2009	
Stockholders' equity	Ps. 40,340
Subordinated debentures and capitalization instruments	4,615
Deduction of investment in securitized instruments	161
Deduction of investments in shares of financial entities	6,235
Deduction of investments in shares of non-financial entities	2,941
Deduction of intangibles and deferred expenses or costs	237
Basic capital	35,381
Debentures and capitalization instruments	13,283
Allowance for loan losses	1,155
Deduction of investment in securitized instruments	161
Complementary capital	14,277
Net capital	Ps. 49,658

Characteristics of the subordinated debentures:

Concept	Issuance amount	Maturity	Basic capital proportion	Complementary capital proportion
Complementary capital debentures 2006	Ps. 5,297	13/10/2016	0%	100%
Basic capital debentures 2006	Ps. 2,652	13/10/2021	100%	0%
Basic capital debentures 2008	Ps. 3,008	27/02/2018	65%	35%
Complementary capital debentures 2008	Ps. 1,971	15/02/2028	0%	100%
Complementary capital debentures 2008-2	Ps. 2,759	15/06/2018	0%	100%
Complementary capital debentures 2009	Ps. 2,211	18/03/2019	0%	100%

Assets subject to risk are detailed below:

Assets subject to market risk

Concept	Positions weighted by risk	Capital requirement
Transactions in Mexican pesos with nominal interest rate	Ps. 51,847	Ps. 4,148
Transactions with debt instruments in Mexican pesos with variable interest rates	10,879	870
Transactions in Mexican pesos with real interest rates or denominated in UDIS	1,985	159
Transactions in UDIS or with yields referenced to the National Consumer Price Index (INPC)	5	-
Transactions in foreign currency with nominal interest rate	3,294	263
Exchange transactions	1,607	129
Total	Ps. 69,617	Ps. 5,569

Assets subject to credit risk

Concept	Assets weighted by risk	Capital requirement
Group III (weighted at 10%)	Ps. 1	Ps. -
Group III (weighted at 20%)	6,336	507
Group III (weighted at 23%)	409	33
Group III (weighted at 50%)	2,261	181
Group III (weighted at 57.5%)	370	30
Group IV (weighted at 20%)	6,669	533
Group V (weighted at 10%)	14	1
Group V (weighted at 20%)	6,100	488
Group V (weighted at 50%)	3,813	305
Group V (weighted at 150%)	3,659	293
Group VI (weighted at 50%)	6,050	484
Group VI (weighted at 75%)	5,134	411
Group VI (weighted at 100%)	51,313	4,105
Group VII (weighted at 20%)	776	62
Group VII (weighted at 50%)	17	1
Group VII (weighted at 100%)	55,269	4,421
Group VII (weighted at 115%)	7,022	562
Group VII (weighted at 150%)	506	40
Group VIII (weighted at 125%)	2,070	166
Group IX (weighted at 100%)	31,849	2,548
Sum	189,638	15,171
For permanent shares, furniture and real property, and advance payments and deferred charges	13,667	1,093
Total	Ps. 203,305	Ps. 16,264

Assets subject to operating risk:

Concept	Assets weighted by risk	Capital requirement
Total	Ps. 23,124	Ps. 1,850

29 – FOREIGN CURRENCY POSITION

As of December 31, 2009 and 2008, the Institution holds certain assets and liabilities in foreign currency, mainly US dollars, converted to the exchange rate issued by Banco de México at Ps. 13.0659 and Ps. 13.8325 per USD 1.00, respectively, as shown below:

	Thousands of US dollars	
	2009	2008
Assets	5,485,200	5,164,107
Liabilities	5,154,310	4,879,384
Net asset position in US dollars	330,890	284,723
Net asset position in Mexican pesos	Ps. 4,323	Ps. 3,938

30 – POSITION IN UDI

As of December 31, 2009 and 2008, the Institution holds certain assets and liabilities denominated in UDI, converted to Mexican pesos based on the current equivalency of Ps. 4.340166 and Ps. 4.184316, per UDI, respectively, as shown below:

	Thousands of UDI	
	2009	2008
Assets	207,824	152,453
Liabilities	544,676	548,366
Net liability position in UDI	(336,852)	(395,913)
Net liability position in Mexican pesos	(Ps. 1,462)	(Ps. 1,657)

31 – EARNINGS PER SHARE

Earnings per share is the result of dividing the net income by the weighted average of the Institution's shares in circulation during the year.

Earnings per share for the years ended December 31, 2009, 2008 and 2007 are shown below:

	2009			2008	2007
	Net Income	Weighted share average	Earnings per share	Earnings per share	Earnings per share
Net income per share	Ps. 5,132	71,082,026,450	Ps. 0.0722	Ps. 0.0935	Ps. 0.0878

32 – RISK MANAGEMENT (unaudited)

Authorized bodies

To ensure adequate risk management of the Institution, as of 1997 the Institution's Board of Directors created the Risk Policy Committee (CPR), whose purpose is to manage the risks to which the Institution 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 Institution, the General Director of Comprehensive Risk Management, the General Director of Banking, Savings and Welfare, and the General Director of the Brokerage House, as well as the General Director of Internal 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 Institution 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 Institution intends to introduce into the market
 - The corrective measures proposed by the Comprehensive Risk Management Unit
 - The manuals for comprehensive risk management
4. Appoint and remove the person responsible for the Comprehensive Risk Management Unit, who is ratified by the Board of Directors.
5. Inform the Board, at least every quarter, of the exposure to risk and its possible negative effects, as well as follow up on limits and tolerance levels.
6. Inform the Board of the corrective measures implemented.

33 – COMPREHENSIVE RISK MANAGEMENT UNIT (UAIR) (Not audited)

The function of the UAIR is to identify, measure, oversee, limit, control, report and disclose the different kinds of risk to which the Institution 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 Institutions", in relation to the independence of the different business areas.

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

- Credit Risk Management
- Market Risk and Liquidity Management;
- Operating Risk Management, and
- Risk Policy Management

The Institution 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 Institution, ensuring that they are preventive as much as possible, and supported by advanced systems and processes.
- Standardize risk measurement and control.
- Protect the Institution'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 Institution has segmented risk assessment and management into the following headings:

Credit Risk: volatility of revenues due to the creation of provisions for impairment of credits and potential credit losses due to nonpayment by a borrower or counterpart.

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

Liquidity Risk: potential loss derived from the impossibility of renewing debts or contracting others under normal conditions for the Institution, 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 groups includes all potential losses from damage, interruption, alteration or failures derived from the use of or dependence on hardware, software, systems, applications, networks and any other information distribution channel, while Legal Risk involves the potential loss from penalties for noncompliance with legal and administrative regulations or the issuance of adverse final court rulings in relation to the operations performed by the Institution.

Credit risk

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

The Institution's management credit risk objectives are as follows:

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

Individual credit risk

The Institution segments the loan portfolio into two large groups: 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 Internal Risk Rating CIR, form part of the credit strategy of the Institution 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 Institution 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 Institution in granting a credit to a customer depending on the economic activity which it performs. The types of risks evaluated in the Risk Acceptance Criteria are the financial risk, operating risk, market risk, company lifecycle risk, legal and regulatory risk, credit history and quality of management.

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

The CIR Banorte is in line with the "General Regulations Applicable to the Classification Methodology for the Loan Portfolio of Credit Institutions" issued by the Commission on December 2, 2005. The CIR Banorte has been certified by the Commission and by an international external auditor since 2001.

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

Portfolio credit risk

The Institution 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 Institution, 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 Institution on the terms and conditions originally agreed. The probability of default is based on the transition matrixes which the Institution 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 Institution 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 Institution. The individual risk identification tools and the portfolio credit risk methodology are reviewed and updated periodically to incorporate new techniques that can support or strengthen them.

As of December 31, 2009, the total portfolio of Banco Mercantil del Norte is Ps. 223,019. The expected loss represents 2.4% and the unexpected loss represents 3.9% of the total operating portfolio. The average expected loss was 2.5% for the period between October and December 2009. As of December 31, 2008, the Institution's total operating portfolio is Ps. 222,849. The expected loss represents 2.6% and the unexpected loss represents 4.4% of the total operating portfolio. The average expected loss was 2.4% for the period between October and December 2008.

Credit risk of financial instruments

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

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

Analysis policies include the type of information and variables considered to analyze operations with financial instruments when they're presented for their authorization by the corresponding committee, including information about the issuer or counterpart, financial instrument, operation destination and market information.

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

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

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

- 1) The probability of delinquency by the issuer, issue or counterpart; expressed as a percentage between 0% and 100%. The higher the rating, the lower the probability of delinquency and vice versa.
- 2) The gravity of the loss with respect to the operation's total in the event of noncompliance, expressed as a percentage between 0% and 100%. The better the sureties or credit structure, the lower the severity of the loss and vice versa.

As of December 31, 2009, the investment in securities exposure to credit risk is Ps. 213,274, of which 99.4% has a rating greater than or equal to A-(mex) on the local scale. This places them in investment grade and the three main issuers other than the Federal Government, Semi-Private agencies and Domestic Financial Institutions represent 23% of the basic capital as of September 2009. Additionally, the investment exposure with the same issuer other than the Federal Government that represents a concentration greater than or equal to 5% of the net capital as of September 2009 has a rating of at least AA+(mex) as is made up of (term and weighted average interest rate): 3-month Bancomer stock certificates for Ps. 14,001 at 4.8%; 5-month Pemex stock certificates and bonds for Ps. 8,445 at 6.2%; 3-month certificates of deposit of the Federal Mortgage Association for Ps. 5,012 at 4.8%; 27-year State and Municipal Governments securitized loan certificates for Ps. 4,321 at 5.3%; 4-month Banobras stock certificates and bonds for Ps. 4,043 at 4.8%; and 11-day Banco Inbursa promissory notes for Ps. 3,004 at 4.6%.

For derivatives, the exposure is (Ps. 2,669), of which 99.9% is rated at least A-(mex) on the local scale, which places them at an investment grade and the three main counterparts other than the Federal Government, Semi-Private agencies and Domestic Financial Institutions represent 5% of the basic capital as of September 2009.

As of December 31, 2008, the investment in securities exposure to credit risk is Ps. 236,192, of which 99.8% has a rating greater than or equal to A-(mex) on the local scale. This places them in investment grade and the three main issuers other than the Federal Government, Semi-Private agencies and Domestic Financial Institutions represent 24% of the basic capital as of September 2008. Additionally, the investment exposure with the same issuer other than the Federal Government that represents a concentration greater than or equal to 5% of the net capital as of September 2008 has a rating of at least A+(mex) as is made up of: Bancomer Ps. 16,126; Pemex Ps. 8,977; Banco Inbursa Ps. 5,551; Sociedad Hipotecaria Federal Ps. 5,002; Banobras Ps. 4,707; Securitization of State and Municipal Governments Ps. 4,498, and HSBC Ps. 2,616.

For derivatives, the exposure is (Ps. 2,835), of which 98.9% is rated at least A-(mex) on the local scale, which places them at an investment grade and the three main counterparts represent 8% of the basic capital as of September 2008.

Risk diversification

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

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

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

Basic capital as of September 30, 2009	Ps. 31,844
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I. Financing whose individual amount represents more than 10% of basic capital:

Credit transactions

Number of financings	1
Amount of financings taken as a whole	4,532
% in relation to basic capital	14%

Money market transactions

Number of financings	1
Amount of financings taken as a whole	4,321
% in relation to basic capital	14%

Overnight transactions

Number of financings	1
Amount of financings taken as a whole	5,618
% in relation to basic capital	18%

II. Maximum amount of financing with the three largest debtors and common risk groups	Ps. 15,945
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Market risk

Value at risk

The exposure to market risk is determined through the calculation of the Value at Risk ("VaR"). The meaning of the VaR under this method is the potential day loss that could be generated in the valuation of the portfolios at a given date. This methodology is used both for the calculation of market risk and for the establishment and control of internal limits.

The Institution applies a non-parametric statistical simulation method to calculate the VaR, considering for such purpose a 99% confidence level, using the 500 immediate historical scenarios, multiplying the result by a security factor that fluctuates between 3 and 4 depending on the annual Back Testing results calculated on the previous quarter, considering 10 days to dispose of the risk portfolio in question. These measures insure that outlying values are considered in the main risk factors that affect such portfolios.

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

The average VaR for financial instruments portfolio was Ps. 2,584 for the last quarter 2009.

	4Q08	1Q09	2Q09	3Q09	4Q09
VaR Banorte*	Ps. 2,430	Ps. 2,357	Ps. 2,861	Ps. 3,123	Ps. 2,584
Banorte net capital***	43,248	44,198	45,949	46,898	49,679
VaR / net capital Banorte	5.62%	5.33%	6.23%	6.66%	5.20%

* Quarterly Average

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

Also, the average of the VaR for the risk factor of the portfolio of instrument described for the Institution behaved as follows during the fourth quarter of 2009:

Risk factor	VaR
Domestic interest rate	Ps. 2,582
Foreign interest rate	648
Exchange rate	122
Capital	131
Total VaR	Ps. 2,584

The VaR for each of the risk factors presented is determined by simulating 500 historical scenarios of the variables comprising each of such factors, holding the variables that affect the other risk factors shown constant. The total VaR for the Institution considers the correlations of all the risk factors influencing the valuation of the portfolios, as a result the arithmetical sum of all of the VaR Factors does not equal the total VAR.

Operations with derivative products

The one-day individual VaR that the Institution has for each type of trading and hedging derivatives for the fourth quarter of 2009 was:

Trading derivatives	4Q08	4Q09
Futures		
MEXDER rate futures	Ps. -	Ps. -
Exchange rate derivatives		
Forwards	2	15
Options	1	-
Rate options	6	4
Swap options	-	2
Swaps		
TIIE swaps	19	12
LIBOR swaps	-	2
Cross currency exchange rate swaps	212	207
Total trading derivatives	Ps. 240	Ps. 242

Hedging derivatives	4Q08	4Q09
Swaps		
Cross currency exchange rate swaps for portfolio hedging in USD	Ps. 10	Ps. 8
Cross currency exchange rate swaps for obligations hedging in USD	179	145
Cross currency exchange rate swaps for bonds hedging in USD	305	304
TIIE swaps for obligations hedging in Mexican pesos	30	63
TIIE swaps for promissory note hedging in Mexican pesos	139	265
Rate operations for portfolio hedging at a fixed rate	40	59
Total hedging derivatives	Ps. 703	Ps. 844

To calculate the VaR for each of the derivatives listed, the non-parametric statistical simulation method is applied to a 99% level of confidence and a one-day horizon. For instance, the Value at Risk for TIIE Swaps is Ps. 21. This means that under normal condition, 99 days out of every 100 the maximum potential loss is Ps. 21 in one day.

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

Investments in securities

The one-day individual VaR that the Institution has for each type of securities for the fourth quarter of 2009 is:

Trading securities	4Q08	4Q09
Variable rate government bonds	Ps. -	Ps. 7
Fixed rate government bonds	-	2
Bank bonds	2	3
Securitization certificates	36	37
Capital	8	13
US treasury bonds	-	3
PEMEX Eurobonds	5	28
UMS	12	12
Bank eurobonds	110	107
Private company eurobonds	18	11
Total	Ps. 191	Ps. 223

Securities at maturity	4Q08	4Q09
Variable rate government bonds	Ps. 108	Ps. 92
Fixed rate government bonds	2	4
Securitization certificates	40	42
CEDES	1	4
Bank bonds	3	-
PEMEX eurobonds	140	157
UMS	52	89
Zero coupon bank bonds	11	11
Private company eurobonds	3	4
Total	Ps. 360	Ps. 403

To calculate the VaR for each of the derivatives listed, the non-parametric historic simulation method is applied to a 99% level of confidence and a one-day horizon. For instance, the Value at Risk for trading UMS is Ps. 12. This means that under normal condition, 99 days out of every 100 the maximum potential loss is Ps. 12 in one day.

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

Backtesting analysis

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

As a result of Backtesting during 2009, the following three events showed losses that exceeded the one-day VaR calculations:

Event date	Affected risk factor
February 19, 2009	Interest rate increase
February 20, 2009	Interest rate increase
February 26, 2009	Interest rate increase

Sensitivity analysis and tests under extreme conditions

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

Sensitivity for derivatives transactions

Sensitivity analysis on derivatives transactions is carried out as follows:

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

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

Trading derivatives	+100 bp domestic rates	+100 bp foreign rates	+5% exchange rate
Futures			
MEXDER rate futures	(Ps. 1)	Ps. -	Ps. -
Exchange rate derivatives			
Forwards	(1)	1	(26)
Rate options	(22)	-	-
Swap options	(2)	-	-
Swaps			
TIIE swaps	30	-	-
LIBOR swaps	-	-	1
Cross currency exchange rate swaps	(146)	194	(270)
Total trading derivatives	(Ps. 142)	Ps. 195	(Ps. 295)

Hedging derivatives	+100 bp domestic rates	+100 bp foreign rates	+5% exchange rate
Swaps			
Cross currency exchange rate swaps for portfolio hedging in USD	(Ps. 1)	Ps. 2	(Ps. 13)
Cross currency exchange rate swaps for obligations hedging in USD	51	(71)	252
TIIE swaps for obligations hedging in Mexican pesos	162	-	-
TIIE swaps for promissory note hedging in Mexican pesos	562	-	-
Rate operations for portfolio hedging at a fixed rate	64	-	-
Total hedging derivatives	Ps. 838	(Ps. 69)	Ps. 239

In the event of any of above scenarios, the losses or gains of the trading securities will directly impact the Institution's statements of income and capital hedging derivatives.

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

Sensitivity for securities transactions

Sensitivity analysis on securities transactions is carried out as follows:

- Estimate gain or loss of the securities valuation in the event of:
 - A parallel change of +100 basis points of domestic interest rates
 - A parallel change of +100 basis points of foreign interest rates
 - A 5% devaluation in the MXP/USD and MXP/EUR exchange rate.
 - A change of +5 basis points in government bond surcharges.
 - A change of +50 basis points in sovereign risk.

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

Trading securities	+100 bp domestic rates	+100 bp foreign rates	+5% exchange rate	+5 bp surcharges	+50 bp sovereign risk
Variable rate government bonds	(Ps. 13)	Ps. -	Ps. -	(Ps. 14)	Ps. -
Fixed rate government bonds	(8)	-	-	-	-
Securitization certificates	(7)	-	-	-	-
Promissory note payable upon maturity	(4)	-	-	-	-
US treasury bonds	-	(8)	6	-	-
PEMEX Eurobonds	-	(33)	48	-	(19)
UMS	-	(7)	21	-	(3)
Bank eurobonds	-	(126)	195	-	-
Private company eurobonds	-	(6)	19	-	-
Total	(Ps. 32)	(Ps. 180)	Ps. 289	(Ps. 14)	(Ps. 22)

Securities at maturity	+100 bp domestic rates	+100 bp foreign rates	+5% exchange rate	+5 bp sur-charges	+50 bp sovereign risk
Variable rate government bonds	(Ps. 170)	Ps. -	Ps. -	(Ps. 154)	Ps. -
Fixed rate government bonds	(16)	-	-	-	-
Securitization certificates	(32)	-	-	-	-
Zero coupon government bonds	(1)	-	-	-	-
Promissory note payable upon maturity	(4)	-	-	-	-
CEDES	(1)	-	-	-	-
PEMEX eurobonds	-	(214)	280	-	(109)
UMS	-	(132)	154	-	(67)
Zero coupon bank bonds	(1)	(44)	-	-	-
Private company eurobonds	-	(3)	2	-	-
Total	(Ps. 225)	(Ps. 393)	Ps. 436	(Ps. 154)	(Ps. 176)

In the event of any of above scenarios, the losses or gains of the operations with trading securities and securities at maturity will directly impact the Institution's results.

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

Liquidity and balance sheet risk

In order to provide a measurement of liquidity risk in the Institution and provide follow-up consistently, the Institution relies on the use of financial ratios, which include the Liquidity Ratio (Liquid Assets/Liquid Liabilities), which consider among the liquid assets the cash and cash equivalents, trading securities and available-for-sale securities. By the same token, liquid liabilities include immediate demand deposits, immediate demand interbank loans and short-term loans. The liquidity ratio at the end of the fourth quarter of 2009 is 63.9%, while the average during the quarter is 71.0%, as shown below:

End of quarter					
	4T08	1T09	2T09	3T09	4T09
Liquid assets	Ps. 72,557	Ps. 73,101	Ps. 90,359	Ps. 85,221	Ps. 91,931
Liquid liabilities	147,498	143,671	142,566	136,930	143,834
Liquidity ratio	49.2%	50.9%	63.4%	62.2%	63.9%

Average					
	4T08	1T09	2T09	3T09	4T09
Liquid assets	Ps. 64,453	Ps. 60,386	Ps. 74,492	Ps. 83,046	Ps. 92,729
Liquid liabilities	127,061	125,844	129,632	127,571	130,575
Liquidity ratio	50.7%	48.0%	57.5%	65.1%	71.0%

Average calculation considering the Liquidity Ratio's weekly estimates

To quantify and follow up on the liquidity risk for its dollar portfolio, the Institution 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 Institution, 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 Institution, which provides either a systematic or dynamic evaluation of the future behavior of the balance sheet. The base scenario is used to prepare sensitivity analyses for movements in domestic, foreign and real interest rates. Also, tests are performed under extreme conditions to evaluate the result of extreme changes in interest, funding and exchange rates.

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

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

Net position			
Gap	Asset position	Liability position	Net
1 month	Ps. 271	(Ps. 289)	(Ps. 18)
3 months	3	-	3
6 months	2	(12)	(10)
1 year	5	(247)	(242)
2 years	655	(70)	585
3 years	1	(40)	(39)
4 years	166	(259)	(93)
5 years	460	(411)	49
7 years	361	(709)	(348)
10 years	4	(1,051)	(1,047)
15 years	6	-	6
20 years	8	(12)	(4)
> 20 years	3	(13)	(10)
Total	Ps. 1,945	(Ps. 3,113)	(Ps. 1,168)

Operating risk

As of January 2003, the Institution established a formal operating risk department denominated "Operating Risk Management Department" as part of its Risk Management Strategy.

The Institution defines Operating Risk as the potential loss due to failures or deficiencies in internal controls because of operation processing and storing or in data transfer, and adverse administrative and judicial rulings, frauds or theft (this definition includes Technology and Legal risk).

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

Operating risk management's cornerstones

I. Policies, objectives and guidelines

The Institution has documented the Operating Risk policies, objectives, guidelines, methodologies and responsible areas.

The Operating Risk Department works closely with the Controllershship Department to promote effective Internal Control that defines the proper procedures and controls to mitigate Operating Risk. The Internal Audit Department follows up on compliance.

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

II. Quantitative and qualitative measuring tools

Operating Losses Database

To record operating loss events, a system has been developed internally known as the "Operating Loss and Events Capture System" (SCERO). This system enables the central information supplier areas to directly record such events online, which are classified by type of event in accordance with the following categories (in line with the Basle II Agreement proposals):

Types of events	Description
Internal fraud	Losses derived from actions intended to defraud, illegally seize ownership or evade the regulations, law or policies of the Institution (excluding diversity/discrimination events) involving at least one internal party.
External fraud	Losses derived from actions taken by third parties intended to defraud, illegally seize ownership or evade the law.
Labor relations and job safety	Losses derived from actions inconsistent with laws or employment, health or safety agreements, or which result in the payment of claims for damages to personnel or diversity/discrimination claims.
Customers, products and business practices	Losses derived from negligence or unintentional breaches which prevent compliance with professional obligations with customers (including trust and adaptation requirements or due to the nature or design of a product.
Natural disasters and other events	Losses due to damage or harm to physical assets due to natural disasters or other events.
Business incidences and system failures	Losses derived from incidences in the business and system failures.
Process execution, delivery and management	Losses derived from errors in transaction processing or in process management, as well as relations with counterparties and suppliers.

This historical database provides the statistics of the operating events experienced by the Institution in order to be able to determine the respective trends, frequency, impact and distribution. Furthermore, the database will serve to calculate capital requirements for advanced models in the future.

Legal and tax contingencies database

For the recording and follow-up of legal, administrative and tax issues that may arise from adverse unappealable ruling, an internal system called “Legal Risk Issues Monitoring System” (SMARL) was developed. This system enables the central data supplying areas to record such events directly and on-line, which are then classified by company, sector and legal issue, among others.

As part of the Institution’s Legal Risk management initiative, legal and tax contingencies are estimated by the attorneys that process the issues based on an internal methodology. This makes it possible to create the necessary book reserve to face such estimated contingencies.

Risk management model

The Institution and its subsidiaries 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 by Regulations Control are recorded in a risk matrix and processed to eliminate or mitigate them (trying to reduce their severity or frequency) and to define the tolerance levels, as applicable. A new Operating Risk Management Model and the technology tool for its implementation are currently being developed.

III. Calculating capital requirement

On November 23, 2007, the Official Gazette of the Federation published the Operating Risk Capitalization Rules that set forth a basic model, which is calculated and reported periodically to the authorities.

IV. Information and reporting

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

Technology risk

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

To address operating risk associated with data integrity, the “Integrity Committee” was created. Its objectives include aligning data security and control efforts to a prevention approach, defining new strategies, policies, processes or procedures and solving data security issues that affect or may affect the Institution’s assets.

The Institution performs the functions for Technology Risk Management set forth by the Commission under the guidelines established by the institutional regulations and the Integrity Committee.

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

Legal risk

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

The legal risk must be measured as an inherent part of operating risk in order to understand and estimate its impact. Therefore, those legal issues which result in actual operating losses in the SMARL system are recorded in the SCERO in accordance with a predetermined classification.

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

34 – MEMORANDUM ACCOUNTS

	2009	2008
Contingent assets and liabilities	Ps. 273	Ps. 266
Unused portion of credit commitments	2,271	2,793
Institution securities delivered into custody	112,942	90,469
Managed assets in custody	154,831	128,137
Collateral received by the institution	33,464	31,567
Collateral received and sold or given as a pledge by the entity	11,097	-
Investment banking transactions on account of third parties, net	74,646	84,615
Past-due loan portfolio accrued and uncollected interest	198	136
	Ps. 389,722	Ps. 337,983
Securities to be received in repurchase agreements	-	Ps. 4,248
Less: Creditor repurchase and resale agreement	-	(4,341)
	Ps. -	(Ps. 93)

35 – COMMITMENTS

As of December 31, 2009 and 2008, the Institution had the following contingent obligations and commitments:

- Other contingent obligations and opening of credits totaling Ps. 2,545 (Ps. 3,059 in 2008), which are recorded in memorandum accounts.
- Certain real property and operating equipment are leased. Total property lease payments for the periods ended December 31, 2009 and 2008, were Ps. 197 and Ps. 159, respectively.

36 – CONTINGENCIES

As of December 31, 2009, the Institution is subject to various legal proceedings and claims. However, the Institution's attorneys consider that the claims filed are unsubstantiated and, even if the claims are resolved in a manner unfavorable to the Institution there should not be a material adverse effect on the Institution's financial position or results of operations. A reserve of Ps. 77 is recorded for such contentious matters.

37 - SAVINGS PREVENTIVE AND PROTECTION MECHANISM

The objective of the Institute for the Protection of Bank Savings (IPAB) Instituto para la Protección al Ahorro Bancario is to protect the deposits of small customer and thereby contribute to maintaining the financial system's stability and the proper functioning of the payments systems.

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

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

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

During 2009 and 2008, the amount of contributions to the IPAB payable by Banorte for fees amounted to Ps. 1,073 and Ps. 938, respectively.

Independent Accountant's Review Report

To the Board of Directors and Stockholders of Banco Mercantil del Norte, S.A., Institución de Banca Múltiple, Grupo Financiero Banorte

We have reviewed the accompanying consolidated balance sheet of Banco Mercantil del Norte, S.A., Institución de Banca Múltiple, Grupo Financiero Banorte, its subsidiaries and UDI Trusts (the "Institution") as of March 31, 2010, and the related consolidated statements of income, changes in stockholders' equity and cash flows for the three month periods ended March 31, 2010 and 2009. These interim financial statements are the responsibility of the Institution's management.

We conducted our review in accordance with auditing standards generally accepted in Mexico. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in Mexico, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review and the report of other accountants, we are not aware of any material modifications that should be made to such consolidated interim financial statements for them to be in conformity with the accounting practices prescribed by the Mexican National Banking and Securities Commission (the "Commission").

We have previously audited, in accordance with auditing standards generally accepted in Mexico, the consolidated balance sheet of Banco Mercantil del Norte, S.A., Institución de Banca Múltiple, Grupo Financiero Banorte, its subsidiaries and UDI Trusts as of December 31, 2009, and the related consolidated statements of income, stockholders' equity, and cash flows for the year then ended (not presented herein); and in our report dated February 19, 2010, we expressed an unqualified opinion on those consolidated financial statements.

Our review also comprehended the translation of the Mexican peso amounts into U.S. dollar amounts in conformity with the basis stated in Note 2. The translation of the financial statement amounts into U.S. dollars and the translation of the financial statements into English have been made solely for the convenience of readers in the United States of America.

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

C.P.C. Fernando Noguera Conde
June 15, 2010

**BANCO MERCANTIL DEL NORTE, S.A.,
INSTITUCIÓN DE BANCA MÚLTIPLE, GRUPO FINANCIERO BANORTE
CONSOLIDATED BALANCE SHEETS OF THE INSTITUTION, ITS SUBSIDIARIES AND UDI TRUSTS
AS OF MARCH 31, 2010 (UNAUDITED) AND DECEMBER 31, 2009**
(In millions of Mexican pesos and in millions of U.S. dollars)

ASSETS	March 31, 2010	March 31, 2010	December 31, 2009
CASH AND CASH EQUIVALENTS	US\$ 4,730	Ps. 58,321	Ps. 59,262
MARGIN SECURITIES	4	46	18
INVESTMENTS IN SECURITIES			
Trading securities	3,055	37,674	20,131
Available for sale securities	1,109	13,674	12,538
Held to maturity securities	13,998	172,599	189,964
	18,162	223,947	222,633
DEBTOR BALANCES UNDER REPURCHASE AND RESALE AGREEMENTS	-	2	2
DERIVATIVE FINANCIAL INSTRUMENTS			
For trading purposes	402	4,963	4,824
For hedging purposes	62	762	1,056
	464	5,725	5,880
CURRENT LOAN PORTFOLIO			
Commercial loans			
Business loans	8,231	101,489	105,338
Loans to financial institutions	642	7,918	8,923
Government loans	3,325	40,995	38,982
Consumer loans	2,089	25,754	25,704
Housing mortgage loans	4,143	51,083	49,881
TOTAL CURRENT LOAN PORTFOLIO	18,430	227,239	228,828
PAST-DUE LOAN PORTFOLIO			
Commercial loans			
Business loans	291	3,592	3,060
Consumer loans	127	1,565	1,942
Housing mortgage loans	70	860	1,049
TOTAL PAST-DUE LOAN PORTFOLIO	488	6,017	6,051
LOAN PORTFOLIO	18,918	233,256	234,879
(Minus) Allowance for loan losses	(592)	(7,295)	(7,358)
LOAN PORTFOLIO, net	18,326	225,961	227,521
ACQUIRED LOAN PORTFOLIOS	197	2,426	2,548
TOTAL LOAN PORTFOLIO, net	18,523	228,387	230,069
SECURITIZATION TRANSACTION RECEIVABLES	33	406	433
OTHER ACCOUNTS RECEIVABLE, net	983	12,120	11,123
FORECLOSED ASSETS, net	74	911	928
PROPERTY, FURNITURE AND FIXTURES, net	597	7,365	7,153
PERMANENT STOCK INVESTMENTS	113	1,399	1,288
DEFERRED TAXES, net	111	1,373	1,466
OTHER ASSETS			
Other assets, deferred charges and intangible assets	743	9,161	9,175
TOTAL ASSETS	US\$ 44,537	P.s 549,163	Ps. 549,430

See accompanying notes to these consolidated general balance sheets.

LIABILITIES	March 31, 2010	March 31, 2010	December 31, 2009
DEPOSITS			
Demand deposits	US\$ 10,216	Ps. 125,970	Ps. 137,607
Time deposits			
General public	11,400	140,573	134,141
Money market	400	4,929	3,313
	22,016	271,472	275,061
INTERBANK AND OTHER LOANS			
Demand loans	-	1	21
Short-term loans	527	6,495	6,207
Long-term loans	390	4,814	5,058
	917	11,310	11,286
ASSIGNED SECURITIES PENDING SETTLEMENT	22	268	159
CREDITOR BALANCES UNDER REPURCHASE AND RESALE AGREEMENTS	15,014	185,135	181,959
COLLATERAL SOLD OR PLEDGED			
Repurchase or resale agreements (creditor balance)	-	-	2
DERIVATIVE FINANCIAL INSTRUMENTS			
For trading purposes	387	4,773	4,553
For hedging purposes	278	3,423	3,822
	665	8,196	8,375
OTHER PAYABLES			
Income tax	34	418	580
Employee profit sharing	20	247	672
Creditors from liquidation settlements	205	2,523	2,223
Sundry creditors and other payables	711	8,771	8,373
	970	11,959	11,848
SUBORDINATED DEBENTURES	1,447	17,838	18,168
DEFERRED CREDITS AND ADVANCED COLLECTIONS	125	1,536	1,566
TOTAL LIABILITIES	41,176	507,714	508,424
STOCKHOLDERS' EQUITY			
PAID-IN CAPITAL			
Common stock	932	11,488	11,488
Additional paid-in capital	202	2,490	2,490
	1,134	13,978	13,978
OTHER CAPITAL			
Capital reserves	378	4,659	4,659
Retained earnings from prior years	1,874	23,109	18,339
Result from valuation of available for sale securities	31	387	315
Result from valuation of cash flow hedging instruments	(149)	(1,832)	(1,404)
Cumulative foreign currency translation adjustment	(81)	(1,003)	(679)
Net income	116	1,435	5,132
	2,169	26,755	26,362
NONCONTROLLING INTEREST	58	716	666
TOTAL STOCKHOLDERS' EQUITY	3,361	41,449	41,006
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	US\$ 44,537	Ps. 549,163	Ps. 549,430

**BANCO MERCANTIL DEL NORTE, S.A.,
INSTITUCIÓN DE BANCA MÚLTIPLE, GRUPO FINANCIERO BANORTE
CONSOLIDATED STATEMENTS OF INCOME OF THE INSTITUTION, ITS SUBSIDIARIES AND UDI TRUSTS
FOR THE THREE MONTHS ENDED MARCH 31, 2010 AND 2009 (UNAUDITED)**

(In millions of Mexican pesos and in millions of U.S. dollars)

	March 31, 2010	March 31, 2010	March 31, 2009
Interest income	US\$ 790	Ps. 9,737	Ps. 12,852
Interest expense	(355)	(4,382)	(6,873)
FINANCIAL MARGIN	435	5,355	5,979
Provision for loan losses	(142)	(1,746)	(2,144)
FINANCIAL MARGIN AFTER PROVISION FOR LOAN LOSSES	293	3,609	3,835
Commission and fee income	164	2,017	1,774
Commission and fee expense	(30)	(371)	(306)
Brokerage revenues	41	506	202
Other revenues	23	285	237
	198	2,437	1,907
NET OPERATING REVENUES	491	6,046	5,742
Administrative and promotional expenses	(324)	(3,978)	(4,132)
OPERATING INCOME	167	2,068	1,610
Other income	14	173	568
Other expenses	(12)	(154)	(156)
INCOME BEFORE INCOME TAX	169	2,087	2,022
Current income tax	(44)	(540)	(234)
Deferred income taxes, net	(7)	(82)	(316)
	(51)	(622)	(550)
INCOME BEFORE EQUITY IN EARNINGS OF ASSOCIATED COMPANIES	118	1,465	1,472
Equity in earnings of associated companies	2	20	(1)
INCOME BEFORE NONCONTROLLING INTEREST	120	1,485	1,471
Noncontrolling interest	(4)	(50)	(53)
NET INCOME	US\$ 116	Ps. 1,435	Ps. 1,418

See accompanying notes to these consolidated financial statements.

BANCO MERCANTIL DEL NORTE, S.A.,
INSTITUCIÓN DE BANCA MÚLTIPLE, GRUPO FINANCIERO BANORTE
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY OF THE INSTITUTION, ITS SUBSIDIARIES AND UDI TRUSTS
FOR THE THREE MONTHS ENDED MARCH 31, 2010 AND 2009 (UNAUDITED)
(In millions of Mexican pesos and in millions of U.S. dollars)

	PAID-IN CAPITAL		OTHER CAPITAL			
	Common stock	Additional paid-in capital	Capital reserves	Retained earnings from prior years	Result from valuation of available for sale securities	Result from valuation of cash flow hedging instruments
Balances, December 31, 2008	Ps. 10,955	Ps. 853	Ps. 4,005	Ps. 13,426	(Ps. 237)	(Ps. 1,626)
TRANSACTIONS APPROVED BY STOCKHOLDERS:						
Transfer of prior year's result	-	-	-	6,543	-	-
Total transactions approved by stockholders	-	-	-	6,543	-	-
COMPREHENSIVE INCOME						
Net income	-	-	-	-	-	-
Result from valuation of available for sale securities	-	-	-	-	(762)	-
Effect of subsidiaries, affiliates and mutual funds	-	(1)	-	19	-	-
Cumulative foreign currency translation adjustment	-	-	-	-	-	-
Result from valuation of cash flow hedging instruments	-	-	-	-	-	(12)
Total comprehensive income	-	(1)	-	19	(762)	(12)
Noncontrolling interest	-	-	-	-	-	-
Balances, at March 31, 2009	10,955	852	4,005	19,988	(999)	(1,638)
Balances, December 31, 2009	11,488	2,490	4,659	18,339	315	(1,404)
TRANSACTIONS APPROVED BY STOCKHOLDERS:						
Transfer of prior year's result	-	-	-	5,132	-	-
Dividend declared at the General Stockholders' Meeting on February 15, 2010	-	-	-	(370)	-	-
Total transactions approved by stockholders	-	-	-	4,762	-	-
COMPREHENSIVE INCOME						
Net income	-	-	-	-	-	-
Result from valuation of available for sale securities	-	-	-	-	72	-
Effect of subsidiaries, affiliates and mutual funds	-	-	-	8	-	-
Cumulative foreign currency translation adjustment	-	-	-	-	-	-
Result from valuation of cash flow hedging instruments	-	-	-	-	-	(428)
Total comprehensive income	-	-	-	8	72	(428)
Noncontrolling interest	-	-	-	-	-	-
Balances, at March 31, 2010	Ps. 11,488	Ps. 2,490	Ps. 4,659	Ps. 23,109	Ps. 387	(Ps. 1,832)

OTHER CAPITAL						
	Cumulative foreign currency translation adjustment	Effect of holding non monetary assets	Net income	Total majority interest	Noncon- trolling interest	Total stockholders' equity
Balances, December 31, 2008	Ps. 1,123	Ps. 87	Ps. 6,543	Ps. 35,129	Ps. 913	Ps. 36,042
TRANSACTIONS APPROVED BY STOCKHOLDERS						
Transfer of prior year's result	-	-	(6,543)	-	-	-
Total transactions approved by stockholders	-	-	(6,543)	-	-	-
COMPREHENSIVE INCOME						
Net income	-	-	1,418	1,418	-	1,418
Result from valuation of available for sale securities	-	-	-	(762)	-	(762)
Effect of subsidiaries, affiliates and mutual funds	-	-	-	18	-	18
Cumulative foreign currency translation adjustment	151	-	-	151	-	151
Result from valuation of cash flow hedging instruments	-	-	-	(12)	-	(12)
Total comprehensive income	151	-	1,418	813	-	813
Noncontrolling interest	-	-	-	-	46	46
Balances, at March 31, 2009	1,274	87	1,418	35,942	959	36,901
Balances, December 31, 2009	(679)	-	5,132	40,340	666	41,006
TRANSACTIONS APPROVED BY STOCKHOLDERS						
Transfer of prior year's result	-	-	(5,132)	-	-	-
Dividend declared at the General Stockholders' meeting on February 15, 2009	-	-	-	(370)	-	(370)
Total transactions approved by stockholders	-	-	(5,132)	(370)	-	(370)
COMPREHENSIVE INCOME						
Net income	-	-	1,435	1,435	-	1,435
Result from valuation of available for sale securities	-	-	-	72	-	72
Effect of subsidiaries, affiliates and mutual funds	-	-	-	8	-	8
Cumulative foreign currency translation adjustment	(324)	-	-	(324)	-	(324)
Result from valuation of cash flow hedging instruments	-	-	-	(428)	-	(428)
Total comprehensive income	(324)	-	1,435	763	-	763
Noncontrolling interest	-	-	-	-	50	50
Balances, March 31, 2010	(Ps. 1,003)	Ps. -	Ps. 1,435	Ps. 40,733	Ps. 716	Ps. 41,449

See accompanying notes to these consolidated financial statements.

**BANCO MERCANTIL DEL NORTE, S.A.,
INSTITUCIÓN DE BANCA MÚLTIPLE, GRUPO FINANCIERO BANORTE**
**CONSOLIDATED STATEMENTS OF CASH FLOWS OF THE INSTITUTION, ITS SUBSIDIARIES AND UDI TRUSTS FOR THE THREE
MONTHS ENDED MARCH 31, 2010 AND 2009**

(In millions of Mexican pesos and in millions of U.S. dollars)

	March 31, 2010	March 31, 2010	March 31, 2009
	US\$ 116	Ps. 1,435	Ps. 1,418
Net Income			
Items not requiring (generating) resources:			
Provision for loan losses	142	1,746	2,144
Provision doubtful accounts receivable	5	64	18
Depreciation and amortization	16	202	160
Other provisions	(47)	(581)	(975)
Current and deferred income tax	50	622	550
Equity in earnings of unconsolidated subsidiaries and associated companies	2	30	54
	284	3,518	3,369
OPERATING ACTIVITIES:			
Changes in margin securities	(2)	(29)	(8)
Changes in investments in securities	(136)	(1,671)	3,676
Changes in debtor balances under repurchase and resale agreements	-	1	(1,501)
Changes in derivative financial instrument (asset)	(11)	(139)	(1,081)
Change in loan portfolio	(81)	(1,002)	246
Changes in acquired loan portfolios	10	122	126
Changes in securitization transaction receivables	2	27	98
Change in foreclosed assets	(1)	(12)	34
Change in other operating assets	(103)	(1,275)	(3,802)
Change in deposits	(188)	(2,321)	(5,997)
Change in interbank and other loans	2	28	4,257
Change in creditor balances under repurchase and sale agreements	266	3,284	(798)
Change in collateral sold or given as guarantees	-	(2)	303
Change in derivative financial instrument liability	18	219	1,030
Change in subordinated debentures	(25)	(314)	(2,566)
Change in other operating liabilities	10	127	4,565
Change in hedging instruments (operating activities related hedged items)	(43)	(533)	171
Net operating activity cash flows	2	28	2,122
INVESTING ACTIVITIES:			
Proceeds on disposal of property, furniture and fixtures	2	22	1
Acquisition of property, furniture and fixtures	(39)	(475)	(222)
Acquisition of subsidiaries and associated companies	(7)	(88)	(5)
Acquisition of other permanent investments	-	1	1
Net investing activity cash flows	(44)	(540)	(225)
FINANCING ACTIVITIES:			
Dividends paid	(30)	(370)	-
Net financing activity cash flows	(30)	(370)	-
Net increase in cash and cash equivalents	(72)	(882)	1,897
Adjustments to cash flows from variation in the foreign exchange rate	(4)	(59)	12
Cash and cash equivalents at the beginning of the year	4,806	59,262	54,387
Cash and cash equivalents at the end of the year	US\$ 4,730	Ps. 58,321	Ps. 56,296

See accompanying notes to these consolidated financial statements.

**BANCO MERCANTIL DEL NORTE, S.A.,
INSTITUCIÓN DE BANCA MÚLTIPLE, GRUPO FINANCIERO BANORTE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS OF THE INSTITUTION, ITS SUBSIDIARIES AND UDI
TRUSTS
FOR THE THREE MONTHS ENDED MARCH 31, 2010 AND 2009 (UNAUDITED) AND DECEMBER 31, 2009**
(In millions of Mexican pesos and in millions of U.S. dollars, except exchange rates)

1 – ACTIVITY AND REGULATORY ENVIRONMENT

Banco Mercantil del Norte, S.A., Banco Mercantil del Norte, S.A. Institución de Banca Múltiple, Grupo Financiero Banorte (the “Institution”) is a full-service banking institution whose main activities are regulated by the Credit Institutions Law (LIC), Banco de México and the Mexican National Banking and Securities Commission (the “Commission”). Its activities consist of receiving deposits, accepting and granting loans and credits, attracting public funds, making investments in securities, carrying out repurchase agreements, performing transactions with derivative financial instruments (futures, swaps, options and forward contracts), together with other full service banking operations, in accordance with the LIC.

The principal regulatory aspects require that the Institution maintain a minimum capitalization ratio in relation to the market and credit risks derived from its operations, compliance with certain acceptance limits for deposits, debt securities and other types of funding which may be denominated in foreign currency, and establish minimum limits for paid in capital and capital reserves, with which requirements the Institution has satisfactorily complied as of March 31, 2010.

The Institution is a 92.72% subsidiary of Grupo Financiero Banorte, S. A. B. de C. V. (the “Financial Group”)

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

2 – BASIS OF PRESENTATION

Consolidation of financial statements

The accompanying consolidated financial statements include those of the Institution, the restructured credit portfolio trusts in Investment Units (UDI), which were created to manage the Institution's restructured portfolio through credit support programs, in which the Institution acts as settlor and trustee, and the Federal Government as beneficiary, and those of its subsidiaries. Permanent investments in mutual funds, as well as investments in associated companies, are stated by the equity method in accordance with accounting criteria established by the Commission.

The UDI trusts have been stated and consolidated based on the accounting guidelines established by the Commission, which include the following:

- a) The trust asset and liability accounts denominated in UDI are valued in Mexican pesos by applying the UDI value published by Banco de México on the last day of the year.
- b) The profit and loss accounts of the trusts denominated in UDI are valued in accordance with the average daily value of the UDIS for the period presented.

All significant intercompany balances and transactions have been eliminated in consolidation.

As of March 31, 2010, the Institution's ownership percentages in consolidated subsidiaries are:

Derivados Banorte, S.A. de C.V.	51.00%
Banorte Generali, S.A. de C. V., AFORE	51.00%
Banorte USA, Corporation and Subsidiaries	100.00%
Sólida Administradora de Portafolios, S.A. de C.V.	99.99%
Administradora de Servicios Profesionales Especializados, S.A. de C.V.	99.99%

The subsidiaries' main activity involves financial operations such as providing full service banking services in the United States, retirement fund management, purchase and sale of distressed receivables .

Explanation for translation into English

The accompanying consolidated financial statements have been translated from Spanish into English for the convenience of users. These consolidated financial statements are presented on the basis of accounting practices prescribed by the Commission. Certain accounting practices applied by the Institution may not conform to accounting principles generally accepted outside of Mexico.

The consolidated financial statements are stated in millions of Mexican pesos ("Ps.") the currency of the country in which the Institution is incorporated and has its principal operations. The translations of Mexican pesos into U.S. dollars ("US\$") are included solely for the convenience of the readers and have been made at the rate of Ps. 12.3306 per one U.S. dollar on March 31, 2010, as issued by the Banco de Mexico. Such translation should not be construed as representations that the Mexican peso amounts have been, could have been, or could in the future, be converted into U.S. dollars at this rate or at any other rate, if at all.

Accounting policies

The significant accounting policies used by the Institution to prepare the accompanying unaudited interim condensed consolidated financial statements 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 accompanying unaudited condensed consolidated financial statements and make the required disclosures therein. Although these estimates and assumptions are based on management's considerations of current events, actual results may differ

Pursuant to accounting Circular A-1, "Basic Scheme of the Set of Accounting Criteria Applicable to Banking Institutions", prescribed by the Commission, the institutions' accounting will adhere to Mexican Financial Reporting Standards (MFRS or NIFs), defined by the Mexican Board for Research and Development of Financial Reporting Standards (CINIF), except when the Commission deems it necessary to apply a specific accounting standard or Circular, considering the fact that financial institutions perform specialized operations.

In the opinion of management, all adjustments (including normal recurring accruals) considered necessary for a fair presentation have been included in the accompanying unaudited condensed consolidated financial statements. The unaudited condensed consolidated interim financial statements should be read in conjunction with the audited consolidated interim financial statements as of December 31, 2009 and 2008 and for the three years ended December 31, 2009. The results of operations for the interim periods presented are not necessarily indicative of the annual results of operations.

For purposes of these unaudited condensed consolidated interim financial statements, certain information and disclosures normally included in annual financial statements prepared in accordance with the rules of the Commission, have been condensed or omitted. These unaudited condensed consolidated interim financial statements should be read in conjunction with the Institution's consolidated and audited financial statements for the years ended December 31, 2009, 2008 and 2007 included elsewhere in this offering memorandum.

Monetary unit of the financial statements

The unaudited condensed interim financial statements and notes as of and for the three months ended March 31, 2010 and 2009 and as of December 31, 2009 and 2008 and for the three years ended December 31, 2009 include balances and transactions in Mexican pesos of purchasing power of such dates.

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

In order to consolidate the financial statements of Banorte USA, they are first adjusted in the recording and functional currency (U.S. dollar) to conform to the accounting criteria established by the Commission. The financial statements are then converted to Mexican pesos according to the following methodology:

Foreign operations whose recording and functional currency are one and the same convert their financial statements using the following exchange rates: a) year-end rate for assets and liabilities, b) historical rate for stockholders' equity, and c) weighted average rate of the period for income, costs and expenses. The conversion effects are presented in stockholders' equity.

3 – INVESTMENTS IN SECURITIES

a. Trading securities

As of March 31, 2010 and December 31, 2009, trading securities are as follows:

	March 31, 2010			December 31, 2009	
	Acquisition cost	Accrued interest	Valuation increase (decrease)	Book value	Book value
CETES	Ps. 1,032	Ps. -	Ps. -	Ps. 1,032	Ps. 518
Bonds	6,553	7	4	6,564	520
Development bonds	-	-	-	-	2,464
Saving protection bonds (BPAS)	23,327	12	(18)	23,321	9,030
UDIBONDS	15	-	-	15	-
Bank securities	3,992	-	(1)	3,991	7,274
Securitization certificates	2,751	2	(2)	2,751	260
Treasury notes	-	-	-	-	65
	Ps. 37,670	Ps. 21	(Ps. 17)	Ps. 37,674	Ps. 20,131

b. Available for sale securities

As of March 31, 2010 and December 31, 2009, available for sale securities were as follows:

	March 31, 2010			December 31, 2009	
	Acquisition cost	Accrued interest	Valuation increase (decrease)	Book value	Book value
US Government bonds	Ps. 7,075	Ps. 27	Ps. 174	Ps. 7,276	Ps. 6,603
UMS	343	5	(4)	344	361
Treasury notes	479	1	(1)	479	-
Shares	828	-	288	1,116	1,090
Bonds	2,475	40	72	2,587	2,718
EUROBONDS	924	27	(24)	927	942
PEMEX bonds	889	10	46	945	824
	Ps. 13,013	Ps. 110	Ps. 551	Ps. 13,674	Ps. 12,538

c. Held- to-maturity securities

As of March 31, 2010 and December 31, 2009, the held-to-maturity securities are as follows:

Medium and long-term debt instruments:

	March 31, 2010			December 31, 2009
	Acquisition cost	Accrued interest	Book value	Book value
Government bonds- support program for Special Federal Treasury				
Certificates	Ps. 728	Ps. 3	Ps. 731	Ps. 725
Government bonds	609	(1)	608	631
Development bonds	33,032	8	33,040	33,127
Saving protection bonds (BPAS)	91,399	46	91,445	103,759
UMS	2,271	28	2,299	2,470
UDIBONOS	3	-	3	3
Separable securitization certificates	27	-	27	27
Bank securities	25,609	39	25,648	25,637
PEMEX bonds	4,588	87	4,675	4,991
Private securitization certificates	14,089	23	14,112	18,582
US Government bonds	11	-	11	12
	Ps. 172,366	Ps. 233	Ps. 172,599	Ps. 189,964

4 - CREDITOR BALANCES UNDER REPURCHASE AND RESALE AGREEMENTS

As of March 31, 2010 and December 31, 2009, the debtor and creditor balance in repurchase and resale transactions consist of:

Acting as seller

Instrument	March 31, 2010	December 31, 2009
	Creditor repurchase agreement	Creditor repurchase agreement
CETES	Ps. 851	Ps. 399
Development bonds	33,045	35,487
Bonds IPAB	817	551
Quarterly IPAB bonds	87,981	86,150
Semi-annual IPAB bonds	25,625	25,587
10-year bonds	605	625
20-year bonds	6,314	491
UDIBONOS	1	1
10-year UDIBONDS	3	3
Government securities	155,242	149,294
Promissory notes	2,191	2,970
CEDES	9,028	9,035
CEBUR Bank	7,628	7,628
Bank securities	18,847	19,633
Private paper	7,158	9,114
CEBUR government short term	855	2,481
Mortgage certificates	200	212
CEBUR government	2,833	1,200
Securitization certificates referred to commercial paper	-	25
Private securities	11,046	13,032
	Ps. 185,135	Ps. 181,959

With the Institution acting as seller, accrued premiums were charged to the results of operations for the three months as of March 31, 2010 and 2009, totaled Ps. 2,268 and Ps. 3,390 respectively.

During 2010 and 2009, the period of repurchase transactions entered into by the Institution in its capacity as vendor ranged from 1 to 177 days.

Acting as purchaser

Instrument	March 31, 2010				December 31, 2009			
	Repurchase agreement from debtors	Received, sold collateral in repurchase	Debit difference	Credit difference	Repurchase agreement from debtors	Received, sold collateral in repurchase	Debit difference	Credit difference
CETES	Ps. -	Ps. -	Ps. -	Ps. -	Ps. 400	Ps. 400	Ps. -	Ps. -
Development bonds	3,480	3,480	-	-	7,112	7,114	-	2
Semi-annual IPAB bonds	1,748	1,748	-	-	390	390	-	-
10-year bonds	172	171	1	-	221	219	2	-
20-year bonds	5,001	5,001	-	-	73	73	-	-
10-year UDIBONDS	218	218	-	-	1,120	1,120	-	-
Government securities	10,619	10,618	1	-	9,316	9,316	2	2
Promissory notes	580	580	-	-	1,785	1,785	-	-
Bank securities	580	580	-	-	1,785	1,785	-	-
Private securitization certificates	858	857	1	-	-	-	-	-
Private securities	858	857	1	-	-	-	-	-
	Ps. 12,057	Ps. 12,055	Ps. 2	Ps. -	Ps. 11,101	Ps. 11,101	Ps. 2	Ps. 2

With the Institution acting as the purchaser, accrued premiums were charged to the results of operations for the three months ended March 31, 2010 and 2009, totaled Ps. 130 and Ps. 33, respectively.

During 2010 and 2009, the period of repurchase transactions entered into by the Institution in its capacity as purchaser ranged from 1 to 21 days.

5 – DERIVATIVE FINANCIAL INSTRUMENTS

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

As of March 31, 2010 and December 31, 2009, the Institution 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 March 31, 2010 and December 31, 2009, the positions of the Institution's derivative financial instruments held for trading purposes are as follows:

March 31, 2010			December 31, 2009	
Asset position	Nominal amount	Asset position	Nominal amount	Asset position
Futures				
TIIE-rate futures	Ps. 500	Ps. 32	Ps. 600	Ps. -
Forwards				
Foreign currency forwards	1,053	79	3,454	313
Options				
Foreign currency options	125	2	283	2
Rate options	77,869	106	8,485	126
Swaps				
Rate swaps	211,798	3,713	194,317	2,612
Exchange rate swaps	5,328	1,031	7,377	1,771
Total negotiation	296,673	4,963	214,516	4,824
Options				
Rate options	242,000	97	24,200	188
Swaps				
Rate swaps	28,245	-	27,648	8
Exchange rate swaps	10,082	665	9,996	860
Total hedge	280,327	762	61,844	1,056
Total position	Ps. 577,000	Ps. 5,725	Ps. 276,360	Ps. 5,880

March 31, 2010			December 31, 2009	
Liability position	Nominal amount	Liability position	Nominal amount	Liability position
Futures				
TIIE-rate futures	Ps. 500	Ps. 32	Ps. 600	Ps. -
Forwards				
Foreign currency forwards	1,151	34	2,825	88
Options				
Foreign currency options	290	4	287	2
Rate options	148,644	53	9,168	71
Swaps				
Rate swaps	211,821	3,753	194,340	2,713
Exchange rate swaps	5,273	897	7,322	1,679
Total negotiation	367,679	4,773	214,542	4,553
Swaps				
Rate swaps	28,240	1,436	27,650	980
Exchange rate swaps	4,152	1,987	4,146	2,842
Total hedge	32,392	3,423	31,796	3,822
Total position	Ps. 400,071	Ps. 8,196	Ps. 246,338	Ps. 8,375

The contracted hedges and main underlying instruments are as follows:

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

Transactions entered into for hedging purposes have maturities from periods after March 31, 2010 through 2018 and are intended to mitigate the financial risk derived from long-term loans granted by the Institution at fixed rates, as well as the exchange rate risk generated by market instruments in the Institution's portfolio.

As of March 31, 2010 and December 31, 2009, the main positions hedged by the Institution and the derivatives designated to cover such positions are:

Cash flow hedging The Institution has cash flow hedges as follows:

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

As of March 31, 2010 there are 26 files documenting the hedging transactions. Their effectiveness ranges between 85% and 100%, well within the accounting standards in effect (80% to 125%). Furthermore there is no over hedging on any of the derivatives, so as of March 31, 2010 there are no ineffective portions that the Institution has to record in earnings.

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

6 – LOAN PORTFOLIO

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

	Current portfolio		Past-due portfolio		Total	
	March 31, 2010	December 31, 2009	March 31, 2010	December 31, 2009	March 31, 2010	December 31, 2009
Commercial loans						
Denominated in domestic currency						
Commercial	Ps. 77,365	Ps. 78,290	Ps. 2,497	Ps. 2,222	Ps. 79,862	Ps. 80,512
Rediscounted portfolio	4,598	4,831	-	-	4,598	4,831
Denominated in USD						
Commercial	18,811	21,471	1,095	838	19,906	22,309
Rediscounted portfolio	715	746	-	-	715	746
Total commercial loans	101,489	105,338	3,592	3,060	105,081	108,398
Loans to financial institutions	7,918	8,923	-	-	7,918	8,923
Consumer loans						
Credit card	11,239	11,801	1,318	1,610	12,557	13,411
Other consumer loans	14,515	13,903	247	332	14,762	14,235
Housing mortgage loans	51,083	49,881	860	1,049	51,943	50,930
Government loans	40,995	38,982	-	-	40,995	38,982
	125,750	123,490	2,425	2,991	128,175	126,481
Total loan portfolio	Ps. 227,239	Ps. 228,828	Ps. 6,017	Ps. 6,051	Ps. 233,256	Ps. 234,879

As of March 31, 2010, the deferred fee balance is Ps. 1,490, and the amount recorded in results for the three months ended March 31, 2010 was Ps. 174. Furthermore, the deferred balance of costs and expenses associated with the initial loan grant is Ps. 218, and the amount recorded in results for the period was Ps. 71. The average term over which the deferred fee balance and the costs and expenses will be recorded is equivalent to the average term of the portfolio balance.

The average terms of the portfolio's main balances are: a) commercial, 2.9 years; b) financial institutions, 4.1 years; c) mortgage, 18.2 years; d) government loans, 9.2 years and e) consumer, 2.2 years.

During the three months periods ended on March 31, 2010 and 2009 the balance of fully hedged past-due loans that were written off was Ps. 1,591 and Ps. 2,609, respectively.

During the three months periods ended on March 31, 2010 and 2009, revenues from recoveries of previously written-off or eliminated loan portfolios were Ps. 231 and Ps. 200, respectively.

b) Allowance for loan losses

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 Institution applies the general provisions applicable to credit institutions in classifying the loan portfolio as issued by the Commission on August 12, 2009 and December 2, 2005, respectively. The Institution uses the internal methodology authorized by the Commission for classifying commercial loans.

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

Since June 2001, the Institution has the Commission's approval to apply its own methodology, called Internal Risk Classification (CIR Banorte) to commercial loans. CIR Banorte applies to the commercial loans equal to or greater than 4 million UDIS or its equivalent in Mexican pesos. This methodology is explained below.

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

The commercial loan portfolio classification procedure requires credit institutions to apply the established methodology (general or internal) based on quarterly information for the periods ending in March, June, September and December of each year, while also recording the allowances determined at the close of each period in their financial statements. Furthermore, during the month following the end of each quarter, 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 end of each quarter. The allowances for loan risks that have exceeded the amount required to rate the loan will be cancelled on the date of the following quarterly rating against the period earnings. Additionally, the previously written-off loan portfolio recoveries are included in current earnings.

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

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

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

The Institution applied the internal risk classification methodology, CIR Banorte, authorized by the Commission to rate the debtor, except in financings 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 Institution applied procedures established by the Commission.

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

The Institution’s portfolio classification, which serves as the basis for recording the allowance for loan losses, is detailed below.

Risk category	March 31, 2010				
	Loan portfolio	Required allowances for losses			Total
		Commercial portfolio	Consumer portfolio	Mortgage portfolio	
Exempt portfolio	Ps. 69	Ps. -	Ps. -	Ps. -	Ps. -
Risk A	59,940	-	69	161	230
Risk A1	96,466	481	-	-	481
Risk A2	50,485	485	-	-	485
Risk B	6,155	-	73	183	256
Risk B1	6,754	145	303	-	448
Risk B2	8,400	109	483	-	592
Risk B3	2,652	275	-	-	275
Risk C	2,338	-	782	94	876
Risk C1	1,405	307	-	-	307
Risk C2	938	436	-	-	436
Risk D	2,295	246	1,123	268	1,637
Risk E	1,201	951	263	-	1,214
Unclassified	39	-	-	-	-
	Ps. 239,137*	Ps. 3,435	Ps. 3,096	Ps. 706	Ps. 7,237
Minus: Recorded allowance					7,295
Additional allowance					Ps. 58

Risk category	December 31, 2009				
	Loan portfolio	Required allowances for losses			Total
		Commercial portfolio	Consumer portfolio	Mortgage portfolio	
Exempt portfolio	Ps. 56	Ps. -	Ps. -	Ps. -	Ps. -
Risk A	58,169	-	63	159	222
Risk A1	99,132	494	-	-	494
Risk A2	52,042	501	-	-	501
Risk B	6,269	-	102	184	286
Risk B1	5,620	71	266	-	337
Risk B2	8,241	84	509	-	593
Risk B3	2,533	263	-	-	263
Risk C	2,494	-	795	131	926
Risk C1	1,357	284	-	-	284
Risk C2	798	378	-	-	378
Risk D	2,589	242	1,356	264	1,862
Risk E	1,148	885	272	-	1,157
Unclassified	(10)	-	-	-	-
	Ps. 240,438*	Ps. 3,202	Ps. 3,363	Ps. 738	Ps. 7,303
Minus: Recorded allowance					7,358
Additional allowance					Ps. 55

*The sum of the rated loan portfolio includes Ps. 3,460 and Ps. 3,288 in loans granted to subsidiaries whose balance was eliminated in the consolidation process as of March 31, 2010 and December 31, 2009, respectively.

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

As of March 31, 2010 and December 31, 2009, the estimated allowance for loan losses is determined based on portfolio balances at those dates. As of March 31, 2010 and December 31, 2009, the allowance for loan losses includes a reserve for 100% of delinquent interest owed.

As of March 31, 2010 and December 31, 2009, the allowance for loan losses represents 121% and 122%, 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 March 31, 2010 and December 31, 2009.

Roll forward of allowance for loan losses

A roll forward of the allowance for loan losses for the three months period ended March 31, 2010 and for the year ended December 31, 2009 is detailed below:

	March 31, 2010	December 31, 2009
Balance at the beginning of the year	Ps. 7,358	Ps. 6,582
Increase charged to results	1,722	8,103
Debt forgiveness and write-offs	(1,758)	(8,458)
Valuation in foreign currencies and UDIS	(32)	(19)
Rebates granted to housing debtors	(10)	(46)
Created with profit margin (UDIS Trusts)	15	59
Recognized against retained earnings from prior years	-	1,136
Other	-	1
Year-end balance	Ps. 7,295	Ps. 7,358

Loans restructured in UDI

The loans restructured in UDI correspond to mortgage loans. The balance on March 31, 2010 and December 31, 2009 is detailed below:

	March 31, 2010	Deember 31, 2009
Current portfolio	Ps. 509	Ps. 542
Current accrued interest	2	2
Past-due portfolio	35	14
Past-due accrued interest	1	1
	Ps. 547	Ps. 559

7 – ACQUIRED PORTFOLIOS

As of March 31, 2010 and December 31, 2009, the acquired portfolios are comprised as follows:

	March 31, 2010	December 31, 2009	Valuation method
Bancomer III	Ps. 121	Ps. 125	Cash Basis Method
Bancomer IV	431	456	Cash Basis Method
Bital I	159	171	Cash Basis Method
Bital II	71	72	Cash Basis Method
Banamex Mortgage	292	302	Cash Basis Method
GMAC Banorte	74	66	Cash Basis Method
Serfin Comercial I	90	92	Cash Basis Method
Serfin Comercial II	104	105	Interest Method
Serfin Mortgage	152	160	Cash Basis Method
Santander	51	70	Interest Method (Commercial) Cash Basis Method (Mortgage)
Banorte Mortgage	188	196	Interest Method
Goldman Sachs	135	145	Cash Basis Method
Confia I	77	80	Cost Recovery Method
Banorte Sólida Commercial	-	35	Cost Recovery Method
Solida Mortgage	481	473	Interest Method
	Ps. 2,426	Ps. 2,548	

For the three months ended March 31, 2010, the Institution recognized income from credit asset portfolios of Ps. 226, together with the respective amortization of Ps. 108, the effects of which were recognized under the "Other Revenues" heading in the consolidated statement of income. For the three months period ended March 31, 2009, the Institution recognized income of Ps. 237, together with the respective amortization of Ps. 110.

8 – FORECLOSED ASSETS, NET

As of March 31, 2010 and December 31, 2009, the foreclosed asset balance is as follows:

	March 31, 2010	December 31, 2009
Personal property	Ps. 67	Ps. 67
Real property	1,222	1,230
Goods pledged for sale	13	14
	1,302	1,311
Allowance for losses on foreclosed assets	(391)	(383)
	Ps. 911	Ps. 928

9 – PERMANENT STOCK INVESTMENTS

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

	Share %	March 31, 2010	December 31, 2009
SIEFORES Básicas	99.00%	Ps. 742	Ps. 719
Servicio Pan Americano de Protección, S.A. de C.V.	8.50%	116	115
Controladora PROSA, S.A. de C. V.	19.73%	51	49
Banorte investment funds	Various	121	121
Transporte Aéreo Técnico Ejecutivo, S.A. de C.V. (Sólida)	45.33%	64	72
Fideicomiso Marhnos (Sólida)	100%	156	156
Internacional de inversiones (Solida)	100%	92	-
Other	Various	57	56
		Ps. 1,399	Ps. 1,288

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

10 – OTHER ASSETS

As of March 31, 2010 and December 31, 2009, other assets is comprised as follows:

	March 31, 2010	December 31, 2009
Plan assets held for employee pension plans	Ps. 4,189	Ps. 4,160
Other amortizable expenses	2,176	2,016
Accumulated amortization of other expenses	(122)	(93)
Goodwill	2,918	3,092
	Ps. 9,161	Ps. 9,175

As of March 31, 2010, goodwill was Ps. 2,918 and was comprised of the following: Ps. 2,678 for the purchase of INB and Ps. 240 for the purchase of Uniteller; whereas as of December 31, 2009 there is a balance of Ps. 3,092 comprised of Ps. 2,838 for the purchase of INB and Ps. 254 for the purchase of Uniteller. Goodwill is not amortized and is subject to annual impairment tests. No impairment to goodwill value was detected as of March 31, 2010 and December 31, 2009.

11 – DEPOSITS

The liabilities derived from traditional deposits are comprised as follows:

	March 31, 2010	December 31, 2009
Immediately due and payable deposits		
Checking accounts earning no interest:		
Cash deposits	Ps. 55,106	Ps. 59,334
Checking accounts in US dollars for individual residents of the Mexican border	630	662
Demand deposit accounts	3,998	4,142
Checking accounts earning interest:		
Other bank checks deposit	31,280	35,420
Savings accounts	323	268
Checking accounts in US dollars for individual residents of the Mexican border	1,834	2,055
Demand deposit accounts	32,778	35,706
IPAB checking accounts	21	20
	125,970	137,607
Time deposits		
General public:		
Fixed term deposits	25,816	25,711
Over-the-counter investments	54,207	49,156
Promissory note with interest payable at maturity (PRLV) primary market for individuals	58,757	57,819
PRLV primary market for business entities	1,553	1,195
Foreign resident deposits	63	83
Provision for interest	177	177
	140,573	134,141
Money market:		
Fixed term deposits	1,215	586
Over the counter promissory notes	2,373	1,430
Provision for interest	1,341	1,297
	4,929	3,313
	145,502	137,454
	Ps. 271,472	Ps. 275,061

The funding rates which the Institution 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).

12 – INTERBANK AND OTHER LOANS

The loans received from other banks as of March 31, 2010 and December 31, 2009 are as follows:

	Mexican pesos		Denominated in US dollars		Total	
	March 31, 2010	December 31, 2009	March 31, 2010	December 31, 2009	March 31, 2010	December 31, 2009
Immediately due						
Domestic banks (Call money)	Ps. 1	Ps. 21	Ps. -	Ps. -	Ps. 1	Ps. 21
	1	21	-	-	1	21
Short-term						
Banco de México	2,641	-	-	1,964	2,641	1,964
Commercial banking	932	682	66	-	998	682
Development banking	19	11	3	433	22	444
Public trusts	2,538	2,801	290	314	2,828	3,115
Other agencies	-	-	-	-	-	-
Provision for interest	3	-	3	2	6	2
	6,133	3,494	362	2,713	6,495	6,207
Long-term						
Commercial banking	-	-	1,171	1,314	1,171	1,314
Development banking	53	77	320	311	373	388
Public trusts	3,162	3,236	100	116	3,262	3,352
Other agencies	-	-	8	-	8	-
Provision for interest	-	-	-	4	-	4
	3,215	3,313	1,599	1,745	4,814	5,058
	Ps. 9,349	Ps. 6,828	Ps. 1,961	Ps. 4,458	Ps. 11,310	Ps. 11,286

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

13 – SUBORDINATED DEBENTURES

As of March 31, 2010 and December 31 2009, the subordinated debentures in circulation are made up as follows:

	March 31, 2010	December 31, 2009
Preferred subordinated debentures, non-convertible into Shareholders' Equity, maturing in April 2016, denominated in US dollars, at an interest rate of 6.135%, payable semi-annually with a final principal payment upon maturity (10-year term).	Ps. 4,932	Ps. 5,226
Non-preferred subordinated non-convertible debentures (Q BANORTE 08 debentures), maturing in February 2018, interest at the 28-day TIIE rate plus 0.60%.	3,000	3,000
Non-preferred subordinated non-convertible debentures (Q BANORTE 08-2 debentures), maturing in June 2018, interest at the 28-day TIIE rate plus 0.77%.	2,750	2,750
Preferred subordinated non-convertible debentures, BANORTE 09 debentures maturing in March 2019, interest at the 28-day TIIE rate plus 2%, payable in 130 periods of 28 days each.	2,200	2,200
Non-preferred subordinated non-convertible debentures, maturing in April 2021, denominated in US dollars, at an interest rate of 6.862%, payable semiannually with a final principal payment at maturity (15-year term).	2,466	2,613
Preferred subordinated non-convertible debentures, Q BANORTE 08-U maturing in February 2028, interest at a 4.95% annual rate.	1,985	1,941
Preferred subordinated debentures, non-convertible into Shareholders' Equity, maturing in June 2034, denominated in US dollars, at an interest rate of 2.75%	127	135
Preferred subordinated debentures, non-convertible into Shareholders' Equity, maturing in April 2034, denominated in US dollars, at an interest rate of 2.72%	127	135
Accrued interest	251	168
	Ps. 17,838	Ps. 18,168

The costs related to these debentures are amortized using the straight-line method over the term of the debt. The amortization charged to results was Ps. 2 and Ps. 4 for the three months ended March 31, 2010 and 2009, respectively. The amortization charged to results was Ps. 8 and Ps. 15 in 2010 and 2009, respectively.

14 – TRANSACTIONS AND BALANCES WITH SUBSIDIARIES AND ASSOCIATED COMPANIES

Transactions and balances with subsidiaries and associated companies as of March 31, 2010 and December 31, 2009 and for the three months ended March 31, 2010 and 2009 are summarized as follows:

Institution	Revenues		Accounts receivable	
	March 31, 2010	March 31, 2009	March 31, 2010	December 31, 2009
Arrendadora Banorte, S.A. de C.V.	Ps. 38	Ps. 76	Ps. 1,812	Ps. 1,787
Casa de Bolsa Banorte, S.A. de C.V.	48	47	18	19
Almacénadora Banorte, S.A. de C.V.	2	6	30	39
Créditos Pronegocio, S.A. de C.V.	-	14	-	-
Total	Ps. 88	Ps. 143	Ps. 1,860	Ps. 1,845

Institution	Expenses		Accounts payable	
	March 31, 2010	March 31, 2009	March 31, 2010	December 31, 2009
Grupo Financiero Banorte, S. A.B. de C. V.	Ps. 2	Ps. 1	Ps. 144	Ps. 127
Arrendadora y Factor Banorte, S.A. de C.V.	9	27	51	23
Casa de Bolsa Banorte, S. A. de C. V.	365	584	1	1
Almacénadora Banorte, S. A. de C. V.	-	-	1	2
Créditos Pronegocio, S. A. de C. V.	-	-	-	-
Total	Ps. 376	Ps. 612	Ps. 197	Ps. 153

The premiums paid and collected in repurchase operations to the Banorte Brokerage House are among the most important operation balances, as well as the account receivable to the Banorte Leasing corresponding to loans granted. All the balances and transactions with the subsidiaries have been eliminated from the consolidation process.

15 – INFORMATION BY BUSINESS LINES

The main operations and balances by concept and/or business segment reflected in the Institution's consolidated general balance sheet and the statement of income are as follows:

a. Interest income and fees by type of credit are made up as follows:

March 31, 2010						
Interest income		Fees income		Total		
MXP	Foreign currency	MXP	Foreign currency	MXP	Foreign currency	
Commercial loans	Ps. 2,966	Ps. 207	Ps. 112	-	Ps. 3,078	Ps. 207
Housing mortgage loans	1,390	-	12	-	1,402	-
Consumer loans	1,695	-	35	-	1,730	-
Total	Ps. 6,051	Ps. 207	Ps. 159	Ps. -	Ps. 6,210	Ps. 207

March 31, 2009						
Interest income		Fees income		Total		
MXP	Foreign currency	MXP	Foreign currency	MXP	Foreign currency	
Commercial loans	Ps. 3,789	Ps. 254	Ps. 98	Ps. -	Ps. 3,887	Ps. 254
Housing mortgage loans	1,393	-	21	-	1,414	-
Consumer loans	1,911	-	31	-	1,942	-
Total	Ps. 7,093	Ps. 254	Ps. 150	Ps. -	Ps. 7,243	Ps. 254

b. The composition of interest expense, segmented by type of deposit, is as follows:

	March 31, 2010			March 31, 2009		
	MXP	Foreign currency	Total	MXP	Foreign currency	Total
Immediately due and payable deposits:						
Checking accounts	Ps. 106	Ps. 1	Ps. 107	Ps. 204	Ps. 1	Ps. 205
Savings accounts	42	-	42	42	-	42
Time deposits:						
General public	985	142	1,127	1,445	171	1,616
Money market	274	8	282	326	8	334
Total	Ps. 1,407	Ps. 151	Ps. 1,558	Ps. 2,017	Ps. 180	Ps. 2,197

c. The composition of interest and commission expense, segmented by type of loan, is as follows:

	March 31, 2010			March 31, 2009		
	MXP	Foreign currency	Total	MXP	Foreign currency	Total
Call Money	Ps. 33	Ps. -	Ps. 33	Ps. 32	Ps. -	Ps. 32
Banco de México	15	2	17	181	-	181
Commercial banks	-	4	4	9	27	36
Development banking	80	4	84	123	3	126
Other agencies	12	19	31	13	25	38
Total	Ps. 140	Ps. 29	Ps. 169	Ps. 358	Ps. 55	Ps. 413

d. As of March 31, 2010 and 2009, the trading results are as follows:

	March 31, 2010	March 31, 2009
Valuation results		
Trading securities	(Ps. 3)	(Ps. 17)
Repurchase or resale agreement		(1)
Derivative financial instruments	136	(112)
Total valuation results	133	(130)
Purchase-sale results		
Trading securities	158	(25)
Available for sale securities	6	(5)
Derivative financial instruments	20	7
Total securities purchase sale	184	(23)
Spot foreign currency	183	217
Foreign currency forwards	12	150
Foreign currency futures	-	-
Foreign currency valuation	(6)	(16)
Minted metals purchase sales	-	2
Minted metals valuation	-	2
Total foreign currency purchase sale	-	-
Total purchase-sale results	189	355
Total trading results	373	332
	Ps. 506	Ps. 202

16 – 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 March 31, 2010 and December 31, 2009 sent to Banco de Mexico to review is shown below.

The Institution's capitalization ratio as of March 31, 2010 was 16.83% of total risk (market, credit and operating), and 24.83% of credit risk, which in both cases exceed the current regulatory requirements.

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

Net capital	March 31, 2010
Stockholders' equity	Ps. 40,733
Subordinated debentures and capitalization instruments	4,699
Deferred assets	1,807
Deduction of investment in securitized instruments	167
Deduction of investments in shares of financial entities	5,953
Deduction of investments in shares of non-financial entities	3,056
Deduction of deferred taxes	1,807
Deduction of intangibles and deferred expenses or costs	233
Basic capital	36,023
Debentures and capitalization instruments	12,885
Allowance for loan losses	1,137
Deduction of investment in securitized instruments	167
Complementary capital	13,855
Net capital	Ps. 49,878

Characteristics of the subordinated debentures:

Concept	Issuance amount	Maturity	Basic capital proportion	Complementary capital proportion
Complementary capital debentures 2006	Ps. 5,074	13/10/2016	0%	100%
Basic capital debentures 2006	Ps. 2,545	13/10/2021	100%	0%
Basic capital debentures 2008	Ps. 3,011	27/02/2018	72%	28%
Complementary capital debentures 2008	Ps. 1,991	15/02/2028	0%	100%
Complementary capital debentures 2008-2	Ps. 2,762	15/06/2018	0%	100%
Complementary capital debentures 2009	Ps. 2,201	18/03/2019	0%	100%

Assets subject to risk are detailed below:

Assets subject to market risk

Concept	Positions weighted by risk	Capital requirement
Transactions in Mexican pesos with nominal interest rate	Ps. 50,478	Ps. 4,038
Transactions with debt instruments in Mexican pesos with variable interest rates	11,711	937
Transactions in Mexican pesos with real interest rates or denominated in UDIS	1,982	159
Transactions in UDIS or with yields referenced to the National Consumer Price Index (INPC)	6	-
Transactions in foreign currency with nominal interest rate	3,012	241
Exchange transactions	1,525	122
Total	Ps. 68,714	Ps. 5,497

Assets subject to credit risk

Concept	Assets weighted by risk	Capital requirement
Group III (weighted at 10%)	Ps. 5	Ps. -
Group III (weighted at 20%)	5,767	461
Group III (weighted at 23%)	449	36
Group III (weighted at 50%)	1,730	138
Group III (weighted at 57.5%)	329	26
Group IV (weighted at 20%)	6,560	525
Group V (weighted at 10%)	6	1
Group V (weighted at 20%)	6,420	514
Group V (weighted at 50%)	4,067	325
Group V (weighted at 150%)	3,705	296
Group VI (weighted at 50%)	6,093	488
Group VI (weighted at 75%)	5,272	422
Group VI (weighted at 100%)	52,420	4,194
Group VII (weighted at 20%)	745	60
Group VII (weighted at 50%)	17	1
Group VII (weighted at 100%)	52,727	4,218
Group VII (weighted at 115%)	7,108	569
Group VII (weighted at 150%)	648	52
Group VIII (weighted at 125%)	1,853	148
Group IX (weighted at 100%)	30,698	2,456
Sum	186,619	14,930
For permanent shares, furniture and real property, and advance payments and deferred charges	13,868	1,109
Total	Ps. 200,487	Ps. 16,039

Assets subject to operating risk:

Concept	Assets weighted by risk	Capital requirement
Total	Ps. 27,084	Ps. 2,167

17 – FOREIGN CURRENCY POSITION

As of March 31, 2010 and December 31, 2009, the Institution holds certain assets and liabilities in foreign currency, mainly US dollars, converted to the exchange rate issued by Banco de México at Ps. 12.3306 and Ps. 13.0659 per USD 1.00, respectively, as shown below:

	Thousands of US dollars	
	March 31, 2010	December 31, 2009
Assets	5,529,201	5,485,200
Liabilities	5,208,711	5,154,310
Net asset position in US dollars	320,490	330,890
Net asset position in Mexican pesos	Ps. 3,952	Ps. 4,323

18 – POSITION IN UDIS

As of March 31, 2010 and December 31, 2009, the Institution holds certain assets and liabilities denominated in UDIS, converted to Mexican pesos based on the current equivalency of Ps. 4.43987 and Ps. 4.34016, per UDI, respectively, as shown below:

	Thousands of UDIS	
	March 31, 2010	December 31, 2009
Assets	266,375	207,824
Liabilities	541,024	544,676
Net liability position in UDIS	(274,649)	(336,852)
Net liability position in Mexican pesos	(Ps. 1,219)	(Ps. 1,462)

19 – EARNINGS PER SHARE

Earnings per share are the result of dividing the net income by the weighted average of the Institution's shares in circulation during the year.

Earnings per share for the years ended March 31, 2010 and December 31, 2009 are shown below:

	March 31, 2010			March 31, 2009
	Net Income	Weighted share average	Earnings per share	Earnings per share
Net income per share	Ps. 1,435	75,249,929,494	Ps. 0.0191	Ps. 0.0203

20 – MEMORANDUM ACCOUNTS

	March 31, 2010	December 31, 2009
Contingent assets and liabilities	Ps. 272	Ps. 273
Credit commitments	2,421	2,271
Institution securities delivered into custody	115,637	112,942
Managed assets in custody	206,622	154,831
Collateral received by the institution	34,792	33,464
Collateral received and sold or given as a pledge by the entity	12,043	11,097
Investment banking transactions on account of third parties, net	72,539	74,646
Past-due loan portfolio accrued and uncollected interest	161	198
	Ps. 444,487	Ps. 389,722

21 – CONTINGENCIES

As of March 31, 2010, the Institution is subject to various legal proceedings and claims. However, the Institution's attorneys consider that the claims filed are unsubstantiated and even if the claims are resolved in a manner unfavorable to the Institution, there would not be a material adverse effect on the Institution's financial position or results of operations. A reserve of Ps. 81 is recorded for such contentious matters.

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