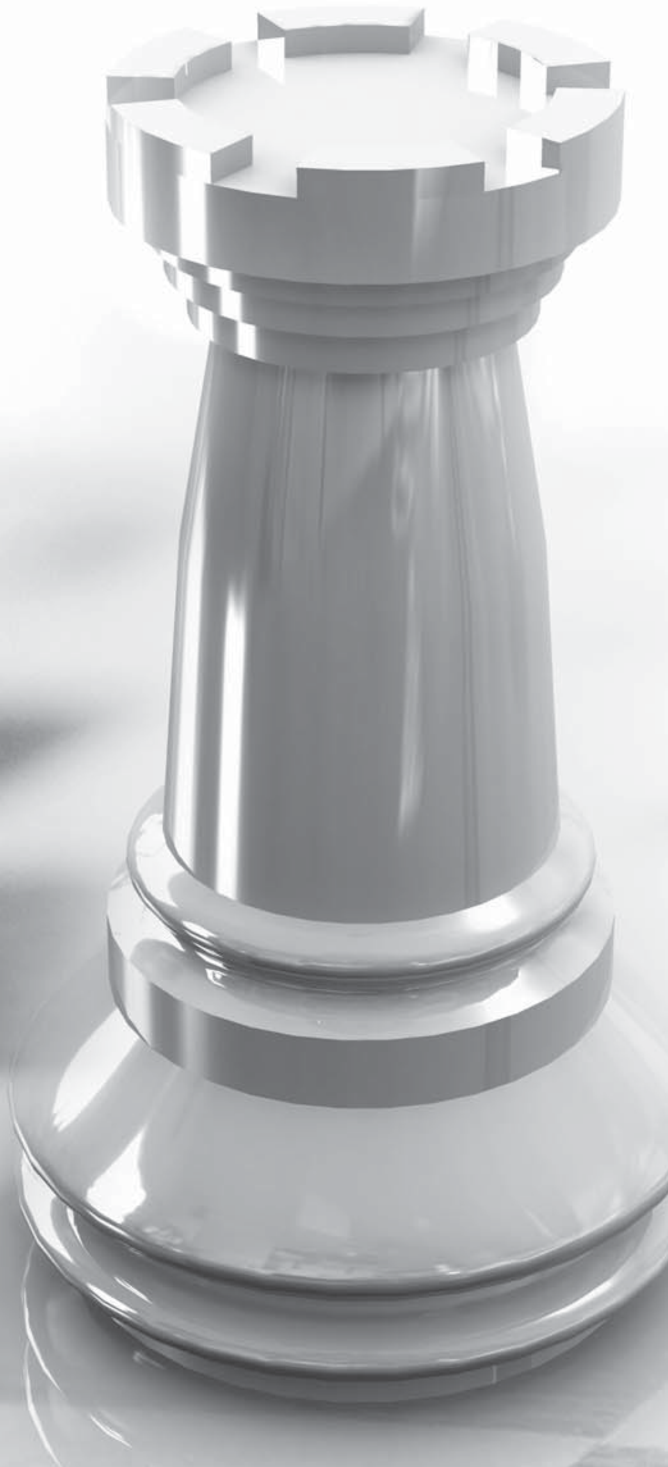

Consolidated Financial Statements

Committee of Audit
and Corporate Practices Report

March 27th, 2009
Mexico, D.F.,
To the Board of Directors of Grupo Financiero Banorte S.A.B.de C.V.

In accordance with Article 43 of the Stock Market Law, (LMV) the Audit and Corporate Practices' Committee presents its annual report of activities carried out during the 2008 fiscal year.

The contents of this document refer to Grupo Financiero Banorte (GFNorte) and, in some sections, to its relevant entities; companies designated by this Board of Directors based on the relevant criteria that these have in the financial, administrative and legal situation of GFNorte. These entities are: Banco Mercantil del Norte, S.A.; Casa de Bolsa Banorte, S.A. de C.V.; Arrendadora y Factor Banorte, S.A. de C.V.; Créditos Pronegocio S.A. de C.V.; Seguros Banorte Generali, S.A. de C.V.; Banorte Generali, S.A. de C.V. AFORE; Sólida Administradora de Portafolios, S.A. de C.V. and Inter National Bank.

I. With regard to audit:

a). Concerning GFNorte's and its relevant entities Internal Control System (SCI) status ; and the description of its deficiencies and deviations, this Committee took into consideration the following elements:

1. Revision of annual reports on activities regarding Internal Control of the aforementioned relevant entities, prepared by their respective CEO's.

2. The final audit reports of Internal Accounting Controls of Banco Mercantil del Norte, S.A., Casa de Bolsa Banorte, S.A. de C.V. and Banorte Generali, S. A. de C.V. AFORE and the Internal Control reports of revisions made by the External Auditor, as well as follow-up to corrective measures undertaken derived from areas of opportunity detected and identified in these reports; as well as the verdict of the financial statements of GFNorte and its subsidiaries, reviewed by this Committee.

3. Observations regarding GFNorte's control deficiencies or deviations and those of its subsidiaries, presented on a regular basis by Internal Audit during this Committee's sessions, including the relevant entities, and follow-up of the corrective measures undertaken.

4. Inspection visit reports by qualified supervisors and follow-up on the implementation of the pertinent corrective measures.

5. Comptroller's reports of Banco Mercantil del Norte, S.A.; of Casa de Bolsa Banorte S.A. de C.V. and of Creditos Pronegocio S.A. de C.V.; as well as the Comptrollers' reports of of Seguros Banorte Generali S.A. de C.V., and Banorte Generali, S.A. AFORE.

6. The report of the Institute of Internal Auditors with the conclusions of the second independent quality evaluation of Internal Audit functions, in which it gave its highest qualification by stating that GFNorte's Internal Audit "generally fulfills" the International Norms for the Professional Exercise of Internal Audit.

Taking the previous elements into consideration, and as a result of the surveillance work carried out by this Committee in sessions throughout the year with the participation of the equally responsible SCI entities, such as External Audit, Internal Audit and Comptrollership, we are able to state that the SCI of GFNorte and its subsidiaries, and the Internal Audit function, work appropriately and provide a reasonable degree of assurance regarding the achievement of objectives related to the effectiveness and efficiency of operations, dependability of financial information released, execution of applicable norms, and that no deficiencies or deviations were detected that could significantly affect them.

b). It can be reported that no possible significant non-fulfillment of operation policies and accounting registrations were detected; and that identified areas of opportunity have been reported to the responsible persons/entities who have taken corrective measures, which have been incorporated into a follow-up system.

c). Regarding the performance evaluation of the corporation providing external audit services, it can be reported that the firm of Galaz, Yamazaki, Ruiz Urquiza, S. C. (member of Deloitte Touche Tohmatsu) has provided the highest caliber of service in the execution of its duties and in its relationship with management and the Committee, as well as the Auditor responsible by applying focus points and work methodologies in accordance with the best international practices that adequately fulfill the applicable regulations.

It is also our consideration that their conclusions and reports are valuable and useful in supporting the activities of this Committee, and it should be noted that their results and opinions do not present discrepancies with management.

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

The Board of Directors approved this Committee's proposal to hire these services, after verifying that no conflict of interest existed; and the same will apply during 2009. No other services of independent experts were hired.

e). A revision of the financial statements of GFNorte and its subsidiaries for the fiscal year ending December 31st, 2008 was carried out; as well as the External Auditor's final report before its release; with the participation of management, the External Auditor, Internal Audit and the Comptrollership, having found that they were prepared in accordance with regulations and the applicable accounting practices. Therefore, we recommend that the Board of Directors approve these financial statements. Additionally, this Committee conducts a periodic revision of quarterly financial statements.

f). The main changes to policies and accounting criteria adopted by GFNorte and their subsidiaries during the 2008 fiscal year, were diverse modifications that resulted as a consequence of changes in the applicable regulations, which are detailed in Note 4 "Main Accounting Policies" of GFNorte's financial statements, which contain a detailed explanation of these changes.

g). There were no relevant observations for the fiscal year from shareholders, members of the Board of Directors, managers, employees or any third parties, regarding accounting, internal controls or topics related with either the internal or external audits, or from accusations of irregularities. In accordance with the best international practices, one of the institutional channels of communication is the system of anonymous accusations denominated "Ethics Point". Reports received through this channel are directed to the members of this Committee and diverse managers of the organization for their attention. This Committee follows up on the resolution of such accusations.

h). Neither the Shareholders' Assemblies nor the Board of Directors' Assemblies request from this Committee a follow-up to the agreements adopted by them.

II. With regard to Corporate Practices:

a). With respect to observations regarding the performance of relevant managers, we can report that management has defined the relevant managers of GFNorte and its subsidiaries which include those officials of diverse subsidiaries that by specific regulation applicable to them, requires that the respective authority must be informed of their recruitment. With regard to the performance of relevant managers during the 2008 fiscal year, there were some cases which fell outside of established policies and procedures, with management taking the necessary actions to mitigate the generated risks and applying the corresponding sanctions.

b). For operations with related parties, this Committee verified that as of December 31st, 2008, the amount of loans granted to related individuals or entities was Ps $8,216 million, less than the limit set by the corresponding regulation, and that these operations were approved by the Board of Directors in those cases requiring approval in accordance with the applicable regulation. Inter-company operations were carried out at market prices, which were verified by the External Auditor in the revisions conducted.

c). With regard to compensation of relevant Directors; management has defined the appointment policies and integral retribution packages for relevant officials which include: (i) a fixed compensation; (ii) a bonus plan based primarily on reaching the estimated profit of that business; and (iii) a long term incentive plan consisting of stock options available to some Directors in accordance with programs approved by this Committee.

d). Finally, we can report that during the 2008 fiscal year, the Board of Directors did not grant preferential treatment to members of the Board or relevant directors or managers to take advantage of business opportunities.

Yours truly,

Francisco J. Alcalá de León
President of the Audit & Corporate
Practices' Committee of GFNorte

February 26, 2009

Deloitte.

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Independent Auditors' Report to the Board of Directors and Stockholders of Grupo Financiero Banorte, S.A.B. de C.V. and Subsidiaries

We have audited the accompanying consolidated balance sheets of Grupo Financiero Banorte, S.A.B. de C.V. (the Financial Group) and subsidiaries as of December 31, 2008 and 2007, and the related consolidated statements of income, changes in stockholders' equity and changes in financial position for the years then ended. These consolidated financial statements are the responsibility of the Financial Group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

Notes 1 and 2 to the financial statements describe the Financial Group's operations and the current economic conditions brought on the by the global financial crisis affecting such operations. Notes 4 and 37 describe the accounting criteria established by the Commission through new accounting standards issued to address current economic conditions and by other applicable laws which the Financial Group adheres to for the preparation of its financial information, as well as the modifications to such accounting criteria that became effective during 2008 and others that will become effective as of January 1, 2009. Therefore, the financial statements are not comparable. Note 5 describes the main differences between the accounting practices prescribed by the Commission and Mexican Financial Reporting Standards, commonly applied in the preparation of financial statements for other types of unregulated entities in Mexico.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Grupo Financiero Banorte, S.A.B. de C.V. and subsidiaries as of December 31, 2008 and 2007, and the results of their operations, changes in their stockholders' equity and changes in their financial position for the years then ended in conformity with the accounting practices prescribed by the Commission.

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

CPC Carlos A. García Cardoso
Recorded in the General Administration
of Federal Tax Audit Number 4919

Consolidated Balance Sheets

GRUPO FINANCIERO BANORTE, S.A.B. DE C.V. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2008 AND 2007
(In millions of Mexican pesos)

ASSETS	2008	2007
CASH AND CASH EQUIVALENTS	Ps. 54,402	Ps. 41,610
INVESTMENTS IN SECURITIES		
Trading securities	6,630	7,754
Available for sale securities	11,722	10,948
Held to maturity securities	221,617	760
	239,969	19,462
DEBTOR BALANCES UNDER REPURCHASE AND RESALE AGREEMENTS	149	58
SECURITIES AND DERIVATIVE FINANCIAL INSTRUMENTS	8,168	2,302
CURRENT LOAN PORTFOLIO		
Commercial loans		
Business loans	126,798	98,091
Loans to financial institutions	10,860	13,158
Government loans	26,989	17,948
Consumer loans	29,369	27,225
Housing mortgage loans	46,282	37,216
TOTAL CURRENT LOAN PORTFOLIO	240,298	193,638
PAST-DUE LOAN PORTFOLIO		
Commercial loans		
Business loans	1,703	927
Consumer loans	2,499	1,109
Housing mortgage loans	746	858
TOTAL PAST-DUE LOAN PORTFOLIO	4,948	2,894
LOAN PORTFOLIO	245,246	196,532
(Minus) Allowance for loan losses	(6,690)	(3,786)
LOAN PORTFOLIO, net	238,556	192,746
ACQUIRED LOAN PORTFOLIOS	3,049	3,660
TOTAL LOAN PORTFOLIO, net	241,605	196,406
OTHER ACCOUNTS RECEIVABLE, net	9,514	7,617
MERCHANDISE INVENTORY	165	7
FORECLOSED ASSETS, net	863	385
PROPERTY, FURNITURE AND FIXTURES, net	8,429	8,098
PERMANENT STOCK INVESTMENTS	2,559	2,590
DEFERRED TAXES, net	471	214
OTHER ASSETS		
Other assets, deferred charges and intangible assets	10,731	8,534
TOTAL ASSETS	Ps. 577,025	Ps. 287,283

MEMORANDUM ACCOUNTS (Note 33)

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

The stockholders' equity amounts to Ps. 6,986 (nominal value).

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

The attached notes are an integral part of these consolidated balance sheets.

LIABILITIES	2008	2007
DEPOSITS		
Demand deposits	Ps. 128,350	Ps. 111,080
Time deposits		
General public	118,740	79,408
Money market	13,679	12,819
	260,769	203,307
INTERBANK AND OTHER LOANS		
Demand loans	1,245	871
Short-term loans	24,803	11,056
Long-term loans	10,635	10,796
	36,683	22,723
CREDITOR BALANCES UNDER REPURCHASE AND RESALE AGREEMENTS	192,727	515
OVERNIGHT SECURITIES	-	10
COLLATERAL SOLD OR PLEDGED		
Repurchase or Resale Agreements	2	-
SECURITIES AND DERIVATIVE FINANCIAL INSTRUMENTS	10,746	2,435
OTHER PAYABLES		
Income taxes and employee profit sharing	1,272	2,212
Sundry creditors and other payables	13,121	10,888
	14,393	13,100
SUBORDINATED DEBENTURES	20,613	10,210
DEFFERED CREDITS AND ADVANCED COLLECTIONS	1,346	827
TOTAL LIABILITIES	537,279	253,127
STOCKHOLDERS' EQUITY		
PAID-IN CAPITAL		
Common stock	11,941	11,965
Additional paid-in capital	1,468	1,272
	13,409	13,237
OTHER CAPITAL		
Capital reserves	2,720	2,452
Retained earnings from prior years	16,935	21,379
Result from valuation of available for sale securities	(550)	-
Cumulative foreign currency translation adjustment	1,095	-
Insufficiency in restated stockholders' equity	-	(6,380)
Effect of holding non-monetary assets	(2,821)	(5,009)
Net income	7,014	6,810
	24,393	19,252
MINORITY INTEREST IN STOCKHOLDERS' EQUITY	1,944	1,667
TOTAL STOCKHOLDERS' EQUITY	39,746	34,156
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	Ps. 577,025	Ps. 287,283

Dr. Alejandro Valenzuela del Río Chief Executive Officer	Ing. Sergio García Robles Gil Managing Director - CFO	C.P. Román Martínez Méndez Managing Director - Audit	Lic. Jorge Eduardo Vega Camargo Executive Director Controller	C.P.C. Nora Elia Cantú Suárez Executive Director Accounting

Consolidated Statements
of Income

GRUPO FINANCIERO BANORTE, S.A.B. DE C.V. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007
(In millions of Mexican pesos)

	2008	2007
Interest income	Ps. 50,416	Ps. 40,585
Interest expense	(27,789)	(22,838)
Monetary position loss, net	-	(363)
FINANCIAL MARGIN	22,627	17,384
Provision for loan losses	(6,896)	(2,646)
FINANCIAL MARGIN AFTER ALLOWANCE FOR LOAN LOSSES	15,731	14,738
Commission and fee income	8,535	7,693
Commission and fee expense	(1,208)	(1,086)
Brokerage revenues	1,040	1,292
	8,367	7,899
NET OPERATING REVENUES	24,098	22,637
Administrative and promotional expenses	(15,807)	(14,432)
OPERATING INCOME	8,291	8,205
Other income	3,789	2,835
Other expenses	(1,569)	(968)
	2,220	1,867
INCOME BEFORE INCOME TAXES AND EMPLOYEE PROFIT SHARING	10,511	10,072
Current income taxes and employee profit sharing	(3,645)	(3,780)
Deferred income taxes and employee profit sharing	245	487
	(3,400)	(3,293)
INCOME BEFORE EQUITY IN EARNINGS OF UNCONSOLIDATED SUBSIDIARIES AND ASSOCIATED COMPANIES	7,111	6,779
Equity in earnings of unconsolidated subsidiaries and associated companies	276	357
NET EARNINGS BEFORE MINORITY INTEREST	7,387	7,136
Minority interest	(373)	(326)
NET INCOME	Ps. 7,014	Ps. 6,810

These income statements, consolidated with those of the financial entities and other companies that form part of the Financial Group and are consolidated, were prepared according to Accounting Principles applicable to Financial Service Holding Companies issued by the National Banking and Securities Commission according to Article 30 of the Law of Financial Institutions. Such principles are consistently applied in the financial statements, which are presented according to sound practices and applicable legal and administrative provisions and reflect all the operations conducted by the Financial Group, its financial service subsidiaries and the other companies that form part of the Financial Group and are consolidated as of the income statement dates above.
The accompanying Consolidated Income Statements have been approved by the Board of Directors in accordance with the responsibility assigned to them.
The attached notes are an integral part of these consolidated income statements.

Dr. Alejandro Valenzuela del Río	Ing. Sergio García Robles Gil	C.P. Román Martínez Méndez	Lic. Jorge Eduardo Vega Camargo	C.P.C. Nora Elia Cantú Suárez
Chief Executive Officer	Managing Director - CFO	Managing Director - Audit	Executive Director Controller	Executive Director Accounting

GRUPO FINANCIERO BANORTE, S.A.B. DE C.V. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007
(In millions of Mexican pesos)

	2008	2007
OPERATING ACTIVITIES:		
Net income	Ps. 7,014	Ps. 6,810
Items not requiring (generating) resources:		
Fair value adjustments of financial instruments	(268)	(192)
Allowance for loan losses	6,896	2,646
Depreciation and amortization	1,099	980
Deferred taxes	(245)	(487)
Provisions for other obligations	24	2,433
Minority interest	373	326
Equity in earnings of subsidiaries and associated companies	(276)	(357)
	14,617	12,159
Increase or decrease in operating accounts:		
Increase in deposits	57,462	27,447
Increase in loan portfolio	(52,095)	(51,124)
(Increase) reduction from treasury transactions (investment securities)	(220,239)	10,171
Reduction (increase) in transactions with securities and derivative financial instruments	194,558	(2,370)
Increase from bank and other loans	13,960	5,233
Increase of deferred taxes	(12)	(65)
Net resources generated in operating activities	8,251	1,451
FINANCING ACTIVITIES:		
Increase (reduction) in subordinated debentures	10,403	(1,551)
Issuance (repurchase) of shares	103	(639)
Increase (decrease) in other payables	1,269	(418)
Dividends paid	(949)	(917)
Net resources generated by (used in) financing activities	10,826	(3,525)
INVESTING ACTIVITIES:		
Acquisition of property, furniture and fixtures, net	(1,308)	(1,961)
(Increase) decrease in permanent stock investments	(644)	353
Increase in deferred charges and credits	(1,958)	(388)
Increase in foreclosed assets	(478)	(6)
(Increase) decrease in other accounts receivable	(1,897)	632
Net resources used in investing activities	(6,285)	(1,370)
Net increase (decrease) in cash and equivalents	12,792	(3,444)
Cash and cash equivalents available at the beginning of the year	41,610	45,054
Cash and cash equivalents available at the end of the year	Ps. 54,402	Ps. 41,610

These statements of changes in financial position, consolidated with those of the financial entities and other companies that form part of the Financial Group and are consolidated, were prepared according to Accounting Principles applicable to Financial Service Holding Companies issued by the Mexican National Banking and Securities Commission according to Article 30 of the Law of Financial Institutions. Such principles are consistently applied in the financial statements, which are presented according to sound practices and applicable legal and administrative provisions and reflect all the operations conducted by the Financial Group, its financial service subsidiaries and the other companies that form part of the Financial Group and are consolidated as of the dates above.
The accompanying Consolidated Statements of Changes in Financial Position have been approved by the Board of Directors in accordance with the responsibility assigned to them.
The attached notes are an integral part of these consolidated statements of changes in financial position.

Dr. Alejandro Valenzuela del Río Chief Executive Officer	Ing. Sergio García Robles Gil Managing Director - CFO	C.P. Román Martínez Méndez Managing Director - Audit	Lic. Jorge Eduardo Vega Camargo Executive Director Controller	C.P.C. Nora Elia Cantú Suárez Executive Director Accounting

Consolidated Statements
of Changes in Stockholders' Equity

GRUPO FINANCIERO BANORTE, S.A.B. DE C.V. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007
(In millions of Mexican pesos)

	PAID-IN CAPITAL	
	Common stock	Additional paid-in capital
Balances, January 1, 2007	Ps. 12,020	Ps. 1,862
TRANSACTIONS APPROVED BY STOCKHOLDERS:		
Issuance (repurchase of shares)	(55)	(590)
Transfer of prior year's result	-	-
Creation of reserves as per General Stockholders' meeting on March 30, 2007	-	-
Dividend declared at the General Stockholders' meeting on October 3, 2007	-	-
Total transactions approved by stockholders	(55)	(590)
COMPREHENSIVE INCOME:		
Net income	-	-
Effect of holding non-monetary assets	-	-
Changes in accounting principles	-	-
Total comprehensive income	-	-
Minority interest	-	-
Balances, December 31, 2007 previously reported	11,965	1,272
Change in credit card loan rating criterion	-	-
Balances, January 1, 2008	11,965	1,272
TRANSACTIONS APPROVED BY STOCKHOLDERS:		
Issuance (repurchase of shares)	(24)	199
Transfer of prior year's result	-	-
Creation of reserves as per General Stockholders' meeting on April 29, 2008	-	-
Dividends declared at the General Stockholders' meeting on October 6, 2008	-	-
Total transactions approved by stockholders	(24)	199
COMPREHENSIVE INCOME:		
Net income	-	-
Effects of subsidiaries	-	(3)
Unrealized gain on valuation of cash flow hedge instruments	-	-
Changes in accounting principles (NIF B-10)	-	-
Total comprehensive income	-	(3)
Minority interest	-	-
Balances, December 31, 2008	Ps. 11,941	Ps. 1,468

These statements of changes in stockholders' equity, consolidated with those of the financial entities and other companies that form part of the Financial Group and are consolidated, were prepared according to Accounting Principles applicable to Financial Service Holding Companies issued by the Mexican National Banking and Securities Commission according to Article 30 of the Law of Financial Institutions. Such principles are consistently applied in the financial statements, which are presented according to sound practices and applicable legal and administrative provisions and reflect all the operations conducted by the Financial Group, its financial service subsidiaries and the other companies that form part of the Financial Group and are consolidated as of the dates above.
The accompanying Consolidated Statements of Changes in Stockholders' Equity have been approved by the Board of Directors in accordance with the responsibility assigned to them.
The attached notes are an integral part of these consolidated statements of changes in stockholders' equity.

			OTHER CAPITAL						
Capital reserves	Retained earnings from prior years	Result from valuation of available for sale securities	Cumulative foreign currency translation adjustment	**Insufficiency** in restated stockholders' equity	Effect of holding non-monetary assets	Net income	Total majority interest	Total minority interest	Total stockholders' equity
Ps. 2,140	Ps. 16,417	Ps. -	Ps. -	(Ps. 6,380)	(Ps. 5,734)	Ps. 6,255	Ps. 26,580	Ps. 1,446	Ps. 28,026
6	-	-	-	-	-	-	(639)	-	(639)
-	6,255	-	-	-	-	(6,255)	-	-	-
306	(306)	-	-	-	-	-	-	-	-
-	(917)	-	-	-	-	-	(917)	-	(917)
312	5,032	-	-	-	-	(6,255)	(1,556)	-	(1,556)
-	-	-	-	-	-	6,810	6,810	-	6,810
-	-	-	-	-	147	-	147	-	147
-	(70)	-	-	-	578	-	508	15	523
-	(70)	-	-	-	725	6,810	7,465	15	7,480
-	-	-	-	-	-	-	-	206	206
2,452	21,379	-	-	(6,380)	(5,009)	6,810	32,489	1,667	34,156
-	(100)	-	-	-	-	-	(100)	-	(100)
2,452	21,279	-	-	(6,380)	(5,009)	6,810	32,389	1,667	34,056
(72)	-	-	-	-	-	-	103	-	103
-	6,810	-	-	-	-	(6,810)	-	-	-
340	(340)	-	-	-	-	-	-	-	-
-	(949)	-	-	-	-	-	(949)	-	(949)
268	5,521	-	-	-	-	(6,810)	(846)	-	(846)
-	-	-	-	-	-	7,014	7,014	-	7,014
-	(30)	(550)	1,095	-	-	-	512	-	512
-	-	-	-	-	(1,267)	-	(1,267)	-	(1,267)
-	(9,835)	-	-	6,380	3,455	-	-	-	-
-	(9,865)	(550)	1,095	6,380	2,188	7,014	6,259	-	6,259
-	-	-	-	-	-	-	-	277	277
Ps. 2,720	Ps. 16,935	(Ps. 550)	Ps. 1,095	Ps. -	(Ps. 2,821)	Ps. 7,014	Ps. 37,802	Ps. 1,944	Ps. 39,746

Dr. Alejandro Valenzuela del Río
Chief Executive Officer

Ing. Sergio García Robles Gil
Managing Director - CFO

C.P. Román Martínez Méndez
Managing Director - Audit

Lic. Jorge Eduardo Vega Camargo
Executive Director Controller

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

GRUPO FINANCIERO BANORTE, S.A.B. DE C.V. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007
(In millions of Mexican pesos)

1 – ACTIVITY AND REGULATORY ENVIRONMENT

Grupo Financiero Banorte, S.A.B. de C.V. (the "Financial Group") is authorized by the Mexican Treasury Department (SHCP) to operate as a financial group under the form and terms established by the Mexican Financial Group Law, subject to the supervision and monitoring of the Mexican National Banking and Securities Commission (the "Commission"). Its main activities consist of acquiring and managing entities engaged in the financial services industry and supervising their activities, as defined in the above-mentioned Law. The Financial Group and its subsidiaries are regulated, depending on their activities, by the Commission, the Mexican National Insurance and Bond Commission, the Mexican National Retirement Savings Systems Commission (the Commissions), the Mexican Central Bank (Banco de México) and other applicable laws and regulations.

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

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

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

The Financial Group's consolidated financial statements have been approved by the Board of Directors at their January 29, 2009 meeting in accordance with the responsibility assigned to them.

2 – SIGNIFICANT EVENTS DURING THE YEAR

a. Economic situation

The difficult worldwide economic situation has rendered several financial sector participants bankrupt. In Mexico, several companies have reported losses derived from transactions involving derivative financial instruments, including applications to file for bankruptcy, caused by the concern in the local markets. The Financial Group has declared the risk exposure of its subsidiary, Banco Mercantil del Norte, S.A. (Banorte) with each of the affected companies, and has acknowledged such risks in the earnings as per subsections f) and g) of this Note. Even though such effects were reported, Banorte has been able to reach a record accumulated profit as of December 31, 2008, which shows it has ample liquidity, strong levels of capitalization and sufficient reserves for its past-due loans, as well as to continue to be a profitable investment for its shareholders.

b. Issue of subordinated debentures

Banorte listed three issues of subordinated debentures on the Mexican Stock Exchange for a total of Ps. 7,525. The transactions included the simultaneous placement of two issues of subordinated debentures, one in March and another in June, which due to their features, helped strengthen Banorte's capital. The first issue of non-preferred and non-convertible subordinated debentures (BANORTE 08) was for Ps. 3,000 with a 10-year term and a 28-day TIIE rate plus 60 basis points; the second issue of non-preferred non-convertible debentures (BANORTE 08U) was made in Units of Investment (UDIS) for an amount equivalent to Ps. 1,775 with a 20-year term and a fixed rate of 4.95% payable every 182 days; the third issue of non-preferred non-convertible subordinated debentures (BANORTE08-2) was for Ps. 2,750 with a 10-year term and a 28-day TIIE rate plus 77 basis points. These placements are part of a preferred and non-preferred non-convertible subordinated debenture program that is calculated as regulatory capital for a sum of up to Ps. 15,000 over a five-year period, approved at the Extraordinary General Stockholders' Meeting held on February 22, 2008.

c. Effects of the VISA Inc. reorganization

Banorte recorded 1,545,128 ordinary class C (series I) shares of Visa Inc. (VISA) that were assigned to it as a consequence of VISA's reorganization in March 2008, through which VISA indirectly acquired VISA LAC, in which Banorte has a share as a member authorized to use its trademark. The purpose of reorganizing VISA was to go public and place shares on the New York Stock Exchange. A total of 868,138 shares were sold at the time of the assignment, recording an income before taxes of Ps. 394 in "Other income". Furthermore, Banorte recorded the remaining 676,990 shares received by VISA that were not put up for trading as investments in securities under the category "Available for sale securities." During the third quarter of the year, 544,690 shares were sold, recording a gain of Ps. 312. The remaining 132,300 VISA shares in possession of Banorte are recorded at market value, with the valuation effect presented under "Valuation of available for sale securities" in stockholders' equity.

d. Effects of the Mexican Stock Exchange Reorganization

As a result of the Mexican Stock Exchange's reorganization to become a public company during the second quarter of 2008, Banorte sold the shares of S.D. Indeval Institución para el Depósito de Valores, S.A. de C.V. (S.D. Indeval) that it had recorded under "Permanent Investments in Shares", thereby recording a Ps. 91 profit before taxes in "Other income".

Moreover, Casa de Bolsa Banorte, S.A. de C.V. (Brokerage House) generated revenues from selling the shares it had that were recorded under "Earnings from available for sale securities valuation" in the Balance Sheet for Ps. 144 and under "Other income" in the income statement for Ps. 40. The share and corporate restructuring consisted mainly of the sale or swap of shares of the Mexican Stock Exchange, Asigna, Mexder, Contraparte Central de Valores de México and S.D. Indeval, for which a specific treatment was applied in each case. In the case of S.D. Indeval, such treatment consisted of selling the total number of shares in two parts. The first was for 75% of the transaction value that corresponds to the future benefits of the share in the Brokerage House for Ps. 40 million recorded under "Other income". The remaining 25% corresponded to payment of the shares, because they cannot be realized until the Stock Market Law that restricts this operation is modified.

e. Merger of subsidiaries

At the Extraordinary Stockholders' Meetings held on October 3, 2007, the merger of "Arrendadora y Factor Banorte, S.A. de C.V., Sociedad Financiera de Objeto Múltiple, Entidad Regulada, Grupo Financiero Banorte" (previously Factor Banorte, S.A. de C.V.) with "Arrendadora Banorte, S.A. de C.V., Sociedad Financiera de Objeto Múltiple, Entidad Regulada, Grupo Financiero Banorte" was authorized, whereby the former was the merged entity and the latter the merging entity that took on the merged entity's name. The merger became effective as of January 31, 2008.

At the Extraordinary Stockholders' Meetings held on June 16, 2008, the merger of Banorte, as the merging entity, with its subsidiaries Inmobiliaria Bancrecer, S.A. de C.V., Inmobiliaria Innova, S.A. de C.V., Inmobiliaria Banormex, S.A. de C.V., Inmuebles de Tijuana, S.A. de C.V., Inmobiliaria Banorte, S.A. de C.V., Constructora Primero, S.A. de C.V., Inmuebles de Occidente, S.A., Inmobiliaria Finsa, S.A. de C.V., and Inmobiliaria Bra, S.A. de C.V., as the merged entities was authorized, using the May 31, 2008 balance sheets as a basis for the merger. The merger will become effective when the approved agreements or basis for the merger are inscribed in the Public Registry of Commerce and when the Mexican Treasury Department's (SHCP) gives its authorization.

f. Lehman Brothers' securities

During September 2008, Banorte recorded under "Brokerage revenues" a loss of Ps. 295 associated with the permanent impairment and loss generated by the sale of these securities. The loss is made up of USD 24 million in senior debt notes and USD 1 million in derivative financial instruments.

g. COMERCI's credit quality impairment

As a result of the difficult economic situation and its participation in transactions involving derivative financial instruments and given the request submitted by Controladora Commercial Mexicana, S.A.B. de C.V. (COMERCI) to file for bankruptcy, Banorte acknowledged a loan loss exposure from COMERCI in the amount of Ps. 1,030 created an unsecured loan maturing in March 2009. Such exposure represents 0.18% of Banorte's total assets, 0.4% of the overall loan portfolio, and 2.8% of the stockholders' equity reported by December 31, 2008. COMERCI never revealed its derivative position that could lead it to the current situation when the loan was originated nor during the periodic revisions. Banorte is waiting for COMERCI's request to file for bankruptcy to be resolved in order to start the restructuring process and negotiate the partial or total recovery of the loan.

As of December 31, 2008, Management has created sufficient loan reserves according to the corresponding methodology.

h. Credit card payment campaign

Given the liquidity problems some customers are having in the current difficult economic situation, as reflected in the impairment of credit card loan asset quality, Banorte decided to take a series of measures to help its customers face these difficult times. During 2008, a massive campaign was launched to offer an option to customers who wanted to defer their debt repayment and improve their payment profile, under which the customer's debt was frozen for the agreed term and amortized in fixed payments. As of December 31, 2008, the total amount of the loans under this campaign was Ps. 703.

3 – BASIS OF PRESENTATION

Monetary unit of the financial statements

The financial statements and notes as of December 31, 2008 and for the year then ended include balances and transactions in Mexican pesos of a different purchasing power. The financial statements and notes as of December 31, 2007 and for the year then ended include balances and transactions in Mexican pesos of purchasing power of December 31, 2007.

Consolidation of financial statements

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

As of December 31, 2008 and 2007, the Financial Group's consolidated subsidiaries and its ownership percentage are as follows:

Banco Mercantil del Norte, S. A. and Subsidiaries	97.06%
Casa de Bolsa Banorte, S. A. de C. V.	99.99%
Arrendadora y Factor Banorte, S. A. de C. V.	99.99%
Almacenadora Banorte, S. A. de C. V.	99.99%
Créditos Pronegocio, S. A. de C. V.	99.99%

Consolidation 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 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:

As of 2008, 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. Up until 2007, conforming to the accounting criteria established by the Commission included recording the inflation effects of the foreign country and then converting them at the year-end exchange rate for all assets, liabilities income, costs and expenses, and the historical exchange rate was used for paid-in capital. In 2008 and 2007 the conversion effects are presented in stockholders' equity.

Comprehensive income

This is the change in stockholders' equity during the year, for concepts other than distributions and activity in contributed common stock, and is comprised of the net income of the year, plus other comprehensive income (loss) items of the same period, which are presented directly in stockholders' equity without affecting the consolidated statements of income, in accordance with the accounting practices established by the Commission. In 2008 and 2007, comprehensive income includes the net income of the year, the result from valuation of available for sale securities, the unrealized gain or loss on valuation from cash flow hedge instruments, and the conversion effects of foreign operations.

4 – SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies of the Financial Group are in conformity with practices prescribed by the Commission through issued accounting standards and other applicable laws, which require Management to make certain estimates and use certain assumptions to determine the valuation of certain items included in the consolidated financial statements and make the required disclosures therein. Even though they may differ in their final effect, the Management considers the estimates and assumptions were adequate under the current circumstances.

Pursuant to accounting Circular A-1, "Basic Scheme of the Set of Accounting Criteria Applicable to Banking Institutions", prescribed by the Commission, the institutions' accounting will adhere to the Financial Reporting Standards (NIF), defined by the Mexican Board for Research and Development of Financial Reporting Standards (CINIF), except when the Commission deems it necessary to apply a specific accounting standard or Circular, considering the fact that the institutions perform specialized operations.

Changes in accounting principles

On September 1, 2008, the Commission issued a resolution that modifies the "General Provisions Applicable to Banking Institutions" thereby replacing accounting Circular C-1, "Recording and Cancellation of Financial Assets", and C-2, "Securitization Operations", and adding accounting Circular C-5 "Consolidation of Special Purpose Entities." These provisions will become effective as of January 1, 2009, except for C-1, which according to the following paragraph, should be applied as of October 14, 2008.

Moreover on October 13, 2008, the Commission issued another resolution that modifies the "General Provisions Applicable to Banking Institutions" thereby replacing accounting Circular B-3, "Repurchase or Resale Agreements", B-4, "Securities Loans", and C-1, "Recording and Cancellation of Financial Assets," as well as Circular D-1, "Balance Sheet", D-2, "Income Statements", and D-4, "Statement of Changes in the Financial Position." This resolution became effective as of October 14, 2008, for which Banorte certified that it had the necessary systems to implement the aforementioned accounting criteria. If it hadn't, been able to it would have had to use the criteria in effect until this Resolution became effective. As Banorte certified the above, it applied these criteria as of October 1, 2008. The application of Circular B-3 was made "prospectively" pursuant to NIF B-1, "Accounting Changes and Corrections of Errors", and therefore transactions previously recorded were not reevaluated.

Additionally, on October 16 and November 10, 2008, by means of official documents 100-035/2008 and 100-042/2008, respectively, the Commission authorized Banorte to transfer the investment in securities it held in the category of "Trading securities" to the category of "Available for sale securities" or "Securities held to maturity", at the last book value recorded in the balance sheet at the time of the reclassification without reversing the valuation recorded in income on the transfer date. Furthermore, it enabled Banorte to transfer debt instruments from "Available for sale securities" to "Securities held to maturity" at the last book value recorded in the balance sheet at the time of the reclassification without reversing the valuation recorded in stockholders' equity at the transfer date, which will be amortized in the year's earnings based on the security's remaining life. These provisions were applied equally to securities to receive in repurchase agreement operations. The Commission allowed this accounting criteria to be applied only once on the value date of October 1, 2008 and during the last quarter of 2008.

Given the above, during October 2008 Banorte reclassified from "Trading securities" to "Securities held to maturity" a total of 6,035,947,400 securities with an accounting value of Ps. 12,803 on the reclassification date. Additionally, it reclassified from "Available for sale securities" to "Securities held to maturity" a total of 560,523,193 instruments with an accounting value of USD 553 million and EUR 20 million.

The aforementioned reclassifications were driven by the value loss in trading securities when stated at fair value, caused by the volatility and uncertainty of the financial markets during the last quarter of 2008. According to the analyses made by the Management as of December 31, 2008, the securities held to maturity position has not shown any indication of permanent impairment.

If the Financial Group had not made this reclassification, as of October 31, 2008 it would have recorded a loss in the year's earnings equivalent to Ps. 20 and Ps. 710 in stockholders' equity, for "Trading securities" and "Available for sale securities", respectively.

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

- Repurchase or resale transactions pursuant to Circular B-3, "Repurchase or Resale Agreements", are recorded according to the economic substance of the transaction, which is financing with collateral, by which the purchaser gives cash as financing in exchange for financial assets as guarantee in case of non-compliance. The financial assets pledged as collateral are still recorded in the balance sheet as it retains the risks, benefits and control over them.

  On the repurchasing agreement operation contract date, the cash income or outlay should be recorded, or a liquidating account as well as receivable or payable account at its fair value, initially at the agreed price, which represents the right or the obligation of restoring the cash to the counterparty.

- Circular C-1, "Recording and Cancellation of Financial Assets", states that in order for an entity to cancel a financial asset, it must transfer all the contract rights to receive the cash flows from the financial asset or retain the contract rights to receive the cash flows from the financial asset and, at the same time, assume the contract obligation of paying such cash flows to a third party who meets certain requirements. Moreover, the substantial transfer of risks and benefits is considered a prerequisite for cancelling an asset as a sale. This modification impacts the accounting recording of repurchase agreements and securities loans, as well as securitization transactions as mentioned below.

- Up until 2007 securitization transactions were not reported in the balance sheet, as the transferred assets met the requirements of a sale and, consequently, the transferred asset, the liability corresponding to issues made and the effects in earnings based on this Circular were not recorded. As of October 14, 2008, securitization operations must meet the requirements established in accounting Circular C-1 to be considered as a sale. Otherwise, the assets, debt issues made on the same and the effects on earning based on this Circular should remain in the balance sheet. On the other hand, the prerequisite of "control" is established in order to consolidate the specific purpose entities (e.g. securitization trusts), regardless of the equity holding percentage. Therefore, unless it is proven that the special purpose entity is not controlled by the asset "assigning" entity, it must be consolidated.

Note 37 describes the effects that would have been recorded if the new accounting Circulars C-1, C-2 and C-5 had been applied retrospectively.

The following are some of the principal changes derived from the new NIF's and interpretations (INIF's) issued or modified by CINIF that went into effect as of January 1, 2008:

- NIF B-10, "Effects of Inflation", considers two economic environments: a) inflationary; when the cumulative inflation of the three previous annual periods is 26% or more, in which case the inflation effects must be recognized; b) non-inflationary; when in the same period cumulative inflation is less than 26%; in this case the effects of inflation may not be recorded in the financial statements. Furthermore, it eliminates the replacement cost valuation and specific indexing methods and requires that the equity monetary position and the result of holding non-monetary assets holding (RETANM) be reclassified to retained earnings, except the RETANM identified as unrealized at the date this standard becomes effective, which will be kept in stockholders' equity to be applied to the earnings of the year when such assets are realized.

  The Financial Group reclassified Ps. 6,380 to retained earnings from prior years, which corresponds to the cancellation of the initial balance of the "Insufficiency in Restated Stockholders' Equity".

  The cumulative inflation over the previous three years was 11.26%. Therefore, the Mexican economy qualifies as non-inflationary. As of January 1, 2008, the Financial Group discontinued recording the inflation effects in the financial statements. However, assets, liabilities and stockholders' equity of December 31, 2008 and 2007 include the restatement effects recorded up until December 31, 2007.

- NIF B-15, "Conversion of Foreign Currencies", eliminates the classifications of integrated foreign operation and foreign entity as it incorporates the concepts of currency of recording, functional and reporting currencies. It sets forth the procedures for converting financial information of foreign operations: i) from the recording currency to the functional currency; and ii) from the functional to the reporting currency.

- NIF D-3, "Employee Benefits", incorporates current and deferred PTU as part of its scope and establishes that deferred PTU should be determined with the same asset and liability methodology as NIF D-4, "Income Taxes." It includes the concept of career salary, and the amortization period of most of the items is reduced to the lower of the remaining labor life or five years, as follows:

  - The initial balance of the severance and retirement benefits liability transition.
  - The initial balance of previous services and plan modifications.
  - The initial balance of the actuarial gains and losses of severance benefits is amortized in 2008 income statements.
  - The initial balance of the actuarial gains and losses of severance benefits is amortized in five years (net transition liability) with the option to amortize it in the 2008 income statement.

- NIF D-4, "Income Taxes", eliminates the term "permanent difference" and incorporates some definitions. It also requires that the line item called "Initial Cumulative Effect of Deferred Income Taxes" be reclassified to retained earnings, unless it is identified with any items of other comprehensive income that have not yet been applied to earnings.

- INIF 5, "Recording the Additional Compensation Agreed at the Beginning of the Derivative Financial Instrument to Adjust to its Fair Value", establishes an additional compensation agreed at the beginning of the derived financial instrument equivalent to its fair value and, therefore, should be part of the instrument's initial fair value instead of being subject to amortization as per Bulletin C-10.

- INIF 8, "Effects of the Business Flat Tax", establishes that the Business Flat Tax (IETU) should be considered as a tax on profit and provides the accounting guidelines to record it as a deferred tax when it is expected to be greater than the ISR (income tax) of the same period. To date the Financial Group has not incurred IETU.

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

Recognition of the effects of inflation in financial information

As mentioned above, as of January 1, 2008, the Financial Group discontinued recording the effects of inflation. 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”, “Effect of Holding Non-Monetary Assets” and “Monetary Position Gains and Losses”.

The inflation rates for the periods ending on December 31, 2008 and 2007 were 6.39% and 3.80%, respectively.

Cash and cash equivalents

Cash and cash equivalents are stated at nominal value plus accrued yields, which are recognized in results as they accrue. Funds available in foreign currency are valued at the exchange rate published by Banco de México at the balance sheet date.

Trading securities

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

Debt securities

- Applying market values
- If the market value cannot be obtained from a reliable source or it is not representative, the market prices of similar instruments or prices calculated based on formal valuation techniques will be used.
- When the fair value of the securities cannot be determined, these will be stated at the last fair value determined or at the acquisition cost, plus accrued interest.

Equity securities

- Applying market values
- If the market value cannot be obtained from a reliable source or it is not representative, the fair value will be determined based on the equity method described in Bulletin B-8, “Consolidated and Combined Financial Statements and Permanent Stock Investments”, of MFRS or, in rare cases, based on the acquisition cost restated by a factor derived for the value of the UDI.
- When the fair value of the securities cannot be determined, these will be stated at the last fair value determined or at the acquisition cost, which should be adjusted to it net trading value.

The increase or decrease in the fair value of these securities is recognized in the results of operations.

Available for sale securities

Available for sale securities are debt or equity securities that are classified neither as trading nor held to maturity. They are valued in the same way as trading securities, but with unrealized gains and losses recognized in stockholders’ equity.

Held to maturity securities

Held to maturity securities consist of debt instruments whose payments can be determined and with known maturities exceeding 90 days, which are acquired with the intent to hold them to maturity. They are initially recorded at acquisition cost and are subsequently carried at amortized cost.

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

Transfers from this item to “Available for sale securities” can only be made providing the related instruments will not be held to maturity.

Customer repurchase agreements

This is a transaction by which the purchaser acquires ownership of credit titles for a sum of money and is obliged to transfer titles of the same kind to the seller of the securities within the agreed term and in exchange for the same price plus a premium. The purchaser keeps the premium unless otherwise agreed.

Until September 30, 2008, when the Financial Group acted as the seller, the repurchase agreement transactions were recorded net and represented the difference between the fair value of the securities given under the repurchase agreement (asset position), which represented the securities to receive in the operation pursuant to the trading securities valuation criteria, and the current value of the maturity price (liability position). When the Financial Group acts as the purchaser of securities, the net position represents the difference between the present value of the price at maturity (asset position) and the fair value of the securities received under the repurchase agreement (liability position), which are valued according to the method discussed in the preceding paragraph.

Since October 1, 2008, repurchase transactions are recorded as follows:

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

On the repurchase agreement transaction contract date, the Financial Group acting as the seller, records the cash income or outlay, or a liquidating debtor account as well as receivable or payable account at its fair value, initially at the agreed price, which represents the obligation of restoring the cash to the purchaser. The payable account will be valued subsequently throughout the life of the repurchase agreement at its fair value by recognizing the repurchase agreement interest in the earnings of the year according to the effective interest method.

As to the collateral, the Financial Group classifies the financial asset in its balance sheet as restricted, valuing it according to the criteria mentioned above in this note through the repurchase agreement's maturity.

The Financial Group, acting as the purchaser, on the repurchase transaction contract date cash and cash equivalents are recorded or a creditor liquidating account, recording an account receivable at its fair value, initially at the agreed price, which represents the right to recover the cash that was given. The receivable account will be valued subsequently throughout the life of the repurchase agreement at its fair value by recognizing the repurchase agreement interest in the earnings of the year according to the effective interest method.

As to the collateral received, the Financial Group 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 Financial Group is authorized to perform two types of transactions involving derivative financial instruments:

Transactions to hedge the Financial Group's exposed position: Such transactions involve purchasing or selling derivative financial instruments to mitigate the risk resulting from a given transaction or group thereof.

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

Transactions with derivative financial instruments are presented in assets or liabilities, as applicable, under the heading "Securities and derivative financial instruments".

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

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

Forward and futures contracts

Forward and futures contracts for trading purposes establish an obligation to buy or sell an underlying at a future date in the quantity, quality and prices pre-established in the contract. Futures contracts are recorded initially by the Financial Group in the balance sheet as an asset and a liability at fair value, which represents the price agreed in the contract in order to acknowledge the right and obligation of receiving and/delivering the underlying, as well as the right and obligation of receiving and/or delivering the cash equivalent to the underlying, object of the contract.

For the purpose of financial statement presentation, for derivative financial instruments that incorporate both rights and obligations, such as futures and forwards, the asset and liability positions are netted individually. If the net is a debit balance, the difference is presented in the asset under “Derivative financial instruments”. If it is a credit balance, it is presented in the liability of the same line item.

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 that, by paying a premium, grant the right but not the obligation to buy or sell a specific number of underlying instruments at a given price within an established term.

Options are divided into: buy options (calls) and sell options (puts). Both can be used as trading or hedging instruments.

Options can be executed on a specific date or within a certain period of time. The price is agreed in the option and may be exercised at the discretion of the buyer. The instrument to which the price is linked is the reference or underlying value.

The premium is the price the holder pays the issuer for the option rights.

The holder of a call/put option has the right, but not the obligation, to purchase/sell from/to the issuer a certain number of underlying instruments at a fixed price (transaction price) within a certain term.

The Financial Group records the option premium as an asset or liability at the transaction date. The fluctuations of the option’s premium market valuation are recorded in the income statement under “Trading” thereby affecting the corresponding account’s balance.

Option contracts for trading purposes are recorded in memorandum accounts at their current price, multiplied by the number of securities, and distinguishing the options that are negotiable in the stock market from those that are not in order to control risk exposure.

All valuation results recorded before the option is exercised or expires are unrealized and not susceptible to capitalization or distribution among their shareholders until they are realized in cash.

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.

The Financial Group records the asset and liability portion for the rights and obligations agreed upon, valuing the future flows to receive or give at the current value according to the forecast of future applicable rates, discounting the market rate on the valuation date with curves provided by the price provider and verified by the market risk area.

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

Trading transactions are valued at market price, and the result of each valuation is recorded in the year’s results.

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

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

The Financial Group documents hedging transactions from the moment the derivative instruments are designated as hedging transactions. A file is drawn up for each transaction in order to have documented proof as per Bulletin C-10 paragraph 51.

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

- A fair value hedging transaction is recorded as follows:

  a. The gain or loss from valuing the hedging instrument at its fair value is recognized immediately in the period's income statement; and
  b. The gain or loss from valuing the hedging instrument's primary position attributable to the hedged risk should be restated to such position's book value and recognized immediately in the period's income statement.

- 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 "securities and derivative financial instruments" as a counter-account. The ineffective portion of the gain or loss on the hedging instrument is recognized in current earnings.
  b. The stockholders' equity balance that is part of other comprehensive income associated with the primary position is restated at the lower value (absolute value) of:
     I. The accumulated gain or loss on the hedging instrument; and
     II. The accumulated change in the primary position cash flow fair value from the beginning of the hedging transaction.

Valuation methods

As the derivative products transacted are considered conventional ("Plain Vanilla"), the standard valuation models contained in the derivative transaction systems and the Financial Group's risk management are used.

All the valuation methods that the Financial Group uses result in the fair value of the transactions and are periodically adjusted. Furthermore, they are audited by internal and external auditors, as well as by the financial authorities.

Valuation of the positions is done on a daily basis and a price provider generates the input used by the transaction and risk management systems. The price provider generates these valuations based on daily market conditions.

Operating strategies

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

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

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

Hedging transactions comply with the applicable standard set forth in Circular C-10 of the NIF. 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.

Loan portfolio

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

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

- Single payment loans upon the maturity of principal and interest, 30 calendar days after maturity.

- Loans involving a single principal payment at maturity, but with periodic interest payments, total principal and interest payments 30 and 90 calendar days after maturity, respectively.

- Loans for which the payment of principal and interest is agreed based on partial periodic payments, 90 calendar days after the first payment is due.

- In the case of revolving loans, whenever payment is outstanding for two billing periods or 60 or more days have elapsed following maturity.

- Overdrawn customer checking accounts are considered as part of the past-due portfolio when such situations arise.

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

The fees charged for the initial granting of loans will be recorded as a differed credit, which will be amortized as interest income, as per the straight line method during the loan's contractual term.

Restructured past-due loans are not considered 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 least 25% of the original loan amount are considered past-due until evidence of sustained payment is obtained.

Accrued interest during the period in which the loan was included in the past-due portfolio is recognized as income when collected.

Allowance for loan losses

Application of new portfolio classification provisions

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

In the case of consumer and mortgage loans, the Financial Group applies the general provisions applicable to credit institutions in classifying the loan portfolio as issued by the Commission on August 22, 2005 and December 2, 2008 and 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.

As of June 2001, the Financial Group has the Commission's approval to apply its own methodology, called Internal Risk Classification (CIR Banorte) to commercial loans. CIR Banorte applies to commercial loans with outstanding balances equal to or greater than 4 million UDIS or its equivalent in Mexican pesos. Loan classification and reserve allowance are determined based on the rules set by the Commission. This methodology is explained later in this note.

The commercial loan portfolio classification procedure requires that credit institutions apply the established methodology (general or internal) based on quarterly information for the periods ending in March, June, September and December of each year, while also recording the allowances determined at the close of each 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 aforementioned months. The preventive estimates 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 applied against the ending balance sheet.

Through its subsidiary Banorte USA, the Financial Group acquired Inter National Bank (INB) in 2006 and continues to apply INB's loan classification methodologies by adjusting the allowance for loan losses, derived from applying such methodologies.

As of 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.

Commercial loans equal to or greater than 4 million UDIS or its equivalent in Mexican pesos are classified according to the following criteria:

- Debtor's credit quality.
- The loans, in relation to the value of the guarantees or the value of the assets in trusts or in "structured" programs, as applicable.

The commercial loan segment includes loans granted to business groups and corporations, state and municipal governments and their decentralized agencies, as well as financing to companies of the financial services sector.

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

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

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 is analyzed using descriptive evaluation tables, the result of which indicates the borrower's rating. This, in turn, is standardized with the risk degrees established by the Commission.

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

For commercial loans under 4 million UDIS or its equivalent in Mexican pesos, loans under 900 thousand UDIS to state and municipal governments and their decentralized agencies, mortgage loans and consumer loans, the Financial Group applied the general provisions applicable to credit institutions for classifying the loan portfolio as issued by the Commission.

Acquired loan portfolios

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

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

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

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

For its portfolios valued using the interest method, the Financial Company evaluates twice a year to verify if the cash flow estimate of its collection rights is consistent with actual recoveries and therefore considered to be effective. The Financial Company 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 "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.

Other accounts receivable and payable

The Financial Group performs a study to quantify the different future events that could affect the amount in accounts receivable over 90 days and thus determine their percentage of non-recoverability to calculate its allowance for doubtful accounts. The remainder of the accounts receivable balances are reserved at 90 calendar days from their initial recognition.

The balances of asset and liability settlement accounts represent transactions involving the sale and purchase of currency and securities, which are recorded when entered into and settled within 48 hours.

Merchandise inventory

This is comprised mainly of finished goods and prior to 2008 was restated at its replacement or market cost, whichever is lower. In 2008 finished good are stated at the lower of cost or their net realizable value. The cost of sales, recorded under "Other expenses", is restated using the replacement cost at the time of the sale prior to 2008.

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

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

Foreclosed assets, net

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

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

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

The provisions applicable to the 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 award date or receipt as payments 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, "Investments in Securities", 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 award date or receipt as payments in kind (months)	Reserve percentage
Up to 12	0%
More than 12 and up to 24	10%
More than 24 and up to 30	15%
More than 30 and up to 36	25%
More than 36 and up to 42	30%
More than 42 and up to 48	35%
More than 48 and up to 54	40%
More than 54 and up to 60	50%
More than 60	100%

The amount of the reserves to be created will be the result of applying the reserve percentage determined under the preceding table to the awarding value of the property based on the accounting criteria. Furthermore, when problems are identified regarding the realization of the value of the foreclosed property, the Financial Group records additional reserves based on management's best estimates. On December 31, 2008 there are no reserves in addition to those created by the percentage applied based on the accounting criteria that could indicate realization problems on 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 are restated using factors derived from the value of the UDI of that date.

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

Permanent stock investments

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

Income Taxes ("ISR"), Business Flat Tax ("IETU") and Employee **Statutory Profit Sharing ("PTU")**

The provisions for ISR, IETU and PTU are recorded in the results of the year in which they are incurred. Deferred taxes are recognized if, based on financial projections the Financial Group expects to incur ISR or IETU, and records the deferred tax it will pay. 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" heading.

Intangible assets

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

Goodwill

Goodwill represents the excess of cost over the fair value of subsidiary shares, as of the date of acquisition. At least once a year is subject to impairment tests following the provisions of NIF C-15, "Impairment of long-life asset value and their disposal". No impairment was detected as of December 31, 2008.

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.

Provisions

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

Employee retirement obligations

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

Defined benefit plans

The Financial Group records a liability for seniority premiums and medical services after retirement and severance payments for reasons other than restructuring, which are recognized as costs over employee years of service and are calculated by independent actuaries using the projected unit credit method at nominal interest rates in 2008 and actual interest rates in 2007. 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 Financial Group applies the provision of NIF D-3 related to the recognition of the liability for severance payments at the end of the work relationship for reasons other than restructuring, which is recorded using the projected unit credit method based on calculations by independent actuaries.

Defined contribution plan

In January 2001 the Financial Group provided a voluntary defined contribution pension plan to participating employees who were hired before such date. This pension plan is invested in a diversified mutual fund, which is included in "Other assets".

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

The initial payment to the defined contribution plan for past services was financed with funds established originally for the defined benefit plan that was 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 Financial Group's contributions made to the plan's participants.

Foreign currency transactions

Foreign currency transactions are recorded at the applicable exchange rate in effect at the transaction date. Monetary assets and liabilities denominated in foreign currency are translated into Mexican pesos at the applicable exchange rate published by Banco de México in effect at the balance sheet date. Exchange fluctuations are recorded in the results of operations.

Interest from outstanding subordinated debentures

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

Transfer of financial assets

A transfer of financial assets in which the Financial Group surrenders control over those financial assets is accounted for as a sale, with the related effects subsequently recognized in the financial statements. If a transfer of financial assets in exchange for cash or other consideration does not meet the criteria for a sale, the Financial Group accounts for the transfer as a secured borrowing.

Securitizations

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

However, if the Financial Group does not transfer ownership of the financial assets, i.e., if it retains the direct risk associated with such assets, the transaction is considered to be a financing securitization, whereby the payment made to the transfer is guaranteed by assets for which the latter assumes the related risk. Accordingly, the Financial Group cannot derecognize such transferred assets from its financial statements and accounts for the transfer as a secured borrowing with pledge of collateral.

Share-based payments

Banorte grants stock options to key officers who would like to acquire shares in the Financial Group. Banorte 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.

At the subsidiary level, Banorte reports the shares held by the trusts as available for sale securities and as of December 31, 2008 reclassifies such amounts in the Financial Group's consolidation process with an effect of Ps. 63 in "Common stock" and Ps. 392 in "Additional paid in capital".

Banorte records its stock option plans according to the guidelines of IFRS 2, "Share Based Payments", which through 2008 is supplementally applied as there is no applicable standard in the Commission's accounting criteria. According to the above and given the features of Banorte's share-based payment plans, the related compensation expense is recorded at fair value as of the date the stock options are granted and adjusted during the required service period established in the stock option agreement.

The fair value of each share is estimated as of the date of grant using the Black-Scholes option pricing model. The changes in the assumptions used may result in substantial differences in the fair value estimates. However, such assumptions are restated (updated) at the close of the reporting period.

As of December 31, 2008, the market value of the shares was below the option price, and consequently no compensation expense was recorded.

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:

- Up until September 30, 2008, repurchase and resale agreements were recorded as purchase and sale transactions or temporary transfer of securities that guarantee the operation; however, they were not recognized based on the substance of the transaction (financing). They were, however, valued considering the current value of the securities' price upon maturity instead of the straight-line accrued premium as stipulated by MFRS.

- The effects of the applying the change to the credit card reserves mentioned in Note 11 were recorded as an adjustment to the accumulated net income (profit). MFRS require that the change be applied retrospectively to the financial statements pursuant to NIF B-1, "Accounting Changes and Corrections of Errors".

- The loan support programs estimates were canceled during the first quarter of 2007 and additional estimates for the UDIS Trusts were made as per the Commission circulars. According to MFRS, additional estimates for the loan support programs are required and must be made; whereas the UDI Trusts additional estimates should be canceled.

- The consolidated financial statements do not include the insurance and annuities sector subsidiaries. MFRS require that all controlled subsidiaries be consolidated, regardless of the sector to which they belong.

- The Commission requires that the changes in the financial situation be submitted as part of the basic financial statements. Beginning in 2008, MFRS require that a cash flow statement should be submitted instead.

- The costs associated with credit placement are 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.

- The Commission's accounting criteria establish that the reserve for foreclosed assets should be recorded according to the nature of the assets and the number of months transpired since the foreclosure. Additionally, MFRS indicate that the impairment potential of these assets should be assessed and recorded if necessary.

- Sundry debtors not collected within the contract term, under 60 days in the case of unidentified debtors, and 90 calendar days in the case of identified debtors, other than collection rights, items associated with the loan portfolio and loans to employees are fully reserved with the effects recognized in current earnings, regardless of whether the Financial Group may recover them.

- 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 "Funds available" and "Sundry creditors and other payable", respectively, instead of presenting them under the heading of "Derivative financial instruments", as established by MFRS.

- The gain or loss from valuing a hedging instrument at fair value is recognized in the balance sheet and the earnings statement under "Derivative financial instruments" and "Trading", respectively. The primary position's valuation is recognized under "Trading", which differs from NIF C-10, which requires that both the primary position and hedge valuations be presented under the same line item according the nature of the primary position.

- 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.

- Credit asset packages are valued using one of the following methods: i) Cash Basis Method, ii) interest method, and iii) cost recovery method, established in the Commission's Circular B-11, "Collection Rights". According to MFRS, there is no specific standard, and therefore the US GAAP "Statement of Position 03-3" is used instead. This principle does not contemplate the Cash Basis Method.

- The contractual acquisition value of the remaining 30% of the INB Financial Corp. shares was recognized in goodwill for a value of 20 times the average net profit of the two years prior to the purchase. According to NIF B-7, "Business Acquisitions", this operation should be recorded as an acquisition of the minority interest at its fair value, that is, as a transaction among shareholders of the same entity that should not generate goodwill. Any payment made in excess or below thereof should be considered as a distribution or contribution of capital.

- The PTU generated and deferred is presented in the earnings statement along with the ISR after Other Expenses and Revenues instead of as an other expense, as established by MFRS.

- The Financial Group recognizes revenue from investment premiums and discounts in available for sale securities and securities held to maturity based on the straight-line method. MFRS require that these be registered based on the interest method.

- Pursuant to the Commission's criteria, the Financial Group is not obliged to separate the embedded derivatives associated with the service contracts and purchase-sale transaction contracts that originated them, nor to recognize them at fair value. MFRS require that they be separated from the contract and recorded at their fair value.

6 - CASH AND CASH EQUIVALENTS

As of December 31, 2008 and 2007, this line item was composed as follows:

	2008	2007
Cash	Ps. 8,419	Ps. 7,831
Banks	40,004	31,487
Other deposits and available funds	5,979	2,292
	Ps. 54,402	Ps. 41,610

On December 31, 2008, the "Other" item includes Ps. 5,738 for funds due to be received in 24 and 48 hours, and Ps. 25 in gold and silver coins. In 2007, it included Ps. 1,456 for funds to be received in 24 and 48 hours, and Ps. 28 in gold and silver coins.

The "Banks" item is represented by cash in Mexican pesos and USD converted at the exchange rate issued by Banco de México at Ps. 13.8325 and Ps. 10.9157 for 2008 and 2007, respectively, and is made up as follows:

	Mexican pesos		Denominated in US dollars		Total	
	2008	2007	2008	2007	2008	2007
Call money	Ps. 3,184	Ps. -	Ps. -	Ps. 109	Ps. 3,184	Ps. 109
Deposits with foreign credit institutions	-	-	6,866	5,309	6,866	5,309
Domestic banks	503	250	-	-	503	250
Banco de México	29,405	25,782	46	37	29,451	25,819
	Ps. 33,092	Ps. 26,032	Ps. 6,912	Ps. 5,455	Ps. 40,004	Ps. 31,487

As of December 31, 2008 and 2007, the Financial Group had made monetary regulation deposits of Ps. 26,394 and Ps. 25,782, respectively.

As of December 31, 2008 and 2007, the total sum of restricted cash and cash equivalents is Ps. 35,476 and Ps. 28,089, respectively. This includes monetary regulation deposits, futures placed in the domestic and foreign market, call money and contracted transactions pending liquidation in 24 and 48 hours.

7 - INVESTMENTS IN SECURITIES

a. Trading securities

As of December 31, 2008 and 2007, trading securities are as follows:

	2008				2007
	Acquisition cost	Accrued interest	Valuation increase (decrease)	Book value	Book value
Commercial paper	Ps. 114	Ps. -	Ps. 9	Ps. 123	Ps. 1,254
CETES	-	-	-	-	518
Government bonds	-	-	-	-	113
Saving Protection Bonds (BPAS)	101	1	-	102	-
Bank securities	5,824	23	-	5,847	5,395
Securitization certificates	-	-	-	-	216
Shares listed in the International Quotation System (SIC)	-	-	-	-	2
Futures	4	-	-	4	4
Investment funds	-	-	-	-	11
Subordinated securities	236	-	318	554	241
	Ps 6,279	Ps 24	Ps 327	Ps 6,630	Ps 7,754

During 2008 and 2007, the Financial Group recognized a valuation effect for the net amount of Ps. 109 and Ps. 1, respectively, in the results of operations related to its trading securities.

As of December 31, 2008, these investments mature as follows (stated at their acquisition cost):

	From 1 to 179 days	From 6 to 12 months	More than 2 years	Total at acquisition cost
Commercial paper	Ps. 98	Ps. 16	Ps. -	Ps. 114
Saving Protection Bonds (BPAS)	101	-	-	101
Bank securities	5,824	-	-	5,824
Futures	4	-	-	4
Subordinated securities	-	-	236	236
	Ps. 6,027	Ps. 16	Ps. 236	Ps. 6,279

b. Available for sale securities

As of December 31, 2008 and 2007, available for sale securities were as follows:

	2008				2007
	Acquisition cost	Accrued interest	Valuation increase (decrease)	Book value	Book value
US Government Bonds	Ps. 6,153	Ps. 26	Ps. 48	Ps. 6,227	Ps. 4,634
UMS	502	13	1	516	1,361
Bonds	4,086	56	(434)	3,708	285
VISA	2	-	94	96	-
MASTER CARD	-	-	21	21	-
BMV Shares	234	-	(90)	144	-
EUROBONDS	553	12	(1)	564	386
PEMEX bonds	212	2	(10)	204	3,881
Subordinated securities	21	-	221	242	330
CYDSA shares	-	-	-	-	71
	Ps. 11,763	Ps. 109	(Ps. 150)	Ps. 11,722	Ps. 10,948

As of December 31, 2008, these investments mature as follows (stated at their acquisition cost):

	From 1 to 179 days	From 6 to 12 months	More than 1 year	Total at acquisition cost
US Government Bonds	Ps. 6	Ps. 39	Ps. 6,108	Ps. 6,153
UMS	-	-	502	502
Bonds	-	-	4,086	4,086
VISA	-	-	2	2
BMV Shares	-	-	234	234
EUROBONDS	-	-	553	553
PEMEX bonds	-	-	212	212
Subordinated securities	-	-	21	21
	Ps. 6	Ps. 39	Ps. 11,718	Ps. 11,763

c. Held to maturity securities

As of December 31, 2008 and 2007, held to maturity securities are as follows:

Medium and long-term debt instruments:

	2008			2007
	Acquisition cost	Accrued interest	Book value	Book value
Government bonds- support program for Special Federal Treasury Certificates	Ps. 684	Ps. 6	Ps. 690	Ps. 651
Fiduciary rights	-	-	-	8
CETES	3	-	3	-
Government bonds	653	2	655	-
Bonds	33,062	-	33,062	-
Saving Protection Bonds (BPAS)	124,691	177	124,868	-
UMS	2,541	68	2,609	-
UDIBONOS	3	-	3	-
Separable securitization certificates	24	9	33	-
Bank securities	31,494	63	31,557	-
US Government Bonds	13	-	13	10
PEMEX bonds	5,361	102	5,463	-
Private securitization certificates	21,722	48	21,770	-
Strip and Myra bonds	-	-	-	14
Structured notes	520	-	520	-
Other debt titles	349	-	349	-
Subordinated securities	22	-	22	77
	Ps. 221,142	Ps. 475	Ps. 221,617	Ps. 760

As of December 31, 2008, there is Ps 192,726 in restricted securities from the Financial Groups repurchasing operations.

As of December 31, 2008, these investments mature as follows (stated at their acquisition cost):

	From 1 to 179 days	More than 2 years	Total at acquisition cost
Government bonds- support program for Special Federal Treasury Certificates	Ps. -	Ps. 684	Ps. 684
CETES	-	3	3
Government bonds	-	653	653
Bonds	-	33,062	33,062
SAVING PROTECTION BONDS (BPAS)	124,691	-	124,691
UMS	-	2,541	2,541
UDIBONOS	-	3	3
Separable securitization certificates	-	24	24
Bank securities	31,494	-	31,494
US Government Bonds	-	13	13
PEMEX bonds	-	5,361	5,361
Private securitization certificates	-	21,722	21,722
Structured notes	-	520	520
Other debt titles	-	349	349
Subordinated securities	-	22	22
	Ps. 156,185	Ps. 64,957	Ps. 221,142

8 - TRANSACTIONS INVOLVING SECURITIES AND DERIVATIVE FINANCIAL INSTRUMENTS

As of December 31, 2008 and 2007, transactions involving securities and derivative financial instruments were as follows:

a. Debtor and creditor balances derived from repurchase transactions

Acting as seller of securities

	2008				2007			
	Asset position	Liability position			Asset position	Liability position		
Instrument	Value of securities receivable	Creditor repurchase agreement	Debit difference	Credit difference	Value of securities receivable	Creditor repurchase agreement	Debit difference	Credit difference
CETES	Ps. -	Ps. 3	Ps. -	Ps. 3	Ps. 4,039	Ps. 4,039	Ps. -	Ps. -
Development Bonds	3,987	37,085	-	33,098	25,900	25,901	-	1
Bonds 182	-	5	-	5	929	929	-	-
Bonds IPAB	-	351	-	351	874	879	-	5
Quarterly IPAB bonds	7,102	106,967	1	99,866	119,370	119,739	18	387
Semiannual IPAB bonds	26,970	51,252	1	24,283	13,767	13,808	4	45
7-year bonds	-	2	-	2	1,684	1,684	-	-
10-year bonds	627	1,275	-	648	4,067	4,069	1	3
20-year bonds	-	5	-	5	8,758	8,780	1	23
UDIBONOS	-	-	-	-	102	102	-	-
10-year UDIBONDS	-	4	-	4	1,460	1,459	1	-
Government securities	38,686	196,949	2	158,265	180,950	181,389	25	464
Promissory Notes	537	537	-	-	4,001	4,001	-	-
CEDES	716	10,985	-	10,269	12,897	12,906	3	12
Bank acceptances	-	-	-	-	10	10	-	-
CEBUR Bank	-	8,892	-	8,892	2,449	2,450	-	1
Bank securities	1,253	20,414	-	19,161	19,357	19,367	3	13
Private paper	-	11,428	-	11,428	11,618	11,642	1	25
CEBUR government	-	3,602	-	3,602	4,027	4,026	4	3
Securitization certificates	-	269	-	269	281	284	-	3
Private securities	-	15,299	-	15,299	15,926	15,952	5	31
	Ps. 39,939	Ps. 232,662	Ps. 2	Ps. 192,725	Ps. 216,233	Ps. 216,708	Ps. 33	Ps. 508

With the Financial Group acting as the vendor, accrued premiums were charged to the results of operations up to December 31, 2008 in the amount of Ps. 18,320 (Ps. 16,468 in 2007).

During 2008 and 2007, the period of repurchase transactions entered into by the Financial Group in its capacity as vendor ranged from 1 to 177 days.

Acting as purchaser of securities

	2008				2007			
	Liability position	Asset position			Liability position	Asset position		
Instrument	Value of securities deliverable	Repurchase agreement from debtors	Debit difference	Credit difference	Value of securities deliverable	Repurchase agreement from debtors	Debit difference	Credit difference
CETES	Ps. 1,667	Ps. 1,667	Ps. -	Ps. -	Ps. 300	Ps. 300	Ps. -	Ps. -
Development Bonds	3,992	3,987	5	-	3,233	3,233	-	-
Bonds 182	-	-	-	-	928	928	-	-
Bonds IPAB	-	-	-	-	878	873	5	-
Quarterly IPAB bonds	6,014	5,992	22	-	7,558	7,543	18	3
Semiannual IPAB bonds	25,865	25,751	115	1	-	-	-	-
7-year bonds	1,248	1,248	-	-	350	350	-	-
10-year bonds	1,193	1,194	2	3	1,092	1,093	-	1
20-year bonds	4,001	4,001	-	-	1,126	1,125	2	1
UDIBONOS	-	-	-	-	102	102	-	-
10-year UDIBONDS	-	-	-	-	501	501	-	-
Government securities	43,980	43,840	144	4	16,068	16,048	25	5
Promissory Notes	-	-	-	-	3,011	3,011	-	-
CEDES	568	565	3	-	1,773	1,773	-	-
Bank securities	568	565	3	-	4,784	4,784	-	-
CEBUR government	-	-	-	-	650	652	-	2
Private securities	-	-	-	-	650	652	-	2
	Ps. 44,548	Ps. 44,405	Ps. 147	Ps. 4	Ps. 21,502	Ps. 21,484	Ps. 25	Ps. 7

With the Financial Group acting as the purchaser, accrued premiums were charged to the results of operations up to December 31, 2008 in the amount of Ps. 2,521 (Ps. 2,345 in 2007).

During 2008 and 2007, the period of repurchase transactions entered into by the Financial Group in its capacity as purchaser ranged from 1 to 21 days.

As of December 31, 2008, the amount of goods corresponding to the guarantees given and received in repurchase transactions that involved the transfer of property totaled Ps. 179 and Ps. 14, respectively, and as of December 31, 2007, the totals were Ps. 137 of guarantees given and Ps. 12 of guarantees received.

b. Derivative financial instruments

The transactions entered into by the Financial Group involving derivative financial instruments correspond mainly to futures, swaps and options contracts. These transactions are entered into to hedge various risks and for trading purposes.

As of December 31, 2008, the Financial Group has evaluated the effectiveness of transactions entered into involving derivative financial instruments for hedging purposes and has concluded that they are highly effective.

As of December 31, 2008 and 2007, the positions of the Financial Group's derivative financial instrument held for trading purposes are as follows:

	2008	2007
Assets		
Derivative financial instruments	Ps. 8,168	Ps. 2,302
Liabilities		
Derivative financial instruments	Ps. 10,746	Ps. 2,435

	2008		2007	
Asset position	Nominal amount	Asset position	Nominal amount	Asset position
Futures				
TIIE-rate futures	Ps. 1,500	Ps. -	Ps. 980	Ps. -
Forwards				
Foreign currency forwards	1,892	40	571	42
Options				
Rate options	9,683	76	6,929	195
Swaps				
Rate swaps	173,097	1,999	97,357	873
Exchange rate swaps	9,829	3,210	10,107	677
Total negotiation	196,001	5,325	115,944	1,787
Options				
Rate options	24,200	179	16,250	100
Swaps				
Rate swaps	19,298	10	12,391	59
Exchange rate swaps	10,474	2,654	5,847	356
Total hedge	53,972	2,843	34,488	515
Total position	Ps. 249,973	Ps. 8,168	Ps. 150,432	Ps. 2,302

	2008		2007	
Liability position	Nominal amount	Liability position	Nominal amount	Liability position
Futures				
TIIE-rate futures	Ps. 1,500	Ps. -	Ps. 980	Ps. -
Forwards				
Foreign currency forwards	129	46	571	46
Options				
Foreign currency options	67	2	16	-
Rate options	10,827	64	3,300	40
Swaps				
Rate swaps	173,114	2,024	97,359	842
Exchange rate swaps	9,774	3,133	9,794	663
Total negotiation	195,411	5,269	112,020	1,591
Swaps				
Rate swaps	19,298	663	12,391	261
Exchange rate swaps	7,479	4,814	8,160	583
Total hedge	26,777	5,477	20,551	844
Total position	Ps. 222,188	Ps. 10,746	Ps. 132,571	Ps. 2,435

The operated products and main underlying instruments are as follows:

Forwards	Options	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 operations are described in Note 32.

Transactions entered into for hedging purposes have maturities from 2008 to 2018 and are intended to mitigate the financial risk derived from long-term loans offered by the Financial Group at fixed rates, as well as the exchange rate risk generated by market instruments in the Financial Group's portfolio.

The book value of collateral used to ensure compliance with obligations derived from currency swap contracts as of December 31, 2008, is USD 876,379 thousand and EUR 20,110 thousand and as of December 31, 2007 the book value is USD 413,350 thousand and EUR 21,406 thousand. Futures transactions are made through recognized markets, and as of December 31, 2008 they represent 0.60% of the nominal amount of all the derivative operation contracts; the remaining 99.32% correspond to options and swaps transactions in OTC markets.

As mentioned in Note 2 f), during the first quarter of 2008, one of our counterparts failed to comply with its obligations. Therefore, steps were taken pursuant to clause VII (bankruptcy) of the ISDA Master Agreement, and the current derivative operations with this counterparty were offset using market quotations to value them. The sum of the valuation of the derivative operations with the counterparty represents a net loss for the Financial Group in the amount mentioned in Note 2 f).

Furthermore, as a result of Lehman Brothers noncompliance, cash flow hedging was ineffective, bringing about a negative impact in the amount of USD 530 thousand.

The net amount of estimated gains or losses originated by transactions or events that are recorded in cumulative other comprehensive income as of December 31, 2008 and that are expected to be reclassified to earnings within the next 12 months totals Ps. 2.3.

9 - LOAN PORTFOLIO

As of December 31, 2008 and 2007, the loan portfolio by loan type is as follows:

	Current portfolio		Past-due portfolio		Total	
	2008	2007	2008	2007	2008	2007
Commercial loans						
Denominated in domestic currency						
Commercial	Ps. 93,123	Ps. 77,312	Ps. 1,482	Ps. 900	Ps. 94,605	Ps. 78,212
Rediscounted portfolio	6,129	6,646	-	-	6,129	6,646
Denominated in USD						
Commercial	27,041	13,975	221	27	27,262	14,002
Rediscounted portfolio	505	158	-	-	505	158
Total commercial loans	126,798	98,091	1,703	927	128,501	99,018
Loans to financial institutions	10,860	13,158	-	-	10,860	13,158
Consumer loans						
Credit card	15,067	13,881	2,140	829	17,207	14,710
Other consumer loans	14,302	13,344	359	280	14,661	13,624
Housing mortgage loans	46,282	37,216	746	858	47,028	38,074
Government loans	26,989	17,948	-	-	26,989	17,948
	113,500	95,547	3,245	1,967	116,745	97,514
Total loan portfolio:	Ps. 240,298	Ps. 193,638	Ps. 4,948	Ps. 2,894	Ps. 245,246	Ps. 196,532

On December 31, 2008 and 2007, revenues from recoveries of previously written-off loan portfolios was Ps. 687 and Ps. 604, respectively.

The average terms of the portfolio's main balances are: commercial, 2.8 years; b) financial institutions, 3.6 years; c) mortgage, 17.4 years; and d) government, 4.7 years.

The loans granted grouped into economic sectors as of December 31, 2008 and 2007, are shown below:

	2008		2007	
	Amount	Concentration percentage	Amount	Concentration percentage
Private (companies and individuals)	Ps. 128,501	52.40%	Ps. 99,018	50.38%
Financial institutions	10,860	4.43%	13,158	6.70%
Credit card and consumer	31,868	12.99%	28,334	14.42%
Housing	47,028	19.18%	38,074	19.37%
Government loans	26,989	11.00%	17,948	9.13%
	Ps. 245,246	100%	Ps. 196,532	100%

Loan support programs

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

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

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

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

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

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

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

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

The Additional Benefits Program for Housing Loan Debtors – FOVI-type housing loans expired on December 31, 2007, as per Commission Circular 1461.

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

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

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

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

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

As of December 31, 2008 and 2007, the balances of the respective trust balances are made up as follows:

	2008	2007
Banks	Ps. 7	Ps. 10
Government securities	2	3
Current loan portfolio:	622	737
Past-due loan portfolio	35	314
Accrued interest on loans	2	3
Past-due accrued interest	1	12
Allowance for loan losses	(329)	(582)
Total assets	340	497
Investment in trust assets	301	460
Deferred tax liabilities	39	37
Total liabilities	Ps. 340	Ps. 497

Policies and procedures for granting loans

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

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

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

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

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

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

Pursuant to Commission Circular B6, "Loan Portfolio", distressed portfolio is defined as the commercial loans which, based on the current information and facts as well as on the loan revision process, are very unlikely to be fully recovered (both principal and interest) pursuant to the original terms and conditions. The current and past-due portfolios are susceptible to be identified as a distressed portfolio. The commercial loans with D and E risk degree ratings are as follows:

	2008	2007
Distressed portfolio	Ps. 1,774	Ps. 304
Total rated portfolio	254,496	202,956
Distressed portfolio/total rated portfolio	0.70%	0.15%

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

10 - LOANS RESTRUCTURED IN UDIS

The loans restructured in UDIS correspond to mortgage loans. The balance on December 31, 2008 and 2007, is detailed below:

	2008	2007
Current portfolio	Ps. 622	Ps. 737
Current accrued interest	2	3
Past-due portfolio	35	314
Past-due accrued interest	1	12
	Ps. 660	Ps. 1,066

11 - ALLOWANCE FOR LOAN LOSSES

The Financial Group's portfolio classification, which serves as the basis for recording the allowance for loan losses, is detailed below:

2008

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

* The sum of the rated loan portfolio includes Ps. 5,991 in loans granted to subsidiaries whose balance was eliminated in the consolidation process.

2007

		Required allowances for losses			
	Loan portfolio	Commercial portfolio	Consumer portfolio	Mortgage portfolio	Total
Exempt portfolio	Ps. 97	Ps. -	Ps. -	Ps. -	Ps. -
Risk A	58,639	-	123	119	242
Risk A1	77,767	354	-	-	354
Risk A2	51,158	485	-	-	485
Risk B	5,441	-	164	142	306
Risk B1	5,890	118	-	-	118
Risk B2	409	22	-	-	22
Risk B3	748	84	-	-	84
Risk C	857	-	283	72	355
Risk C1	146	31	-	-	31
Risk C2	101	41	-	-	41
Risk D	1,236	50	653	187	890
Risk E	556	235	90	227	552
Unclassified	(90)	-	-	-	-
	Ps. 202,955*	Ps. 1,420	Ps. 1,313	Ps. 747	Ps. 3,480
Recorded allowance					3,786
Additional allowance					Ps. 306

* The sum of the rated loan portfolio includes Ps. 5,381 in loans granted to subsidiaries whose balance was eliminated in the consolidation process.

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, 2008 and 2007, the estimated allowance for loan losses is determined based on portfolio balances at those dates. As of December 31, 2008 and 2007, the allowance for loan losses includes a reserve for 100% of delinquent interest owed.

On August 22, 2008, the Commission published in the Official Gazette of the Federation (DOF) a change in the reserve percentage for non-delinquent credit card loans. According to the second temporary article that provides the possibility of making the corresponding adjustments no later than October 2008, the impact of this change was gradually realized by Banorte. Therefore the reserve percentage applied to non-delinquent loans in September 2008 was 1.72%. October closed with a 2.5% percentage for non-delinquent loans. The effects of applying the above change to credit card loan loss reserves led to the creation of preventive loan loss reserves in Banorte in the amount of Ps. 341, of which Ps. 103 was recognized as restated accumulated revenue in stockholders' equity. The remaining Ps. 238 was charged to the period's results.

As of December 31, 2008 and 2007, the allowance for loan losses represents 135% and 131%, 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, 2008 and 2007.

Rollforward of allowance for loan losses

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

	2008	2007
Balance at the beginning of the year	Ps. 3,786	Ps. 3,140
Changes in accounting policies 2007	-	527
Increase charged to results	6,835	2,571
Reserve release	(16)	(36)
Debt forgiveness and write-offs	(4,085)	(2,194)
Valuation in foreign currencies and UDIS	108	31
Rebates granted to housing debtors	(74)	(72)
Created with profit margin (UDIS Trusts)	48	27
Advantages from FOPYME and FINAPE programs	(3)	-
Other*	91	(74)
Restatement effects	-	(134)
Year-end balance	Ps. 6,690	Ps. 3,786

*In 2008, it includes Ps. 103 in credit card allowances recognized against the retained earnings in stockholders' equity.

As of December 31, 2008, the total amount of preventive loan loss reserves charged to the income statement totals Ps. 6,896 and Ps. 13 in other revenues. Such amount is made up of Ps. 6,835 credited directly to the estimate and Ps. 48 from UDIS trusts. As of December 31, 2007, the total amount of preventive loan loss reserves charged to the earnings statement totals Ps. 2,646. Such amount is made up of Ps. 2,571 credited directly to the estimate, Ps. 27 from UDIS trusts and Ps. 48 from the restatement.

12 - ACQUIRED PORTFOLIOS

As of December 31, 2008 and 2007, the acquired portfolios are as follows:

	2008	2007	Valuation Method
Bancomer III	Ps. 141	Ps. 164	Cash Basis Method
Bancomer IV	561	679	Cash Basis Method
Bital I	229	292	Cash Basis Method
Bital II	82	103	Cash Basis Method
Banamex Mortgage	330	367	Cash Basis Method
GMAC Banorte	95	144	Cash Basis Method
Serfin Commercial I	127	177	Cash Basis Method
Serfin Commercial II	94	88	Interest Method
Serfin Mortgage	197	247	Cash Basis Method
Santander	73	84	Interest Method (Commercial); Cash Basis Method (Mortgage)
Banorte Mortgage	234	264	Interest Method
Meseta	47	70	Cash Basis Method
Vipesa	6	10	Cash Basis Method
Goldman Sach's	183	226	Cash Basis Method
Confia I	93	107	Interest Method
Banorte Sólida Commercial	40	59	Cost Recovery Method
Solida Mortgage	517	579	Interest Method
	Ps. 3,049	Ps. 3,660	

As of December 31, 2008, the Financial Group recognized income from credit asset portfolios of Ps. 1,156, together with the respective amortization of Ps. 546, the effects of which were recognized under the "Other income" heading in the consolidated statement of income. For the year ended December 31, 2007, the Financial Group recognized income of Ps. 1,326, together with the respective amortization of Ps. 555.

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

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

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

13 - OTHER ACCOUNTS RECEIVABLE, NET

As of December 31, 2008 and 2007, the other accounts receivable balance is as follows:

	2008	2007
Loans to officers and employees	Ps. 1,162	Ps. 1,122
Debtors from liquidation settlement	2,643	1,382
Real property portfolios	982	1,025
Fiduciary rights	3,083	2,486
Sundry debtors	1,382	1,494
Taxes receivable	171	20
Other	203	107
	9,626	7,636
Allowance for doubtful accounts	(112)	(19)
	Ps. 9,514	Ps. 7,617

14 - FORECLOSED ASSETS, NET

As of December 31, 2008 and 2007, the foreclosed asset balance is as follows:

	2008	2007
Personal property	Ps. 71	Ps. 68
Real property	1,100	597
Goods pledged for sale	26	44
	1,197	709
Allowance for losses on foreclosed assets	(334)	(324)
	Ps. 863	Ps. 385

15 - PROPERTY, FURNITURE AND FIXTURES, NET

As of December 31, 2008 and 2007, the property, furniture and fixtures balance is as follows:

	2008	2007
Furniture and equipment	Ps. 4,902	Ps. 4,481
Property intended for offices	5,396	5,039
Installation costs	2,407	2,360
	12,705	11,880
Less – Accumulated depreciation and amortization	(4,276)	(3,782)
	Ps. 8,429	Ps. 8,098

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

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

16 - PERMANENT STOCK INVESTMENTS

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

	Share %	2008	2007
Seguros Banorte Generali, S. A. de C. V.	51.00%	Ps. 1,086	Ps. 932
Fondo Solida Banorte Generali, S. A. de C. V., SIEFORE (one and two)	99.00%	558	669
Pensiones Banorte Generali, S. A. de C. V.	51.00%	503	572
Banorte Investment funds	Various	114	112
Controladora PROSA, S. A. de C. V.	19.73%	60	50
Bolsa Mexicana de Valores, S. A. de C. V.	Various	-	45
Servicio Pan Americano de Protección, S. A. de C. V.	8.50%	97	29
Transporte Aéreo Técnico Ejecutivo, S. A. de C. V.	45.33%	89	112
Other	Various	52	69
		Ps. 2,559	Ps. 2,590

17 - DEFERRED TAXES, NET

The tax reported by the Financial Group is calculated based on the current tax result of the year and enacted tax regulations. However, due to temporary differences between accounting and tax balance sheet accounts, the Financial Group has recognized a recoverable net deferred tax asset of Ps. 471 and Ps. 214 as of December 31, 2008 and 2007, as detailed below:

	2008			2007		
	Temporary Differences Base	Deferred effect ISR	Deferred effect PTU	Temporary Differences Base	Deferred effect ISR	Deferred effect PTU
Temporary Differences – Assets:						
Allowance for loan losses	Ps. 196	Ps. 68	Ps. -	Ps. 174	Ps. 55	Ps. -
Tax loss carryforwards	78	22	-	5	2	-
Tax loss carryforwards of Uniteller and Banorte USA	111	38	-	37	13	-
Recoverable asset tax (IMPAC)	-	-	-	2	2	-
State tax on deferred assets	-	-	-	5	2	-
Unrealized loss in available for sale securities	-	-	-	29	10	-
Surplus preventive allowances for credit risks over the net tax limit	936	262	94	-	-	-
Excess of tax over book value of foreclosed and fixed assets	1,160	317	69	802	224	48
PTU	896	252	90	842	236	84
Other	1,308	363	121	1,809	507	169
Total assets	Ps. 4,685	Ps. 1,322	Ps. 374	Ps. 3,705	Ps. 1,051	Ps. 301
Temporary Differences - Liabilities:						
Excess of book over tax value of fixed assets and expected expenses	Ps. 4	Ps. 1	Ps. -	Ps. 591	Ps. 166	Ps. 37
Unrealized capital gain from investments in SIEFORES	87	24	-	146	41	-
ISR payable on UDI trusts	139	39		131	37	-
Portfolios acquired	2,083	583	100	1,751	490	70
Reversal of sales costs	18	5	-	39	11	-
Contribution to pension fund	1,000	280	100	500	140	50
Other	302	93	-	284	96	-
Total liabilities	Ps. 3,633	Ps. 1,025	Ps. 200	Ps. 3,442	Ps. 981	Ps. 157
Net accumulated asset	Ps. 1,052	Ps. 297	Ps. 174	Ps. 263	Ps. 70	Ps. 144
Deferred taxes, net			Ps. 471			Ps. 214

As discussed in Note 27, as of January 1, 2005, Article 10 and Temporary Article 2 of the Mexican Income Tax Law were amended, whereby the income tax rate was gradually reduced from 30% in 2005 to 29% in 2006 and 28% as of 2007 and thereafter. Pursuant to the provisions of NIF D-4, "Incomes Taxes", and INIF 8, "Effects of the Business Flat Tax", based on financial forecasts the Administration adjusted their balances based on the rates likely to be in effect at the time of their recovery. Additionally, it made forecasts for the IETU and compared it to ISR, and concluded that the Financial Group and its subsidiaries will continue to pay ISR. Thus no change was made to the deferred tax calculations.

Derived from consolidating Banorte USA, a net amount of Ps. 18 million was added to deferred taxes determined at a rate of 35% as per the tax law of the USA. Banorte USA's deferred tax assets and liabilities are determined using the liability method, under which the net asset or liability for deferred taxes is determined based on the tax effects of temporary differences between the book and tax base of assets and liabilities.

18 - OTHER ASSETS

As of December 31, 2008 and 2007, other assets are as follows:

	2008	2007
Plan assets held for employee pension plans	Ps. 3,482	Ps. 2,727
Other amortizable expenses	2,352	2,642
Accumulated amortization of other expenses	(480)	(969)
Goodwill	5,377	4,134
	Ps. 10,731	Ps. 8,534

As of December 31, 2008, goodwill was Ps. 5,377 and was comprised of the following: Ps. 32 for the purchase of Banorte Generali, S.A. de C.V., AFORE; Ps. 3,001 for the purchase of INB; Ps. 2,082 for the purchase option program for the remaining 30% of INB shares and Ps. 262 for the purchase of Uniteller. As of December 31, 2007, goodwill was Ps. 4,134 and was comprised as follows: Ps. 34 for the purchase of Banorte Generali, S.A. de C.V., AFORE; Ps. 2,368 for the purchase of INB; Ps. 1,525 for the purchase option program for the remaining 30% of INB shares and Ps. 207 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 recorded as of December 31, 2008 or 2007.

19 - 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 2008 and 2007 the Financial Group generated a liquidity requirement of USD 412,843 thousand and USD 303,221 thousand, respectively, and held investments in liquid assets of USD 661,959 thousand and USD 490,577 thousand, representing a surplus of USD 249,116 thousand and USD 187,356 thousand, respectively.

Deposits

The liabilities derived from traditional deposits are as follows:

	2008	2007
Immediately due and payable deposits		
Checking accounts earning no interest:		
Cash deposits	Ps. 56,247	Ps. 45,518
Checking accounts in US dollars for individual residents of the Mexican border	573	475
Demand deposits accounts	3,433	2,865
Checking accounts earning interest:		
Other bank checking deposit	35,471	33,918
Savings accounts	234	167
Checking accounts in US dollars for individual residents of the Mexican border	2,166	1,931
Demand deposits accounts	30,212	26,197
Tax payments	-	-
IPAB checking accounts	14	9
	128,350	111,080
Time deposits		
General public:		
Fixed-term deposits	20,681	17,462
Over-the-counter investments	43,436	15,604
PRLV primary market for individuals	53,270	44,735
PRLV primary market for business entities	1,056	1,389
Foreign residents deposits	78	54
Provision for interest	219	164
	118,740	79,408
Money market:		
Fixed-term deposits	188	1,860
Over the counter promissory notes	12,323	9,881
Provision for interest	1,168	1,078
	13,679	12,819
	132,419	92,227
	Ps. 260,769	Ps. 203,307

The funding rates which the Financial Group uses as reference are: a) for Mexican pesos, Interbank Interest Rate (TIIE), Average Cost of Funds (CCP) and; b) for foreign currency, the London Interbank Offered Rate (LIBOR).

These liabilities incur interest depending on the type of instrument and average balance held in the investments. The average interest rates and their currency of reference are shown below:

Immediately due and payable deposits:

	2008				2007			
Foreign exchange	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Mexican pesos and UDIS	0.90%	0.96%	1.04%	1.13%	0.88%	0.87%	0.86%	0.86%
Foreign Currency	0.38%	0.27%	0.26%	0.04%	0.97%	0.92%	0.85%	0.74%
Banorte USA								
Demand, NOW and Savings	0.43%	0.28%	0.25%	0.19%	0.43%	0.65%	0.67%	0.50%
Money Market	2.79%	1.88%	2.06%	1.66%	4.60%	4.36%	4.23%	3.64%

Time deposits:

Foreign exchange	2008 1Q	2008 2Q	2008 3Q	2008 4Q	2007 1Q	2007 2Q	2007 3Q	2007 4Q
General public								
Mexican pesos and UDIS	5.34%	5.32%	5.82%	6.16%	5.32%	5.43%	5.53%	5.19%
Foreign Currency	2.35%	1.48%	1.75%	2.42%	2.88%	2.86%	3.00%	2.94%
Money market	8.05%	7.89%	8.39%	8.81%	9.66%	8.69%	7.79%	8.48%
Banorte USA	4.82%	4.53%	4.36%	4.07%	5.04%	5.11%	5.17%	5.12%

As of December 31, 2008 and 2007, the terms at which these deposits are traded are as follows:

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 residents deposits	29	28	21	78
Provision for interest	201	18	-	219
	110,157	4,877	3,706	118,740
Money market:				
Fixed-term deposits	-	-	188	188
Money desk promissory notes	7,972	3,000	1,351	12,323
Provision for interest	32	48	1,088	1,168
	8,004	3,048	2,627	13,679
	Ps. 118,161	Ps. 7,925	Ps. 6,333	Ps. 132,419

2007	From 1 to 179 days	From 6 to 12 months	More than 1 year	Total
General public				
Fixed term deposits	Ps. 11,746	Ps. 2,735	Ps. 2,981	Ps. 17,462
Over the counter investments	15,593	11	-	15,604
PRLV primary market for individuals	44,405	301	29	44,735
PRLV primary market for business entities	1,366	19	4	1,389
Foreign residents deposits	27	4	23	54
Provision for interest	143	21	-	164
	73,280	3,091	3,037	79,408
Money market:				
Fixed term deposits	-	-	1,860	1,860
Money desk promissory notes	8,652	-	1,229	9,881
Provision for interest	18	23	1,037	1,078
	8,670	23	4,126	12,819
	Ps. 81,950	Ps. 3,114	Ps. 7,163	Ps. 92,227

20 - INTERBANK AND OTHER LOANS

The loans received from other banks as of December 31, 2008 and 2007 are as follows:

	Mexican pesos		Denominated in US dollars		Total	
	2008	2007	2008	2007	2008	2007
Immediately due						
Domestic banks (Call money)	Ps. -	Ps. 871	Ps. 1,245	Ps. -	Ps. 1,245	Ps. 871
	-	871	1,245	-	1,245	871
Short-term						
Banco de México	11,123	3	-	-	11,123	3
Commercial banking	350	211	1,670	1,537	2,020	1,748
Development banking	4,755	3,869	2,421	1,754	7,176	5,623
Public trusts	3,602	3,447	514	76	4,116	3,523
Other agencies	-	-	121	48	121	48
Provision for interest	228	85	19	26	247	111
	20,058	7,615	4,745	3,441	24,803	11,056
Long-term						
Commercial banking	1,081	1,084	3,533	2,661	4,614	3,745
Development banking	1,335	1,381	7	7	1,342	1,388
Public trusts	3,664	4,747	139	81	3,803	4,828
Other agencies	-	-	876	835	876	835
	6,080	7,212	4,555	3,584	10,635	10,796
	Ps. 26,138	Ps. 15,698	Ps. 10,545	Ps. 7,025	Ps. 36,683	Ps. 22,723

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

	2008				2007			
Foreign exchange	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Call money								
Mexican pesos and UDIS	7.44%	7.48%	7.99%	8.17%	7.02%	7.19%	7.21%	7.40%
Other bank loans								
Mexican pesos and UDIS	7.25%	7.17%	7.17%	8.41%	7.47%	7.41%	7.26%	7.94%
Foreign currency	5.33%	4.52%	4.51%	6.62%	5.90%	5.76%	5.95%	5.71%

Banorte USA liabilities accrue interest at an average rate of 1.43% and 4.55% as of December 31, 2008 and 2007, respectively. Moreover, the Arrendadora y Factor Banorte, S.A. de C.V. loans accrue an average interest rate of 9.21% and 8.91% in Mexican pesos and 4.44% and 5.58% in USD by December 31, 2008 and 2007, respectively.

21 - SUNDRY CREDITORS AND OTHER PAYABLES

As of December 31, 2008 and 2007, the other accounts receivable balance is as follows:

	2008	2007
Cashier and certified checks and other negotiable instruments	Ps. 2,750	Ps. 2,302
Creditors from liquidation settlement	2,405	1,756
Provision for employee retirement obligations	2,505	2,181
Provisions for sundry obligations	4,510	3,742
Others	951	907
	Ps. 13,121	Ps. 10,888

22 - EMPLOYEE RETIREMENT OBLIGATIONS

The Financial Group recognizes the liabilities for pension plans and seniority premium by 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, 2008 and 2007, related to the defined benefit pension plan, seniority premiums and retiree medical coverage, determined by independent actuaries, is analyzed below:

2008

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

2007

	Pension plan	Seniority premiums	Medical services	Total
Projected benefit obligation (PBO)	(Ps. 706)	(Ps. 122)	(Ps. 1,284)	(Ps. 2,112)
Fund market value	740	176	1,016	1,932
Funded status	34	54	(268)	(180)
Transition asset (obligation)	76	(15)	411	472
Unrecognized prior service cost	(31)	(4)	-	(35)
Unrecognized actuarial losses	167	4	190	361
Net projected asset	Ps. 246	Ps. 39	Ps. 333	Ps. 618
Accumulated benefit obligations (ABO)	Ps. 669	Ps. 105	Ps. -	Ps. 774

The Financial Group has a net accounting provision (net prepaid asset) of Ps. 4 generated by transferring personnel from Solida Administradora de Portafolios, S.A. de C.V. (Solida) to Banorte. Moreover, as of December 31, 2008, a separate fund amounting to Ps. 2,530, (Ps. 1,932 in 2007) 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, 2008 and 2007, the net periodic pension cost is as follows:

	2008	2007
Service cost	Ps. 81	Ps. 68
Interest cost	181	100
Expected return on plan assets	(216)	(82)
Amortization of unrecognized items		
Transition obligation	87	32
Plan amendments	-	(2)
Effects of curtailment and reduction of obligations	1	-
Variation in assumptions recognized in “Other income or expenses"	4	-
Variations in assumptions recognized in 2008	14	-
Variations in assumptions	7	2
Actuarial losses	-	3
Net periodic pension cost	Ps. 159	Ps. 121

In January 2008 the Financial Group recognized an effect of the curtailment and reduction of the obligations derived from the transfer of personnel under the defined benefit plan to the defined contribution plan, originating a cost of Ps. 2.

The rates used in the calculation of the projected benefit obligation and return on plan assets as of December 31, 2008 and 2007 are shown below:

	2008 nominal	2007 nominal	2007 actual
Discount rate	9.25%	8.75%	5.00%
Rate of wage increase	4.50%	4.50%	1.00%
Rate of increase in costs and expenses of other postretirement benefits	5.57%	5.57%	2.00%
Long-term inflation rate	3.50%	3.50%	-%
Expected long-term rate of return on plan assets	9.75%	9.75%	6.00%

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

	2008	2007
Defined and projected benefit obligations	(Ps. 156)	(Ps. 155)
Funded status	(156)	(155)
Transition obligation	83	105
Unrecognized actuarial gains	-	(3)
Net projected liability	(Ps. 73)	(Ps. 53)

For the years ended December 31, 2008 and 2007, the net periodic pension cost is as follows:

	2008	2007
Service cost	Ps. 25	Ps. 24
Interest cost	11	7
Transition obligation	21	15
Variation in assumptions recognized in “Other income or expenses"	(2)	-
Variations in assumptions recognized in 2008	-	-
Net periodic pension cost	Ps. 55	Ps. 46

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

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

23 - SUBORDINATED DEBENTURES

	2008	2007
Preferred subordinated debentures, maturing in April 2009, denominated in US dollars, at an interest rate of 2.72%.	Ps. 143	Ps. 113
Senior subordinated, nonconvertible debentures, maturing in January 2014, denominated in US dollars, at an interest rate of 5.875%, payable semiannually with a final principal payment at maturity (10-year term).	4,150	3,275
Preferred subordinated, nonconvertible debentures, maturing in April 2016, denominated in US dollars, at an interest rate of 6.135%, payable semiannually with a final principal payment at maturity (10-year term).	5,533	4,366
Non preferred subordinated nonconvertible debentures (Q BANORTE 08 debentures), maturing in February 2018, at the 28-day TIIE rate plus 0.60%.	3,000	-
Preferred subordinated nonconvertible debentures (Q BANORTE 08-2), maturing in June 2018, at the 28-day TIIE rate plus 0.77%.	2,750	-
Non preferred subordinated nonconvertible debentures, maturing in April 2021, denominated in US dollars, at an interest rate of 6.862%, payable semiannually with a final principal payment at maturity (15-year term).	2,766	2,183
Preferred subordinated nonconvertible debentures (Q BANORTE 08-U), maturing in February 2028, at a 4.95% annual rate.	1,871	-
Subordinated debentures, maturing in June 2034, denominated in US dollars, at an interest rate of 2.75%.	143	113
Accrued interest.	257	160
	Ps. 20,613	Ps. 10,210

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. 15 and Ps. 13 in 2008 and 2007, respectively.

24 - TRANSACTIONS AND BALANCES WITH SUBSIDIARIES AND ASSOCIATED COMPANIES

The balances and transactions with subsidiaries and associated companies as of December 31, 2008 and 2007 are as follows:

	Revenues		Accounts receivable	
Institution	2008	2007	2008	2007
Seguros Banorte Generali, S. A. de C. V.	Ps. 613	Ps. 587	Ps. 19	Ps. 22
Total	Ps. 613	Ps. 587	Ps. 19	Ps. 22

	Expenses		Accounts payable	
Institution	2008	2007	2008	2007
Seguros Banorte Generali, S. A. de C. V.	Ps. 300	Ps. 310	Ps. 24	Ps. 8
Total	Ps. 300	Ps. 310	Ps. 24	Ps. 8

All the balances and transactions with the subsidiaries indicated in Note 3 have been eliminated in consolidation. Furthermore, these transactions are supported by transfer pricing studies.

Pursuant to article 73 of the LIC (Credit Institutions Law), loans granted by Banorte to any related party may not exceed 50% and 75% of the basic portion of their net capital for the years ended December 31, 2008 and 2007, respectively. For the years ended December 31, 2008 and 2007, the amount of the loans granted to related parties is Ps. 8,216 and Ps. 5,041, respectively, representing 54% and 27%, respectively, of the limit established by the LIC.

Loan portfolio sales

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

In February 2003 Banorte sold Ps. 1,925 of its own portfolio (with interest) to its subsidiary Sólida at a price of Ps. 378. Of this transaction, Ps. 1,891 related to past-due amounts and Ps. 64 to the current portfolio. The transaction was recorded based on figures as of August 2002, for which reason the final amount affecting the February 2003 balance sheet was Ps. 1,856, considering the collections made since August 2002. In conjunction with the 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 set forth the accounting criteria to be applied to this transaction and issued a series of rulings whereby Banorte must provide detailed information on the activities of this transaction throughout its duration, in the understanding that this transaction was a one-time event and not a recurring portfolio transfer procedure.

Pursuant to the foregoing, below is a summary of the activity of the loan portfolio sold to Sólida since August 2002 and for the years of 2007 and 2008:

	Mexican pesos			Foreign currency			Total		
Type of portfolio	Aug 02	Dec 07	Dec 08	Aug 02	Dec 07	Dec 08	Aug 02	Dec 07	Dec 08
Current portfolio									
Commercial	Ps. 5	Ps. -	Ps. -	Ps. 5	Ps. -	Ps. -	Ps. 10	Ps. -	Ps. -
Housing mortgage	54	77	34	-	-	-	54	77	34
Total	59	77	34	5	-	-	64	77	34
Past-due portfolio									
Commercial	405	375	367	293	112	116	698	487	483
Consumer	81	73	72	-	-	-	81	73	72
Housing mortgage	1,112	458	393	-	-	-	1,112	458	393
Total	1,598	906	832	293	112	116	1,891	1,018	948
Total portfolio	Ps. 1,657	Ps. 983	Ps. 866	Ps. 298	Ps. 112	Ps. 116	Ps. 1,955	Ps. 1,095	Ps. 982
Allowance for loan losses (1)									
Commercial	326	363	355	246	112	116	572	475	471
Consumer	77	73	72	-	-	-	77	73	72
Housing mortgage	669	433	369	-	-	-	669	433	369
Total allowance for loan losses	Ps. 1,072	Ps. 869	Ps. 796	Ps. 246	Ps. 112	Ps. 116	Ps. 1,318	Ps. 981	Ps. 912

(1) Allowances required based on the classification methodology applied in Banorte that held 99.99% of the stockholders' equity of Sólida during 2008 and 2007.

As of December 31, 2008 and 2007, the composition of the Banorte's loan portfolio, including the loan portfolio sold to Sólida, is as follows:

	Mexican pesos		Foreign currency		Total	
Type of portfolio	Dec 08	Dec 07	Dec 08	Dec 07	Dec 08	Dec 07
Commercial loans	Ps. 129,995	Ps. 99,311	Ps. 15,377	Ps. 21,791	Ps. 145,372	Ps. 121,102
Consumer loans	29,116	27,045	-	175	29,116	27,220
Housing mortgage loans	43,784	35,602	-	1,691	43,784	37,293
Current portfolio	202,895	161,958	15,377	23,657	218,272	185,615
Commercial loans	1,738	1,060	153	204	1,891	1,264
Consumer loans	2,570	1,182	-	-	2,570	1,182
Housing mortgage loans	1,098	1,299	-	16	1,098	1,315
Past-due portfolio	5,406	3,541	153	220	5,559	3,761
Total portfolio	208,301	165,499	15,530	23,877	223,831	189,376
Allowance for loan losses	6,950	4,319	285	369	7,235	4,688
Net portfolio	Ps. 201,351	Ps. 161,180	Ps. 15,245	Ps. 23,508	Ps. 216,596	Ps. 184,688
Allowance for loan losses % of past-due portfolio					130.15% 2.48%	124.64% 1.98%

25 - INFORMATION BY SEGMENT

To analyze the financial information of the Financial Group, the data of the most representative segments as of December 31, 2008 and 2007 is presented.

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

	2008	2007
Banking sector		
Net income	Ps. 6,543	Ps. 6,151
Stockholders' equity:	35,526	30,440
Total portfolio	236,236	188,235
Past-due portfolio	4,836	2,743
Allowance for loan losses	(6,582)	(3,707)
Total net assets	562,433	274,361
Brokerage sector		
Net income	183	288
Stockholders' equity:	1,143	1,020
Portfolio balance	119,286	180,972
Total net assets	1,662	1,333
Savings sector		
Net income	579	736
Stockholders' equity:	4,216	3,962
Total net assets	27,789	23,701
Auxiliary credit organizations sector		
Net income	336	271
Stockholders' equity:	1,308	1,092
Total portfolio	13,874	12,222
Past-due portfolio	74	37
Allowance for loan losses	(79)	(339)
Total net assets	Ps. 14,322	Ps. 12,587

b. The trading results for the years ended on December 31, 2008 and 2007, are as follows:

	2008	2007
Valuation results		
Trading securities	Ps. 109	Ps. 1
Securities repurchase agreement	49	82
Derivative financial instruments	(172)	234
Futures	(1)	1
Total valuation results	(15)	318
Dividends received	1	-
Purchase-sale results		
Trading securities	26	503
Available for sale securities	(178)	(36)
Derivative financial instruments	428	46
Total securities purchase sale	276	513
Spot foreign currency	712	454
Foreign currency forwards	48	-
Foreign currency futures	1	-
Foreign currency valuation	6	(15)
Minted metals purchase sales	5	1
Minted metals valuation	6	(2)
Total foreign currency purchase sale	778	438
Restatement	-	23
Total purchase-sale results	1,054	974
Total trading results	Ps. 1,040	Ps. 1,292

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

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

	2007				
	Geographical location				
Economic sector	North	Central	West	South	Total
Agriculture	Ps. 2,430	Ps. 1,260	Ps. 575	Ps. 681	Ps. 4,946
Mining	117	29	11	30	187
Manufacturing	5,822	4,506	1,660	819	12,807
Construction	4,537	3,366	459	361	8,723
Public utilities	41	4	1	1	47
Commerce	7,415	7,207	2,909	5,020	22,551
Transportation	1,164	5,085	110	205	6,564
Financial services	11,040	13,259	249	2,362	26,910
Communal, social services	2,128	3,757	1,724	621	8,230
Business groups	52	173	3	23	251
Public administration and services	7,195	4,606	1,589	4,461	17,851
International organization services	1	-	-	-	1
USA	-	-	-	-	10,776
Credit card	-	-	-	-	13,882
Consumer	-	-	-	-	13,169
Housing mortgage	-	-	-	-	35,525
Others	-	-	-	-	54
Arrendadora y Factor Banorte	-	-	-	-	10,692
Créditos Pronegocio	-	-	-	-	472
Current loan portfolio	Ps. 41,942	Ps. 43,252	Ps. 9,290	Ps. 14,584	Ps. 193,638

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

	2008				
	Geographical location				
Economic sector	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
USA	-	-	-	-	225
Credit card	-	-	-	-	2,140
Consumer	-	-	-	-	359
Housing mortgage	-	-	-	-	705
Other	-	-	-	-	2
Arrendadora y Factor Banorte	-	-	-	-	74
Créditos Pronegocio	-	-	-	-	38
Past-due loan portfolio	Ps. 404	Ps. 547	Ps. 195	Ps. 259	Ps. 4,948

	2007				
	Geographical location				
Economic sector	North	Central	West	South	Total
Agriculture	Ps. 19	Ps. 56	Ps. 7	Ps. 6	Ps. 88
Mining	2	1	-	2	5
Manufacturing	23	100	42	10	175
Construction	7	56	1	13	77
Commerce	87	111	59	37	294
Transportation	4	6	6	3	19
Financial services	2	2	-	1	5
Communal, social services	27	14	2	4	47
USA	-	-	-	-	83
Credit card	-	-	-	-	829
Consumer	-	-	-	-	280
Housing mortgage	-	-	-	-	841
Other	-	-	-	-	1
Arrendadora y Factor Banorte	-	-	-	-	38
Créditos Pronegocio	-	-	-	-	112
Past-due loan portfolio	Ps. 171	Ps. 346	Ps. 117	Ps. 76	Ps. 2,894

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

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

	2007							
	Geographical location							
Product	Monterrey	Mexico City	West	Northwest	Southeast	Treasury and other	Foreign	Total
Non-interest bearing checking accounts	Ps. 11,579	Ps. 14,424	Ps. 4,359	Ps. 5,381	Ps. 5,988	Ps. 137	Ps. -	Ps. 41,868
Interest-bearing checking accounts	8,051	19,999	3,061	4,507	5,528	80	-	41,226
Savings accounts	2	1	-	-	-	-	-	3
Current account in pesos and preestablished	3,077	3,859	1,224	2,028	2,145	102	-	12,435
Non-interest bearing demand deposits, USD	442	349	73	797	262	(3)	3,106	5,026
Interest bearing demand deposits, USD	2,263	937	304	2,056	320	(1)	4,471	10,350
Savings accounts in USD							164	164
Over the counter promissory notes	10,741	18,845	4,743	4,830	6,962	1,243	-	47,364
Time deposits, USD	2,326	3,401	1,563	1,521	1,115	14	7,577	17,517
Money desk customers	5,516	5,131	1,806	1,392	1,217	-	-	15,062
Financial intermediaries	-	-	-	-	-	12,283	-	12,283
FOBAPROA checking accounts bearing interest	9	-	-	-	-	-	-	9
Total deposits	Ps. 44,006	Ps. 66,946	Ps. 17,133	Ps. 22,512	Ps. 23,537	Ps. 13,855	Ps. 15,318	Ps. 203,307

26 - TAX ENVIRONMENT

In 2008 the Financial Group is subject to ISR and IETU and in 2007 to ISR and IMPAC.

Income tax

Income tax (ISR) is calculated considering as taxable or deductible certain inflation effects. As of 2007 the ISR rate is 28%. The Financial Group obtained a tax credit in 2007 for Ps. 42, equivalent to 0.5% of the tax result as it complied with the requirements set forth the in the Federal Income Law.

Book to tax reconciliation

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

PTU

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

Business Flat Tax

On October 1, 2007, the Business Flat Tax Law (“LIETU”) was enacted and went into effect on January 1, 2008. In addition, the Tax Benefits Decree and the Third Omnibus Tax Bill were published on November 5 and December 31, 2007, respectively and on May 27, 2008 the Omnibus Tax Bill for 2008 went into effect, clarifying or expanding the transitory application of the law regarding transactions carried out in 2007 that will have an impact in 2008. IETU applies to the sale of goods, the provision of independent services and the granting of use or enjoyment of goods, according to the terms of the LIETU, less certain authorized deductions. IETU payable is calculated by subtracting certain tax credits from the tax determined. Revenues, as well as deductions and certain tax credits, are determined based on cash flows generated beginning January 1, 2008. For the financial system, revenues subject to IETU include the financial trading margin which is composed of the net accrued interest. LIETU establishes that the IETU rate will be 16.5% in 2008, 17% in 2009, and 17.5% as of 2010. The Asset Tax Law was repealed upon enactment of LIETU; however, under certain circumstances, IMPAC paid in the ten years prior to the year in which ISR is paid, may be refunded, according to the terms of the law.

Based on financial projections, pursuant to the provisions in INIF 8, the Financial Group has determined that it will essentially pay ISR and therefore only recognizes deferred ISR.

27 - STOCKHOLDERS' EQUITY

At the Stockholders' Ordinary General Meetings held on April 29 and October 6, 2008, the following resolutions were adopted, among others:

a. To transfer the profits from 2007 equal to Ps. 6,810 to earnings from prior years and increase the legal reserve by Ps. 340.

b. Declare cash dividends for Ps. 949, equivalent to Ps. 0.47 pesos per share.

The Financial Group's common stock as of December 31, 2008 and 2007, is comprised as follows:

	Number of shares with a nominal value of Ps. 3.50	
	2008	2007
	Paid-in Capital	Paid-in Capital
"O" Series	2,013,997,548	2,002,718,738

	Historical amounts	
	2008	2007
	Paid-in Capital	Paid-in Capital
"O" Series	Ps. 6,986	Ps. 7,009
Restatement in Mexican pesos of December 2007	4,955	4,956
	11,941	Ps. 11,965

Restrictions on profits

Stockholders' equity distribution, except restated paid-in capital and tax retained earnings, will be subject to a tax payable by the Financial Group at the rate in effect when the dividend is distributed. Any tax paid on such distribution may be credited against the income tax payable of the year in which the tax on the dividend is paid and the two fiscal years following such payment against the year's tax and its partial payments.

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

Capitalization ratio (regarding Banorte, the Financial Group's main subsidiary)

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

The information for December 31, 2008 submitted to Banco de México for review is shown below.

The capitalization ratio of Banorte as of December 31, 2008 was 14.31% of total risk (market and credit), and 21.11% 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	2008
Stockholders' equity	Ps. 35,129
Subordinated debentures and capitalization instruments	3,691
Deduction of investment in securitized instruments	371
Deduction of investments in shares of financial entities	7,690
Deduction of investments in shares of non-financial entities	2,074
Deduction of intangibles and expenses or deferred costs	385
Basic capital	28,300
Debentures and capitalization instruments	14,150
Allowance for loan losses reserves	1,169
Deduction of investment in securitized instruments	371
Complementary capital	14,948
Net capital	$43,248

Characteristics of the subordinated debentures:

Concept	Issuance amount	Maturity	Basic capital proportion	Complementary capital proportion
Complementary capital debentures 2004	Ps. 4,240	17/02/2014	0%	100%
Complementary capital debentures 2006	Ps. 5,606	13/10/2016	0%	100%
Basic capital debentures 2006	Ps. 2,807	13/10/2021	100%	0%
Basic capital debentures 2008	Ps. 3,012	27/02/2018	29%	71%
Complementary capital debentures 2008	Ps. 1,900	15/02/2028	0%	100%
Complementary capital debentures 2008-2	Ps. 276	15/06/2018	0%	100%

Assets subject to risk are detailed below:

Assets subject to credit risk

Concept	Positions weighted by risk	Capital requirement
Transactions in Mexican pesos with nominal interest rate	Ps. 62,670	Ps. 5,014
Transactions with debt instruments in Mexican pesos with interest and reset rates	16,092	1,287
Transactions in Mexican pesos with real interest rates or in UDIS	1,352	108
Transactions in UDIS or with yields referenced to the National Consumer Price Index (INPC)	7	1
Transaction in Mexican pesos with nominal interest rates	4,080	326
Exchange transactions	1,288	103
Transactions involving shares	83	7
Total	Ps. 85,572	Ps. 6,846

Assets subject to credit risk

Concept	Assets weighted by risk	Capital requirement
Group III (weighted at 10%)	Ps. 58	Ps. 5
Group III (weighted at 20%)	8,066	645
Group III (weighted at 23%)	809	65
Group III (weighted at 50%)	2,235	179
Group IV (weighted at 20%)	6,735	539
Group V (weighted at 10%)	19	1
Group V (weighted at 20%)	759	61
Group V (weighted at 50%)	675	54
Group V (weighted at 150%)	2,762	221
Group VI (weighted at 50%)	6,027	482
Group VI (weighted at 75%)	5,103	408
Group VI (weighted at 100%)	52,176	4,174
Group VII (weighted at 20%)	895	72
Group VII (weighted at 50%)	47	4
Group VII (weighted at 100%)	58,386	4,671
Group VII (weighted at 115%)	7,044	563
Group VII (weighted at 150%)	648	52
Group VIII (weighted at 125%)	2,064	165
Group IX (weighted at 100%)	37,400	2,992
Subtotal	191,908	15,353
For permanent shares, furniture and real property, and advance payments and deferred charges	12,976	1,038
Total	Ps. 204,884	Ps. 16,391

Assets subject to credit risk:

Concept	Assets weighted by risk	Capital requirement
Total	Ps. 8,669	Ps. 694

28 - FOREIGN CURRENCY POSITION

As of December 31, 2008 and 2007, the Financial Group holds certain assets and liabilities in foreign currency, mainly USD, converted to the exchange rate issued by Banco de México of Ps. 13.8325 and Ps. 10.9157 per USD 1.00, respectively, as shown below:

	Thousands of US dollars	
	2008	2007
Assets	5,179,560	4,946,554
Liabilities	4,894,904	4,563,009
Net asset position in US dollars	284,656	383,545
Net asset position in Mexican pesos	Ps. 3,938	Ps. 4,187

29 - POSITION IN UDIS

As of December 31, 2008 and 2007, the Financial Group holds certain assets and liabilities denominated in UDIS, converted to Mexican pesos based on the current equivalency of Ps. 4.184316 and Ps. 3.932983, per UDI, respectively, as shown below:

	Thousands of UDIS	
	2008	2007
Assets	152,453	171,932
Liabilities	548,366	94,163
Net (liability) asset position in UDIS	(395,913)	77,769
Net asset (liability) position in Mexican pesos	(Ps. 1,657)	Ps. 306

30 - EARNINGS PER SHARE

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

Earnings per share for the years ended December 31, 2008 and 2007 are shown below:

	2008			2007
	Net Income	Weighted share average	Earnings per share	Earnings per share
Net income per share	Ps. 7,014	2,016,959,232	Ps. 3.4775	Ps. 3.3744

31 - MANAGEMENT RISK (unaudited)

Authorized bodies

To ensure adequate risk management of the Financial Group, as of 1997 the Financial Group's Board of Directors created the Risk Policy Committee (CPR), whose purpose is to manage the risks to which the Financial Group is exposed, and ensure that the performance of operations adheres to the established risk management objectives, guidelines, policies and procedures.

Furthermore, the CPR provides oversight on the global risk exposure limits approved by the Board of Directors, and also approves the specific risk limits for exposure to different types of risk.

The CPR is composed of regular members of the Board of Directors, the Managing Director of the Financial Group, the General Director of Comprehensive Risk Management, the General Director of Banking, Savings and Welfare, and the General Director of the 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 Financial Group is exposed.
    - The models, parameters and scenarios used to perform the valuation, measurement and control of risks proposed by the Comprehensive Risk Management Unit.

3. Approve:

    - The methodologies for identification, valuation, measurement and control of risks of the new operations, products and services which the Financial Group intends to introduce into the market.
    - The corrective measures proposed by the Comprehensive Risk Management Unit.
    - The manuals for comprehensive risk management.

4. Appoint and remove the person responsible for the Comprehensive Risk Management Unit, who is ratified by the Board of Directors.

5. Inform the Board, at least every quarter, of the exposure to risk and its possible negative effects, as well as follow up on limits and tolerance levels.

6. Inform the Board of the corrective measures implemented.

32 – COMPREHENSIVE RISK MANAGEMENT UNIT (UAIR) (unaudited, regarding Banorte, the Financial Group's main subsidiary)

The function of the UAIR is to identify, measure, oversee, limit, control, report and disclose the different kinds of risk to which the Financial Group is exposed, and it is the responsibility of the Office of Risk Management (DGAR).

The DGAR reports to the CPR in compliance with the requirements set forth in the Commission's circular, the "General Risk Management Rules Applicable to Credit Financial Groups", in relation to the independence of the different business areas.

The DGAR focuses Comprehensive Risk Management efforts through four different departments:

- Credit Risk Management
- Market Risk Management
- Operating Risk Management, and
- Risk Policy Management

The Financial Group currently has methodologies for managing risk in its different phases, such as credit, market, liquidity and operating risk.

The primary objectives of the DGAR are summarized as follows:

- Provide the different business areas with clear rules that facilitate their understanding so as to minimize risks and ensure that they are within the parameters established and approved by the Board of Directors and the Risk Policy Committee.
- Establish mechanisms that provide for follow-up on risk-taking within the Financial Group, ensuring that they are preventive as much as possible, and supported by advanced systems and processes.
- Standardize risk measurement and control.
- Protect the Financial Group's capital against unexpected losses from market movements, credit losses and operating risks.
- Develop valuation methods for the different types of risks.
- Establish procedures for portfolio optimization and loan portfolio management.

The Financial Group has segmented risk assessment and management into the following headings:

Credit Risk: Volatility of revenues due to the creation of provisions for impairment of credits and potential credit losses due to nonpayment by a borrower or counterpart.

Market Risk: Volatility of revenues due to changes in the market, which affect the valuation of the positions from operations involving assets, liabilities or generating contingent liabilities, such as: interest rates, exchange rates, price indexes, etc.

Liquidity Risk: Potential loss derived from the impossibility of renewing debts or contracting others under normal conditions for the Financial Group, due to the anticipated or forced sale of assets at unusual discounts to meet its obligations.

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 Financial Group

Credit risk

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

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

- Improve the quality, diversification and composition of the loan portfolio to optimize the risk-return ratio.
- Provide senior management with reliable and timely information to support decision-making in credit matters.
- Provide the business departments with clear and sufficient tools to support credit placement and follow up.
- Support the creation of economic value for shareholders by means of efficient credit risk management.
- Define and constantly update the regulatory framework for credit risk management.
- Comply with the credit risk management reporting requirements established by the relevant authorities.
- Perform risk management in accordance with best practices; implementing models, methodologies, procedures and systems based on the latest international advances.

Individual credit risk

The Financial Group's banks segment the loan portfolio into two large groups: the consumer and corporate portfolios.

Individual credit risk for the consumer portfolio is identified, measured and controlled by means of a parametric system (scoring) which includes models for each of the consumer products: mortgage, automotive, payroll credit, personal and credit card.

Individual risk for the corporate portfolio is identified, measured and controlled by means of the Target Markets, the Risk Acceptance Criteria and the Banorte Internal Risk Classification (CIR Banorte).

The Target Markets and Risk Acceptance Criteria are tools which, together with the Internal Risk Rating CIR, form part of the credit strategy of the Financial Group and support the estimate of the credit risk level.

The Target Markets are activities selected by region and economic activity - supported by economic studies and portfolio behavior analyses - in which the Financial Group wishes to place credits.

The Risk Acceptance Criteria are parameters which describe the risks identified by industries, facilitating an estimate of the risk involved for the Financial Group in granting a credit to a customer depending on the economic activity which it performs The types of risks evaluated in the Risk Acceptance Criteria are the financial risk, operating risk, market risk, company lifecycle risk, legal and regulatory risk, credit history and quality of management.

Early Warnings are a set of criteria based on information and indicators of the borrowers and their environment that have been set forth for timely prevention and identification of likely impairment in the loan portfolio, in order to take credit risk mitigating preventive actions in a timely manner.

The CIR Banorte is in line with the "General Regulations Applicable to the Classification Methodology for the Loan Portfolio of Credit Institutions" issued by the Commission on December 2, 2005. The CIR Banorte has been certified by the Commission and by an international external auditor since 2001.

The CIR Banorte is applied to a commercial portfolio equal to or exceeding an amount equivalent in Mexican pesos to four million UDIS at the classification date.

Portfolio credit risk

The Financial Group has designed a portfolio credit risk methodology which, while also including the best and most current international practices with regard to identification, measurement, control and follow up, has been adapted to function within the context of the Mexican financial system.

The credit risk methodology identifies the exposure of all the loan portfolios of the Financial Group, overseeing risk concentration levels based on risk classifications, geographical regions, economic activities, currencies and type of product, for the purpose of ascertaining the portfolio profile and taking actions to diversify it and maximize profit with the lowest possible risk.

The calculation of loan exposure involves the generation of the cash flow from each of the loans, both in terms of principal and interest, for their subsequent discount. This exposure is sensitive to market changes, and facilitates the performance of calculations under different economic scenarios.

Apart from considering loan exposure, the methodology takes into account the probability of default, the recovery level associated with each customer and the sorting of the borrowers based on the Merton model. The probability of default is the probability that a borrower will not comply with its debt obligation to the Financial Group on the terms and conditions originally agreed. The probability of default is based on the transition matrixes which the Financial Group calculates as of the migration of the borrowers to different risk classification levels. The recovery level is the percentage of the total exposure that is expected to be recovered if the borrower defaults on its obligations. The sorting of the borrowers based on the Merton model is intended to tie the future behavior of the borrower to credit and market factors on which, using statistical techniques, the borrower's "credit health" depends.

The primary results obtained are the expected loss and unexpected loss over a one-year time horizon. The expected loss is the median of the distribution of losses of the loan portfolio, which enables a measurement of the average loss expected in the following year due to noncompliance or variations in the credit status of the borrowers. The unexpected loss is an indicator of the loss expected under extreme circumstances, and is measured as the difference between the maximum loss based on the distribution of losses, at a specific confidence level, which in the case of the Financial Group is 95%, and the expected loss.

The results obtained are used as a tool for better decision-making in granting loans and portfolio diversification, in accordance with the global strategy of the Financial Group. The individual risk identification tools and the portfolio credit risk methodology are reviewed and updated periodically to incorporate new techniques that can support or strengthen them.

As of December 31, 2008, the total portfolio of Banorte is Ps. 222,849 million. 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.

Risk Diversification

In December 2005, the CNBV issued the "General Rules for Risk Diversification in Performing Asset and Liability Transactions Applicable to Credit Institutions".

These regulations require that the Financial Group perform an analysis of the borrowers and/or loans they hold to determine the amount of their "Common Risk". Also, the Financial Group must have the necessary documentation to support that a person or group of persons represents a common risk in accordance with the assumptions established under such rules.

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

Basic capital as of September 30, 2008	Ps. 30,538
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	Ps. 4,542
% in relation to basic capital	
Money market transactions	
Number of financings	1
Amount of financings taken as a whole	Ps. 3,491
% in relation to basic capital	11%
Overnight transactions	
Number of financings	1
Amount of financings taken as a whole	Ps. 6,294
% in relation to basic capital	
II. Maximum amount of financing with the 3 largest debtors and common risk groups	Ps.31,710

Market risk

Value at risk

The exposure to market risk is determined through the calculation of the Value at Risk (“VaR”). The meaning of the VaR under this method is the potential one day loss which could be generated in the valuation of the portfolios at a given date. This methodology is used both for the calculation of market risk and for the establishment and control of internal limits.

The Financial Group applies the nonparametric historical simulation method to calculate the VaR, considering for such purpose a 99% confidence level, using the 500 immediate historical scenarios, multiplying the result by a security factor that fluctuates between 3 and 4 depending on the annual Back Testing results calculated on the previous quarter, considering 10 days to dispose of the risk portfolio in question. These measures insure that unforeseen volatiles are considered in the main risk factors that affect such portfolios.

Such methodology is applied to all financial instrument portfolios within and beyond the scope of the Financial Group, including money market and treasury transactions, capital, foreign-exchange and derivatives held for trading and hedging purposes, which are exposed to variations in their value due to changes in the risk factors affecting their market valuation (domestic and foreign interest rates, exchange rates and indexes, among others).

The average VaR for financial instruments portfolio was Ps 2,430 for the last quarter 2008.

Millions of pesos	4Q07	1Q08	2Q08	3Q08	4Q08
VaR Banorte*	Ps. 2,168	Ps. 2,199	Ps. 2,269	Ps. 2,198	Ps. 2,430
Banorte net capital***	33,710	39,052	43,788	45,361	43,248
VaR / net capital Banorte	6.43%	5.63%	5.18%	4.85%	5.62%

* 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 Financial Group behaved as follows during the fourth quarter of 2008:

Risk factor	VaR
Domestic interest rate	Ps. 2,680
Foreign interest rate	167
Exchange rate	872
Capital	53
Foreign currency bond prices	357
Total VaR	Ps. 2,430

The VaR for each of the risk factors presented is determined by simulating 500 historical scenarios of the variables comprising each of such factors, maintaining constant the variables that affect the other risk factors shown. By the same token, the consolidated VaR for the Financial Group considers the correlations of all the risk factors influencing the valuation of the portfolios, for which reason the arithmetical sum of the VaR Factor does not match.

Retrospective analysis

To validate the effectiveness of the measurements of the calculation of the daily VaR as a measurement of market risk, the retrospective analysis is updated each week. This analysis makes it possible to compare the estimated results through the VaR with the actual results generated.

Sensitivity analysis and tests under extreme conditions

To improve analysis and obtain the impact of any movements in risk factors, sensitivity analyses and tests under extreme conditions are performed periodically. These analyses foresee potential situations in which the Financial Group might suffer extraordinary losses from the valuation of the financial instruments in which it holds positions.

Liquidity and balance sheet risk

In order to provide a measurement of liquidity risk in the Financial Group and provide follow-up consistently, the Financial Group relies on the use of financial ratios, which include the Liquidity Ratio (Current Assets/Liquid Liabilities), which consider among the liquid assets the cash and cash equivalents, trading securities and available for sale securities, whereas the 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 2008 is 49.2%, while the average during the quarter is 48.1%, as shown below:

	End of quarter				
	4Q07	1Q08	2Q08	3Q08	4Q08
Liquid assets	Ps. 59,540	Ps. 62,818	Ps. 66,756	Ps. 71,045	Ps. 72,557
Liquid liabilities	Ps. 116,879	Ps. 123,114	Ps. 116,697	Ps. 115,100	Ps. 147,498
Liquidity ratio	50.9%	51.0%	57.2%	61.7%	49.2%

	Average				
	4Q07	1Q08	2Q08	3Q08	4Q08
Liquid assets	Ps. 56,520	Ps. 59,777	Ps. 59,543	Ps. 61,285	Ps. 64,453
Liquid liabilities	Ps. 98,706	Ps. 108,939	Ps. 108,798	Ps. 105,771	Ps. 127,061
Liquidity ratio	57.3%	54.9%	54.7%	57.9%	48.1%

Average calculation considering the Liquidity Ratio's weekly estimates

To quantify and follow up on the liquidity risk for its dollar portfolio, the Financial Group uses the criteria established by Banco de México for the determination of the Liquidity Ratio. It facilitates an evaluation of the differences between the flows of assets and liabilities in different time periods. The above promotes a healthier distribution of terms for these assets.

Also, to prevent concentration risks in relation to payment terms and dates for the Financial Group, gap analysis is performed to match the resources with the funding sources, which detects any concentration in a timely fashion. These analyses are performed separately by currency (Mexican pesos, foreign currency and UDIS).

Furthermore, balance sheet simulation analyses are prepared for the Financial Group, which provides either a systematic or dynamic evaluation of the future behavior of the balance sheet. The base scenario is used to prepare sensitivity analyses for movements in domestic, foreign and real interest rates. Also, tests are performed under extreme conditions to evaluate the result of extreme changes in interest, funding and exchange rates.

As an evaluation measure of the effectiveness of the simulation model, the projections are periodically compared with actual data. Using these tests, the assumptions and methodology used can be evaluated and, if necessary, adjusted.

Operating risk

As of January 2003, the Financial Group established a formal operating risk department denominated "Operating Risk Management Department" as part of its Risk Management Strategy.

The Financial Group 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 Financial Group has documented the operating risk policies, objectives, guidelines, methodologies and responsible areas.

The Operating Risk Department works closely with the Controllership 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 Financial Group in order to be able to determine the respective trends, frequency, impact and distribution. Furthermore, the database will serve to calculate capital requirements for advanced models in the future.

Legal and tax contingencies database

For the recording and follow-up of legal, administrative and tax issues that may arise from adverse unappealable ruling, an internal system called “Legal Risk Issues Monitoring System” (SMARL) was developed. This system enables the central data supplying areas to record such events directly and on-line, which are then classified by company, sector and legal issue, among others.

As part of the Financial Group’s legal risk management initiative, legal and tax contingencies are estimated by the attorneys that process the issues based on an internal methodology. This makes it possible to create the necessary book reserve to face such estimated contingencies.

Risk management model

The Financial Group and its subsidiaries have defined objectives, which are achieved through different plans, programs and projects. Compliance with such objectives may be adversely affected due to operating risks, for which reason a methodology must be in place to manage them within the organization. Consequently, operating risk management is now an institutional policy defined and supported by senior management.

To perform operating risk management, each of the operating risks involved in the processes must be identified in order to analyze them. In this regard, the risks identified by Regulations Control are recorded in a risk matrix and processed to eliminate or mitigate them (trying to reduce their severity or frequency) and to define the tolerance levels, as applicable. A new Operating Risk Management Model and the technology tool for its implementation are currently being developed.

III. Calculating capital requirement

On November 23, 2007, the Official Gazette of the Federation published the Operating Risk Capitalization Rules that set forth a basic model, which is calculated and reported periodically to the authorities.

IV. Information and reporting

The information generated by the databases and the Management Model is processed regularly in order to report the main operating events detected, trends, identified risks (risk matrix) and the mitigating strategies to the Risk Policy Committee and the Board of Directors. The status of the principal initiatives for operating risk mitigation implemented by the different areas of the organization is also reported.

Technology risk

It is defined as the potential loss due to damage, interruption, alteration or failures in the use of or dependence on hardware, software, IT systems, applications, networks and any other data distribution channel for rendering services to customers. Technology risk forms an inherent part of operating risk, for which reason its management is performed throughout the entire organization.

To address operating risk associated with data integrity, the “Integrity Committee” was created. Its objectives include aligning data security and control efforts to a prevention approach, defining new strategies, policies, processes or procedures and solving data security issues that affect or may affect the Financial Group’s assets.

The Financial Group performs the functions for technology risk management set forth by the Commission under the guidelines established by the institutional regulations and the Integrity Committee.

To address the operating risk caused by high impact external events, the Financial Group has a Business Continuity Plan (BCP) and Business Recovery Plan (BRP) based on a same-time data replication system at an alternate computer site. This guarantees the back-up and recovery of critical applications in the event of an operating contingency.

Legal risk

Legal risk is defined as the potential loss due to noncompliance with applicable legal and administrative provisions, adverse administrative and judicial rulings, and imposed penalties.

The legal risk must be measured as an inherent part of operating risk in order to understand and estimate its impact. Therefore, those legal issues which result in actual operating losses in the SMARL system are recorded in the SCERO in accordance with a predetermined classification.

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

33 - MEMORANDUM ACCOUNTS

	2008	2007
Banks customers (current accounts)	Ps. 74	Ps. 11
Settlement of customer transactions	35	58
Customer valuables received in custody	118,537	180,385
Customer repurchase agreements	35,688	21,803
Customer call options transactions	274	146
Managed trusts	2,378	3,048
	Ps. 156,986	Ps. 205,451
Other contingent assets and liabilities	Ps. 266	Ps. 279
Credit commitments	2,793	2,365
Deposits of assets	3,006	1,541
Financial Group securities delivered into custody	886	610
Financial Group government securities held in custody	101	147
Assets in trusts or under mandate	90,469	101,632
Managed assets in custody	131,886	117,167
Investment banking transactions on account of third parties (net=	84,615	91,329
Collateral received by the institution	31,567	-
Past-due loan portfolio accrued but not charged interest	137	102
	Ps. 345,726	Ps. 315,172
Securities to be received in repurchase agreements	Ps. 39,939	Ps. 216,233
Less: Creditor repurchase agreement	(40,176)	(216,708)
	(Ps. 237)	(Ps. 475)
Repurchase agreement from debtors	Ps. 35,054	Ps. 21,502
Less: Securities to be received in repurchase agreements	(34,908)	(21,484)
	Ps. 146	Ps. 18

34 - COMMITMENTS

As of December 31, 2008 and 2007, the Financial Group had the following contingent obligations and commitments:

- Other contingent obligations and opening of credits totaling Ps. 3,059 (Ps. 2,644 in 2007), which are recorded in memorandum accounts.
- Certain real property and operating equipment are leased. Total property lease payments for the periods ended December 31, 2008 and 2007, were Ps. 159 and Ps. 195, respectively.

35 - CONTINGENCIES

As of December 31, 2008, there are lawsuits filed against the Financial Group in civil and business court cases. However, the Financial Group's attorneys consider that the claims filed are unsubstantiated and, in the event of an adverse ruling, they would not significantly impact the Financial Group's consolidated financial position. A reserve of Ps. 120 is recorded for such contentious matters.

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

36 - SAVINGS PREVENTIVE AND PROTECTION MECHANISM

The objective of the Institute for the Protection of Bank Savings (IPAB) is to protect the deposits of small customers and thereby contribute to maintaining the financial system's stability and the proper functioning of the payments systems.

According to the Law of Bank Savings Protection (LPAB), the IPAB manages a bank savings protection system that guarantees the payment of bank deposits or loans or credits to Full Service Banking Institution up to an amount equivalent to 400 thousand UDIS per individual or business entity, regardless of the number or type of such obligations in the customer's favor and charged to a single bank.

On July 30, 2007, general rules were issued for addressing joint accounts or those in which there is more than one account holder, referred to in art.14 of the LPAB, as well as the rules banks must observe for classifying information relative to transactions associated with guaranteed obligations.

The IPAB plays a major role in the implementation of the LPAB resolutions methods and the Law of Credit Institutions (LIC) as timely and adequate mechanisms for salvaging and liquidating Full Service Banking Institutions in financial trouble that may affect their solvency. The purpose is to provide maximum protection to the public while minimizing the negative impact that salvaging an institution may have on others in the banking system.

During 2008 and 2007, the amount of contributions to the IPAB payable by Banorte for fees amounted to Ps. 938 and Ps. 774, respectively.

37 – NEW ACCOUNTING PRINCIPLES

The following are some of the principal changes derived from the new standards or modifications issued by the Commission and the CINIF effective as of January 1, 2009:

- Circular C-2 "Securitization Transactions" states that in securitization transactions the assignor may or may not transfer the risks and benefits on the financial assets to the assignee, and may or may not transfer control over such assets.

  It also establishes that the benefits on the assignee's remainder shall be recognized as "Benefits to receive in securitization transactions" and valuated at its fair value from the onset. Valuation adjustments are recognized in the year's results. This valuation shall be consistent with the accounting policies of the Special Purpose Entity (SPE), established as a securitizing vehicle.

  If the assignor renders administration services of the transferred assets, an asset or liability for transferred asset administration should be recognized initially at its fair value, pursuant to Circular C-1 as follows:

  a. An asset is recorded if the consideration exceeds the costs and expenses incurred in rendering the service, otherwise a liability is recorded.
  b. Then such asset or liability will be valued at its fair value, recognized its valuation effects in the year's results.

  The benefits on the securitization transactions' remnant and the transferred financial assets administration asset will be presented under "Benefits to receive in securitization transactions."

  The valuation of the receivable benefits as well as of the administration asset or liability will be presented on "Other income" or "Other expenses", as applicable.

  The effects of such Circular, if applied to securitizations in effect by December 31, 2008 are detailed below:

  For realized securitization transactions, the financial assets were removed from the balance sheet based on the accounting criteria in effect at that date, C-1, "Transfer of Financial Assets", and C-2, "Securitizations". As the new accounting criteria that replaced the previous ones are prospectively applied, retroactive records will not be realized for transactions made before its application. Therefore, previously recognized transfers of financial assets don't have to be reevaluated.

  However, according to these new accounting criteria, the securitized loans of the mortgage can state and municipal government loans that Banorte made during 2006 and 2007, respectively had not met the requirements of the new accounting criteria to be removed from the balance sheet, as in both transactions most of the inherent risks and/or benefits are substantially retained.

  On December 31, 2008, the outstanding balance of the securitized loans of the mortgage and state and municipal government loans that were including in the balance sheet was Ps. 6,475. Moreover, the impact accumulated in their results that would have been recorded is (Ps. 103).

- Circular C-5, "Consolidation of Special Purpose Entities", defines the special standards relative to the consolidation of the SPE. It establishes that an entity should consolidate an SPE when the economic substance of the relationship between both entities indicates control over such SPE.

- NIF B-7, "Business Acquisitions", establishes the "purchase method" as the method for recognizing business acquisitions.

It does not allow the recognition of earning in an acquisition process.

The value of the net acquired assets should be adjusted to a value that is equal to the sum of the consideration and the value of the non-controlling share valued in proportion to this consideration.

Goodwill should be recognized when the sum of the consideration paid in the acquisition and the non-controlling share valued at their fair value is greater than the amount of the net acquired assets valued at fair value according to this NIF.

- NIF B-8, "Consolidated and Combined Financial Statements", separates consolidation and permanent investment valuation.
  a. It requires that the noncontrolling interest be valued in the consolidated financial statements based on the fair value of the subsidiary's net assets and the goodwill determined with the purchase method at the time of the acquisition of such subsidiary.
  b. It states that at the purchase date of a subsidiary the purchase method should be applied, therefore the assets and liabilities are valued at their fair value at such date as per NIF B-7.
  c. The above causes adjustments to its book value, nevertheless it clarifies such adjustments should not be recognized in the subsidiary but instead in the controlling share as part of its permanent investment in the subsidiary.
  d. The consolidation process is defined in greater detail.

- The objective of issuing NIF C-7, "Investments in Associates and Other Permanent Investments", separating the financial statements' consolidation and permanent investments' valuation under the equity method, establishes the standards to recognize investments as associated, as well as the other permanent investments over which it has no control, joint control or significant influence.

- The new NIF C-8, "Intangible Assets", define them as non-monetary identifiable assets, without physical substance that will generate future financial benefits controlled by the entity.

- According to NIF D-8, "Share-based Payments", the entities that realize share-based payment transactions and grant share purchase options to employees, should recognize the cost or expense incurred, either in net income or as a capitalizable item, and the corresponding effect in the liability or asset. This NIF eliminates the use of the International Financial Reporting Standard 2 that has been applicable in Mexico on a supplementary basis in lieu of a Mexican standard that would cover share-based payments and share purchase options.

The Financial Group's management is studying the possible effect these standards will have on its consolidated financial position and results of operations.

38 - SUBSEQUENT EVENTS

Prepayment of subordinated debentures

Banorte exercised the prepayment option of its non-convertible subordinated debentures issued in 2004 maturing in 2014 for USD 300 million, which were listed on the Luxemburg Stock Exchange. The settlement was made on February 17, 2009. This subordinated debt was issued in February 2004 with a 10-year term and included a prepayment option as of the fifth year. The main reasons for prepaying this debentures were: i) the actual capital base is strengthened based on recent local subordinated debenture issues; ii) maintain Banorte's credibility as an international issuer in this type of market; iii) liquidate debentures whose effectiveness will gradually diminish for the purpose of being considered as regulatory capital pursuant to the Commission regulations; and iv) as part of Banorte's strategy to maintain proper regulatory capital levels.

Merger of Créditos Pronegocio, S.A. de C.V.

At the Board of Directors' Meeting held on January 29, 2009, the merger of Banorte, as the merging entity, with Créditos Pronegocio, S.A. de C.V., as the merged entity, was approved.

"Looking into the future, at Banorte we are aware that Mexico continues to be a country of opportunities in spite of the current setbacks, which is why we will continue investing resources to continue offering innovative products and improve our services".

"We are convinced that this country requires a stronger banking presence, and for that reason, we reaffirm our commitment to work closely with all Mexicans to be a part of their success stories. We have the financial soundness and a great team of individuals in different areas to achieve this goal".

Roberto González Barrera
Chairman of the Board of Directors
of Grupo Financiero Banorte

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