

FEDERAL RESERVE SYSTEM

Grupo Financiero Banorte, S.A. de C.V.
Monterrey, Nuevo León, Mexico

Banco Mercantil del Norte, S.A., Institución de Banca Múltiple,
Grupo Financiero Banorte
Monterrey, Nuevo León, Mexico

Banorte USA Corporation
Wilmington, Delaware

Order Approving the Formation of
Bank Holding Companies and Acquisition of a Bank

Grupo Financiero Banorte, S.A. de C.V. (“GF Norte”), Banco Mercantil del Norte, S.A., Institución de Banca Múltiple, Grupo Financiero Banorte (“Banorte”), and Banorte USA Corporation (“Banorte USA”)¹ (collectively, Applicants”) have requested the Board’s approval under section 3 of the Bank Holding Company Act (“BHC Act”)² to become bank holding companies and to acquire 70 percent of the voting securities of INB Financial Corporation (“INB Financial”), McAllen, Texas, and thereby acquire control of its subsidiaries, INB Delaware Corporation (“INB Delaware”), Wilmington, Delaware, and Inter National Bank, McAllen, Texas.³ GF Norte, Banorte,

¹ GF Norte has represented that Banorte USA would be formed before consummation of the transaction.

² 12 U.S.C. § 1842.

³ Banorte USA will have an option to acquire the remaining 30 percent of INB Financial’s voting securities at specified intervals during the next five years.

Banorte USA, INB Financial, and INB Delaware (jointly, “FHC electors”) have also filed with the Board elections to become financial holding companies on consummation of the proposal pursuant to section 4(k) and (l) of the BHC Act and section 225.82 of the Board’s Regulation Y.⁴

Notice of the proposal, affording interested persons an opportunity to submit comments, has been published in the Federal Register (71 Federal Register 14,894 (2006)). The time for filing comments has expired, and the Board has considered the proposal and all comments received in light of the factors set forth in section 3 of the BHC Act.

Banorte, with total consolidated assets of approximately \$15.1 billion, is the fifth largest bank in Mexico.⁵ Banorte is a subsidiary of and represents more than 90 percent of the assets of GF Norte, a financial services holding company that owns 96 percent of the shares of Banorte. GF Norte currently has no banking operations in the United States; however, it engages through subsidiaries in investment advisory and securities brokerage activities in the United States.

INB Financial, with total consolidated assets of approximately \$1.2 billion, controls one insured depository institution, Inter National Bank,

⁴ See 12 U.S.C. § 1843(k) & (l); 12 CFR 225.82. FHC electors have certified that Inter National Bank is well capitalized and well managed and have provided all the information required under Regulation Y. Based on all the facts of record, the Board has determined that these elections to become financial holding companies will become effective on consummation of the proposal, if on that date Inter National Bank remains well capitalized and well managed, and if it has received a rating of at least “satisfactory” at its most recent performance evaluation under the Community Reinvestment Act (“CRA”). 12 U.S.C. § 2901 et seq.

⁵ Mexican asset and ranking data are as of December 31, 2004, and are based on the exchange rate then in effect. Domestic assets are as of June 30, 2006, and deposit data and rankings are as of June 30, 2005.

in Texas. INB Financial is the 41st largest insured depository organization in the state, controlling deposits of approximately \$862 million, which represent less than 1 percent of the total amount of deposits of insured depository institutions in the state.⁶

Financial, Managerial, and Supervisory Considerations

Section 3 of the BHC Act requires the Board to consider the financial and managerial resources and future prospects of the companies and depository institutions involved in the proposal and certain other supervisory factors. The Board has carefully considered these factors in light of all the facts of record, including confidential supervisory and examination information from the various U.S. banking supervisors of the institutions involved, publicly reported and other financial information, and information provided by the Applicants. The Board also has consulted with the National Banking and Securities Commission (“CNBV”), an agency of the Mexican Ministry of Finance and Public Credit that is responsible for the supervision and regulation of Mexican banks and financial services holding companies, such as GF Norte.

In evaluating the financial factors in proposals involving the formation of new bank holding companies, the Board reviews the financial condition of the Applicants and the target depository institutions. The Board also evaluates the financial condition of the pro forma organization, including its capital position, asset quality, and earnings prospects, and the impact of the proposed funding of the transaction.

The Board has carefully considered the financial factors of the proposal. Mexico’s risk-based capital standards are consistent with those

⁶ In this context, depository institutions include commercial bank, savings banks, and savings associations.

established by the Basel Capital Accord. The capital ratios of Banorte would continue to exceed the minimum levels that would be required under the Accord and are considered equivalent to the capital levels that would be required of a U.S. banking organization. Furthermore, INB Financial and Inter National Bank are well capitalized and would remain so on consummation of the proposal. The Board also has considered the financial resources of GF Norte and Banorte USA. Based on its review of these factors, the Board finds that Applicants have sufficient financial resources to effect the proposal. The proposed transaction is structured as a share purchase to be funded with available cash resources.

The Board also has considered the managerial resources of the organizations involved and the proposed combined organization. The Board has reviewed the examination records of INB Financial and Inter National Bank, including assessments of their management, risk-management systems, and operations. In addition, the Board has consulted with the CNBV about Applicants' managerial resources to implement the proposal, including compliance of GF Norte and Banorte with applicable laws and regulations. The Board also has considered its supervisory experiences and those of the other relevant banking supervisory agencies with the U.S. organizations and their records of compliance with applicable banking laws and with anti-money laundering laws. INB Financial and Inter National Bank are considered to be well managed. The Board also has considered Applicants' plans for implementing the proposal, including the proposed management after consummation.

Based on all the facts of record, the Board has concluded that considerations relating to the financial and managerial resources and future prospects of the organizations involved in the proposal are consistent with approval.

Section 3 of the BHC Act also provides that the Board may not approve an application involving a foreign bank unless the bank is subject to comprehensive supervision or regulation on a consolidated basis by the appropriate authorities in the bank's home country.⁷ As noted, the CNBV is the primary supervisor of Mexican banks, including Banorte. The Board has previously determined, in an application under the International Banking Act involving BBVA Bancomer, S.A. ("Bancomer"), Mexico City, Mexico, that Bancomer was subject to home country supervision on a consolidated basis.⁸ In this case, the Board has determined that Banorte is supervised on substantially the same terms and conditions as Bancomer. Based on all the facts of record, the Board has concluded that Banorte is subject to comprehensive supervision and regulation on a consolidated basis by its home country supervisor.⁹

⁷ See 12 U.S.C. § 1842(c)(3)(B). As provided in Regulation Y, the Board determines whether a foreign bank is subject to consolidated home country supervision under the standards set forth in Regulation K. See 12 CFR 225.13(a)(4). Regulation K provides that a foreign bank will be considered subject to comprehensive supervision or regulation on a consolidated basis if the Board determines that the bank is supervised or regulated in such a manner that its home country supervisor receives sufficient information on the worldwide operations of the bank, including its relationship to any affiliates, to assess the bank's overall financial condition and its compliance with laws and regulations. See 12 CFR 211.24(c)(1).

⁸ See BBVA Bancomer, 89 Federal Reserve Bulletin 146 (2003); Grupo Financiero Banamex Accival, 82 Federal Reserve Bulletin 1047 (1996).

⁹ The CNBV has supervisory authority over GF Norte. In addition, the CNBV has supervisory authority, with other agencies of the Mexican Ministry of Finance and Public Credit, over the nonbanking subsidiaries of GF Norte. The CNBV has the authority to require GF Norte to submit reports about its operations on a consolidated basis and to conduct inspections of GF Norte's primary nonbanking subsidiaries. The CNBV also has authority to impose restrictions on transactions between Banorte and related parties, including GF Norte and its subsidiaries.

In addition, section 3 of the BHC Act requires the Board to determine that an applicant has provided adequate assurances that it will make available to the Board such information on its operations and activities and those of its affiliates that the Board deems appropriate to determine and enforce compliance with the BHC Act.¹⁰ The Board has reviewed the restrictions on disclosure in the relevant jurisdictions in which GF Norte and Banorte operate and has communicated with relevant government authorities concerning access to information.

In addition, GF Norte and Banorte have committed that, to the extent not prohibited by applicable law, each will make available to the Board such information on the operations of its affiliates that the Board deems necessary to determine and enforce compliance with the BHC Act and other applicable federal law. GF Norte and Banorte also have committed to cooperate with the Board to obtain any waivers or exemptions that may be necessary to enable their affiliates to make any such information available to the Board. In light of these commitments, the Board has concluded that GF Norte and Banorte have provided adequate assurances of access to any appropriate information the Board may request. For these reasons, and based on all the facts of record, the Board has concluded that the supervisory factors it is required to consider under section 3(c)(3) of the BHC Act are consistent with approval.

Competitive Considerations

Section 3 of the BHC Act prohibits the Board from approving a proposal that would result in a monopoly or would be in furtherance of an attempt to monopolize the business of banking in any relevant banking market. In addition,

¹⁰ See 12 U.S.C. § 1842 (c)(3)(A).

section 3 of the BHC Act prohibits the Board from approving a proposed bank acquisition that would substantially lessen competition in any relevant banking market, unless the anticompetitive effects of the proposal are clearly outweighed in the public interest by its probable effect in meeting the convenience and needs of the community to be served.¹¹ Applicants do not currently engage in banking activities in the United States and, therefore, do not compete with Inter National Bank in any relevant banking market. Accordingly, the Board concludes, based on all the facts of record, that consummation of the proposal would not have a significant adverse effect on competition or on the concentration of banking resources in any relevant banking market and that competitive considerations are consistent with approval.

Convenience and Needs Considerations

In acting on a proposal under section 3 of the BHC Act, the Board also must consider the effects of the proposal on the convenience and needs of the communities to be served and take into account the records of the relevant insured depository institutions under the CRA. An institution's most recent CRA performance evaluation is a particularly important consideration in the applications process because it represents a detailed, on-site evaluation of the institution's overall record of performance under the CRA by its appropriate federal supervisor.¹²

The Board has carefully considered the convenience and needs factor and the CRA performance record of Inter National Bank in light of all the facts of record. As provided in the CRA, the Board has evaluated the convenience

¹¹ 12 U.S.C. § 1842(c)(1).

¹² See Interagency Questions and Answers Regarding Community Reinvestment, 66 Federal Register 36,620, 36,640 (2001).

and needs factor in light of the evaluations by the appropriate federal supervisor of the CRA performance record of Inter National Bank. The bank received a “satisfactory” rating at its most recent CRA performance evaluation by the Office of the Comptroller of the Currency, as of April 14, 2003.

Applicants have represented that they intend to maintain Inter National Bank’s CRA program. Applicants expect that the proposal will enhance the ability of Inter National Bank’s customers to conduct cross-border financial transactions and business.

In light of all the facts of record, the Board has concluded that considerations relating to the convenience and needs factor, including the performance record of Inter National Bank, are consistent with approval of this proposal.

Conclusion

Based on the foregoing and in light of all the facts of record, the Board has determined that the proposal should be, and hereby is, approved. In reaching this conclusion, the Board has considered all the facts of record in light of the factors it is required to consider under the BHC Act and other applicable statutes. The Board’s approval is specifically conditioned on compliance by Applicants with the conditions in this order and all the commitments made to the Board in connection with the proposal. For purposes of this action, the commitments and conditions are deemed to be conditions imposed in writing by the Board in connection with its findings and decision and, as such, may be enforced in proceedings under applicable law.

The proposed transaction shall not be consummated before the fifteenth calendar day after the effective date of this order, or later than three months after the effective date of this order, unless such period is extended for good cause by the Board or by the Federal Reserve Bank of Dallas, acting pursuant to delegated authority.

By order of the Board of Governors,¹³ effective October 13, 2006.

(signed)

Robert deV. Frierson
Deputy Secretary of the Board

¹³ Voting for this action: Chairman Bernanke, Vice Chairman Kohn, and Governors Kroszner and Mishkin. Absent and not voting: Governors Bies and Warsh.