CONSOLIDATED FINANCIAL STATEMENTS ANNUAL REPORT 2004
GRUPO FINANCIERO BANORTE

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AUDIT COMMITTEE REPORT

Mexico City, February 21, 2005.

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

With the approval of the Board of Directors of the Grupo Financiero, the Audit Committee has fulfilled its purpose of providing support to that Board in defining and updating the Internal Control System policies and procedures, in reviewing the financial information, in ensuring that the applicable laws and regulations have been complied with and in strengthening the control environment, acting in its role as a communications channel between the internal and external auditors.

As Chairman of the Committee and, on behalf of the same, I would like to inform you of the main activities carried out over the course of the fiscal year ended December 31, 2004.

I. Ten of the scheduled monthly meetings were convened, those not held were corresponded to August and December, and three extraordinary meetings took place, the resolutions reached and activities carried out therein were entered into minutes, which are in the possession of management.

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

1. Quarterly reports:
    a. Activities of the Credit Controllership
    b. Reports on Acquittances, Penalties and Bankruptcies
    c. Reports of the Specialized Unit for Complaints and Claims

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

1. The confirmation of the external auditor and the partner who signed the auditors' reports, as well as the scope of their work and conditions of engagement.

2. The proposed modifications to the Institution's Code of Ethics.

IV. In supporting the Board of Directors, the Audit Committee did the following:

1. It supplied its assessment and opinion of the Banking Sector Internal Control System, in compliance with regulatory requirements.

2. It approved changes to the internal control aspects contained in the Operating Manuals, as a result of the updating of the Regulations to bring them into conformity with the law, regulations and internal control guidelines.

3. It ensured the independence of the Internal Auditing area, since this area reports to the Board through the Audit Committee; ascertained its effectiveness, the quality of its review programs and the timely execution of the same, assessing its performance. It reviewed the progress of the program to implement the recommendations of the Institute of Internal Auditors (I.I.A.).

4. It reviewed the reports of the inspection visits made by the competent supervising authorities, reported the results of the same to the Board and followed up the implementation of the pertinent recommendations and corrective measures.

5. It reviewed the observations made by Internal and External Auditing, the Examiner of the Financial Group and the Banking, Brokerage and Long-Terms Savings sectors, including the review of the risk management system and followed up the corrective measures taken, reporting the relevant matters to the Board.

6. It evaluated the performance of the External Auditor, the auditor's report and the other reports they prepared in compliance with the regulations in effect.

7. It communicate and coordinates its work with the Internal Controllership, with respect to its on-going programs for strengthening operations.

8. It reviewed the aspects of the internal control system related to the process of issuing financial information, getting support from the external and internal auditors' work.

9. It participated in the review of the consolidated financial statements as of December 31, 2004 corresponding to the Financial Group and the Banking Sector, as well as of the external auditors' reports, which together with the internal auditors' reports enable it to verify and ensure that the policies authorized to this end were adopted. Due to the foregoing, we recommend that the Board grant its approval.

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

11. Audit committees were established in the brokerage and long-term savings sectors comprised of Members of the Board of Directors, the former in compliance with the National Banking and Securities Commission and the latter in anticipation of future regulatory changes.

V. We maintain a continuous review process of the advances achieved in strengthening the Internal Control System, in conformity with the plan established by management.

Very truly yours,

Francisco J. Alcalá de León
Chairman of the Audit Committee

EXAMINER'S REPORT

Monterrey, N. L., March 28, 2005.

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

In my capacity as Examiner and in compliance with the stipulations of Article 166 of the General Law for Mercantile Companies and the Company by-laws, I hereby issue my report on the exactness, sufficiency and fairness of the financial information which the Board of Directors has submitted to you, in relation to the Company's performance for the year ended December 31, 2004.

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

I carefully reviewed the report issued as of this date, supplied separately by the external auditing firm PricewaterhouseCoopers, S. C., related to their examination performed in accordance with generally accepted auditing standards, of the financial statements prepared by Company management. This report refers to the following matter:

As mentioned in Note 3, the Company is required to prepare and present its consolidated financial statements based on accounting rules issued by the National Banking and Securities Commission (the COMMISSION), applicable to controlling companies of financial groups, which are not in accordance with generally accepted accounting standards in the cases indicated in Note 4. The Company's financial statements as of December 31, 2004 are subject to review by the COMMISSION.

In my opinion, the accounting and financial information criteria and policies followed by the Company and considered by management in preparing the financial information presented to this Meeting, are adequate and sufficient and applied on a basis consistent with the prior year; therefore, this information truly, fairly and sufficiently presents the consolidated financial position of Grupo Financiero Banorte, S. A. de C. V. and its subsidiaries as of December 31, 2004, the consolidated results of its operations, the changes in stockholders' equity and the changes in the consolidated financial position for the year then ended, in conformity with the bases prescribed by the COMMISSION.

C. P. C. Fernando J. Morales Gutiérrez
Examiner

REPORT OF INDEPENDENT AUDITORS

PRICEWATERHOUSECOOPERS

Ave. Rufino Tamayo No. 100
Col. Valle Oriente, 66269, Garza García, N.L.
Teléfono: (81) 8152 2000
Fax: (81) 8152 2075
www.pwc.com

Monterrey, N. L., March 28, 2005

To the Shareholders of Grupo Financiero Banorte, S. A. de C. V. and subsidiaries:

1. We have audited the consolidated balance sheets of Grupo Financiero Banorte, S. A. de C. V. and subsidiaries (the HOLDING), as of December 31, 2004 and 2003, and the related consolidated statements of income, of changes in stockholders' equity and of changes in financial position for the years then ended. These consolidated financial statements are the responsibility of the HOLDING's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

2. We conducted our audits in accordance with auditing standards generally accepted in Mexico, which are substantially the same as those followed in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, and are prepared in accordance with the accounting practices prescribed for the HOLDING. An audit consists of examining, on a test basis, evidence supporting the amounts and disclosures of the consolidated financial statements. An audit also includes assessing the accounting practices used and significant estimates made by management, as well as the overall consolidated financial statement presentation. We believe our audits provide a reasonable basis for our opinion.

3. As discussed in Note 3, the HOLDING is required to prepare and present its consolidated financial statements in accordance with accounting practices prescribed by the Mexican Banking and Securities Commission (the COMMISSION) for financial groups. Those rules differ from Mexican Generally Accepted Accounting Principles in the cases discussed in Note 4. The consolidated financial statements of the HOLDING as of December 31, 2004 are subject to review by the COMMISSION.

4. In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Grupo Financiero Banorte, S. A. de C. V. and subsidiaries as of December 31, 2004 and 2003, and the consolidated results of their operations, the changes in their consolidated stockholders' equity and the changes in their consolidated financial position for the years then ended, in conformity with accounting practices prescribed by the COMMISSION.

C. P. C. José Antonio Quesada Palacios

Assurance Partner

BALANCE SHEETS

Grupo Financiero Banorte S. A. de C. V. and subsidiaries

Consolidated as of December 31, 2004 and 2003 (Amounts stated in thousands of Mexican pesos of December 2004 purchasing power) (Notes 1, 2, 3, 4, 5, 20, 23, 30, 31, 32 and 33)

ASSETS	2004	2003
CASH AND CASH EQUIVALENTS (Note 6)	Ps 39,364,922	Ps 32,418,928
INVESTMENT SECURITIES (Note 7):		
Trading securities	10,649,819	9,751,519
Available-for-sale securities	242,423	252,960
Held-to-maturity securities	9,005,806	9,878,310
TOTAL INVESTMENT SECURITIES	19,898,048	19,882,789
SECURITIES AND DERIVATIVES TRADING (Note 8):		
Unassigned values pending payment	-	1,366
Debit balances on repo transactions	50,231	53,743
Derivatives trading	5,441	3,043
	55,672	58,152
CURRENT LOAN PORTFOLIO (Notes 9 and 11):		
Commercial portfolio	46,416,917	40,237,060
Loans to financial intermediaries	399,255	2,670,361
Consumer loans	11,409,898	9,130,857
Mortgage loans	18,523,263	15,516,662
Loans to government entities	18,616,357	82,450,066
Loans to FOBAPROA or IPAB (Note 10)	6,947,510	7,049,536
TOTAL CURRENT LOAN PORTFOLIO	102,313,200	157,054,542
PAST-DUE LOAN PORTFOLIO (Notes 9 and 11):		
Commercial portfolio	632,210	2,017,458
Consumer loans	339,122	483,540
Mortgage loans	819,776	1,247,018
Loans to government entities	13,005	8,549
TOTAL PAST-DUE LOAN PORTFOLIO	1,804,113	3,756,565
TOTAL LOAN PORTFOLIO	104,117,313	160,811,107
ALLOWANCE FOR LOAN LOSSES	2,752,158	4,551,418
NET LOAN PORTFOLIO	101,365,155	156,259,689
CREDIT ASSET PORTFOLIO (Note 12)	2,149,194	2,177,612
OTHER RECEIVABLES, NET	2,859,458	2,352,108
FORECLOSED ASSETS (Note 13)	364,902	1,184,667
PROPERTY, FURNITURE AND EQUIPMENT, NET (Note 14)	5,940,998	6,024,304
PERMANENT STOCK INVESTMENTS (Note 15)	1,876,721	1,796,580
DEFERRED TAXES, NET (Note 28)	677,915	1,023,032
OTHER ASSETS (Note 16):		
Other assets, deferred charges and intangibles	1,666,643	1,629,235
TOTAL ASSETS	**Ps 176,219,628**	**Ps 224,807,096**

Ing. Luis Peña Kegel
Chief Executive Officer

Ing. Sergio García Robles Gil
Managing Director
Chief Financial Officer

LIABILITIES	2004	2003
DEPOSITS:		
Demand deposits (Note 17)	Ps 65,270,352	Ps 69,764,923
Time deposits (Note 18)		
General public	50,805,612	79,516,587
Money market	12,321,915	22,017,568
TOTAL DEPOSITS	128,397,879	171,299,078
BANK AND OTHER ENTITY LOANS (Note 19):		
Demand loans	4,613,903	4,995,979
Short term	6,802,523	14,201,934
Long term	11,617,132	11,716,555
	23,033,558	30,914,468
SECURITIES AND DERIVATIVES TRADING (Note 8):		
Unassigned values pending payment	-	1,208
Credit balances on repo transactions	76,415	226,476
Derivatives trading	8,805	12,849
	85,220	240,533
OTHER PAYABLES:		
Income tax and employees' statutory profit sharing	288,381	280,877
Sundry creditors and other payables	3,386,974	3,980,300
	3,675,355	4,261,177
OUTSTANDING SUBORDINATED NOTES (Note 21)	4,609,920	2,880,062
DEFERRED CREDITS	48,251	68,383
CONTINGENCIES AND COMMITMENT (Note 22)	-	-
SUBSEQUENT EVENTS (Note 34)	-	-
TOTAL LIABILITIES	**159,850,183**	**209,663,701**

STOCKHOLDERS' EQUITY (Notes 24, 25, 26 and 27):	2004	2003
PAID-IN CAPITAL:		
Capital stock	5,620,776	5,620,655
Paid stock premiums	1,670,347	1,670,347
TOTAL PAID-IN CAPITAL	7,291,123	7,291,002
EARNED SURPLUS:		
Capital reserves	1,510,698	1,391,193
Retained earnings	13,493,203	12,037,056
Deficit on restatement of stockholders' equity	(5,734,223)	(5,734,223)
Loss from holding nonmonetary assets	(3,686,511)	(3,120,607)
Net Income	2,621,149	2,339,417
TOTAL EARNED SURPLUS	8,204,316	6,912,836
MINORITY INTEREST IN STOCKHOLDERS' EQUITY	874,006	939,557
TOTAL STOCKHOLDERS' EQUITY	**16,369,445**	**15,143,395**
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**Ps 176,219,628**	**Ps 224,807,096**

The accompanying notes are part of these consolidated financial statements

C. P. Román Martínez Méndez
Managing Director
Audit

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

STATEMENTS OF INCOME

Grupo Financiero Banorte, S. A. de C. V. and subsidiaries

Consolidated for the years ended December 31, 2004 and 2003 (Amounts stated in thousands of Mexican pesos of December 2004 purchasing power) (Notes 1, 2, 3, 4, 5, 23, 31, 32, and 33)

	2004	2003
Interest income	Ps 25,383,283	Ps 23,631,093
Interest expense	(15,388,285)	(14,505,223)
Monetary (loss) gain, relative to net interest income	(137,582)	58,389
NET INTEREST INCOME	9,857,416	9,184,259
Allowance for loan losses	(1,192,489)	(853,009)
NET INTEREST INCOME ADJUSTED FOR CREDIT RISKS	8,664,927	8,331,250
Fee and commission income	5,928,067	5,233,213
Fee and commission expense	(966,260)	(859,174)
Brokerage income	888,625	1,033,646
	5,850,432	5,407,685
TOTAL OPERATING INCOME	14,515,359	13,738,935
Administrative and promotion expenses	(11,183,142)	(11,079,774)
OPERATING INCOME	3,332,217	2,659,161
Other income	2,196,713	2,689,774
Other expense	(2,231,986)	(2,811,993)
	(35,273)	(122,219)
INCOME BEFORE INCOME TAX AND EMPLOYEES' STATUTORY PROFIT SHARING	3,296,944	2,536,942
Current income tax and employees' statutory profit sharing (Note 28)	(497,976)	(362,009)
Deferred income tax and employees' statutory profit sharing (Note 28)	(216,489)	104,920
	(714,465)	(257,089)
INCOME BEFORE EQUITY IN EARNINGS OF NONCONSOLIDATED SUBSIDIARY AND ASSOCIATED AND AFFILIATED COMPANIES, AND MINORITY INTEREST	2,582,479	2,279,853
Equity in earnings of nonconsolidated subsidiary and associated, and affiliated companies, net	222,325	211,609
INCOME FROM CONTINUING OPERATIONS BEFORE MINORITY INTEREST	2,804,804	2,491,462
Discontinued operations, extraordinary departure and changes in accounting standards	-	731
	2,804,804	2,492,193
Minority interest	(183,655)	(152,776)
NET INCOME (Notes 26 and 27)	**Ps 2,621,149**	**Ps 2,339,417**

The accompanying notes are part of these consolidated financial statements

Ing. Luis Peña Kegel
Chief Executive Officer

Ing. Sergio García Robles Gil
Managing Director
Chief Financial Officer

C. P. Román Martínez Méndez
Managing Director
Audit

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

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

Grupo Financiero Banorte, S. A. de C. V. and subsidiaries

Consolidated for the years ended December 31, 2004 and 2003 (Amounts stated in thousands of Mexican pesos of December 2004 purchasing power)

	PAID-IN CAPITAL			
	Capital stock	Variable capital stock	Paid stock premiums	capital reserves
Balance at January 1, 2003	Ps 3,350,982	Ps 2,252,281	Ps 1,638,851	Ps 1,154,043
CHANGES RESULTING FROM RESOLUTIONS ADOPTED BY STOCKHOLDERS:				
Issuance of stock (stock repurchase)		17,392	31,496	128,420
Appropriation of income				
Reserves created				108,730
Dividend declared on October 16, 2003				
CHANGES RELATED TO THE RECOGNITION OF COMPREHENSIVE INCOME:				
Net income of the year				
Loss from holding non-monetary assets				
Total comprehensive income (Note 26)				
MINORITY INEREST				
Balance at December 31, 2003	3,350,982	2,269,673	1,670,347	1,391,193
CHANGES RESULTING FROM RESOLUTIONS ADOPTED BY STOCKHOLDERS:				
Issuance of stock (stock repurchase)		121		4,690
Appropriation of income				
Reserves created				114,815
Dividend declared on October 4, 2004				
CHANGES RELATED TO THE RECOGNITION OF COMPREHENSIVE INCOME:				
Net income of the year				
Gain (loss) from holding non-monetary assets				
Foreclosed assets reserve (methodology dated August 20, 2004)				
Loss on sale of portfolio per COMMISSION resolution 601-II-34966				
Loss on foreclosed assets and allowances for loan losses created by Arrendadora Banorte, S. A. de C. V.				
Income regarding a three-months period of Generali México compañía de Seguros, S. A. de C. V., recorded in prior years retained earnings				
Comprehensive income for the year (Note 26)				
MINORITY INTEREST	-	-	-	-
Balance at December 31, 2004	**Ps 3,350,982**	**Ps 2,269,794**	**Ps 1,670,347**	**Ps 1,510,698**

Ing. Luis Peña Kegel
Chief Executive Officer

Ing. Sergio García Robles Gil
Managing Director
Chief Financial Officer

		EARNED CAPITAL				
Prior years retained earnings	Deficit in restatement of capital accounts	Gain (loss) from holding non-monetary assets	Net income of the year	Total majority interest	Minority interest in capital	Total stockholders' equity
Ps 10,400,229	(Ps 5,734,223)	(Ps 3,025,335)	Ps 2,208,926	Ps 12,245,754	Ps 893,496	Ps 13,139,250
(86,301)	-	-		91,007	-	91,007
2,208,926			(2,208,926)	-	-	-
(108,730)						-
(377,068)				(377,068)		(377,068)
			2,339,417	2,339,417		2,339,417
		(95,272)		(95,272)		(95,272)
		(95,272)	2,339,417	2,244,145		2,244,145
					46,061	46,061
12,037,056	(5,734,223)	(3,120,607)	2,339,417	14,203,838	939,557	15,143,395
				4,811		4,811
2,339,417			(2,339,417)			
(114,815)				-		-
(511,899)				(511,899)		(511,899)
			2,621,149	2,621,149		2,621,149
		(41,796)		(41,796)		(41,796)
		(524,108)		(524,108)		(524,108)
(258,539)				(258,539)		(258,539)
(15,066)				(15,066)		(15,066)
17,049				17,049		17,049
(256,556)	-	(565,904)	2,621,149	1,798,689		1,798,689
-	-	-	-	-	(65,551)	(65,551)
Ps 13,493,203	(Ps 5,734,223)	(Ps 3,686,511)	Ps 2,621,149	Ps 15,495,439	Ps 874,006	Ps 16,369,445

The accompanying notes are part of these consolidated financial statements

C. P. Román Martínez Méndez
Managing Director
Audit

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

STATEMENTS OF CHANGES IN FINANCIAL POSITION

Grupo Financiero Banorte, S. A. de C. V. and subsidiaries

Consolidated for the years ended December 31, 2004 and 2003 (Amounts stated in thousands of Mexican pesos of December 2004 purchasing power)

	2004	2003
OPERATING ACTIVITIES:		
Net income of the year	Ps 2,621,149	Ps 2,339,417
Items charged (credited) to income that did not affect resources:		
Allowance for loan losses	1,192,489	853,009
Depreciation and amortization	1,070,737	993,946
Deferred taxes	216,489	(104,920)
Minority interest	183,655	152,776
Provision for other obligations	236,478	(206,684)
Equity in earnings of nonconsolidated subsidiaries and associates and affiliated companies, net	(222,325)	(211,609)
Unrealized investment income	(17,473)	27,491
	5,281,199	3,843,426
Items related to operations:		
(Decrease) increase in deposits	(42,901,199)	14,295,328
Decrease (increase) in investment securities	2,214	(6,894,883)
Decrease in bank and other entity loans	(7,880,910)	(10,244,143)
Decrease (increase) in credit assets portfolio	28,418	(144,431)
Decrease in loan portfolio	53,702,045	6,290,833
Decrease (increase) in deferred taxes	128,628	(31,298)
Decrease in securities and derivatives trading	(152,833)	(655,159)
(Decrease) increase in accounts receivable and payable	(1,329,650)	1,465,935
Loss on sale of portfolio per COMMISSION resolution 601-II-34966	(258,539)	-
Past-due loan portfolio reserves created of Arrendadora Banorte, S. A. de C. V.	(11,008)	-
Resources provided by operating activities	6,608,365	7,925,608
FINANCING ACTIVITIES:		
Issuance of outstanding subordinated debentures	1,729,858	46,338
Issuance of common stock	-	91,007
Income of Generali México Compañía de Seguros, S. A. de C. V. recorded in prior years retained earnings	17,049	-
Repurchase of common stock	4,811	-
Dividends declared	(511,899)	(377,068)
Resources provided by (used in) financing activities	1,239,819	(239,723)
INVESTMENT ACTIVITIES:		
Decrease in foreclosed assets	819,765	148,209
Increase in permanent stock investments	(672,925)	(664,975)
Increase in deferred charges and credits	(412,383)	(398,833)
Purchases of property, furniture and equipment	(632,589)	(248,598)
Loss on foreclosed assets of Arrendadora Banorte, S. A. de C. V.	(4,058)	-
Resources used in investment activities	(902,190)	(1,164,197)
Increase in cash and cash equivalents	6,945,994	6,521,688
Cash and cash equivalents at beginning of year	32,418,928	25,897,240
Cash and cash equivalents at end of year	**Ps 39,364,922**	**Ps 32,418,928**

The accompanying notes are part of these consolidated financial statements

Ing. Luis Peña Kegel
Chief Executive Officer

Ing. Sergio García Robles Gil
Managing Director
Chief Financial Officer

C. P. Román Martínez Méndez
Managing Director
Audit

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

NOTE 1 DESCRIPTION OF BUSINESS:

Grupo Financiero Banorte, S.A. de C.V. and subsidiaries (the HOLDING) is authorized by the Secretaría de Hacienda y Crédito Público (Mexican Ministry of Finance and Public Credit, or "SHCP") to be incorporated and operate as a financial group in the terms established in the Ley para Regular las Agrupaciones Financieras (Financial Groups Regulation Law or "LRAF"), subject to inspection and oversight by the Comisión Nacional Bancaria y de Valores (Mexican Banking and Securities Commission or "the COMMISSION"). Its operations consist of rendering all kinds of banking services and acting as a broker in the securities market, as well as acquiring and managing shares issued by insurance, pension and bonding institutions, leasing and financial factoring companies, mutual funds and any other type of companies or financial entities allowed by the SHCP, pursuant to the provisions of the LRAF. Its operations are regulated by the COMMISSION, the Instituciones de Crédito (Credit Institutions) Law (the LIC), the Banco de México (Central Bank of Mexico or "BANXICO") Law and the Securities Market Law. Likewise, its non-consolidated subsidiaries are regulated according to its business by the COMMISSION, the Comisión Nacional de Seguros y Fianzas (Mexican Insurance and Bonding Commission), the Comisión Nacional del Sistema de Ahorro para el Retiro (Mexican Commission for the Retirement Savings System) and other applicable laws.

Among the powers that it may exercise in its capacity as a regulator of financial groups, the COMMISSION may review the financial information of the HOLDING and require changes to be made there to.

The HOLDING has entered into a liability agreement in conformity with the LRAF, through which it assumes unlimited responsibility for the payment of all liabilities of each of its subsidiary companies.

NOTE 2 HIGHLIGHTS:

Bank Division

During 2004 and 2003, the HOLDING developed several business strategies in order to continue projecting a solid structure and offering more competitive banking products; the most important of which are mentioned below:

a. Issuance of subordinate notes abroad.

In an Extraordinary Meeting held on January 27, 2004, the stockholders of Banco Mercantil del Norte, S. A., Institución de Banca Múltiple, Grupo Financiero Banorte (BANORTE), approved the issuance of Preferred Subordinate Notes not convertible to capital stock (Step-up Subordinate Callable Notes) denominated in U.S. dollars through a public offering in the Luxembourg Stock Exchange, for a maximum amount of US$300,000,000 with a 10-year term (maturing January 2014). Interest is payable every six months and the principal will be repaid at the end of the aforementioned 10-year period. The objective of this note issue was to prepay in June 2004, the subordinated notes denominated in Investment Units (UDI) not convertible to capital stock (BANORTE 01U). This situation was present during the second quarter of 2004. (See Note 21).

Dated February 10 and 13, 2004, respectively, the final placement of the aforementioned issue of subordinate notes closed as follows:

1. A principal amount of US$250,000,000 with an interest rate of 5.875%.
2. An additional amount of US$50,000,000 with an interest rate of 5.875%.

b. Exchange of FOBAPROA promissory notes.

As part of the measures adopted to face the economic crisis arisen at the end of 1994, the Mexican Congress passed the Ley de Protección al Ahorro Bancario ("Law for the Protection of Bank Savings"), effective January 20, 1999, creating the Instituto para la Protección del Ahorro Bancario ("Institute for the Protection of Bank Savings" or "IPAB"), which replaced the Fondo Bancario de Protección al Ahorro ("Banking Savings Protection Fund" or "FOBAPROA") which continues operating with the sole objective of managing the operations of the "Portfolio Capitalization and Purchase Program."

The Law for the Protection of Bank Savings enabled banks that had participated in the Portfolio Capitalization and Purchase Program (PCCC) to swap their FOBAPROA promissory notes for IPAB promissory notes with similar terms.

In June 2002 the IPAB advised the banks participating in the PCCC of its intention to adopt certain procedures and conditions applicable to the banks involved, with respect to the mechanics for the exchange of FOBAPROA promissory notes for IPAB promissory notes.

In July 2002, BANORTE filed for an injunction to suspend the procedures and conditions established by the IPAB for the aforementioned exchange, on the grounds that they were without any legal foundation and contained ambiguous and open terms. On September 30, 2003, the court found in favor of BANORTE but the IPAB filed an appeal with the appropriate court. On July 12, 2004, an agreement was formalized between the IPAB and the four banks still participating in the PCCC.

As part of this agreement, the parties desisted from all legal actions and the banks agreed to a new audit and obtained from authorities the commitment to make this audit final and definitive. This audit covers the Management, Corporate Identity, Existence and Legitimacy of loans sold and their Legality (GEL). Finally, in order to temporarily support the observations made by the Federal Auditor with respect to minor loans (less than Ps 200), without accepting that their inclusion in the portfolio sale has violated previously agreed rules, the banks set up a guarantee trust to cover their eventual liability with respect to loans questioned by the Auditor.

As a result of this agreement, the FOBAPROA promissory notes, dated March 31, 2004, were exchanged for notes payable by the IPAB, net of the amounts in the checking accounts of the trusts deducting collection of the loans. The amounts of these notes shall be adjusted in accordance with the results of the audits and shall be exchanged opportunely for IPAB notes. The GEL audit started on October 4, 2004 and the results and conclusions of the firms conducting the audit should be available during the second quarter of 2005.

At March 31, 2004, value date of the exchange transaction reached in the agreement, the amount of Bank assets involved was as follows:

Concept	Balance of FOBAPROA promissory notes	Balance in checking accounts	Obligation assumed by the IPAB	Expiration date
Trust 1989-0	Ps 4,493,489	(Ps 1,195,136)	Ps 3,298,353	Nov - 2005
Trust 1990-4	6,752,724	(2,111,467)	4,641,257	Jun - 2006
Trust 1991-2	1,434,510	(170,025)	1,264,485	Dec - 2006
Total	**Ps 12,680,723**	**(Ps3,476,628)**	**Ps 9,204,095**	

BANORTE assigned Ps144,336 from the notes payable by the IPAB to the guarantee trust at the same value date. The aforementioned amount comprises Ps62,499 corresponding to Trust 1989-0 and Ps81,837 to Trust 1990-4.

At December 31, 2004, the amounts of Bank assets involved were as shown in Note 10.

(Amounts stated in thousands of Mexican pesos of December 31, 2004 purchasing power)

c. Expense Reduction and Efficiency Program (Organizational Restructuring).

During 2004, in order to reduce costs and improve the position and financial indexes of the HOLDING, the Expense Reduction and Efficiency Program was implemented, resulting in the closing of approximately 73 branches and a reduction in the work force of 2,009 employees.

d. Sale of Loan Portfolios between related parties (BANORTE and BANCEN).

On December 31, 2004, 8 contracts were signed covering the transfer to BANORTE (buyer) from Banco del Centro, S. A., Institución de Banca Múltiple, Grupo Financiero Banorte (BANCEN - seller and related party) of the rights to receive cash flows from collecting the loans included in each contract, as well as from the sale of assets related to the aforementioned loans.

Certain contracts establish that the loans will continue to be the property of BANCEN or of Sólida Administradora de Portafolios, S. A. de C. V., (Sólida), and that these entities shall continue in charge of the administration, collection and loan recovery functions, with the logistical support of Sólida when stipulated in the contract. Finally, of the total cash flows received every month by BANCEN, the administrative expenses and costs of collection and recovery of loans shall be deducted and the remaining cash flow shall be applied in favor of BANORTE.

The contracts were effective as of December 1, 2004; the amounts paid for each contract were shown as follows (See Note 12):

Project	Type of portfolio	Month of acquisition	Amount of portfolio	Proportion purchased	Amount paid	Portfolio amount at December 31, 2004	Balance to be amortized at December 31, 2004
Bancrecer I	Mortgage	December 2004	Ps 1,333,000	27.55%	Ps 356,181	Ps 1,279,000	Ps 345,934
Serfin Santander	Mortgage and commercial	December 2004	1,314,000	29.32%	408,721	1,445,000	403,706
Bital I	Mortgage	December 2004	2,123,000	19.92%	423,252	2,114,000	421,256
Bancomer II	Commercial	December 2004	343,000	5.26%	17,826	272,000	17,736
Confia III	Mortgage	December 2004	491,000	25.27%	124,755	491,000	124,256
Bital II	Mortgage	December 2004	1,685,000	10.21%	170,431	1,685,138	171,533
Bancomer III	Mortgage	December 2004	807,000	25.53%	204,570	807,000	206,211
Total			**Ps 8,096,000**		**Ps 1,705,736**	**Ps 8,093,138**	**Ps 1,690,632**

The contracts will remain in effect until all loans are collected, recovered, restructured, or else until all assets related to such loans are sold or paid.

e. Sale of IPAB-Bancrecer portfolio to Banco JP Morgan S. A., Institución de Banca Múltiple, JP Morgan Grupo Financiero, División Fiduciaria (Banco JP Morgan).

On December 22, 2004, the IPAB-Bancrecer Promissory note (loan agreement entered into by and between the IPAB and the Bank of Mexico for the capitalization of BanCrecer) was sold for Ps45,940,406, to a Trust created in Banco JP Morgan, transferring the rights to collect interest and principal, for the issuance of Stock Certificates (BANORCB 04) in the amount of Ps45,940,406, for a five-year period and with a TIIE daily average interest rate plus 0.40 basic points to be paid monthly, while the principal is payable in a lump sum, this reducing the FOBAPROA and IPAB portfolio of BANORTE at the end of the year by 83% overall. (See Note 9, paragraph a., number (3)).

The IPAB portfolio after this transaction amounted to Ps12,370,387 at December 31, 2004, of which Ps5,422,877 corresponded to the IPAB debt to BANORTE resulting from the purchase of Banpaís and BANCEN (shown in Loans to Government Entities) and Ps6,947,510 (see Note 10) corresponded to the Exchange of FOBAPROA promissory notes of the New Portfolio Capitalization and Purchase Program for the notes payable by IPAB described in paragraph b. above.

This issuance received the following ratings: mxAAA, Aaamx and AAA(mex) from Standard & Poor´s, Moody´s and Fitch, respectively.

The amount received from the aforementioned transaction was paid to BANORTE, which proceeded to invest most of it through the acquisition of Stock Certificates (BANORCB 04) and to immediately carry out repo transactions with qualified investors. At December 31, 2004, BANORTE maintained an amount of Ps44,296,652, under the item "Securities receivable from repo transactions", corresponding to Stock Certificates (BANORCB04) and representing 38% approximately of the total current position with respect to repo transactions with customers. BANORTE´s Management applied the accounting treatment described in Note 3 ff. (Securitization).

Savings and Welfare division

Acquisition of shares of Generali México Compañía de Seguros, S. A.

At December 19, 2003, the HOLDING entered into a sale agreement of shares with the following entities: Maatschappij Graafschap Holland, N.V. (Participatie - company of Dutch origin), Assicurazioni Generali, S. A. (Generali - company of Italian origin) and Transocean Holding Corporation (Transocean - company of Northamerican origin) to acquire shares representative of the capital stock of Generali México Compañía de Seguros, S. A. (Generali México).

The net payment made by the HOLDING amounted Ps84,290,220 (7.560 million US dollars), after the tax withholding, which amounted to US$90,000, representing 51% of the capital stock of Generali Mexico at the negotiation date. Derived from the aforementioned, goodwill was generated in the amount of Ps42,372 (3.771 million US dollars), which is included in the "Other assets, deferred charges and intangible assets" item in the balance sheet.

In conformity with the sale agreement of shares, the HOLDING proceeded to make the full payment of such shares within a term not beyond December 29, 2003. Likwise, the acquisition of Generali México was funded by proprietary resources of the HOLDING, including resources in flow and dividends obtained from its subsidiaries.

Given that Generali México is an entity belonging to the Savings and Welfare division of the HOLDING, this acquisition was recorded at the end of 2003 using the equity method and in the "Permanent investment in shares" item of the balance sheet in the amount of Ps48,352 (Ps 45,853 nominal value) (See Note 15). Furthermore, in a General Extraordinary Meeting held on March 30, 2004, the stockholders agreed to the merger of Seguros Banorte Generali, S. A. de C. V. (Seguros Banorte Generali), Grupo Financiero Banorte and Generali México, effective as from April 1, 2004, with the latter as the surviving company. Consequently, Seguros Banorte Generali ceases to exist as an independent legal entity, incorporating all its assets and liabilities at March 31, 2004 to those of Generali México, the latter changing its name to Seguros Banorte Generali, S. A. de C. V. Derived from the aforementioned, between the period comprised from January 1 and March 31, 2004, Generali México generated a net income of $17,049, which was recorded in stockholders' equity under the item "Income from prior years" (see Note 26).

At May 20, 2004, the General Management of Insurances and Securities of the Ministry of Finance and Public Credit, through official letter 366-IV-350 731.1/32095, authorized the merger between Generali México, as the merging company and Seguros Banorte Generali, as the merged company, as well as the respective merger agreement entered into as of March 31, 2004, establishing that the merging company shall be the universal assignee of all assets, rights and liabilities of the merged company.

NOTE 3 BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accompanying financial statements have been prepared in accordance with the accounting standards established by the COMMISSION through circular 1456, 1448, 1458 and 10-234 applicable to Financial Groups, Credit Institutions, Auxiliary Credit Organizations, and Broker-Dealers, respectively, which were updated in October 2000 by Circular 1489, 1488, 1490, effective January 1, 2001. These Circulars modify various accounting rules in order to add disclosure rules related to interim financial information. It also incorporates the concept of comprehensive income, changes the recording and valuation rules for past due mortgage loans and establishes rules for the recording, valuation, presentation and disclosure of investment securities, derivative financial instruments, loan portfolios, guarantees and related party transactions.

In the absence of a specific accounting rule from the COMMISSION, the following standards must be applied in order: Mexican Generally Accepted Accounting Principles ("MEX GAAP"), as issued by the Mexican Institute of Public Accountants ("MIPA"), International Financial Reporting Standards Boards ("IFRSB") and United States Generally Accepted Accounting Principles ("US GAAP"), as issued by the Financial Accounting Standards Board ("FASB").

The financial statements of the HOLDING and its subsidiaries at December 31, 2004 are subject to the approval of the COMMISSION, which is empowered to require make any changes therein.

The most significant accounting practices, including the concepts, methods and criteria relative to the recognition of the effects of inflation on the financial information, are summarized below:

a. Consolidated financial statements

The accompanying consolidated financial statements include the financial statements of the HOLDING and its subsidiaries pertaining to the financial sector, including the retirement funds management company, companies that render supplementary or auxiliary services to banking institutions and real estate management companies. Permanent stock investments in mutual funds, as well as investments in insurance, bonding and pension fund companies are valued by using the equity method, even though the HOLDING has significant influence on their management. All the operations and important transactions between companies have been deleted.

The financial statements of the main unconsolidated subsidiaries are summarized as follow:

Company	2004				
	Interest	Assets	Liabilities	Stockholders' equity	Income for the year
Fianzas Banorte, S. A. de C. V.	99.99	Ps 283,839	Ps 203,821	Ps 80,018	Ps 15,655
Seguros Banorte Generali, S. A. de C. V.	51.00	4,131,837	3,383,685	748,152	208,968
Pensiones Banorte Generali, S. A. de C. V.	51.00	5,861,204	5,637,319	223,885	27,676
Generali México Compañía de Seguros	51.00	-	-	-	-
Total		**Ps 10,276,880**	**Ps 9,224,825**	**Ps 1,052,055**	**Ps 252,299**

Company	2003				
	Interest	Assets	Liabilities	Stockholders' equity	Income for the year
Fianzas Banorte, S. A. de C. V.	99.99	Ps 252,893	Ps 151,794	Ps 101,099	Ps 9,295
Seguros Banorte Generali, S. A. de C. V.	51.00	2,666,141	2,271,150	394,991	155,076
Pensiones Banorte Generali, S. A. de C. V.	51.00	5,169,739	4,973,530	196,209	57,681
Generali México Compañía de Seguros	51.00	741,368	646,794	94,574	3,700
Total		**Ps 8,830,141**	**Ps 8,043,268**	**Ps 786,873**	**Ps 225,752**

b. Recognition of the effects of inflation on the financial information

The HOLDING´s financial statements have been restated in terms of purchasing power as of the end of the most recent fiscal year, thus recognizing the effects of inflation through that date. The financial statements of prior years have been restated in terms of purchasing power at the end of the latest balance sheet period presented and therefore, amounts differ from those originally published. Consequently, the financial statements for all periods are comparable since they are all stated in currency of the same purchasing power.

To recognize the effects of inflation, the following procedures were followed:

Balance sheets:

Property, furniture and equipment were restated based on factors derived from the Investment Unit ("UDI") reference value.

Foreclosed assets are considered monetary assets and, therefore, their carrying value is not restated. They form part of the basis for calculating the HOLDING´s monetary gain or loss. Subordinated notes and permanent investments in entities that do not recognize the effect of inflation are considered monetary items.

Permanent investments are valued using the equity method as a specific cost method, and the difference between the restatement of the balance at the beginning of the period based on the restatement factor and the increase or decrease from applying the equity method is recorded as a gain (loss) from holding non-monetary assets.

Paid-in capital and earned surplus are restated based on the UDI factor, in order to maintain stockholders' equity in pesos of constant purchasing power.

The deficit in restatement of stockholders' equity represents the change in the specific level of prices of non-monetary assets vis-à-vis the UDI reference value.

Statements of income:

The consolidated statements of income for the years ended December 31, 2004 and 2003, are presented in purchasing power pesos as of December 31, 2004, for which the historical figures of transactions are restated by a factor obtained by dividing the UDI reference value at December 31, 2004 by the UDI value at the date of such transactions.

The gain or loss on monetary position represents the loss, in real terms, in the value of monetary assets and liabilities caused by inflation. It is calculated based on average daily balances.

Depreciation of non-monetary assets is determined based on their restated value.

The annual average balance of monetary assets used in the determination of the gain (loss) on monetary position for the period amounted to Ps194,289,112 (Ps195,289,552 in 2003), and comprises the following items: cash equivalents, investment securities, loan portfolio, debit balances in repo transactions, transactions with derivative financial instruments, other assets and prepaid expenses, among others.

The annual average balance of monetary liabilities used in the determination of the gain (loss) on monetary position for the period amounted to Ps192,156,192 (Ps196,389,086 in 2003), and comprises the following items: deposits, interbank and other entity loans, credit balances in repo transactions, income tax and employees' profit sharing payable, and subordinate notes, among others.

In the other statements:

The statement of changes in financial position presents such changes in constant pesos, based on the financial position at the end of the prior year restated in terms of purchasing power at the end of the latest period.

c. Cash and cash equivalents

This item is recorded at nominal value, except for precious metals, which are valued at their fair value at year-end. Cash and cash equivalents in foreign currency are valued at the exchange rate published by BANXICO at the end of the year.

This item also includes the amount of short-term interbank loans (call money granted), when the term does not exceed three bank working days.

d. Investment securities

Investment securities include government and fixed income securities, classified as trading securities, available-for-sale securities and held-to-maturity securities. The latter are recorded at historical cost, plus the return from those securities calculated in accordance with the imputed interest or straight-line method, as the case may be, and recognized as earned in the statement of income as accrued. The classification of investments is determined according to the intention of the HOLDING's management as of the date of purchase. A transfer of securities between categories may occur.

Trading securities and available-for-sale securities are stated at their fair value (market value), which represents the amount for which an instrument can be traded between two willing independent parties. The fair value is determined based on prices provided by a price supplier authorized by the COMMISSION. The difference between the fair value and the historical cost plus accrued interest is recorded as income in the case of trading securities, and in stockholders' equity in the case of available-for-sale securities.

Held-to-maturity securities are recorded at their historical cost and the yields obtained are recorded in income for the year.

The HOLDING will not be able to capitalize or distribute the earnings derived from the valuation of any of its investment securities until these are collected in cash.

The transfer of securities between categories, requires the express authorization from the COMMISSION, except for transfers from available-for-sale securities to trading securities and transfers from held-to-maturity securities to any other category.

Upon transferring available-for-sale securities to trading securities, the accumulated effect of the "Gain (loss) from valuation of available-for-sale securities" is transferred to income for the year.

Available-for-sale securities are transferred to held-to-maturity securities. The amount of the "Gain (loss) from valuation of available-for-sale securities" is amortized to income over the remaining life of the securities.

e. Unassigned values pending payment

Through official letter 601-II-DGDEE-189001 dated December 19, 2001, the COMMISSION established the accounting treatment relative to range operations (not assigned nor paid) and value date (assigned but pending payment), carried out by banks, which is obligatory as of January 1, 2002, from which date, the HOLDING applied the aforementioned accounting treatment to its financial statements.

Consequently, in range operations with BANORTE and BANCEN as the buyer, it recognizes an asset for the securities receivable and a liability for the payment commitment agreed, whereas when BANORTE and BANCEN acts as the seller, it recognizes an asset position for the collection right agreed and a liability for securities deliverable. The asset and liability representing securities receivable or deliverable are valued at their fair value, affecting income for the year. The asset and liability representing collection right or payment commitment agreed are recorded at nominal value. A net asset/liability position is shown in the balance sheet under "Unassigned values pending payment".

For value date transactions, BANORTE and BANCEN apply recording and valuation rules described in paragraph f. below, and they apply paragraph d. above for presentation purposes.

f. Repo transactions

Transactions relative to the trading of securities under a repo agreement are recorded at a previously agreed price. These transactions recognize a premium over the agreed price that is recorded in income as accrued and earned in accordance with the date of maturity of the agreement.

Repo transactions represent the trading of financial instruments, with the obligation for the HOLDING to resell or repurchase such financial instruments at a previously agreed price. These transactions recognize a premium on the agreed price, which is recognized in income as accrued;

they are stated at present value and market value, respectively, recognizing the effects in income for the period. In repo transactions two positions are recorded, an asset position and a liability position, as described below:

i. When the HOLDING acts as the buyer, the asset represents the present value of the price at maturity, and the liability represents the market value of securities to be delivered.

ii. When the HOLDING acts as the seller, the asset represents the market value of the securities receivable, and the borrowing position represents the present value of the price at maturity.

The items denominated "Debit balances on repo transactions" and "Credit balances on repo transactions" represent the excess of the fair market value of the securities covered by repo transactions over the present value of the price at maturity when the HOLDING acts as seller or buyer, respectively. In order to comply with the presentation rules, the balance sheet shows an individual netting of the asset and liability position for each transaction carried out by the HOLDING. The debit or credit balances resulting from the aforementioned procedure are never offset, not even in the case of transactions with a single entity in which the HOLDING acts as both seller and buyer.

The debit and credit portions represented by the securities receivable or payable in the transactions are valued in conformity with the standards contained in Statement B-2 "Investment in Securities" of Circular 1488 issued by the COMMISSION, with reference to trading securities.

The effects of the valuation of asset and liability positions are recorded in income and are considered as unrealized; consequently, they are not available for capitalization or distribution to the stockholders until they are realized in cash.

Additionally, the asset and liability positions, with the HOLDING acting as seller and buyer, are recorded in memorandum accounts.

Interest, premiums, gains and losses and the effects of valuation are shown in income for the year under the captions "Interest income", "Interest expense" and "Brokerage Income, net", respectively.

g. Derivative financial instruments

As of January 1, 2005, the standards contained in Statement C-10 "Derivative Financial Instruments and Hedging Transactions", issued by the Mexican Institute of Public Accountants, became effective. This Statement clearly establishes and details recording, valuation and disclosure criteria applicable to all derivative financial instruments and hedging transactions, and requires evaluating the effectiveness of the hedge of risks covering fair value, cash flows and net investment in subsidiaries located abroad, and requiring that gains and losses on these instruments be recognized in the statement of income or stockholders' equity.

The HOLDING's Management has a hedging position in its derivative financial instruments considered highly effective covering changes in the fair value or cash flows of these instruments, that range between 80% and 125% of inverse correlation.

In January 1, 2005 the HOLDING's Management carried out an evaluation of the effects that could result from the adoption of this new Statement and determined that they will not be significant.

The HOLDING considers contracts entered into with other primarily financial entities as transactions with derivative financial instruments, when they meet the following characteristics:

1. The price is determined in accordance with the price of one or more underlying assets.
2. One or more face amounts or payment provisions, or both, are incorporated.
3. The underlying face amounts or payment provisions, jointly with the specific characteristics of each contract, determine the settlement terms of each instrument. In some cases, such as call and put options, they determine whether or not a settlement is required.
4. Cash settlements are permitted or, if applicable, settlements are carried out by delivering an asset that places the other party in conditions similar to the effect of a cash settlement.

Derivative financial instrument transactions are recorded at their agreed value and valued in accordance with their intended use, whether for hedging or trading purposes.

The HOLDING has entered into the following derivative financial instruments and hedging transactions, recorded and valued at year-end as follows:

Trading transactions:

1. Forward contracts

In this type of transaction, the buyer and seller record an asset and liability position. In the case of the buyer, upon entering into the contract is recorded and the fair value at which the parties are willing to carry out the transaction is recorded at year end. The liability at closing is maintained at face value. On the other hand, the seller records and values the transaction in the opposite way, that is, the asset is maintained at face value and the liability is recorded at fair value.

2. Futures contracts

At the time these contracts are entered into, an asset and liability are recorded for the face value of the contracts, and they are valued, on a daily basis, at fair value, and all changes in value are recognized in income.

3. Option contracts

When the HOLDING acts as the buyer of the option, it records the premium paid as an asset in securities and derivatives trading, and this is adjusted to fair value at each closing (market value or based on formal valuation techniques).

When the HOLDING issues the option, it records the cash received and a liability in securities and derivatives trading. The latter is adjusted to fair value at each closing.

4. Swaps

The contract value of the asset and liability is recorded initially, and both are subsequently valued in accordance with the fair value of cash flows receivable or payable. In the event of a swap in face amounts, that amount shall be recorded as cash flows receivable or payable, as the case may be.

In the case of any derivative financial instrument denominated in foreign currency, once the valuation is performed in conformity with the rules of the COMMISSION, the translation into local currency is done at the exchange rate published by BANXICO.

Increases or reductions arising between the fair value and the settlement value of the aforementioned derivative financial instruments are included in the statement of income under "Brokerage income".

In order to comply with presentation rules for balance sheets, assets and liabilities related to derivative financial instruments incorporating rights and obligations, such as futures, forwards and swap contracts, are offset. In the event that the offset results in a debit balance, the difference is shown in assets, under Securities and Derivatives Trading; whereas in the case of a credit balance, it is shown in liabilities, as part of Securities and Derivatives Trading.

For derivative financial instruments that grant exclusively rights or obligations, but not both, as in the case of options, the amount corresponding to such rights or obligations is shown under assets or liabilities, respectively, under Securities and Derivatives Trading.

Hedging transactions:

1.Future and forward contracts

In this type of transaction, the buyer and seller each record an asset and liability. In the case of the buyer, the asset reflects the spot price (price or equivalent of underlying asset in the market); subsequently, the liability is valued is valued at the fair value of the underlying asset. The liability is maintained at the face value of the contract. On the other hand, the seller records and values the transaction in the opposite way, that is, the asset is maintained at face value and the liability is initially recorded at spot price and subsequently valued at the fair value of the underlying asset.

The difference between the face value and the spot price of the underlying asset is recorded as a deferred charge or credit and amortized by the straight-line method over the term of the contract.

2. Option contracts

When the HOLDING acts as the buyer of the option to cover an open risk position, it records the premium paid as an asset in Securities and Derivatives trading, and this is adjusted to fair value at each closing.

When the HOLDING issues the option or acts as the seller to cover an open risk position, it records the premium collected as a liability under Securities and Derivatives Trading, and this is adjusted to fair value at year end.

3. Swaps

The contract value of the credit and debit portions is recorded, and they are valued in accordance with the fair value of cash flows receivable or payable at closing. In the event of a swap in face amounts, those amounts are valued on the basis of cash flows receivable or payable, as the case may be.

Cash flows receivable or payable in foreign currency are recorded at exchange rates published by BANXICO.

Increases or reductions arising between the valuation of the asset and liability positions of the derivative financial instruments are included in the same line of the statement of income in which the income from valuation of the primary position is recorded.

The fair value of these transactions, for trading as well as hedging purposes, is determined by independent experts using formal valuation techniques.

In order to comply with presentation rules affecting the balance sheets, asset and liability positions as well as the deferred charge or credit balances pending amortization, where applicable, of derivative financial instruments incorporating rights and obligations, such as futures, forward and swap contracts, are offset. The result of such offset, debit or credit, is shown together with the primary position.

For derivative financial instruments that grant exclusively rights or obligations, but not both, as in the case of options, the amount corresponding to the valuation of such rights or obligations is shown together with the primary position.

BANXICO´s authorizations to operate derivative financial instruments:

Finally, by official letter no. S33/17007 dated June 16, 2004 (S33/16396 dated July 18, 2003), BANXICO authorized BANORTE to indefinitely act as a broker and to perform the following transactions in over-the-counter and/or recognized markets:

1) Future and swap transactions on:

- Nominal or effective interest rates, involving securities issued or guaranteed by the Mexican Government or by foreign governments with respect to which there is a reference market rate or price.

- Foreign currencies, involving local currency against foreign currency and foreign currency against foreign currency.

2) European option transactions on:

- Foreign currencies, involving local currency against foreign currency and foreign currency against foreign currency.

Further by official letter S33/17068 dated July 21, 2004, BANXICO authorized BANORTE, for a 180-day period, to perform the aforementioned option transactions over interest rates and options over interest rate swaps, for up to Ps7,000,000.

By the other hand, through official letter no. S33/17169 dated August 30, 2004 (S33/16397 dated July 18, 2003), BANXICO authorized BANCEN to indefinitely act as a broker and to perform the following transactions in over-the-counter and/or recognized markets:

1) Future transactions on:

- Nominal or effective interest rates, under which securities issued or guaranteed by the Mexican Government or by foreign governments, are comprised with respect to which there is a reference market rate or price.

- Foreign currencies, comprising local currency against foreign currency and foreign currency against foreign currency.

2) Swap transactions on:

- Nominal or effective interest rates, under which securities issued or guaranteed by the Mexican Government or by foreign governments, are comprised with respect to which there is a reference market rate or price.

h. Settlement accounts

When dealing with operations performed by the HOLDING regarding investment in securities, repo transactions, loans of securities and derivative financial instruments, once these reach maturity and as long as the corresponding payment is not received as agreed in the respective contract, the amount of outstanding operations receivable or payable is recorded in settlement accounts.

Furthermore, sale operations of foreign currency for which the immediate payment or same-day value date is not agreed, are recorded in settlement accounts as long as the amount receivable or payable is not settled.

Assets and liabilities are settled and their net amount are shown in the balance sheet when having the contractual right to settle recorded amounts while the company intends to pay them on a net basis or to realize the assets and pay the liabilities simultaneously or else financial assets and liabilities are of the same nature or arise from a single contract, have the same term of maturity and are paid simultaneously.

i. Loan portfolio

Banking Sector

Loans and commercial instruments in effect or renewed are stated at nominal value in accordance with the LIC. Loans are granted based on an analysis of the financial position of the borrower, the economic feasibility of investment projects and the other general characteristics established by the LIC, as well as the manuals and internal policies of the HOLDING.

The loan portfolio balances shown in the balance sheet represent amounts effectively lent to borrowers plus uncollected accrued interest, less any interest collected in advance. The loan portfolio balance is presented net of the allowance for loan losses.

Loans are considered past due for the total unpaid balance when BANORTE has not received payment of interest or principal during the following periods of time:

- Loans payable in a single installment of principal and interest upon maturity, when 30 days or more days past due.

- Loans payable in a single installment upon maturity and periodic interest payments, when interest is 90 days or more past due, or principal is 30 days or more past due.

- Loans payable in periodic installments of principal and interest, when 90 days or more past due.

- Revolving loans, when they are two monthly billing periods or 60 days or more past due.

- Mortgage loans, when there are periodic installments of principal and interest 90 days or more past due.

The unpaid balances of the loans are also considered past due when the debtor is known to have been declared in bankruptcy in accordance with the Mexican Bankruptcy Law.

Interest is recognized as income as accrued. However, interest ceases to be recognized when the loans in question are transferred to the past due loan portfolio.

With respect to uncollected accrued ordinary interest corresponding to loans considered past due, an allowance is established in an amount equivalent to its total amount, when the loan is transferred to the past due loan portfolio.

As long as the loans are part of the past due portfolio, further accrued interest is accumulated in memorandum accounts. Such interest is recognized as income when collected.

As of 2004, in relation with the application of loan losses to income, the HOLDING's Management establishes that only qualified loan losses of risk degree "E" can be so applied, with 100% reserves constituted under the qualification rules established or including a specific reserve or a legal irrecoverability report at that date, when all administrative, extrajudicial and judicial collection efforts having been exhausted, or else, when it is practically impossible to recover the balance.

Commissions from loans granted are recognized in income when charged.

Restructured loans are considered as past due until sustained payment is evidenced, which is when banks receive the complete payment, without delay, for three consecutive monthly periods, or the collection of one installment in cases where the installment period is greater than 60 days.

Loans that are rolled over at maturity and for which the debtor has not paid the accrued interest and at least 25% of the original principal amount are categorized as past due until sustained payment is evidenced.

Auxiliary Credit Organizations and Activities Sector

The brokerage portfolio is recorded as follows:

- Assigned portfolio - The amount of the portfolio assigned to the subsidiary is shown as loan portfolio, reduced by the difference (appraisal) between the loan portfolio and the funded amount.

- Income from the acquisition of notes (interests) - It is calculated in advance, monthly, due and at the due date, and shown in the brokerage portfolio. Both are applied to income as accrued.

The financial leasing portfolio is recorded as follows:

- Financial leasing (capitalized) - It is recorded as a direct loan, considering the total amount of agreed rents as accounts receivable and considering the difference between such amount and the cost of leased goods as unrealized profits.

- Operating lease (pure) - It is represented by assets of the subsidiary given to third parties for their temporary use, for a determined period of time equal to or greater than six months. The rents from operating leases are recorded in income as earned.

j. Preventive allowance for loan losses

On August 20, 2004, the COMMISSION issued new General Rules applicable to the Methodology of Loan Portfolio Rating applicable to credit institutions (New Rules for the Rating of Loan Portfolios). These rules became effective as of December 1, 2004. The previous rules covering the rating of the commercial, mortgage, and consumer loan portfolio derived from credit card and consumer transactions for the acquisition of durable consumer goods contained in Circulars 1480, 1460, 1449 and 1493, respectively, obligatory until November 30, 2004, were superseded.

The New Rules for Loan Portfolio Rating establish general methodologies for the rating and constitution of preventive allowances for loan losses for each type of loan, and also allow credit institutions to rate and develop preventive allowances based on internal methodologies, previously authorized by the COMMISSION.

The Internal Loan Losses Rating (CIR Banorte - own methodology) implemented by the HOLDING, is focused on serving as a valuator of personal loan assets, as well as a tool to identify the different risk levels faced by each borrower through the assignment of an individual risk level. Likewise, it evaluates the financial, operating and credit viability of borrowers, it evaluates collaterals for the loans, serves as a basis to perform the quality migration analysis of the loan portfolio, estimates possible failure to comply and expected losses, unifies loan selection and authorization criteria determined by the HOLDING, respecting differences between industries and business segments, and determines the preventive allowances necessary for the portfolio loan losses.

Based on the aforementioned, the New Rules for the Rating of the Loan Portfolio cover mainly the following:

The procedure for the commercial loan portfolio rating establishes that credit institutions shall apply the methodology (general or internal) established, using information relative to the quarters concluding in March, June, September and December each year, and recording in the financial statements the preventive allowances at the date of such statements. Likewise, for the two months subsequent to the end of each quarter, the company shall apply the corresponding rating to the related loan used at the end of the prior quarter to the loan balance recorded on the last day of the aforementioned months. Any recovery of the previous loan losses portfolio should be applied to the preventive allowance for loan losses and not to the income for the year.

In the case of the consumer and mortgage loan portfolio, the rating procedure, constitution of preventive reserves and recording in the financial statements shall be carried out at month end, assuring that the company includes in its determination the elements referring to the accounting periods reporting non-conformity, the probability of noncompliance, the severity of the loss in proportion to its amount and the nature of loan guarantees.

The commercial loan portfolio rating is performed separately, including loans payable by a single debtor whose balance is equal to or higher than 900,000 UDIs at the date of the actual rating. Those loans for which the balance is below the aforementioned amount are rated in a parametrical manner, considering the months of the first noncompliance and assigning reserve percentages when dealing with a restructured or unrestructured loan portfolio. Up to November 30, 2004, the commercial loan portfolio rating was made separately for at least 80% of the balance of such portfolio, for which the balances were equal to or higher than 700,000 UDIs at the date of the actual rating. The remaining 20% was rated in a parametrical manner according to its historical payment behavior in the last four quarters.

The HOLDING applied the methodology for internal risk rating CIR-Banorte certified by the COMMISSION to the closing of the last quarter of 2004, in order to establish the debtor's rating, except for loans granted to State and Municipal Governments and their Decentralized Agencies, in which case the HOLDING acted in accordance with the procedures established by the COMMISSION. At December 31, 2004 there were no material effects on the financial statements as a result of applying the new methodology.

The HOLDING constitutes additional preventive allowances of 100% for those loans granted without previously consulting a loan information company (Credit Bureau) or that, after consulting it, present past due debts. Likewise, the HOLDING's Management can create estimates as deemed convenient if it concludes that the measurement process for loan losses requires it.

All portfolio write-offs, cancellations or discounts are charged to the preventive allowance for loan losses.

COMMISSION's authorizations for rating models for proprietary credit loan portfolio:

The COMMISSION issued official letters number DGSIF "A" 601-II-96079 (two-year period as from December 1, 2004), 601-II-34991 and 601-II-28584, dated December 1, 2004, May 19, 2004 and June 18, 2003, respectively, through which BANORTE was granted temporary consent (for the years ended December 31, 2004 and 2003, respectively) and conditioned to an internal rating model for the commercial portfolio.

In the case of BANCEN, the COMMISSION issued official letters number DGSIF "A" 601-II-96080 (two-year period as from December 1, 2004), 601-II-34992 and 601-II-28585, dated December 1, 2004, May 19, 2004 and June 17, 2003, respectively, through which it was granted temporary consent (for the years ended December 31, 2004 and 2003, respectively) and conditioned to an internal rating model for the commercial portfolio.

k. Credit asset portfolio

This item is represented by the historical cost of the various credit assets packages acquired by BANORTE and BANCEN, respectively, so that it corresponds to the amounts actually paid by BANORTE and BANCEN to obtain the rights over the cash flows generated by such portfolios.

Additionally, the HOLDING follows the practice of capitalizing the interest and monetary gain or loss associated with the financing entered into by the HOLDING for the acquisition of such portfolio packages during the first three months after the acquisition of the loan portfolios. Loans collected during the afore-mentioned period are credited to the cost of acquisition of such portfolio packages.

This is because during this time the HOLDING performs preoperative activities, such as reception of files and databases from the seller, assignment of cases to executives, adaptation and loading of data into the operating systems, notices to debtors, etc.

Once the preoperative stage has concluded and the portfolio collecting activities begin, this item is amortized in the proportion in which the associated asset (loan portfolio) is reduced, either by collections, debt forgiveness or write-offs or allowances for doubtful accounts. If the recovery is made through the granting or transfer of goods, only the proportional part of the difference between the original credit value and the value of the valuation of the good received is amortized. The HOLDING performs recurrent financial projections in order to estimate expected flows from the loan portfolios and to support or, if required, reconsider the amount of the amortization of the cost of rights shown in the balance sheet. In accordance with the HOLDING's policies, the credit asset portfolio is classified at long-term, although part of it is recovered or amortized in the short-term.

- In connection with the amortization of the cost of rights of loan portfolios, the HOLDING follows the following criteria: monthly application of the initial proportion percentage of the acquisition cost in relation with the total portfolio acquired.

- Through financial projections, it estimates expected flows generated by loan portfolios and reconsiders the accounting criteria for the amortization of the cost of rights shown in the balance sheet.

Income from recovery of loans is recognized as collected and the costs associated with collection are also recognized at that date.

Finally, at the date of issuance of these financial statements, the HOLDING's management is reviewing the treatment it will give to the credit assets portfolio, in the sense of recording as asset the purchase price and subsequently valuing them in terms of expected cash flows, compared with originally estimated cash flows. The implementation of these methodological costs is being considered for the first quarter of 2005.

l. Loss sharing with FOBAPROA

As discussed in Note 10, in accordance with the rules established by the COMMISSION, BANORTE recognizes the shared loss generated by its participation in FOBAPROA loan portfolio flows.

During the period from January to December 2004, BANORTE recognized provisions in income in the amount of Ps89,674 (Ps55,668 in 2003), relating to the loss sharing and incentives agreement based upon the FOBAPROA loan portfolio cash collections.

m. Other accounts receivable and payable

Amounts due from miscellaneous debtors and creditors of the HOLDING that have not been recovered or paid to within 60 or 90 days following their initial recording (depending on the type of balances involved), are charged to income, regardless of likelihood of eventual recovery or payment.

n. Impairment of Long-Lived Assets and their Disposal

As from January 1, 2004 the standards contained in Statement C-15 "Impairment of Long-Lived Assets and their Disposal" issued by the MIPA became effective. This Statement contains general standards covering the identification and recording of losses due to impairment or reduction in value of long-lived assets, tangible or intangible, including goodwill. The HOLDING's Management considers that except in the case of its real property and that owned by its real property subsidiaries, it was not necessary to carry out a study to determine the impairment of long-lived assets, since there are other factors that indicate that there are no signs of impairment in such assets.

Regarding property, the HOLDING's Management has not prepared a formal plan to evaluate possible impairments, however, it has a profitability analysis of its branches, where those assets are located, and maintains a profitability criteria that allows to timely detect such cases, that when presented, are sold or written off in a short-term period.

With respect to foreclosed assets, these standards are not applicable due to the situation stated in paragraph p. and in Note 4 paragraph f.

o. Property, furniture and equipment

Property, furniture and equipment and installation expenses are stated at their restated value, determined by applying factors derived from UDIs to their historical cost.

Depreciation is calculated by applying the straight-line method based on the useful lives of assets estimated by the HOLDING´s management, on the historical cost as well as on increases from restatement.

The amount of the depreciation and amortization charged to income was Ps1,070,737 and Ps993,946 in 2004 and 2003, respectively.

p. Foreclosed assets

Foreclosed assets are recorded at the value at which they are assigned by the courts, which should be the lower of cost or net realization value. Assets received as debt settlements are recorded in a similar manner. In the event that the book value of the portfolio including the allowance for loan losses exceeds the value of the foreclosed assets, the amount of the allowance is adjusted.

Foreclosed assets are considered monetary items and are not subject to restatement for inflation.

The recorded value of these assets can be subsequently written down if there is sufficient evidence that the value at which the asset can be sold is lower than its carrying value.

Furthermore, with the issuance of the New Rules for Loan Portfolio Rating, credit institutions should create additional provisions on a quarterly basis to recognize the potential value losses from the passage of time in assets foreclosed judicially or extra-judicially or received as payment, both personal and real property, as well as collections rights and investment securities received as foreclosed assets or received in payment.

(Amounts stated in thousands of Mexican pesos of December 31, 2004 purchasing power)

Additional provisions recognizing potential value losses due to the passage of time on foreclosed assets, both personal or real property, are determined in conformity with the following charts:

Personal property, collection rights and investment securities

Time elapsed since the allocation or transfer in payment (months)	Allowance %
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

Real property

Time elapsed since the allocation or transfer in payment (months)	Allowance %
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

In this connection, the HOLDING's Management adopted as from December 1, 2004 the New Rules for Loan Portfolio Rating issued by the COMMISSION and at December 31, 2004, this generated a charge to stockholders' equity, within the item "Prior Years Retained Earnings", in the amount of Ps516,215 and Ps7,893, as an accumulated initial financial effect derived from the first application of the New Rules, which is shown in the consolidated statement of changes in stockholders' equity and changes in financial position of BANORTE and BANCEN, respectively (see Note 13).

q. Leases

The HOLDING classifies leases as capital or operating based on whether or not the risks and benefits of ownership are transferred to the lessee.

r. Permanent stock investments

The HOLDING recognizes its investments in non-consolidated subsidiaries, as well as in associates, by using the equity method based on their book value in accordance with the last available financial statements of these entities. Effective fiscal 2000, the equity method is considered as a specific cost. The difference between the restatements of the balance at the beginning of the period, based on the restatement factor and the increase or decrease by using the equity method, is shown as a gain or loss on holding non-monetary assets.

Equity in income (loss) of associated and affiliated companies recorded in income for the year amounted to Ps222,325 and Ps211,609 in 2004 and 2003, respectively.

s. Goodwill

The goodwill represents the excess of the cost of shares of subsidiaries over their book value. This goodwill is stated at nominal value less the corresponding accumulated amortization.

The goodwill is amortized by using the straight-line method and applying a 20% rate to the historical value.

As of the date Statement B-7 "Business Acquisitions" issued by the MIPA, becomes effective, goodwill is no longer amortized and its value is subject to annual impairment tests (see Note 16).

t. Intangible assets

Intangible assets are recognized in the balance sheet provided that they are identifiable, provide future economic benefits and such benefits are controlled. Intangible assets with an indefinite useful life are not amortized and intangible assets with a definite useful life are systematically amortized, based on the best expectation of future economic benefits. The value of these assets is subject to an annual impairment evaluation (see Note 16).

At December 31, 2004 and 2003, the adoption of the standards contained in Statement C-8 "Intangible Assets" issued by the MIPA had no significant effects on the financial position of the HOLDING.

u. Income tax and employees' profit sharing

Income tax and employees' profit sharing charged to income each year are determined based on the taxable income determined by the HOLDING, in conformity with current laws and regulations.

The HOLDING recognizes the effect of deferred taxes determined by the asset-and-liability method, in accordance with Statement D-4, "Accounting for Income Tax, Asset Tax and Employees´ Profit Sharing", issued by the MIPA, by comparing the accounting and tax values of the assets and liabilities at the balance sheet dates. Temporary differences arising from this comparison are multiplied by the tax rate in effect. Employees' profit sharing is calculated by taking into consideration the temporary differences of the year applying the corresponding tax rate, which will presumably result in future liabilities or benefits.

The net deferred tax effect is presented in the balance sheet as an asset under the caption "Deferred taxes".

v. Restructured loan trusts

Los fideicomisos de créditos reestructurados en UDIs, se consolidan financieramente con la TENEDORA, con objeto de reflejar el fondo de la operación, que es un swap de tasas de interés con el Gobierno Federal.

w. Customer deposits

Customer deposits, including promissory notes with a yield payable at maturity, are recorded at the amount received plus accrued interest. Interest, determined at the end of each month according to the number of days elapsed, is recorded as accrued.

x. Labor liabilities

In accordance with the Mexican Federal Labor Law, the HOLDING is obligated to pay seniority premiums as well as other payments that employees may be eligible for in the event of dismissal under certain circumstances.

The HOLDING records seniority premiums, pension plan and retirement payments as accrued, as determined by actuarial calculations utilizing the projected unit credit method, and in accordance with standards contained in Statement D-3 "Labor Obligations", issued by the MIPA.

At December 31, 2004 and 2003, the HOLDING has recorded the minimum liabilities required in conformity with Statement D-3 to comply with obligations for pension plans and seniority premiums.

The HOLDING has an optional defined contribution pension plan, through which the entity contributing pre-established amounts of cash into a specific investment fund, in which the benefits of the employees will consist of the sum of such contributions, plus or minus the profits or losses from investment of such funds. The responsibility of the HOLDING in respect of these plans is limited to the payment of the defined contributions, and it would not normally be required to make supplementary contributions.

As of January 1, 2004, the HOLDING adopted in advance the amendments to Statement D-3 "Labor Obligations" (mandatory as of January 1, 2005) issued by the MIPA, incorporating valuation, presentation and registration rules for the recognition of obligations with respect to payments at the end of the labor relationship for reasons different from restructuring. The net cost for the period for this kind of payments amounted to Ps175,215 (BANORTE as the main subsidiary entity), recognized in income for the year. The adoption of these new amendments had no significant effect in the accompanying financial statements.

y. Liabilities, provisions, contingent assets and liabilities and commitments

Liabilities payable by the HOLDING and liability provisions recognized in the balance sheet represent current obligations requiring the probable use of economic resources to settle the obligation. These provisions have been recorded in the accounting, under the best reasonable estimate made by the HOLDING to pay the current obligation; however, actual payments may differ from recognized provisions.

Consequently, the HOLDING partially adopted (as described in the following paragraph), the standards contained in Statement C-9 "Liabilities, provisions, contingent assets and liabilities and commitments", issued by the MIPA, which establishes general rules for the valuation, presentation and disclosure of liabilities, provisions and contingent assets and liabilities, as well as for the commitments entered into by the HOLDING as part of its normal operations.

The adoption of this Statement had no material effect on the HOLDING's financial position, since the COMMISSION applies specific rules on liabilities relative to repo transactions, loans of securities, derivative financial instruments, leasing, deposits, interbank loans and other entity loans and for allowance on loan losses, other accounts receivable, discounted notes and guarantees granted, etc.

z. Financial instruments with characteristics of liabilities, capital or both

Financial instruments issued by the HOLDING with characteristics of liabilities, capital or both, are recorded as from their issuance as liabilities, capital or both, depending on their components. Initial costs incurred for the issuance of such instruments are charged to liabilities and stockholders' equity in the same proportion as the amounts of their components. Losses and gains related to components of financial instruments classified as liabilities are recorded as part of the comprehensive financing cost. Distribution of yields to owners of financial instrument components classified as capital, is charged directly to a stockholders' equity account.

aa. Stockholders' equity

Capital stock, retained earnings and net income for the year represent the historical amounts restated by applying factors derived from the UDIs.

The deficit in restatement of stockholders´ equity represents the accumulated gain or loss on monetary position and the initial recognition of the impact of inflation on the financial information.

bb. Earnings per share

Basic earnings per share are determined by dividing the net income of the year by the weighted average shares outstanding during 2004 and 2003. At December 31, 2004 and 2003, there are no effects arising from potentially dilutive shares.

cc. Comprehensive income

The comprehensive income is represented by the net income, plus the effects of the gain (loss) from holding non-monetary assets , the effects of valuation of available-for-sale financial instruments, as well as those items that in accordance with specific rulings are shown in stockholders' equity and do not constitute contributions, reductions or distributions of capital. It is restated by applying factors derived from the UDI to the historical cost.

dd. Foreign currency position and investment units

Transactions denominated in foreign currency and UDI denominated transactions are recorded at the exchange rates or references values in effect on the date they are entered into. Assets and liabilities denominated in those currencies are stated in Mexican pesos at the exchange rates or references values in effect issued by BANXICO as of the balance sheet date. Differences arising from the exchange rate fluctuations between the transaction date and their settlement or valuation at year-end are recorded in income.

ee. Transfer of financial assets

In transactions relative to the transfer of financial assets in which the HOLDING may act as assigner or assignee, the former transfers the ownership of the financial assets, and is additionally able to choose whether or not to transfer their ownership. In transactions involving the transfer of ownership of the financial assets, the assigner is considered to lose control over the related assets; therefore, it recognizes the transfer of those assets in the accounting records.

Transactions relative to the transfer of financial assets are classified as follows:

i. Transfer of ownership

Transferred financial assets, as well as the related rights and risks, are isolated from the assigner, even in the case of bankruptcy or any other contingency. The assignee obtains the right without restriction to negotiate or trade transferred assets. In the event that the assignee is acting as a securitization instrument, the holders of the securities issued by the latter obtain the right to trade or negotiate these securities. The assigner does not maintain effective control over the transferred assets.

ii. Collateral loan

In this case, cash movements are recorded likewise the liabilities or accounts receivable at the contract price.

With respect to agreed collateral, the entity receiving the loan should reclassify the affected assets as restricted, whereas the entity granting the loan should record the collateral in memorandum accounts.

ff. Securitization

Through this transaction, the HOLDING through BANORTE, transfers specific financial assets to a securitization instrument, in order for the latter to issue securities to be placed among the general investment public, which represent the right to yields or to the product of the sale of transferred assets. As a consideration, the assigner may receive, among other things, cash, securities or derivative financial instruments.

Transactions including the characteristics mentioned in paragraph ee. above are considered a securitization with ownership transfer; consequently, the assigner eliminates the related assets from the accounting records.

If in conformity with the aforementioned the assigner does not transfer the ownership of the financial assets so that it maintains direct risk over them, the transaction is considered a financing securitization, which guarantees the payment to the assignee with the assets over which the assigner maintains the risk. Derived from the aforementioned, the assigner does not eliminate the assets from its accounting records, but considers them as restricted assets.

Additionally, there are securitization transactions in which the assigner maintains the ownership over a proportion of the transferred financial assets, in which case, it maintains the risks associated with such portion; consequently, it is only required to eliminate the transferred assets over which the assigner has effectively lost control and is not responsible for the related risks.

gg. Use of estimates

The preparation of the consolidated financial information requires management to make estimates and assumptions that may affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the amounts of revenues, costs and expenses included in the statement of income. Actual results could differ from those estimates and assumptions.

hh. Guarantees granted

The amount of guarantees granted is presented in memorandum accounts and is recognized in the balance sheet as part of the loan portfolio once there is evidence of noncompliance by the debtor, at which time the liability payable by the HOLDING is recognized. The origin of guarantees granted to the HOLDING is mainly from loan letters.

ii. Custody and administration of assets

The HOLDING records the transactions it carries out for the account of third parties in memorandum accounts, such as trading securities and derivative financial instruments, repo transactions and securities lending, as well as the contracts under which the HOLDING accepts responsibility for safeguarding assets.

jj. Trusts

Trust assets are recognized in memorandum accounts, based on the implied responsibility of the HOLDING to fulfill the purpose of the trusts. At December 31, 2004, the income generated from trusts arose to Ps$185,390 (Ps$183,856 in 2003).

NOTE 4 SIGNIFICANT DIFFERENCES WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES IN MEXICO:

The financial statements have been prepared in conformity with the accounting practices established by the COMMISSION, which are similar to national and international accounting standards, which facilitates the comparison of such financial information with any other international financial entity. However, there are still some differences with regard to MEX GAAP, which are summarized below:

a. Consolidation

The consolidated financial statements include only the subsidiaries belonging to the financial sector and those that render complementary or auxiliary services thereto, excluding subsidiaries from any other sectors. MEX GAAP requires consolidating all the subsidiaries that belong to the reporting entity.

b. Available-for-sale securities valuation

The financial statements reflect changes in the available-for-sale securities valuation in stockholders' equity. MEX GAAP requires that these changes be recognized in the statement of income.

c. Repo transactions

Repo transactions are recognized as trading transactions or as the temporary transfer of the securities that guarantee the transaction; however, they are not recognized as financing transactions. On the other hand, securities are stated at market value and the corresponding asset or liability at the present value of the price at maturity, instead of recognizing the accrued premium on a straight-line basis.

d. Other accounts receivable

Other accounts receivable outstanding for more than 60 days (when their origin is unknown) and 90 days (when their origin is known) are applied to income, regardless of the possibilities of collection or process relative to the clarification of liabilities. MEX GAAP requires the creation of an allowance for doubtful accounts after the analysis and evaluation of the actual collection possibilities of accounts receivable.

e. Permanent stock investments

This item represents the investments in subsidiaries that do not belong to the financial sector (not consolidated). These investments are accounted for by applying the equity method. MEX-GAAP requires the consolidation of all of the entities' subsidiaries.

(Amounts stated in thousands of Mexican pesos of December 31, 2004 purchasing power)

f. Foreclosed assets

Property, furniture and equipment and securities allocated to the HOLDING for the recovery of outstanding loans are recorded at the lower of the value declared in the deed or at the value established in the transfer-in-payment agreements. Also, credit institutions must create additional provisions on a quarterly basis in conformity with the New Rules for the Rating of the Loan Portfolio, see Note 3 paragraph j.

MEX-GAAP requires that these assets be recorded and stated at market value at the date of receipt, recognizing a gain or loss for the difference resulting against the allocated value. Also, a potential loss from impairment or reduction of value of a long-lived asset should be estimated in accordance with the standards contained in Statement C-15 "Impairment of Long-Lived Assets and their Disposal." See Note 3, paragraph n.

Additionally, in order to recognize the effects of inflation on the financial information, foreclosed assets are considered monetary assets; consequently, they form part of the calculation basis to determine the gain or loss on monetary position. MEX GAAP considers foreclosed assets to be non-monetary assets.

g. Estimates and provisions

In accordance with Circular 1488 of the COMMISSION, estimates and provisions with undetermined and/or unquantifiable purposes should not be created, increased or decreased against income for the year (which is consistent with Statement C-9 issued by the IMPC, see Note 3, paragraph y.), except for those corresponding to the preventive allowance for loan losses, in conformity with Statement B-6 of this circular. The "Preventive allowance for loan losses" includes the allowance determined in accordance with their portfolio rating, and additional allowances corresponding to "Excess in preventive allowance". MEX GAAP require that any additional provision or estimate be reversed if it is not likely to require the use of economic resources for the purpose for which it was set up; the COMMISSION has not established the mechanics for the handling and disposition of such excesses.

NOTE 5 CONSOLIDATION OF FINANCIAL STATEMENTS:

The financial statements include the assets, liabilities and income of all consolidated subsidiaries. All balances and transactions with related parties have been eliminated in the consolidation.

At December 31, 2004 and 2003, the subsidiary entities which were consolidated in the HOLDING's financial statements were:

	Equity percentage	
Subsidiaries	2004	2003
Banco Mercantil del Norte, S. A.	96.11%	96.11%
Banco del Centro, S. A.	99.99%	99.99%
Casa de Bolsa Banorte, S. A. de C. V.	99.99%	99.99%
Arrendadora Banorte, S. A. de C. V.	99.99%	99.99%
Factor Banorte, S. A. de C. V.	99.99%	99.99%
Almacenadora Banorte, S. A. de C. V.	99.99%	99.99%

The amounts of the balance sheets of consolidated subsidiaries are summarized below:

	2004				2003
	Assets	Liabilities	Income of the year	Stockholders' equity	Stockholders' equity
Banco Mercantil del Norte, S. A.	Ps 168,253,663	Ps 157,790,183	Ps 1,853,936	Ps 10,463,480	Ps 9,907,415
Banco del Centro, S. A.	5,465,746	1,337,141	534,096	4,128,605	3,692,711
Casa de Bolsa Banorte, S. A. de C. V.	635,044	112,093	76,584	522,951	457,158
Arrendadora Banorte, S. A. de C. V.	2,206,939	2,015,356	40,746	191,583	208,741
Factor Banorte, S. A. de C. V.	3,055,875	2,803,206	40,648	252,669	222,242
Almacenadora Banorte, S. A. de C. V.	240,276	149,111	16,751	91,165	79,312
Total	**Ps 179,857,543**	**Ps 164,207,090**	**Ps 2,562,761**	**Ps 15,650,453**	**Ps 14,567,579**

NOTE 6 CASH AND CASH EQUIVALENTS:

At December 31, 2004 and 2003, cash and cash equivalents per type of currency were as follows:

	Local currency		Foreign currency converted		Total	
	2004	2003	2004	2003	2004	2003
Cash	Ps 4,870,494	Ps 6,192,319	Ps 618,822	Ps 527,332	Ps 5,489,316	Ps 6,719,651
Deposits with:						
Foreign banks	-	-	8,268,405	1,378,347	8,268,405	1,378,347
Domestic banks	310,466	479,159	59,628	80,363	370,094	559,522
Deposits in BANXICO [1]	21,915,997	17,785,295	11,335	18,076	21,927,332	17,803,371
Call money	3,001,006	4,218,035	44,607	236,994	3,045,613	4,455,029
Others deposits and cash equivalents [2]						
(see Note 30)	65,843	113,247	198,319	1,389,761	264,162	1,503,008
Total	**Ps 30,163,806**	**Ps 28,788,055**	**Ps 9,201,116**	**Ps 3,630,873**	**Ps 39,364,922**	**Ps 32,418,928**

The balances of cash and cash equivalents as of December 31, 2004 and 2003, amounted to US$825,249,000 (US$303,374,000 in 2003).

(1) These amounts constitute interest-earning assets in terms of the monetary policy issued by BANXICO in 1999, bearing interest at a monthly rate equal to the Weighted Average Adjusted Daily Funding Rate at 28 days.

(2) It includes Ps62,816 (Ps116,917 in 2003) corresponding to the value of notes supporting the flow of remittances in transit pending collection; therefore, it is considered as a restricted asset at the end of each month and year.

NOTE 7 INVESTMENT SECURITIES:

These investments are subject to several types of risks. The main risks that can be associated with investment securities are related to the market in which they are traded, interest rates associated with the term, exchange rates and inherent credit and market liquidity risks.

Risk management policies, as well as the analysis of risks that the HOLDING is exposed to, are discussed in Note 31.

(Amounts stated in thousands of Mexican pesos of December 31, 2004 purchasing power)

The investment securities positions are summarized as follows:

a. Trading securities

	2004					2003
Instrument	Securities	Market value	Acquisition cost	Interest	Surplus or (deficit)	Market value
Commercial paper	102,030,000	Ps 1,136,962	Ps 1,135,346	Ps 1,649	(Ps 33)	Ps 920,036
Federal Treasury Certificates	374,985,788	3,692,275	3,600,687	96,832	(5,244)	2,057,959
Bank bonds	5,671,108,839	5,171,271	5,151,982	22,482	(3,193)	6,188,581
Shares	18,825,430	61,121	55,000	-	6,121	35,001
BPAS	210,992	21,109	21,007	102	-	11,111
GEO	602,100	63,205	60,210	2,995	-	67,384
Brems	-	-	-	-	-	2,715
Stock certificates [1]	2,747,642	426,593	424,079	1,481	1,033	318,547
Government bonds	12,638	416	416	-	-	20,136
Foreign investment	4,662,477	70,983	65,919	-	5,064	84,140
Variable income investment	-	-	-	-	-	37,235
Other	-	2,220	2,220	-	-	8,674
Hedging swaps	-	3,664	3,664	-	-	-
Total	**6,175,185,906**	**Ps 10,649,819**	**Ps 10,520,530**	**Ps 125,541**	**Ps 3,748**	**Ps 9,751,519**

(1) Includes Ps90,220 from the issuance of Stock Certificates (BANORCB 04) (see Notes 2e. and 3ff.).

At December 31, 2004, the agreed terms of these investments (stated at historical cost) were as follows:

Instrument	From 1 to 179 days	From 6 to 12 months	From 1 to 2 years	More than 2 years	Total acquisition cost
Commercial paper	Ps 1,135,346	Ps -	Ps -	Ps -	Ps 1,135,346
Federal Treasury Certificates	3,600,687	-	-	-	3,600,687
Bank bonds	5,151,982	-	-	-	5,151,982
Shares	55,000	-	-	-	55,000
BPAS	-	-	21,007	-	21,007
GEO	-	60,210	-	-	60,210
Stock certificates	-	-	-	424,079	424,079
Government bonds	416	-	-	-	416
Foreign investment	65,919	-	-	-	65,919
Other	2,220	-	-	-	2,220
Hedging swaps	3,664	-	-	-	3,664
Total	**Ps 10,015,234**	**Ps 60,210**	**Ps 21,007**	**Ps 424,079**	**Ps 10,520,530**

b. Available-for-sale securities

	2004					2003
Instrument	Securities	Market value	Acquisition cost	Interests	(Deficit) or surplus	Market value
Eurobonds	68,500,000	Ps 242,423	Ps 762,332	Ps 31,736	(Ps 551,645)	Ps 104,076
United Mexican States (UMS)	-	-	-	-	-	148,884
Total	**68,500,000**	**Ps 242,423**	**Ps 762,332**	**Ps 31,736**	**(Ps 551,645)**	**Ps 252,960**

In March 2001, the HOLDING (through BANORTE) received authorization by the COMMISSION to reclassify its portfolios of "Eurobonds" from the category of "Held-to-maturity securities" to "Available-for-sale securities".

At December 31, 2002, BANORTE held an aggregate of US$68.5 million of Eurobonds issued by AHMSA and CYDSA, which mature in 2002, 2004, and 2009. An estimated loss allowance was established as of December 2001 in the amount of US$60.1 million (including US$6 million corresponding to CYDSA). The effect of the valuation is recognized in stockholders' equity under "Valuation gain (loss) on available-for-sale securities". Derived from the aforementioned, BANORTE's Management recognized this amount in 2002 in "Income from prior years". Within the Eurobonds issued by AHMSA, the AHMSA 02 series amounting to US$40 million matured in April 2002 and are 100% reserved.

Furthermore, by authorization of the COMMISSION, effective May 1999 interest ceased to be accrued on AHMSA's Eurobonds, which totaled US$2.9 million at that date. In the case of CYDSA's Eurobonds, BANORTE suspended the accrual of interest as from 2001. As from 2002 it ceased to record them in income.

The amount of accumulated accrued interest not recorded at December 31, 2004 and 2003, from AHMSA and CYDSA's Eurobonds, was US$22 million and US$21 million, respectively.

At December 31, 2004, the Eurobonds of AHMSA and CYDSA registered a increase in value amounting to US$1.3 million, which was recognized under "Gain (loss) from valuation of available-for-sale securities" within the stockholders' equity. In 2003, the decrease in value amounted to US$1.3 million, which were recorded under "Result from valuation" within the income for the year. The HOLDING's Management estimates that the permanent depreciation of these securities has already been recognized with the corresponding charge to income in the appropriate periods; consequently, the valuation (which amounted to US$49.5 and US$8.8 million in 2004 and 2003, respectively at market value) complies with the rules established for "available-for-sale securities"

(Amounts stated in thousands of Mexican pesos of December 31, 2004 purchasing power)

c. Held-to-maturity securities

	2004			2003
Instrument	Acquisition cost	Accured interest	Net value	Net value
Special Federal Treasury Certificates	Ps 1,605,195	Ps 10,736	Ps 1,615,931	Ps 6,388,056
Azteca Strip Bonds	177,620	229	177,849	244,116
Myra Bonds	3,275	40	3,315	6,954
Fiduciary rights	26,279	-	26,279	27,931
United Mexican States (UMS)	7,910,556	267,069	8,177,625	6,527,686
Fiduciary securities in UDIs (see Note 30)	(1,100,991)	-	(1,100,991)	(2,664,267)
PEMEX Bonds	1,783,318	18,384	1,801,702	1,085,972
Hedging swaps (see Note 8)	(1,696,252)	-	(1,696,252)	(1,738,506)
Other securities	348	-	348	368
Total	**Ps 8,709,348**	**Ps 296,458**	**Ps 9,005,806**	**Ps 9,878,310**

At December 31, 2004, the terms of these investments were as shown below:

Instrument	From 1 to 179 days	From 6 to 12 months	From 1 to 2 years	More than 2 years	Total acquisition cost
Special Federal Treasury Certificates	Ps -	Ps -	Ps -	Ps 1,605,195	Ps 1,605,195
Azteca Strip Bonds	-	177,620	-	-	177,620
Myra Bonds	3,275	-	-	-	3,275
Fiduciary rights	26,279	-	-	-	26,279
United Mexican States (UMS)	7,910,556	-	-	-	7,910,556
Fiduciary securities in UDIs	(1,100,991)	-	-	-	(1,100,991)
PEMEX Bonds	89,954	1,693,364	-	-	1,783,318
Hedging swaps	(4,148)	(4,052)	(166,908)	(1,521,144)	(1,696,252)
Other securities	348	-	-	-	348
Total	**Ps 6,925,273**	**Ps 1,866,932**	**(Ps 166,908)**	**Ps 84,051**	**Ps 8,709,348**

NOTE 8 SECURITIES AND DERIVATIVES TRADING:

a. Unassigned securities pending liquidation

At December 31, 2004, the HOLDING has no unassigned securities pending liquidation. At December 31, 2003, the unassigned securities pending liquidation of the HOLDING comprised the following:

					Position	
Concept	Number of securities	Acquisition cost	Market value	(Loss) gain	Asset	Liability
Purchases						
Government securities	21,920,000	Ps 1,423,712	Ps 1,422,620	(Ps 1,092)	Ps 33	Ps 1,125
Sales						
Bank bonds	500,000	Ps 52,128	Ps 52,209	Ps 81	Ps -	Ps 81
Government values	10,340,000	1,152,365	1,151,034	(1,331)	1,333	2
	10,840,000	Ps 1,204,493	Ps 1,203,243	(Ps 1,250)	1,333	83
Net position					**Ps 1,366**	**Ps 1,208**

b. Repo transactions

The asset and liability positions of repo transactions in the HOLDING´s balance sheet are summarized as follows:

	2004				
				Position	
Concept	Securities receivable	Payables under repo agreements	Difference	Asset	Liability
Sales					
Bank bonds	Ps 5,667,151	Ps 5,666,816	Ps 335	Ps 1,415	Ps 1,080
Private bonds	44,446,778	44,444,295	2,483	3,730	1,247
Government securities	95,469,190	95,471,163	(1,973)	43,489	45,462
	Ps 145,583,119	Ps 145,582,274	Ps 845	48,634	47,789
	Receivables under repo agreements	Securities deliverable			
Purchases					
Bank bonds	Ps 2,208,686	Ps 2,208,742	(Ps 56)	Ps 26	Ps 82
Government securities	48,802,638	48,829,611	(26,973)	1,571	28,544
	Ps 51,011,324	Ps 51,038,353	(Ps 27,029)	1,597	28,626
Net position				Ps 50,231	Ps 76,415

	2003				
				Position	
Concept	Securities receivable	Payables under repo agreements	Difference	Asset	Liability
Sales					
Bank bonds	Ps 24,648,935	Ps 24,640,735	Ps 8,200	Ps 9,199	Ps 999
Government securities	61,499,850	61,679,412	(179,562)	42,726	222,288
	Ps 86,148,785	Ps 86,320,147	(Ps 171,362)	51,925	223,287
	Receivables under repo agreements	Securities deliverable			
Purchases					
Bank bonds	Ps 3,089,270	Ps 3,088,968	Ps 302	302	-
Government securities	22,586,239	22,587,912	(1,673)	1,516	3,189
	Ps 25,675,509	Ps 25,676,880	(Ps 1,371)	1,818	3,189
Net position				Ps 53,743	Ps 226,476

The repo transactions carried out by the HOLDING are summarized below:

HOLDING as seller

	2004			2003		
Instrument	Securities receivable	Payables under repo agreements	Difference	Securities receivable	Payables under repo agreements	Difference
Bank bonds						
Promissory notes	Ps 4,587,184	Ps 4,586,809	Ps 375	Ps 24,358,570	Ps 24,350,003	Ps 8,567
Bank bond	71,588	71,581	7	290,365	290,732	(367)
Cedes	1,008,379	1,008,426	(47)	-	-	-
	5,667,151	5,666,816	335	24,648,935	24,640,735	8,200
Private bonds:						
Private paper	44,446,778	44,444,295	2,483	-	-	-
Government securities:						
Federal Treasury Certificates	69,424	69,420	4	9,423,019	9,423,244	(225)
Brems	446,805	446,777	28	12,829,604	12,830,241	(637)
Tribondes	506,086	506,097	(11)	3,289,209	3,286,234	2,975
Bondes 91	-	-	-	2,293,406	2,293,431	(25)
Bondes 182	5,518,159	5,515,812	2,347	222,290	225,141	(2,851)
Government bonds	34,067,163	34,052,939	14,224	17,891,403	18,065,822	(174,419)
IPAB bonds	29,958,042	29,945,787	12,255	3,302,155	3,301,812	343
IPAB tribonds	23,908,151	23,939,058	(30,907)	12,248,764	12,253,487	(4,723)
IPAB semiannual bonds	995,360	995,273	87	-	-	-
	95,469,190	95,471,163	(1,973)	61,499,850	61,679,412	(179,562)
Total	Ps 145,583,119	Ps 145,582,274	Ps 845	Ps 86,148,785	Ps 86,320,147	(Ps 171,362)

(Amounts stated in thousands of Mexican pesos of December 31, 2004 purchasing power)

The HOLDING as the selling entity, recorded accrued premiums recognized in income of Ps7,940,634 (Ps5,504,291 in 2003).

The terms of repo transactions performed by the HOLDING as the selling entity, range from 3 to 91 days (between 2 and 182 days in 2003).

HOLDING as buyer

	2004			2003		
Instrument	Receivable under repo agreements	Securities payable	Difference	Receivables under repo agreements	Securities payable	Difference
Bank bonds:						
Promissory notes	Ps 2,208,686	Ps 2,208,742	(Ps 56)	Ps 1,815, 783	Ps 1,815,735	Ps 48
Bank bond	-	-	-	111,543	111,357	186
Cedes	-	-	-	1,161,944	1,161,876	68
	2,208,686	2,208,742	(56)	3,089,270	3,088,968	302
Government securities:						
Federal Treasury Certificates	11,026	11,026	-	4,161,972	4,161,273	699
Brems	431,159	431,373	(214)	105,450	105,746	(296)
Tribondes	502,741	502,793	(52)	3,293,866	3,287,485	6,381
Bondes 182	5,512,879	5,514,331	(1,452)	171,950	167,583	4,367
Government bonds	28,250,544	28,259,911	(9,367)	6,429,957	6,442,539	(12,582)
IPAB bonds	10,103,717	10,116,767	(13,050)	8,413,413	8,413,643	(230)
IPAB tribonds	2,996,595	2,998,050	(1,455)	9,631	9,643	12)
IPAB semiannual bonds	993,977	995,360	(1,383)	-	-	-
	48,802,638	48,829,611	(26,973)	22,586,239	22,587,912	(1,673)
Total	**Ps 51,011,324**	**Ps 51,038,353**	**(Ps 27,029)**	**Ps 25,675,509**	**Ps 25,676,880**	**(Ps 1,371)**

The HOLDING as the buying entity, recorded accrued premiums recognized in income of Ps3,786,788 (Ps7,955,777 in 2003).

The terms of repo transactions performed by the HOLDING as the buying entity, range from 3 to 28 days (between 2 and 181 days in 2003).

c. Derivative financial instruments

Transactions handled by the HOLDING with derivative financial instruments are forwards, swaps and option contracts.

The HOLDING's management follows the policy of trading derivative instruments to hedge its own position. It further trades on the money market, by hedging money market risk positions, anticipating changes in interest rates and taking maximum care of the stockholders' and customers' capital (see Note 31).

Based on the aforementioned, the HOLDING documents its transactions with derivative financial instruments under the following guidelines:

Interest rate swaps:

The accounting model is a cash flow hedge, where the transaction subject to hedging is the interest income (expense). It is not performed at market value, since it covers fixed rate portfolio or issuance of promissory notes, which recognize an income/expense based on accrued interest. Likewise, the credit portfolio subject to hedging (primary position to be hedged) is packaged into sub-portfolios with similar term and flow characteristics. The fair value of loan portfolios, as well as of the derivative financial transactions hedging them, maintain a significant inverse correlation.

Exchange rate swaps:

The accounting model is a cash flow hedge, where the transaction subject to hedging is the exchange gain (loss). It is not performed at market value, since it covers 100% of the initial loan portfolio. This avoids the need to periodically evaluate its effectiveness, since there is a perfect inverse correlation.

At December 31, 2004, the HOLDING has evaluated the effectiveness of derivative financial transactions with hedging purposes and has concluded that they range from 80% to 125% in inverse correlation.

As of December 31, 2004 and 2003, derivative financial instrument positions were summarized as follows:

	2004		
Instrument	**Cash receivable flows**	**Cash payable flows**	**Net flows**
Swaps			
Cross currency	Ps -	Ps -	Ps -
Interest rate	(42,004)	47,445	5,441
Net asset position	**Ps 42,004**	**Ps 47,445**	**Ps 5,441**
Instrument	**Purchase**	**Sale**	**Net**
Foreign currency forwards:			
Market value	Ps 685,694	(Ps 686,135)	Ps 441
Agreed price	(688,758)	696,056	7,298
Net position	**(3,064)**	**9,921**	**7,739**
	Opening premium	**Valued premium**	**Valuation**
Foreign currency options:			
Premium collected	Ps 1,122	(Ps 647)	Ps 475
Options and futures contracts:			
Hedging of trading			591
Net liability position			**Ps 8,805**

	2003		
Instrument	**Cash receivable flows**	**Cash payable flows**	**Net flows**
Trading swaps:			
Cross currency	Ps 825	(Ps 1,192)	(Ps 367)
Interest rate	4,037	(627)	3,410
Net asset position	**Ps 4,862**	**(Ps 1,819)**	**Ps 3,043**
Instrument	**Purchase**	**Sale**	**Net**
Foreign currency forwards:			
Market value	Ps 2,977,104	(Ps 40,604)	Ps 2,936,500
Agreed price	(2,989,438)	40,634	(2,948,804)
Net position	**(12,334)**	**30**	**(12,304)**
	Opening premium	**Valued premium**	**Valuation**
Foreign currency options:			
Premium collected	(Ps 527)	Ps 195	(Ps 332)
Options and forwards contracts:			
Hedging of trading			(213)
Net liability position			**(Ps 12,849)**

(Amounts stated in thousands of Mexican pesos of December 31, 2004 purchasing power)

At December 31, 2004 face amounts of derivative financial instrument contracts by type of instrument and underlying value were summarized as follows:

Trading swaps

Instrument	Nominal assets	Nominal liabilities	Flow payable	Flow receivable	Net flows
Cross Currency (interest rate)	Ps 7,759,000	Ps 7,759,000	Ps 25,814	Ps 25,367	(Ps 447)

Transactions carried out by the HOLDING for trading purposes are focused on providing a service to the customer who needs hedging.

Hedging swaps

Instrument	Nominal assets	Nominal liabilities	Flow payable	Flow receivable	Net flows
Hedging investment securities and loan portfolio	Ps 31,313,251	Ps 32,815,327	Ps 370,556	Ps 148,990	(Ps 221,566)

Hedged primary position: Loan portfolio in US dollars.
Type of risk assumed: Market and liquidity from determination of exchange rate.

The HOLDING's hedging transactions include foreign currency and interest rate swaps. Foreign currency swaps expire between 2003 and 2011. Interest rate swaps expire between 2003 and 2017, in order to offset the financial risk of the HOLDING's fixed rate long-term loans.

The accounting value of the collateral required to comply with obligations corresponding to interest rate swap contracts at December 31, 2004 amounts to Ps14,556 (Ps15,817 in 2003), represented by debt instruments (treasury certificates). In the case of foreign currency swaps, the value of collateral at December 31, 2004, was US$832,602,000 and $27,090,000 EUROS, represented by debt instruments (UMS and PEMEX) (see Note 7 c.)

At December 31, 2004, the impact in income from derivative financial instruments of the HOLDING used for hedging purposes, was a net gain of Ps165,261.

NOTE 9 LOAN PORTFOLIO:

I. Credit Management

The credit management process is documented through internal manuals prepared by the HOLDING, which must be observed by all personnel. With respect to the administrative control of the portfolio, it is performed by the following areas: I. Business Management (Corporate Banking, Commercial Banking, Entrepreneurial Banking, Government Banking and Consumer Banking) mainly through the network of branches, II. Operating Management and III. General Direction of Comprehensive Risk Management.

The manuals set forth the policies and procedures established to determine credit risk management.

The process structure comprising credit management is divided into the following stages:

1. Product design
2. Promotion
3. Evaluation
4. Formalization
5. Operation
6. Management
7. Recovery

There are programmed procedures which assure that the amounts applicable to past due portfolio are transferred and recorded in the accounting at the proper time and commercial loans with recovery problems are identified.

The Treasury of the HOLDING is the central unit in charge of leveling the need for resources, eliminating the risk rate of placement operations at fixed rates through the use of hedging and implementing arbitrage strategies.

II. Loan Portfolio Rating

In conformity with the New General Rules Applicable to the Rating Methodologies of the Loan Portfolio of Credit Institutions Published in the Official Gazette on August 20, 2004, the HOLDING rated the loan portfolio (commercial, mortgage and consumer) based on figures at December 31, 2004 (for the year 2003, the HOLDING applied the rules contained in Circulars 1480, 1460, 1449 and 1493).

The portfolio rating was determined by considering the loan portfolio balance at the end of the corresponding month, establishing for each portfolio segment the risk degrees and preventive allowances in conformity with the following:

Commercial loan portfolio:

The rating is determined by evaluating the following aspects, among others:

- The credit quality of the debtor and
- The loans, in relation with the value of guarantees or the value of assets in a trust or in schemes commonly known as "structured", when necessary.

The commercial portfolio segment comprises loans granted to Entrepreneurial and Corporate groups, State Governments, Municipal Governments and their Decentralized Organisms, as well as loans to Companies of the Financial Sector.

Commercial loan portfolio rating - loans equal to and higher than 900,000 UDIS:

The HOLDING applied the methodology of internal risk rating CIR Banorte certified by the COMMISSION to establish the rating of the debtor, except for loans granted to State and Municipal Governments as well as their Decentralized Agencies, for which the HOLDING followed the procedure established by the COMMISSION.

(Amounts stated in thousands of Mexican pesos of December 31, 2004 purchasing power)

Upon evaluating the credit quality of the debtor through the CIR Banorte, the following risks and payment experience were rated in a specific, independent manner:

Risk criteria	Risk factors
	1. Financial structure and payment capacity
	2. Financing sources
1. Financial risk	3. Management and decision making
	4. Quality and timeliness of financial information
2. Industry risk	5. Positioning and market share
	- Objective Markets
	- Risk Acceptance Criteria
3. Credit experience	6. Credit experience
4. Country risk	7. Country risk

Each risk factor is analyzed through descriptive evaluation charts for which the results indicate the rating of the debtor that has to be matched to the risk degrees established by the COMMISSION.

CIR Banorte	Risk level descrition	COMISSION
1	Substantially without risk	A1
2	Under the minimum risk	A2
3	Minimum risk	
4	Low risk	B1
5	Moderate risk	B2
6	Average risk	B3
7	Risk requiring management's attention	C1
8	Potential partial loss	C2
9	High loss percentage	D
10	Total loss	E

In conformity with the result of the debtor rating, loans were rated in relation to the value of guarantees or the value of assets in trusts or schemes commonly known as "structured", adjusting them to the portion covered by guarantees and, in certain cases, exposed to the risk degree and corresponding place in the following table.

Table of places within the levels of preventive allowances

Risk degrees	Lower	Intermediate	Upper
A-1		0.5%	
A-2		0.99%	
B-1	1.0%	3.0%	4.99%
B-2	5.0%	7.0%	9.99%
B-3	10.0%	15.0%	19.99%
C-1	20.0%	30.0%	39.99%
C-2	40.0%	50.0%	59.99%
D	60.0%	75.0%	89.99%
E		100%	

Loan portfolio rating for state and municipal government sector and their decentralized agencies:

After evaluating the risk degree of federal entities, municipalities, and other decentralized agencies, the HOLDING referred to basic ratings assigned by one of the rating agencies authorized by the COMMISSION to locate the risk degree in accordance with the following:

Rating agencies (equivalent ratings)			Distance points	Risk degrees
FITCH	MOODY´S	S & P		
AAA	Aaa	AAA	0	
AA+	Aa1	AA+	1	A1
AA	Aa2	AA	2	
AA-	Aa3	AA-	3	A2
A+	A1	A+	4	
A	A2	A	5	B1
A-	A3	A-	6	
BBB+	Baa1	BBB+	7	B2
BBB	Baa2	BBB	8	
BBB-	Baa3	BBB-	9	B3
BB+	Ba1	BB+	10	
BB	Ba2	BB	11	C1
BB-	Ba3	BB-	12	
B+	B1	B+	13	
B	B2	B	14	C2
B-	B3	B-	15	
CCC	Caa	CCC	16	D
CC	Ca	CC	17	
C	C	C	18	E
D/E		D	19 or more	

In conformity with the result of the rating, the HOLDING used a procedure referred to in the New Rules to determine the preventive allowances in accordance with the following table.

Table of preventive allowances (percentages)

Distance points	Risk degrees	% of allowances
0		
1	A1	0.5%
2		
3	A2	0.99%
4		
5	B1	2.5%
6		
7	B2	5%
8		
9	B3	10%
10		
11	C1	20%
12		
13	C2	50%
14		
15		
16	D	75%
17		
18	E	100%
19 or more		

(Amounts stated in thousands of Mexican pesos of December 31, 2004 purchasing power)

Rating of commercial loan portfolio - loans under 900,000 UDIS:

In order to determine the risk degree and preventive allowances for the commercial portfolio segment under 900,000 UDIS, the HOLDING used the parametrical model designed by the COMMISSION, stratifying the portfolio in accordance with the number of payments reporting noncompliance with the total or partial payment at the rating date, classifying it in conformity with the following:

i. The loans that have never been restructured were provisioned based on percentages corresponding to the column identified as "Portfolio 1."

ii. Loans restructured in the past were provisioned using the percentages of the column identified as "Portfolio 2".

The HOLDING determined the preventive allowances resulting from applying the percentages shown below, according to the type of portfolio, to the total unpaid amount of the loan at the date of the evaluation, as follows.

	Provisioning percentage	
Months since the first noncompliance	Percentage of preventive allowance portfolio 1	Percentage of preventive allowance portfolio 2
0	0.5%	2%
1	15%	30%
2	30%	40%
3	40%	50%
4	60%	70%
5	75%	85%
6	85%	95%
7	95%	100%
8 or more	100%	100%

Subsequently, the HOLDING classified the preventive allowance in accordance with the following table:

Risk degree	Percentage of preventive allowance
A-1	0% to 0.50%
A-2	0.51% to 0.99%
B-1	1% to 4.99%
B-2	5% to 9.99%
B-3	10% to 19.99%
C-1	20% to 39.99%
C-2	40% to 59.99%
D	60% to 89.99%
E	90% to 100%

Mortgage loan portfolio:

In order to determine the rating of this portfolio segment, the HOLDING classified the loan portfolio and determined the preventive allowances in accordance with the following:

Number of months reporting noncompliance	Percentage relative to the probability of noncompliance (Porfolio 1)	Percentage relative to the probability of noncompliance (Porfolio 2)	Percentage of importance of the loss
0	1%	1%	35%
1	3%	5%	35%
2	7%	15%	35%
3	25%	50%	35%
4	50%	90%	35%
5	95%	95%	35%
6	98%	98%	35%
7 a 47	100%	100%	70%
48 or more	100%	100%	100%

Which is equal to:

Number of months reporting noncompliance	Portfolio 1 percentage	Portfolio 2 percentage
0	0.35%	0.35%
1	1.05%	1.75%
2	2.45%	5.25%
3	8.75%	17.50%
4	17.50%	31.50%
5	33.25%	33.25%
6	34.30%	34.30%
7 a 47	70.00%	70.00%
48 or more	100.00%	100.00%

Preventive allowances corresponding to the mortgage loan portfolio granted as of June 1, 2000, were determined based on percentages contained in the column identified as "Portfolio 1" of the table above.

Loans granted before that date, were provisioned by establishing preventive allowances through the application of the percentages shown in the column relative to "Portfolio 2" of the same table.

Furthermore, loans granted from June 1, 2000 onwards that were subject to some restructuring and include an interest refinancing program, granted at variable rates without a maximum established rate, or else, for which the income percentage of the debtor intended for the payment of the debt at the moment of its actual granting is higher than thirty-five percent, were provisioned based on percentages contained in the column identified as "Portfolio 2".

Subsequently, the HOLDING classified the preventive allowances in accordance with the following:

Risk degree	Percentages of preventive allowances
A	0 to 0.99 %
B	1 to 19.99 %
C	20 to 59.99 %
D	60 to 89.99 %
E	90 to 100 %

(Amounts stated in thousands of Mexican pesos of December 31, 2004 purchasing power)

Consumer loan portfolio:

In order to determine the risk degree and preventive provisions for the consumer portfolio, the HOLDING applied the following procedure:

The total portfolio was stratified in accordance with the number of billing periods reporting noncompliance at the date of the rating, determining for the loans located in each platform, the preventive allowance percentages shown below, depending on the nature of the noncompliant billing periods: weekly, bimonthly or monthly.

Weekly billing periods

Number of billing periods that report noncompliance	Probability of noncompliance	Percentage of loss severity	Percentages of preventive allowance
0	0.5%		0.5%
1	1.5%		1.5%
2	3%		3%
3	5%		5%
4	10%		10%
5	20%		20%
6	30%		30%
7	40%		40%
8	50%		50%
9	55%	100%	55%
10	60%		60%
11	65%		65%
12	70%		70%
13	75%		75%
14	80%		80%
15	85%		85%
16	90%		90%
17	95%		95%
18 or more	100%		100%

Bimonthly Billing Periods

Number of billing periods that report noncompliance	Probability of noncompliance	Percentage of loss severity	Percentages of preventive reserves
0	0.5%		0.5%
1	3%		3%
2	10%		10%
3	25%		25%
4	45%		45%
5	55%		55%
6	65%		65%
7	70%	100%	70%
8	75%		75%
9	80%		80%
10	85%		85%
11	90%		90%
12	95%		95%
13 or more	100%		100%

Monthly Billing Periods

Number of billing periods noncompliance	Probability of noncompliance	Percentage of loss severity	Percentages of preventive allowance
0	0.5%		0.5%
1	10%		10%
2	45%		45%
3	65%		65%
4	75%		75%
5	80%	100%	80%
6	85%		85%
7	90%		90%
8	95%		95%
9 or more	100%		100%

Which is equal to:

Number of monthly installments reporting noncompliance	Weekly	Bimonthly	Monthly
0	0.50%	0.50%	0.50%
1	1.50%	3.00%	10.00%
2	3.00%	10.00%	45.00%
3	5.00%	25.00%	65.00%
4	10.00%	45.00%	75.00%
5	20.00%	55.00%	80.00%
6	30.00%	65.00%	85.00%
7	40.00%	70.00%	90.00%
8	50.00%	75.00%	95.00%
9	55.00%	80.00%	100.00%
10	60.00%	85.00%	
11	65.00%	90.00%	
12	70.00%	95.00%	
13	75.00%	100.00%	
14	80.00%		
15	85.00%		
16	90.00%		
17	95.00%		
18 or more	100.00%		

Finally, the HOLDING classified the preventive allowances in accordance with the following table:

Risk degrees	Percentages of preventive allowances
A	0 to 0.99 %
B	1 to 19.99 %
C	20 to 59.99 %
D	60 to 89.99 %
E	90 to 100 %

(Amounts stated in thousands of Mexican pesos of December 31, 2004 purchasing power)

III. Loan porfolio break down

a. As of December 31, 2004 and 2003, the current loan portfolio of the HOLDING was summarized as shown below:

	2004			2003
Type of loan (Mexican pesos)	Principal	Accured interest	Total current portfolio	Total current portfolio
Commercial loans	Ps 38,615,811	Ps 242,476	Ps 38,858,287	Ps 31,969,016
Loans to financial entities	396,857	2,398	399,255	2,351,906
Consumer loans	11,338,406	48,958	11,387,364	9,124,894
Mortgage loans	16,833,059	24,958	16,858,017	13,422,562
Loans to government entities	17,942,015	33,944	17,975,959	80,532,526
Loans to FOBAPROA or IPAB	6,947,510	-	6,947,510	7,261,311
Total current loan portfolio	**Ps 92,073,658**	**Ps 352,734**	**Ps 92,426,392**	**Ps 144,662,215**

	2004			2003
Type of loan (Foreign currency)	Principal	Accured interest	Total current portfolio	Total current portfolio
Commercial loans	Ps 7,478,875	Ps 29,163	Ps 7,508,038	Ps 8,050,797
Loans to financial entities	-	-	-	318,455
Consumer loans	2,588	12	2,600	5,914
Loans to government entities	628,220	9,972	638,192	769,749
Loans to FOBAPROA or IPAB	-	-	-	(211,775)
Total current loan portfolio	**Ps 8,109,683**	**Ps 39,147**	**Ps 8,148,830**	**Ps 8,933,140**

	2004			2003
Type of loan (UDIs)	Principal	Accured interest	Total current portfolio	Total current portfolio
Commercial loans	Ps 50,269	Ps 323	Ps 50,592	Ps 197,921
Consumer loans	19,934	-	19,934	49
Mortgage loans	391,756	1,261	393,017	476,607
Loans to government entities	2,204	2	2,206	8,280
Total current loan portfolio	**Ps 464,163**	**Ps 1,586**	**Ps 465,749**	**Ps 682,857**

	2004			2003
Type of loan (Trusts in UDIs)	Principal	Accured interest	Total current portfolio	Total current portfolio
Commercial loans	Ps -	Ps -	Ps -	Ps 19,326
Mortgage loans	1,268,232	3,997	1,272,229	1,617,493
Loans to government entities	-	-	-	1,139,511
Total current loan portfolio	**Ps 1,268,232**	**Ps 3,997**	**Ps 1,272,229**	**Ps 2,776,330**

Type of loan (Consolidated)	2004 Principal	2004 Accured interest	2004 Total current portfolio	2003 Total current portfolio
Commercial loans	Ps 46,144,955	Ps 271,962	Ps 46,416,917	Ps 40,237,060
Loans to financial entities	396,857	2,398	399,255	2,670,361
Consumer loans	11,360,928	48,970	11,409,898	9,130,857
Mortgage loans	18,493,047	30,216	18,523,263	15,516,662
Loans to government entities	18,572,439	43,918	18,616,357	82,450,066
Loans to FOBAPROA or IPAB (Note 10)	6,947,510	-	6,947,510	7,049,536
Total current loan portfolio	**Ps 101,915,736**	**Ps 397,464**	**Ps 102,313,200**	**Ps 157,054,542**

Loans to government entities include two groups of unsecured loans granted to IPAB made by BANORTE and BANCRECER, respectively. The main characteristics of both groups are shown as follows:

Loans	Original amount	December 2004	December 2003	Maturity in years	Month and year of maturity	Interest rate payable	Interest payment
IPAB (BANCEN and BANPAIS) (1) and (2)	Ps 35,248,700	Ps 5,422,876	Ps 24,020,335	10	November 2010	TIIE + 0.85%	Monthly
IPAB (BANCRECER) (3) and (4)	102,200,000	-	48,444,554	10	November 2009	TIIE + 0.40%	Monthly
Principal	Ps 137,448,700	5,422,876	72,464,889				
Accured interest non-collected		18,393	339,196				
Total		**Ps 5,441,169**	**Ps 72,804,085**				

1. This loan is represented by 4 promissory notes for which the principal payments are to be made twice a year as from month N° 58.
2. These promissory notes were initially set up with FOBAPROA and later refinanced in 2000, the debtor now being IPAB.
3. At December 22, 2004, the IPAB-Bancrecer promissory note was sold in the amount of Ps45,940,406 (value in books recorded at that date) to a Trust in Banco JP Morgan, S. A., Institución de Banca Multiple , JP Morgan Grupo Financiero, División Fiduciaria by transferring the ownership of rights to the collection of interest and collection of principal for the issuance of stock certificates over a five-year period at an average daily TIIE interest rate plus 0.40 basis points (see Note 2 paragraph e. and Note 3 paragraph ee.).
4.Before the transaction described in paragraph 3, this promissory note corresponded to a unsecured loan granted in November 1999 to IPAB, which was documented with BANCRECER so that the former capitalized BANCRECER for a nominal amount of Ps102,200,000. With these resources, BANCRECER paid for the transfer of loan rights by BANXICO with respect to the loan granted to IPAB, which matures on November 1, 2009. The payment of interest was originally agreed on a quarterly basis at the higher of the average rate for bank funding, plus 3.5 percentage points, adjustable every three months, or that resulting from the percentage change in the value of UDIs. On November 22, 2000, on interest rate change was agreed, which consisted of adding 2.5 percentage points during the month of January 2001, 2 percentage points during February 2001, 1.5 percentage points during March 2001, 1 percentage point during April 2001 and 0.40 points as of May 1, 2001, to the arithmetic average of the Interbank Equilibrium Interest Rate (TIIE), published during each interest period, payable on a monthly basis.

At December 31, 2004 and 2003 the straight loans granted to IPAB decreased due to advance payments of Ps17,357,000 and Ps10,513,000, respectively. Likewise, interest accrued and recorded in income for the year amounted to Ps4,317,000 and Ps3,542,000, respectively.

Likewise, the item of loans to government entities includes Ps167,000 (Ps179,000 in 2003), corresponding to benefits granted to debtors. The Federal Government granted these benefits, through the implementation of various Support to Bank Debtors Programs.

b. The past due loan portfolio and related interest are summarized as shown below:

Type of loan (Mexican pesos)	2004 Principal sum due	2004 Interest due	2004 Total past due portfolio	2003 Total past due portfolio
Commercial loans	Ps 510,587	Ps 35,780	Ps 546,367	Ps 590,773
Consumer loans	334,220	4,680	338,900	483,172
Mortgage loans	334,515	6,298	340,813	532,595
Loans to government entities	4,500	-	4,500	44
Total past due loan portfolio	**Ps 1,183,822**	**Ps 46,758**	**Ps 1,230,580**	**Ps 1,606,584**

(Amounts stated in thousands of Mexican pesos of December 31, 2004 purchasing power)

	2004			2003
Type of loan (Foreign currency)	Principal sum due	Interest due	Total past due portfolio	Total past due portfolio
Commercial loans	Ps 68,333	Ps 2,588	Ps 70,921	Ps 818,004
Consumer loans	222	-	222	368
Total past due loan portfolio	**Ps 68,555**	**Ps 2,588**	**Ps 71,143**	**Ps 818,372**

	2004			2003
Type of loan (UDIs)	Principal sum due	Interest due	Total past due portfolio	Total past due portfolio
Commercial loans	Ps 14,390	Ps 532	Ps 14,922	Ps 606,687
Mortgage loans	17,639	349	17,988	222,741
Loans to government entities	8,505	-	8,505	8,505
Total past due loan portfolio	**Ps 40,534**	**Ps 881**	**Ps 41,415**	**Ps 837,933**

	2004			2003
Type of loan (Trusts in UDIs)	Principal sum due	Interest due	Total past due portfolio	Total past due portfolio
Commercial loans	Ps -	Ps -	Ps -	Ps 1,994
Mortgage loans	445,361	15,614	460,975	491,682
Total past due loan portfolio	**Ps 445,361**	**Ps 15,614**	**Ps 460,975**	**Ps 493,676**

	2004			2003
Type of loan (Consolidated)	Principal sum due	Interest due	Total past due portfolio	Total past due portfolio
Commercial loans	Ps 593,310	Ps 38,900	Ps 632,210	Ps 2,017,458
Consumer loans	334,442	4,680	339,122	483,540
Mortgage loans	797,515	22,261	819,776	1,247,018
Loans to government entities	13,005	-	13,005	8,549
Total past due loan portfolio	**Ps 1,738,272**	**Ps 65,841**	**Ps 1,804,113**	**Ps 3,756,565**

c. The movement of the past due loan portfolio during 2004 and 2003, was as follows:

	2004	2003
Balance at beginning of year	Ps 3,756,565	Ps 5,514,000
Transfer from current to past due portfolio	21,504,000	16,435,000
Purchase of portfolio	262,000	3,158,000
Sale of portfolio	(1,000)	(2,833,000)
Loans paid and past due portfolio losses [1]	(22,108,000)	-
Restructuring and renewals	(58,000)	(69,000)
Collections (payment in cash)	(23,000)	(17,261,000)
Collections (payment in kind)	(1,000)	(67,000)
Debt capitalization	(1,000)	(128,000)
Transfer of past due to current portfolio	(1,261,000)	(668,000)
Loan portfolio charge-offs	(127,000)	-
Exchange fluctuation	56,000	158,000
Effect of restatement	(194,452)	(482,435)
Balance at end of year	**Ps 1,804,113**	**Ps 3,756,565**

(1) During 2004, the HOLDING's management (through BANORTE, mainly) decided to write off Ps1,088,000 from the past due commercial portfolio and Ps921,000 from the past due consumer portfolio.

d. At December 31, 2004, the ageing in the total loan portfolio is shown below:

Type of portfolio	Days past due 1-180	181-365	366 or more	Total	Allowance for loan losses	Net portfolio
Current loans:	(1)				(2)	
Commercial loans	Ps 46,356,917	Ps 60,000	Ps -	Ps 46,416,917	Ps 509,475	Ps 45,907,442
Loans to financial entities	399,255	-	-	399,255	9,935	389,320
Consumer loans	11,409,898	-	-	11,409,898	429,285	10,980,613
Mortgage loans	18,523,263	-	-	18,523,263	137,615	18,385,648
Loans to government entities	18,616,357	-	-	18,616,357	250,762	18,365,595
Loans to IPAB	6,947,510	-	-	6,947,510	-	6,947,510
Current portfolio	102,253,200	60,000	-	102,313,200	1,337,072	100,976,128
Past due loans:						
Commercial loans	234,433	56,581	341,196	632,210	349,764	282,446
Consumer loans	313,445	19,762	5,914	339,121	114,571	224,550
Mortgage loans	283,527	102,975	433,275	819,777	499,601	320,176
Loans to government entities	4,500	-	8,505	13,005	13,005	-
Past due portfolio	835,905	179,318	788,890	1,804,113	976,941	827,172
Additional provisions	-	-	-	-	438,145	(438,145)
Total portfolio	**Ps 103,089,105**	**Ps 239,318**	**Ps 788,890**	**Ps 104,117,313**	**Ps 2,752,158**	**Ps 101,365,155**

(1) Within the item of current loans from 1-180 days maturity, there are Ps90,453,000 with zero past due, which are comprised as follows: 1) Commercial loans Ps39,593,000, 2) Mortgage loans Ps15,816,000, 3) Loans to financial entities and government entities Ps18,388,000, 4) Consumer loans Ps9,708,000 and 5) IPAB Ps6,948,000.

(2) The preventive allowance associated to the past due portfolio includes Ps15,000 to cover 100% of the past due interest, distributed among the commercial portfolio Ps8,000, mortgage portfolio Ps6,000 and consumer portfolio Ps1,000.

e. At December 31, 2004, the total current and past due loan portfolio, grouped per type of loan, was as follows:

Loan portfolio	Current	Past due
Current account and straight loans	Ps 48,007,301	Ps 389,758
Unsecured loans	7,584,962	20,216
Loans rolled over at mature	-	324
Secured loans	90,673	-
Discounted portfolio	7,751,319	-
Loans secured with assets purchased	288,388	44,546
Nonperforming loans secured with additional guarantees	596,168	40,577
Other secured loans	678,865	36,605
Restructured loans	224,792	83,183
Loans guaranteed by industrial units	44,015	22,678
Personal consumer loans	11,409,329	339,121
IPAB loans	6,947,510	-
Government loans	166,615	-
Mortgage loans	18,523,263	819,777
Mercantile discounts	-	13
Other past due loans	-	7,315
Total loan portfolio	**Ps 102,313,200**	**Ps 1,804,113**

(Amounts stated in thousands of Mexican pesos of December 31, 2004 purchasing power)

f. The rating of the portfolio and the allowance created by the HOLDING as of December 31, 2004 and 2003 are summarized as follows:

	Rated loan portfolio				Allowance for loan losses	
	2004		2003		2004	2003
Risk	%	Amount	%	Amount	Amount	Amount
A	84.59%	Ps 78,328,888	84.83%	Ps 62,381,797	Ps 478,187	$ 419,651
B	12.74%	11,795,563	8.28%	6,089,956	504,455	461,211
C	1.21%	1,120,107	3.44%	2,531,132	254,949	789,900
D	0.83%	766,069	1.56%	1,149,322	495,969	811,511
E	0.63%	582,617	1.89%	1,386,093	565,809	1,371,907
	100.00%	**92,593,244**	**100.00%**	**73,538,300**	**2,299,369**	**3,854,180**
Portfolio:						
Hedging swaps		(81,887)		(120,925)		
Unrated		(48,540)		104,234		
Excepted		14,008,387		88,145,475		
Total		**106,471,204**		**161,667,084**		
Guarantees granted		(60,274)		(34,166)		
Opening of irrevocable loans		(2,293,617)		(821,811)		
Total		**Ps 104,117,313**		**Ps 160,811,107**		
Allowance for loan losses recorded					2,752,158	4,551,418
Allowance for loan losses created in excess					**Ps 452,789**	**Ps 697,238**

The behavior of the allowance for loan losses determined in conformity with the internal methodology of the HOLDING vis-à-vis the recorded allowance is shown below:

	December	Quarterly balances during 2004			
Concept	2003	March	June	September	December
Allowance for loan losses required	Ps 3,854,180	Ps 3,765,897	Ps 2,996,603	Ps 3,011,604	Ps 2,299,369
Allowance for loan losses recorded	4,551,418	4,637,151	3,750,423	3,596,095	2,752,158
Allowance for loan losses in excess	**Ps 697,238**	**Ps 871,254**	**Ps 753,820**	**Ps 584,491**	**Ps 452,789**
Proportion in excess (in %)	**118.09%**	**123.14%**	**125.16%**	**119.41%**	**119.69%**

The excess allowance amounting to Ps452,789 at December 31, 2004, (Ps697,238 in 2003), has been maintained based on the additional allowances set up by Management with respect to the UDI trusts and the HOLDING's own UDI portfolio, which amounted to Ps240,389 and Ps212,400, respectively at December 31, 2004 (Ps303,906 and Ps393,332 in 2003)

Due to the additional allowances for UDI trusts, the mechanics used to record revenues makes it obligatory to apply such resources first to pay off trust liabilities and the remaining resources will be used to pay the loan. It is only then when it can be determined if recorded allowances would not be needed and would constitute an excess to be cancelled.

With respect to additional allowances corresponding to the HOLDING's own UDI portfolio, currently, these are identified and separated in the amount of Ps212,400 (Ps103,342 in 2003) with the difference of Ps289,990 in 2003 corresponding to provisions in excess.

Other financial ratios related to the loan portfolio are shown below:

	December	2004			
Concept	2003	March	June	September	December
Delinquency index	2.3%	2.4%	1.9%	1.8%	1.7%
Past due loan portfolio hedging index	121.2%	126.9%	130.7%	128.1%	152.5%

g. At December 31, 2004, the rated portfolio and its preventive allowance (per type of loan and risk degree) was comprised as follows:

Qualified portfolio	Commercial [1]	Mortgage	Consumer	Total
A	Ps -	Ps 15,709,022	Ps 9,691,545	Ps 25,400,567
A1	22,454,843	-	-	22,454,843
A2	30,473,089	-	386	30,473,475
B	362,099	2,952,612	1,443,654	4,758,365
B1	5,889,320	-	-	5,889,320
B2	309,086	-	-	309,086
B3	838,791	-	-	838,791
C	-	165,139	296,783	461,922
C1	292,667	-	183	292,850
C2	365,338	-	-	365,338
D	127,575	311,829	326,666	766,070
E	357,474	206,312	18,831	582,617
Unrated	(99,524)	(1,874)	(29,029)	(130,427)
Total portfolio	**Ps 61,370,758**	**Ps 19,343,040**	**Ps 11,749,019**	**92,462,817**
Excepted				14,008,387
Total portfolio				**Ps 106,471,204**

Preventive allowance for loan losses	Commercial	Mortgage	Consumer	Total [2]
A	Ps -	Ps 54,983	Ps 48,458	Ps 103,441
A1	117,093	-	-	117,093
A2	257,653	-	-	257,653
B	581	97,192	108,743	206,516
B1	144,924	-	-	144,924
B2	15,939	-	-	15,939
B3	137,076	-	-	137,076
C	-	54,455	130,956	185,411
C1	54,092	-	-	54,092
C2	15,446	-	-	15,446
D	41,107	218,280	236,582	495,969
E	341,249	206,606	17,954	565,809
Total preventive allowance	**Ps 1,125,160**	**Ps 631,516**	**Ps 542,693**	**Ps 2,299,369**

(1) Includes the items of the commercial, financial entities, government entities and memorandum accounts portfolio (guarantees granted and opening of commercial loans involved).

(2) From the preventive allowance determined for the commercial portfolio, Ps471,000 corresponds to the general allowance and Ps1,770,000 to the specific allowance.

(Amounts stated in thousands of Mexican pesos of December 31, 2004 purchasing power)

h. The changes in the allowance for loan losses are summarized below:

	2004	2003
Balance at the beginning of the year	Ps 4,551,418	Ps 6,145,884
Increase charged to income [1]	1,032,905	637,540
Restitution of preventive allowances written off in 2003 (see Note 26)	258,539	-
Losses and write-offs [2]	(2,719,964)	(2,195,961)
Effects of restatement	(235,060)	(230,568)
Valuation of foreign currencies and UDIs	58,666	164,836
Reductions and benefits to mortgage debtors	(120,491)	(128,293)
Contributions from the bank	-	71,058
Created with profit margin	43,838	37,414
Benefits of FOPYME and FINAPE programs	(5,455)	(8,709)
Reserves written-off [3]	(150,000)	-
Other	37,762	58,217
Balance at ending of the year	**Ps 2,752,158**	**Ps 4,551,418**

(1) At December 31, 2004, the total amount of preventive allowances for loan losses charged to the statement of income was Ps1,192,489. This amount comprises Ps1,032,905 directly credited to the corresponding allowance, Ps43,601 from UDI trusts, Ps26,309 from restatement for reclassification and Ps89,674 corresponding to the recognition of the loss shared with the IPAB derived from the financial health program. The latter amount is included in the balance sheet as a deduction from "FOBAPROA or IPAB loans".

(2) At December 31, 2004, this item comprised write offs and losses on commercial loans (Ps1,602,045), mortgage loans (Ps516,000), consumer loans (Ps616,000), and loans to employees (Ps33,332) and recovery of loan losses of Ps47,413.

(3) In May 2004 an amount of $150,000 corresponding to loan reserves in excess where written off by BANCEN. This excess was generated in the different UDIs trusts corresponding to housing and productive plant from the recovery of assigned loans, which according to the applicable standards of these trusts, was not eligible to be written off.

In October 2003, Trust 421 "Housing, Mortgage and liquidity loan with mortgage guarantee of 20 years" was cancelled upon the payment to BANCEN of the corresponding fiduciary liabilities; therefore, the preventive allowance for loan assets and portfolio were incorporated to the balance sheet of BANCEN.

Upon incorporating these reserves to BANCEN an excess subject to write off was generated, provided that these reserves are not required due to the result from the application of the rating methodology to the Loan Portfolio.

The write off of reserves generated an income for BANCEN of $150,000, recorded in the other Income account within Other Income or Expense in the Statement of Income.
Derived from the aforementioned, the COMMISSION informed that it had no inconvenience as to such write off in its official letter No. SJIF "A-2" 601-II-34997, dated May 17, 2004.

NOTE 10 IPAB:

As part of the steps taken to address the economic crisis that arose at the end of 1994, in December 1998 the Mexican Congress enacted the Bank Savings Protection Law, which went into effect on January 20, 1999. Under that law, the IPAB was created, replacing FOBAPROA. IPAB remains in operation for the sole purpose of administering the transactions of the program known as "capitalization and purchase of loan portfolio".

The purpose of the IPAB is to apply a series of preventive measures directed towards avoiding financial problems that may be faced by credit institutions, as well as to insure the performance by these institutions with regard to bank deposits.

In exchange for the portfolio transferred to FOBAPROA, promissory notes were received in favor of BANORTE with maturities of 10 years, as of the date of the operation. BANORTE continues with the obligation to share 29%, 25% and 0% of the loss incurred by FOBAPROA with respect to the transferred portfolio in Trusts 477-6726 Tranche I, 477-6726 Tranche II and 508, based on which these same percentages are maintained in the new Trusts derived from the FOBAPROA promissory notes exchange agreement for IPAB notes held on July 12, 2004.

The caption denominated "Loans to FOBAPROA or IPAB" in the balance sheet as of December 31, 2004 and 2003, comprises the following promissory notes:

	2004			2003
Concept	Principal	Interest	Total	Total
Trust 477 Tranche I (1)	Ps -	Ps -	Ps -	Ps 1,750,310
Trust 477 Tranche II (1)	-	-	-	1,550,296
Trust 477 Tranche III (1)	-	-	-	1,386,390
Trust 490 (1)	-	-	-	7,045,036
Trust 508 (1)	-	-	-	1,491,589
Trust 1989-0 Tranche I (2)	1,678,048	80,898	1,758,946	-
Trust 1989-0 Tranche II (2)	290,454	13,972	304,426	-
Trust 1989-0 2Tranche III (2)	1,329,151	64,078	1,393,229	-
Trust 1990-4 (2)	4,641,290	223,271	4,864,561	-
Trust 1991-2 (2)	1,264,484	74,329	1,338,813	-
Loss shared with FOBAPROA/IPAB	-	-	(2,543,832)	(2,591,437)
FOBAPROA checking account	-	-	(168,633)	(3,582,648)
Total	**Ps 9,203,427**	**Ps 456,548**	**Ps 6,947,510**	**Ps 7,049,536**

(1) Trusts of the original FOBAPROA program.
(2) Trusts of the agreement for the new program with IPAB.

The characteristics of each of the aforementioned IPAB promissory notes (former FOBAPROA's) are described below:

Promissory note	Maturity in years	Year of maturity	Interest rate payable	Interest
Trust 1989-0	10	2005	91-day CETES - 1.35% pb.	Capitalizable
Trust 1989-0	10	2006	91-day CETES - 1.35% pb.	Capitalizable
Trust 1991-2	10	2006	91-day CETES	Capitalizable

Payment notes of IPAB, and in some cases, the Instruments of IPAB, have the same term and interest rate characteristics as FOBAPROA's promissory notes. Furthermore, percentages of equity in losses and incentive programs of original agreements entered into with FOBAPROA are maintained unchanged.

On the other hand, payments made by BANORTE to the IPAB during 2004 from fees, amounted Ps755,778 (Ps766,982 in 2003).

NOTE 11 CONSOLIDATION OF TRUSTS FOR RESTRUCTURED LOANS DENOMINATED IN UDIs:

On March 30, 1995, the Mexican Government implemented the "UDI program", designed to encourage the restructuring and conversion of peso-denominated loans to UDI-denominated loans during a time when the rate on peso-denominated loans significantly exceeded the UDIS rate offered to the borrower. All borrowers in each loan category mentioned below were eligible to participate in the program.

The UDIs Programs cover 4 types of loans: a) Commercial, b) Mortgage, c) those granted to States and Municipalities and, d) those granted to the Agricultural Sector.

In this connection, the HOLDING maintains the following Programs in UDIs:

a. Program of support to Mortgage Loan Debtors and Benefit Agreement for Mortgage Loan Debtors.
b. Financing Agreement for the Agricultural and Fishing Sector (FINAPE).
c. Benefit Program for Corporate Loan Debtors.
d. Financial and Promotion Support Agreement for Small and Medium Companies (FOPYME).
e. Additional Benefit Program for Mortgage Loan Debtors - Loans for FOVI-type housing.

(Amounts stated in thousands of Mexican pesos of December 31, 2004 purchasing power)

In the case of borrowers who participate in the aforementioned Programs, the amount of principal and interest accrued the amount of the loan in pesos are first translated to the UDI amount and subsequently the interest is fixed at an agreed reference rate.

Trusts managed by each of aforementioned UDI programs made long-term deposits with the Federal Government, with fixed and variable interest rates, depending on the characteristics of each trust (this interest rate should be less than the interest charged to debtors); in turn, the HOLDING received federal bonds from the Mexican Government, known as "Special treasury certificates" referenced to the interest rate for the treasury certificates.

The maturity of these bonds matches the maturities of the deposits made by the trust with the government. Payments received from the loans in the trust are used to pay the principal as well as interest of deposits. Similarly, the Mexican government remits the same amount received on the deposits for interest and principal on "Special treasury certificates".

In the event that any of the loans transferred to the UDI Trusts are in default, a portion of the deposit or borrowing and the same portion of principal of the Special treasury certificates will bear interest at a rate equivalent to UDIs. This feature was added in October 2002 to reflect the fact that the UDI program was intended to provide support to paying debtors. The HOLDING continues administering and evaluating the risk of any possible loan losses. In the case that a loan is 100% reserved, deposits or borrowings continue bearing interest at normal rates.

The rules of the COMMISSION require amounts of trusts with restructured loans in UDIs, to be consolidated with the figures of the HOLDING in order to show the basis of the operation, which is an interest rate swap with the Federal Government.

a. The balances of the items corresponding to trust assets and liabilities as of December 31, are summarized as shown below:

Item	2004	2003
Banks	Ps 15,636	Ps 31,900
Government securities	4,391	5,944
Current loan portfolio	1,268,232	2,771,079
Past due loan portfolio	445,362	476,021
Interests accrued on loans	3,997	5,250
Due interests	15,614	17,656
Allowance for loan losses	(634,154)	(627,536)
Total assets	**Ps 1,119,078**	**Ps 2,680,314**

Item	2004	2003
Fiduciary values	Ps 1,104,991	Ps 2,664,265
Deferred taxes	14,087	11,616
Income for the year	-	4,433
Total liabilities	**Ps 1,119,078**	**Ps 2,680,314**

b. The total eliminations given effect to in the consolidation of the trusts are summarized below:

Accounting of trusts debit (credit) balance	2004	2003
Banks	Ps 15,636	Ps 31,900
Fiduciary values	1,104,991	2,664,264
Recovery of administrative expenses	(55,450)	(75,564)
Interest paid	(45,588)	(122,957)

Accounting of the HOLDING debit (credit) balance 2004	2004	2003
Sundry creditors	(Ps 15,636)	(Ps 31,900)
Held-to-maturity securities	(1,104,991)	(2,664,264)
Fees collected from interest income	55,450	75,564
Interest income	45,588	122,957

c. The amount of the total program of loans in UDIs as of December 31 is summarized below:

	2004			
Concept	States and municipalities	Mortgage	Productive plant	Total
	(1)		(2)	
Current portfolio	Ps -	Ps 1,268,232	Ps -	Ps 1,268,232
Current interest	-	3,997	-	3,997
Past due portfolio	-	445,362	-	445,362
Interest due	-	15,614	-	15,614
Total	**Ps -**	**Ps 1,733,205**	**Ps -**	**Ps 1,733,205**

	2003			
Concept	States and municipalities	Mortgage	Productive plant	Total
Current portfolio	Ps 1,138,847	Ps 1,612,908	Ps 19,324	Ps 2,771,079
Current interest	664	4,585	1	5,250
Past due portfolio	-	474,028	1,993	476,021
Interest due	-	17,656	-	17,656
Total	**Ps 1,139,511**	**Ps 2,109,177**	**Ps 21,318**	**Ps 3,270,006**

(1) The Program of Loan Support for States and Municipalities expired in May 2004.

(2) The Programs of Loan Support to the National Productive Plant expired in September, October and November 2004.

During 2004, an additional allowance for loan losses was created from the net profits of the trusts in the amount of Ps43,837 (Ps37,414 in 2003).

NOTE 12 CREDIT ASSETS PORTFOLIO:

At December 31, 2004 and 2003, the balance of the credit assets portfolio of the HOLDING, corresponding to purchase rights, comprised the following:

	Rights purchased	2004	2003
Bancrecer I Project	Ps 356,181	Ps 345,934	Ps 451,200
Serfin Santander Project	408,721	403,706	554,109
Bital I Project	423,252	421,256	457,718
Bancomer II Project	17,826	17,736	-
Confia III Project	124,755	124,256	-
Bital II Project	170,431	171,533	-
Bancomer III Project	204,570	206,211	-
Serfín (Trust 025174-2 Bancen) Project	458,611	458,562	714,585
Total credit assets portfolio	**Ps 2,164,347**	**Ps 2,149,194**	**Ps 2,177,612**

(Amounts stated in thousands of Mexican pesos of December 31, 2004 purchasing power)

As described in Note 2 paragraph b., this item represents the amount effectively paid by the HOLDING to obtain rights over the flows generated by the credit assets packages acquired, less amounts amortized through December 31, 2004.

At December 31, 2004 and 2003, the face value of the portfolio and assets associated with rights purchased by the HOLDING, was as follows:

Item	2004	2003
Bancrecer I Project	Ps 1,279,000	Ps 1,659,797
Serfin Santander Project	1,445,000	1,871,753
Bital Project I	2,114,000	2,313,938
Bancomer II Project	272,000	-
Confia III Project	491,000	-
Bital II Project	1,685,138	-
Bancomer III Project	807,000	-
Serfin Project (Trust 025174-2 Bancen)	4,491,000	7,853,983
Total credit assets portfolio	**Ps 12,584,138**	**Ps 13,699,471**

Project Bancrecer I

The amount of this asset corresponds to the purchase price of mortgage loan portfolio from Bancrecer, S. A., Institución de Banca Multiple, which was submitted by the IPAB during March 2001. This portfolio comprises loans with a face value of Ps1,333,000 and was acquired on November 8, 2002 by BANCEN, which sold it in turn to BANORTE. BANORTE owns this portfolio; therefore, profits will arise when the cash collected from the portfolio exceeds the purchase price.

Project Serfin Santander

The amount of this asset corresponds to the purchase price of mortgage loan portfolio from Serfin Santander, S. A., Institución de Banca Multiple, which was submitted by the IPAB during December 2003. This portfolio comprises loans with a face value of Ps1,314,000 and was acquired on November 8, 2002 by BANCEN, which sold it in turn to BANORTE. BANORTE owns this portfolio; therefore, profits will arise when the cash collected from the portfolio exceeds the purchase price.

Proyect Bital I

The amount of this asset corresponds to the purchase price of mortgage loan portfolio from Bital, S. A., Institución de Banca Multiple, which was submitted by the IPAB during December 2003. This portfolio comprises of loans with a face value of Ps2,123,000 and was acquired on December 19, 2003 by BANCEN, which sold it in turn to the BANORTE. BANORTE owns this portfolio; therefore, profits will arise when the cash collected from the portfolio exceeds the purchase price.

Proyect Bancomer II

The amount of this asset corresponds to the purchase price of commercial and consumer loan portfolio from Bancomer, S. A., Institución de Banca Multiple (Bancomer), which was submitted by the IPAB during June 2004. This portfolio comprises loans with a face value of Ps343,000 and was acquired on June 6, 2004 by BANCEN, which sold it in turn to BANORTE. BANORTE owns this portfolio; therefore, profits will arise when the cash collected from the portfolio exceeds the purchase price.

Proyect Confia III

The amount of this asset corresponds to the purchase price of mortgage loan portfolio from Banco Nacional de México, S. A., Institución de Banca Multiple, which was submitted by the IPAB during November 2004. This portfolio comprises loans with a face value of Ps491,000 and was acquired on November 29, 2004 by BANCEN, which sold it in turn to BANORTE. BANORTE owns this portfolio; therefore, profits will arise when the cash collected from the portfolio exceeds the purchase price.

Proyect Bital II

The amount of this asset corresponds to the purchase price of commercial and consumer loan portfolio from HSBC, S. A., Institución de Banca Multiple, which was submitted by the IPAB during November 2004. This portfolio comprises loans with a face value of Ps1,685,000 and was acquired on November 24, 2004 by BANCEN, which sold it in turn to BANORTE. BANORTE owns this portfolio; therefore, profits will arise when the cash collected from the portfolio exceeds the purchase price.

Proyect Bancomer III

The amount of this asset corresponds to the purchase price of mortgage loan portfolio from Bancomer, S. A., Institución de Banca Multiple, which was submitted by the IPAB during December 2004. This portfolio comprises loans with a face value of Ps807,000 and was acquired in December 2004 by BANCEN, which sold it in turn to BANORTE. BANORTE owns this portfolio; therefore, profits will arise when the cash collected from the portfolio exceeds the purchase price.

Proyect Serfin

On October 27, 1999, in compliance with the public tender bases and in accordance with instructions from IPAB, the trust division of Banca Serfín (SERFIN) selected BANORTE to supervise the management, recovery and collection of the loans and assets included in commercial portfolio Tranches I and II and mortgage portfolio Tranche III. Furthermore, said bases establish that BANORTE may propose a third party to enter into the corresponding agreement; therefore, on February 28, 2000, SERFIN signed such an agreement with BANCEN, whereby SERFIN and its trust division transferred to BANCEN the rights over the flows from portfolio Tranches I, II and III, totaling Ps20,872,000 (nominal value). The price paid for these flows was Ps2,474,000 (nominal value).

The agreement also establishes, the way in which cash flows will be distributed when generated, as a result of the management and collection activities performed by BANCEN:

a. 100% for BANCEN, up to the recovery of 50% of the investment.
b. 80% for BANCEN, up to recovery of 100% of the investment and the remaining 20% for SERFIN.
c. 70% for BANCEN, until obtaining a 10% IYR (internal yield rate in dollars) on the investment and the remaining 30% for SERFIN.
d. 60% for BANCEN, until obtaining a 20% IYR on the investment and the remaining 40% for SERFIN.
e. 40% for BANCEN, until obtaining a 30% IYR on investment and the remaining 60% for SERFIN.
f. 40% of the remaining flows, once the previous scenarios have been covered. The hypothesis corresponding this paragraph until the end of the agreement.

The agreement is effective for 4 years, staring when the agreement was sign, up to the date on which BANCEN violates the agreement, whit an adverse effect on SERFIN's rights.

(Amounts stated in thousands of Mexican pesos of December 31, 2004 purchasing power)

During 2003, BANCEN renegotiated a change to the portfolio administration contract entered into with the fiduciary division of SERFIN, including the retroactive effect of administering approximately $2,800,000 in additional assets, among which are stocks and securities and property fiduciary rights delivered since February 2000 to BANCEN.

Likewise, during 2004 BANCEN obtained an additional two-year extension with IPAB for the administration and collection of this trust, to be concluded in February 2006.

NOTE 13- FORECLOSED ASSETS:

The amounts of foreclosed assets as of December 31, are summarized below:

Concept	2004	2003
Personal property	Ps 151,992	Ps 341,528
Real property	472,383	661,801
Promised-for-sale assets	264,392	301,408
	888,767	1,304,737
Allowance for write-off assets	(523,865)	(120,070)
Total foreclosed assets	**Ps 364,902**	**Ps 1,184,667**

At December 31, 2004 the amount generated from recovery of personal property and real property represented Ps49,174 (Ps35,571 in 2003).

At December 31, 2004, the foreclosed assets show the following ageing (monthly):

Personal property, collection rights and investment securities	Amount	% of allownce	Allowance for loss
Up to 6 months	Ps 10,954	0%	Ps -
More than 6 and up to 12 months	13,116	10%	1,312
More than 12 and up to 18 months	30,498	20%	6,100
More than 18 and up to 24 months	24,575	45%	11,059
More than 24 and up to 30 months	2,198	60%	1,319
More than 30 months	78,107	100%	78,107
	159,448		97,897
Real state			
Up to 12 months	16,077	0%	-
More than 12 and up to 24 months	9,923	10%	992
More than 24 and up to 30 months	3,238	15%	485
More than 30 and up to 36 months	9,971	25%	2,493
More than 36 and up to 42 months	24,132	30%	7,240
More than 42 and up to 48 months	10,254	35%	3,589
More than 48 and up to 54 months	22,026	40%	8,810
More than 54 and up to 60 months	11,993	50%	5,996
More than 60 months	396,605	100%	396,606
	504,219		426,211
Promised-for-sale property	264,393		(243)
Changes corresponding to December 2004	(39,293)		
Total foreclosed assets and preventive allowance	**Ps 888,767**		**Ps 523,865**
Net amount of foreclosed assets	**Ps 364,902**		

NOTE 14 PROPERTY, FURNITURE AND EQUIPMENT:

Property, furniture and equipment as of December 31 is summarized below:

Concept	2004	2003
Property [1]	Ps 4,676,114	Ps 4,255,679
Electronic computer equipment	1,060,884	1,064,435
Furniture and office equipment	879,738	888,933
Transportation equipment	678,399	585,580
Installations and improvements	1,373,812	1,519,224
Other equipment	2,117	4,169
	8,671,064	8,318,020
Accumulated depreciation	(2,730,066)	(2,293,716)
Total property, furniture and equipment, net	**Ps 5,940,998**	**Ps 6,024,304**

(1) Includes a property acquired on October 29, 2004 and recorded at a cost of Ps479,025 (US$39,763,071).

NOTE 15 PERMANENT STOCK INVESTMENTS:

The HOLDING maintains permanent stock investments in non-consolidated affiliated and subsidiary companies. These investments were accounted for by the equity method at December 31, 2004 and 2003, as follows:

	2004			2003
Entity	Cost of acquisition	Surplus	Total	Total
Siefore Banorte Generali, S. A. de C. V. SIEFORE	Ps 252,763	Ps 119,176	Ps 371,939	Ps 314,594
Servicio Panamericano de Protección, S. A. de C. V.	50,958	48,887	99,845	221,200
Sólida Administradora de Portafolios, S. A. de C. V.	445,050	146,567	591,617	569,709
Fianzas Banorte, S. A. de C. V.	39,302	40,715	80,017	101,349
Seguros Banorte Generali, S. A. de C. V.	194,470	187,087	381,557	208,906
Controladora Prosa, S. A. de C. V.	47,486	4,698	52,184	51,514
Pensiones Banorte Generali, S. A. de C. V.	57,324	56,858	114,182	100,214
Sociedades de Inversión Bancen	11,719	3,144	14,863	14,525
Sociedades de Inversión Banorte	40,164	29,379	69,543	66,779
Bolsa Mexicana de Valores, S. A. de C. V.	25,200	-	25,200	21,483
Seguros Generali México, S. A. de C. V. (See Note 2)	-	-	-	48,351
Others	52,471	23,303	75,774	77,956
	Ps 1,216,907	**Ps 659,814**	**Ps 1,876,721**	**Ps 1,796,580**

(Amounts stated in thousands of Mexican pesos of December 31, 2004 purchasing power)

NOTE 16 OTHER ASSETS:

The other assets as of December 31 were as follows:

Concept	2004	2003
Investments of provisions for personnel pensions (see Note 20)	Ps 1,486,087	Ps 1,403,777
Provision for labor obligations (see Note 20)	(1,376,088)	(1,312,592)
Other unamortized expenses	2,001,531	1,498,241
Accumulated amortization of other expenses	(801,882)	(549,094)
Storage inventory	112,192	206,083
Organization expenses	140,364	195,039
Goodwill (see Note 2s.)	74,306	94,954
Collateral deposits	28,834	29,350
Investments of the contingency reserves	3,256	3,230
Provisions for the contingency reserve	(3,256)	(3,230)
Other assets	1,299	63,477
Total	**Ps 1,666,643**	**Ps 1,629,235**

NOTE 17 DEMAND DEPOSITS:

The balance of this item is summarized below:

	Local currency		Valued foreign currency		Total	
Concept	2004	2003	2004	2003	2004	2003
Non-interest-bearing checking accounts	Ps 22,784,532	Ps 23,212,032	Ps 260,333	Ps 36,004	Ps 23,044,865	Ps 23,248,036
Interest-bearing checking accounts	21,176,252	26,393,180	142,018	3,813,960	21,318,270	30,207,140
US dollar denominated checking accounts	-	-	4,543,546	-	4,543,546	-
Border US dollar denominated checking accounts	-	-	2,187,851	2,167,352	2,187,851	2,167,352
Savings accounts	4,077	9,591	-	-	4,077	9,591
Demand deposits in current account	13,921,360	10,177,637	-	-	13,921,360	10,177,637
IPAB checking accounts	235,160	3,806,852	15,223	148,315	250,383	3,955,167
Total	**Ps 58,121,381**	**Ps 63,599,292**	**Ps 7,148,971**	**Ps 6,165,631**	**Ps 65,270,352**	**Ps 69,764,923**

These liabilities accrue interest, depending on the type of instrument and average balance maintained in investments; consequently, the average interest rates and the currency they are denominated in are shown below::

	2004				2003			
Foreign currency	March	June	September	December	March	June	September	December
Local currency and UDIs	1.59%	1.81%	1.32%	1.82%	2.16%	1.86%	1.45%	1.60%
Foreign currency	0.61%	0.70%	0.75%	0.85%	0.62%	0.60%	0.56%	0.61%

At December 31, 2004 and 2003, these liabilities showed deposit ranges (with and without interest) and criteria for the assignment of funding rates, as shown below:

Currently payable deposits	2004			2003
Range of deposits	Local currency and valued UDIs	Foreign currency	Total	Total
Without interest:				
Up to 9,000 UDIs	Ps 490,932	Ps -	Ps 490,932	Ps 1,845,873
From 9,001 to 18,000 UDIs	1,543,521	-	1,543,521	1,419,074
From 18,001 to 36,000 UDIs	2,168,189	-	2,168,189	1,990,796
From 36,001 to 90,000 UDIs	3,670,288	-	3,670,288	3,433,353
More than 90,000 UDIs	15,004,744	-	15,004,744	14,558,413
Total without interest	**22,877,674**	**-**	**22,877,674**	**23,247,509**
With interest:				
Up to 9,000 UDIs	7,399,517	-	7,399,517	8,310,769
From 9,001 to 18,000 UDIs	3,510,411	-	3,510,411	3,678,027
From 18,001 to 36,000 UDIs	3,694,225	-	3,694,225	3,792,559
From 36,001 to 90,000 UDIs	4,523,591	-	4,523,591	4,622,400
More than 90,000 UDIs	16,115,963	-	16,115,963	19,948,167
Total with interest UDIs	**35,243,707**	**-**	**35,243,707**	**40,351,922**
Without interest:				
Up to 2,500 USD	-	27,920	27,920	2,257
From 2,501 to 5,000 USD	-	12,826	12,826	1,622
From 5001 to 10,000 USD	-	21,622	21,622	3,692
From 10,001 to 25,000 USD	-	43,128	43,128	5,996
More than 25,000 USD	-	475,750	475,750	22,821
Total without interest in USD	**-**	**581,246**	**581,246**	**36,388**
With interest:				
Up to 2,500 USD	-	113,011	113,011	129,776
From 2,501 to 5,000 USD	-	127,419	127,419	135,455
From 5,001 to 10,000 USD	-	227,926	227,926	254,756
From 10,001 to 25,000 USD	-	525,076	525,076	524,926
More than 25,000 USD	-	5,574,293	5,574,293	5,084,191
Total with interest in USD	**-**	**6,567,725**	**6,567,725**	**6,129,104**
Grand total	**Ps 58,121,381**	**Ps 7,148,971**	**Ps 65,270,352**	**Ps 69,764,923**

Currently payable deposits	2004			2003
Range of deposits	Local currency and valued UDIs	Foreign currency	Total	Total
Without interest:	Ps 24,359,814	Ps 566,023	Ps 24,925,837	Ps 23,282,294
With interest:				
Low cost (1)	32,378,033	4,978,992	37,357,025	31,642,082
Medium cost (2)	2,280,542	1,588,733	3,869,275	9,239,062
Medium-high cost (3)	268,541	-	268,541	1,419,744
High cost (4)	159,622	-	159,622	275,014
Very High cost(5)	(1,325,171)	15,223	(1,309,948)	3,906,727
Grand total	**Ps 58,121,381**	**Ps 7,148,971**	**Ps 65,270,352**	**Ps 69,764,923**

Funding rates used by the HOLDING as reference are: a). for local currency, Interbank Equilibrium Interest Rate (TIIE), Average Cost of Deposit-taking Operations (CCP) and, b). for foreign currency, London Interbank Offered Rate (LIBOR), respectively.

Following are the parameters of the funding rate:

(1)<=30% of the above-mentioned rate

(2)>=30% and <=55% of the above-mentioned rate

(3)>=55% and <=75% of the above-mentioned rate

(4)>=75% and <=85% of the above-mentioned rate

(5)>85% of the above-mentioned rate

(Amounts stated in thousands of Mexican pesos of December 31, 2004 purchasing power)

NOTE 18 TERM DEPOSITS:

Balances as of December 31, were as follows:

	Local currency		Valued foreign currency		Total	
Concept	2004	2003	2004	2003	2004	2003
Over-the-counter promissory notes	Ps 43,377,404	Ps 73,122,098	Ps -	Ps -	Ps 43,377,404	Ps 73,122,098
Money desk promissory notes	10,975,928	19,685,113	-	-	10,975,928	19,685,113
Fixed term deposits	100,000	1,310,956	7,292,302	6,280,812	7,392,302	7,591,768
Bank term deposits	319,709	319,709	-	-	319,709	319,709
Provision for interest	1,052,465	811,136	9,719	4,331	1,062,184	815,467
Total	**Ps 55,825,506**	**Ps 95,249,012**	**Ps 7,302,021**	**Ps 6,285,143**	**Ps 63,127,527**	**Ps 101,534,155**

These deposits accrue interest at rates depending on the type of instrument and average balance maintained in investments, consequently, the average interest rates and their respective currency are shown below:

	2004				2003			
Foreign currency	March	June	September	December	March	June	September	December
General Public								
Local currency and UDIs	4.75%	5.23%	5.72%	6.39%	7.15%	5.58%	4.03%	4.47%
Foreign currency	0.42%	0.64%	0.83%	1.12%	0.74%	0.67%	0.60%	0.49%
Money market								
Local currency and UDIs	7.52%	8.12%	8.60%	9.14%	7.97%	6.99%	5.79%	6.88%

At December 31, 2004 and 2003, the terms at which term deposits are negotiated are shown below:

	2004			
Concept	From 1 to 179 days	From 6 to 12 months	More than 1 year	Contractual value
Over-the-counter and money desk promissory notes, and fixed term deposits (local currency)	Ps 49,710,819	Ps 1,217,422	Ps 3,525,091	Ps 54,453,332
Fixed term deposits (foreign currency)	6,393,087	716,196	183,019	7,292,302
Bank term deposits	-	-	319,709	319,709
Interest provision	145,211	47,565	869,408	1,062,184
Total	**Ps 56,249,117**	**Ps 1,981,183**	**Ps 4,897,227**	**Ps 63,127,527**

	2003			
Concept	From 1 to 179 days	From 6 to 12 months	From 1 to 2 years	Contractual value
Over-the-counter and money desk promissory notes, and fixed term deposits (local currency)	Ps 88,668,873	Ps 445,344	Ps 3,692,994	Ps 92,807,211
Fixed term deposits (foreign currency)	5,284,068	455,503	1,852,197	7,591,768
Bank term deposits	-	-	319,709	319,709
Interest provision	815,467	-	-	815,467
Total	**Ps 94,768,408**	**Ps 900,847**	**Ps 5,864,900**	**Ps 101,534,155**

At December 31, 2004 and 2003, these liabilities showed deposit ranges (taken from the public and the Money Desk), as follows:

	2004			2003
Term deposits **Range of deposits**	**Local currency and valued UDIs**	**Foreign currency**	**Total**	**Total**
From the public:				
Up to 9,000 UDIs	Ps 2,601,839	Ps -	Ps 2,601,839	Ps 2,486,804
From 9,001 to 18,000 UDIs	3,371,903	-	3,371,903	3,262,280
From 18,001 to 36,000 UDIs	5,123,861	-	5,123,861	4,878,243
From 36,001 to 90,000 UDIs	7,481,108	-	7,481,108	7,063,501
From 90,001 to 360,000 UDIs	11,717,609	-	11,717,609	13,437,501
More than 360,001 UDIs	13,207,268	7,302,021	20,509,289	48,388,257
Total	**43,503,588**	**7,302,021**	**50,805,609**	**79,516,586**
Money market				
Up to 360,000 UDIs	1,047	-	1,047	761
From 360,001 to 3,600,000 UDIs	201,842	-	201,842	222,314
From 3,600,001 to 36,000,000 UDIs	3,443,358	-	3,443,358	4,223,686
From 36,000,001 to 180,000,000 UDIs	5,489,376	-	5,489,376	6,115,962
From 180,000,001 to 360,000,000 UDIs	1,777,843	-	1,777,843	5,173,986
More than 360,000,001 UDIs	1,408,452	-	1,408,452	6,280,860
Total	**12,321,918**	**-**	**12,321,918**	**22,017,569**
Grand total	**Ps 55,825,506**	**Ps 7,302,021**	**Ps 63,127,527**	**Ps 101,534,155**

NOTE 19 INTERBANK AND OTHER ENTITY LOANS:

The balances as of December 31 are comprised as follows:

	Mexican pesos		Valued foreign currency		Total	
Concept	**2004**	**2003**	**2004**	**2003**	**2004**	**2003**
Deposits and bank loans	Ps 2,901,390	Ps 12,731,160	Ps -	Ps 80,268	Ps 2,901,390	Ps 12,811,428
Deposits and foreign bank loans	366	-	1,304,406	948,249	1,304,772	948,249
Loans on rediscounted portfolio	10,194,102	8,619,148	1,524,252	1,896,633	11,718,354	10,515,781
Securitization of remittances	-	-	102,873	320,543	102,873	320,543
Call money	3,165,745	1,938,494	-	-	3,165,745	1,938,494
FOVI rediscounts	3,800,676	4,340,355	-	-	3,800,676	4,340,355
Interest provision	26,603	30,976	13,145	8,642	39,748	39,618
Total	**Ps 20,088,882**	**Ps 27,660,133**	**Ps 2,944,676**	**Ps 3,254,335**	**Ps 23,033,558**	**Ps 30,914,468**

(Amounts stated in thousands of Mexican pesos of December 31, 2004 purchasing power)

These loans accrue interest, depending on the type of instrument and average balance maintained in interbank and other entities' loans, consequently, the average interest rates and their currency of reference is shown below:

BANORTE

	2004				2003			
Foreign currency	March	June	September	December	March	June	September	December
Call money								
Mexican pesos and UDIs	5.98%	6.60%	7.22%	8.26%	9.96%	7.74%	4.35%	5.78%
Other interbank loans								
Mexican pesos and UDIs	7.28%	7.83%	6.91%	9.07%	8.68%	7.05%	5.24%	6.45%
Foreign currency	4.57%	4.56%	4.36%	4.80%	7.57%	5.01%	4.93%	4.93%

BANCEN

	2004				2003			
Foreign currency	March	June	September	December	March	June	September	December
Call money								
Mexican pesos and UDIs	5.50%	6.34%	7.02%	8.67%	8.88%	6.09%	4.56%	5.67%
Other interbank loans								
Mexican pesos and UDIs	6.55%	3.90%	2.53%	7.65%	5.40%	3.20%	1.97%	4.14%
Foreign currency	7.38%	7.07%	7.49%	8.31%	7.61%	7.35%	7.45%	7.50%

At December 31, 2004 and 2003, the negotiation terms of these interbank and other entities' loans are as follows:

	2004			
Concept	From 1 to 179 days	From 6 to 12 months	More than 1 year	Contractual value
Deposits and loans of national banks	Ps 2,554,004	Ps 347,386	Ps -	Ps 2,901,390
Deposits and loans of foreign banks	119,123	190,790	994,859	1,304,772
Loans of rediscounted portfolio	1,852,773	3,981,187	5,884,394	11,718,354
Securitization of remittances	-	-	102,873	102,873
Call money	3,165,745	-	-	3,165,745
FOVI rediscounts	-	-	3,800,676	3,800,676
Interest provision	20,290	-	19,458	39,748
Total	**Ps 7,711,935**	**Ps 4,519,363**	**Ps 10,802,260**	**Ps 23,033,558**

	2003			
Concept	From 1 to 179 days	From 6 to 12 months	More than 1 year	Contractual value
Deposits and loans of national banks	Ps 2,161,779	Ps 10,649,649	Ps -	Ps 12,811,428
Deposits and loans of foreign banks	9,501	267,710	671,038	948,249
Loans of rediscounted portfolio	1,616,147	4,024,535	4,875,099	10,515,781
Securitization of remittances	-	-	320,543	320,543
Call money	1,938,494	-	-	1,938,494
FOVI rediscounts	-	-	4,340,355	4,340,355
Interest provision	39,618	-	-	39,618
Total	**Ps 5,765,539**	**Ps 14,941,894**	**Ps 10,207,035**	**Ps 30,914,468**

NOTE 20 LABOR LIABILITIES:

The HOLDING recognizes liabilities for pension plans and seniority premiums using the "Projected Unit Credit Method". This method considers the accrued benefits at the date of valuation, as well as the benefits generated during the plan year.

During the year, some events generated a loss from the advance reduction of labor obligations amounting to Ps192,400, as shown within the administrative expenses in the statement of income.

The actuarial present value of benefit obligations and projected benefits as of December 31, 2004 and 2003, corresponding to the "Defined Benefit Pension and Seniority Premium Plan", determined by independent actuarial experts, is summarized below:

	2004			
Concept	Personnel pensions	Seniority premiums	Medical expenses to retired personnel	Total
Projected benefit obligations (PBO)	Ps 582,186	Ps 97,699	Ps 845,741	Ps 1,525,626
Plan assets at market value	634,742	117,166	337,955	1,089,863
Financial situation of the plans	(52,556)	(19,467)	507,786	435,763
Unamortized transition (assets) liabilities	(81,268)	13,852	(432,380)	(499,796)
Unamortized prior services and plan amendments	21,756	2,772	-	24,528
Unamortized changes in assumptions and adjustments from experience	(82,518)	(22,234)	24,594	(80,158)
Projected net (assets) liabilities [1]	**(Ps 194,586)**	**(Ps 25,077)**	**Ps 100,000**	**(Ps 119,663)**
Current benefit obligations (CBO)	**Ps 512,567**	**Ps 60,323**	**Ps -**	**Ps 572,890**

	2003			
Concept	Personnel pensions	Seniority premiums	Medical expenses to retired personnel	Total
Projected benefit obligations (PBO)	Ps 571,694	Ps 116,150	Ps 866,512	Ps 1,554,356
Plan assets at market value	735,044	106,159	219,159	1,060,361
Financial situation of the plans	(163,350)	9,991	647,353	493,995
Unamortized transition (assets) liabilities	(99,927)	18,275	(463,227)	(544,879)
Unamortized prior services and plan amendments	27,116	2,799	-	29,915
Unamortized changes in assumptions and adjustments from experience	(30,813)	(33,084)	(14,359)	(78,256)
Projected net (assets) liabilities [1]	**(Ps 266,974)**	**(Ps 2,019)**	**Ps 169,767**	**(Ps 99,225)**
Current benefit obligations (CBO)	**Ps 491,687**	**Ps 69,861**	**Ps -**	**Ps 561,548**

(1) The HOLDING has a net accounting accrued liability with a zero balance, since the same amount of the provision is invested in an external fund for an amount equal to Ps1,423,021 (Ps1,021,199 in 2003), which covers the aforementioned amount of obligations, in conformity with Statement D-3 of the MIPA. This last amount is recorded in the item "Other Assets" (see Note 16).

At December 31, 2004 and 2003, the net cost for the year was as follows:

Concept	2004	2003
Labor cost	Ps 64,603	Ps 68,381
Financing cost	74,372	77,520
Expected return on assets	(69,338)	(78,526)
Amortizations:		
Transition liability	28,445	28,964
Plan improvements	(1,072)	(1,131)
Actuary losses	2,312	2,911
Deferred losses to previous years	5,521	8,131
Cost of the period	104,843	106,250
Inflationary adjustment of the cost for the period	3,850	5,187
Net adjustment cost of the period	108,693	111,437
Cost from reduction and extinction effect	15,165	(1,289)
Inflationary adjustment on reduction and extinction effect	255	(64)
Annual cost	124,113	110,084
Maximum contribution to the "Ensure Your Future" Plan	45,677	-
Total net cost for the period	**Ps 169,790**	**Ps 110,084**

(Amounts stated in thousands of Mexican pesos of December 31, 2004 purchasing power)

Rates used in the calculation of projected benefit obligations and returns from the plan at December 31, 2004 and 2003 are shown below:

	2004	2003
Discount rate	5.25% to 5.50%	5.25% to 5.50%
Salary increase rate	1.00%	2.50%
Estimated long term rate of returns on plan assets	6.25% to 6.50%	6.25% to 7.50%

Dismissal payments and direct labor costs are expensed in the year they are paid.

Labor obligations for pension plans presented in this note correspond to the defined benefit pension plan (the plan), covering the personnel, which elected to remain in this plan.

In the other hand, the HOLDING has an optional defined contribution pension plan, that replaces the defined benefit pension plan. Employees participating in the new plan, do so voluntarily; therefore, there are employees that preferred to stay in the first plan denominated "Defined Benefit Pensions Plan". At December 31, 2004 it includes an amount of Ps420,589 (Ps382,578 in 2003); likewise, the "Ensure Your Future" pension plan includes an amount of Ps429,542 (See Note 16).

Employees who elected to participate in the new defined contribution pension plan have the right to receive a benefit for prior services as follows: 50% of the benefit immediately and the remaining 50% over a 10-year period (with the first installment as of the date of implementation of the new plan).

Labor obligations from the defined contribution pension plan do not require an actuarial valuation in accordance with Statement D-3 of the MIPA, because the cost of this plan is equal to the contributions made in favor of the participants.

The initial assignment of benefits from services rendered was financed by the definite benefit fund associated with the advance extinction of obligations, recognized under the standards established in Statement D-3 of the MIPA.

NOTE 21 OUTSTANDING SUBORDINATED NOTES:

The balance of this item is analyzed as follows:

	2004	2003
Issue of preferred subordinated notes not convertible to capital stock, denominated in US dollars with an interest rate of 5.875% payable twice a year and with principal payable at the end of the 10-year period (See Note 2 paragraph a.).	Ps 3,334,238	Ps -
Issue of notes (BANORTE 02D), payable in November 2012 with interest at an annualrate of 8.00% for the first 10 six-month periods. In the fifth year, the remaining 10 six-month periods shall be reviewed and such rate will not represent annual interest of less than 8.00%, or more than 10.00%. (1)	1,247,435	1,325,778
Issue of notes (BANORTE 01U), payable in June 2009 with interest at a fixed annual net rate of 8.00%. (See Note 2 paragraph a.)	-	1,541,136
Accrued interest payable	28,247	13,418
	Ps 4,609,920	**Ps 2,880,062**

(1) In an extraordinary general meeting held on June 16, 2003, the stockholders agreed to reduce the total amount of notes BANORTE 02D issued to reach an amount of Ps1,136,000 at nominal value through the issuance of 11,360,000 subordinated notes with nominal value of Ps100 each. This decision was made based on the seventh clause of the issuance document, which establishes that in case the issuer does not quote the total subordinated notes within a maximum term of 161 days, as from the date of issuance, unquoted certificates shall be cancelled and consequently the amount of the issuance reduced.

At December 31, 2004 and 2003, interest included in the statement of income amounted to Ps321,000 (Ps224,936 in 2003).

NOTE 22 CONTINGENCIES AND COMMITMENTS:

As of December 31, 2004 and 2003, the HOLDING has the following contingent obligations and commitments:

a. The HOLDING (through BANORTE and BANCEN), has commitments due to guarantees granted, other contingent obligations and the opening of irrevocable letters of credit in the amount of Ps10,562,000 (Ps19,551,961 in 2003), which are recorded in memorandum accounts. Furthermore, through its Stock Exchange, it has commitments arising from the stock brokerage contracts entered into.

b. Tax differences that could result from an audit of the tax returns filed by the HOLDING as a result of differing interpretations of legal provisions between the HOLDING and the tax authorities.

c. There are suits and commitments filed against the HOLDING for ordinary, civil, labor, commercial and other matters. In the opinion of the lawyers of the HOLDING, as of December 31, 2004, the suits filed are considered unfavorable in the amount of Ps105,592, (mainly from BANORTE´s subsidiary) for which only Ps76,160 are provisioned. Additionally, there are suits filed against the HOLDING for Ps9,857 (mainly from BANORTE´s subsidiary) in its role as fiduciary entity.

d. Some property and equipment used in operations are leased. Lease payments may be adjusted based on changes in various future economic factors. The total payments for the years ended December 31, 2004 and 2003 amounted to Ps124,000 and Ps104,000, respectively.

e. Differences derived from the results of the GEL audits described in Note 2 b.

NOTE 23 ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCY AND UDIs:

Foreign currency transactions

The amounts shown in this note are stated in thousands of US dollars, since this is the currency in which most of the HOLDING's transactions are carried out.

The regulations of BANXICO set forth the following standards and limits for purposes of foreign currency transactions:

a. The (short or long) position in US dollars should be equivalent to a maximum of 15% of the HOLDING's net capital.

b. Permitted foreign currency denominated liabilities should not exceed 183% of the basic capital of the HOLDING.

c. The rules governing foreign currency transactions require maintaining a minimum level of liquid assets, in accordance with a calculation mechanism established by BANXICO, based on the maturity date of the foreign currency transactions.

As of December 31, 2004 and 2003, the HOLDING had a foreign currency position denominated in US dollars, as summarized below:

	Thousands of US dollars	
	2004	2003
Assets	1,729,882	1,199,720
Liabilities	1,694,385	1,211,932
Long (short) position	**35,497**	**(12,212)**

As of December 31, 2004, the exchange rate set by BANXICO for the valuation of liabilities was Ps11.1495 per US dollar (Ps11.2372 in 2003).

(Amounts stated in thousands of Mexican pesos of December 31, 2004 purchasing power)

Transactions denominated in UDIs

As of December 31, 2004 and 2003, the value of the UDI determined by BANXICO and used by the HOLDING to value its assets and liabilities denominated in UDIs was Ps3.534716 (Ps3.352003 in 2003). At those same dates, the HOLDING had assets and liabilities in UDIs as shown below:

	Thousands of UDIs	
	2004	2003
Assets	124,455	200,332
Liabilities	96,474	572,028
(Short) long position	**27,981**	**(371,696)**

NOTE 24 - STOCKHOLDERS' EQUITY:

In General Meetings held on April 29 and October 4, 2004, respectively, the stockholders approved among others, the following resolutions:

a. To apply the profits corresponding to 2003 in the amount of Ps2,339,417 (Ps2,218,490 at nominal value) to income from prior years, and increase the legal reserve by Ps114,815 (Ps110,924 at nominal value) equal to 10%.

b. To declare a dividend in cash in the amount of Ps511,899 (Ps504,587 at nominal value). The dividend aforementioned was paid after October 18, through the S. D. Indeval, S. A. de C. V.

After the aforementioned resolutions, the capital stock of the HOLDING at December 31, 2004, was represented by 504,586,887 common Series "O" shares with a face value of three pesos and fifty cents each one, fully subscribed and paid. The capital stock is summarized below:

	Number of shares		Amount	
Description	2004	2003	2004	2003
Series "O" shares	504,586,887	504,551,887	Ps 1,766,054	Ps 1,765,932
Increase from restatement			3,854,722	3,854,723
Total			**Ps 5,620,776**	**Ps 5,620,655**

The HOLDING is required to create a legal reserve fund by appropriating 5% of its earnings each fiscal year until that fund is equivalent to 20% of its capital stock.

Dividends paid will be exempt from income tax if they are paid out of the Net Taxable Income Account or "CUFIN" and will be subject to income tax at a 4.62% and 7.69% rate if they are paid out of the Reinvested CUFIN. Dividends paid in excess of the balance of such CUFIN are subject to a 42.86%, 40.85% and 38.89% tax if paid during 2005, 2006 and 2007, respectively. The resulting tax will be payable by the HOLDING and may be credited against its income tax for the year or that of the two following years. Dividends paid will not be subject to any withholding.

In the event of capital stock reductions, any excess over capital contributions, the latter inflation-indexed in accordance with the procedures established by the Mexican Income Tax Law, is accorded the same tax treatment as dividends.

c. The HOLDING through BANORTE, adopted a long-term incentive plan under a program denominated "Option plan for the purchase of shares" aimed at certain Executives and/or Directors appointed by the corresponding Committee. In accordance with this plan, a trust was constituted through a Mexican financial institution in charge of managing the share packages of the HOLDING, which are acquired by the trust itself. The term for the Executives and/or Directors to begin exercising the share purchase option is 33% the first year, 33% the second year and the remaining 34% the third year.

Under the terms of this purchase option plan, the benefit for those Executives and/or Directors of the HOLDING is constituted by the difference existing between the initial assignment price and the price when the option is exercised.

The HOLDING does not include the economic benefit arising from the purchase of shares through the aforementioned purchase option plan in income for the year.

d. In conformity with the Bank Savings Protection Law, the IPAB will be in charge of managing the Savings Protection System, which shall be gradually reformulated in conformity with the guidelines laid down for the transition mechanics established by the IPAB. The new savings protection system will become effective as of January 1, 2005 and establishes, among other changes, that the protection of customer deposits (savings accounts, checking accounts or other type of over-the-counter deposits; deposit certificates issued by banks on behalf of the customer and other types of term deposits with prior notification; as well as promissory notes with interest payable at maturity issued by the banks in favor of the customer; and credit balances on credit and debit cards) shall amount to 400,000 UDIs valued at Ps1,414 (5,000,000 UDIs valued at Ps16,760 in 2003), excluding, among other things, the deposits in favor of the stockholders and top bank officials.

NOTE 25 CAPITALIZATION:

The standards issued by BANXICO for calculating the capitalization index take into account the credit and market risk of the various assets, graded by the market risk and the credit risk.

Capitalization indexes of bank subsidiaries are summarized as follows:

a. BANORTE

By considering only the credit risk, the capitalization index determined by BANORTE at December 31, 2004 and 2003 reached 17.57% (14.33% in 2003), with a basic capital of 12.26% (11.32% in 2003). By including market risks in the determination of assets weighted by risk, the total capitalization index of BANORTE reached 13.92% (10.90% in 2003), with a basic capital of 9.71% (8.61%in 2003). The index exceeds the legal requirements in both years.

Relevant events discussed in Note 2 affected the determination of the net capital of BANORTE as follows:

(Balances stated in millions of Mexican pesos) % of asset under risk	2004 Credit risk	2004 Credit and market risk	2003 Credit risk	2003 Credit and market risk
Basic capital	12.26%	9.71%	11.32%	8.61%
Complementary capital	5.31%	4.21%	3.01%	2.29%
Net capital	**17.57%**	**13.92%**	**14.33%**	**10.90%**
Assets subject to credit risk		Ps 82,508		Ps 81,884
Assets subject to market risk		21,651		25,836
Total assets subject to risk		**Ps 104,159**		**Ps 107,720**

At December 31, 2004 and 2003, the net capital of BANORTE was analyzed as follows:

(Amounts stated in millions of Mexican pesos)	2004	2003
Basic capital	Ps 10,112	Ps 9,776
Complementary capital	Ps 4,385	Ps 2,603
Net capital	Ps 14,497	Ps 12,379

At December 31, 2004 and 2003, the amount of weighted positions exposed to market risk was as shown below:

	Amount of equivalent positions	
(Amounts stated in millions of Mexican pesos)	2004	2003
Integration Group I		
Transactions in local currency with nominal rate	Ps 11,279	Ps 23,170
Interest rate of transactions in foreign currency with nominal rate	9,760	2,368
Other	612	298
	Ps 21,651	Ps 25,836

At December 31, 2004 and 2003, the amount of weighted positions exposed to credit risks is shown below:

	Amount of equivalent positions	
(Amounts stated in millions of Mexican pesos)	2004	2003
Integration of Group II		
For debt certificates position	Ps 2,224	Ps 3,297
For deposits and loans	75,985	73,392
Other	46	17
For permanent shares, personal and real property, prepaid expenses and deferred charges	4,253	5,178
	Ps 82,508	Ps 81,884

El monto de los activos ponderados sujetos a riesgo de mercado y de crédito se detalla a continuación:

	Risk-weighted assets	
(Amounts stated in millions of Mexican pesos)	2004	2003
Concept		
Group I	Ps 21,651	Ps 25,836
Group II	82,508	81,884
	Ps 104,159	Ps 107,720

The quarterly behavior of the capitalization index and its components are shown below:

Concept	4T03	1T04	2T04	3T04	4T04
Net capital / Assets subject to credit risk	14.34%	18.8%	16.32%	16.1%	17.6%
Net capital / Assets subject to credit and market risk	10.90%	14.76%	12.95%	13.9%	13.9%
Liquidity = Liquid assets / liquid liabilities	48.9%	48.8%	52.0%	49.6%	66.1%
Min = Quarterly financial margin / Average productive assets	3.9%	3.9%	3.7%	3.9%	4.3%
Operating efficiency	4.6%	4.7%	4.6%	4.7%	4.8%
ROE = Net quarterly income / Average stockholders' equity	11.2%	14.2%	16.8%	14.8%	18.0%
ROA = Net quarterly income / Total average assets	0.5%	0.7%	0.8%	0.7%	0.9%

b. BANCEN

The standards of BANXICO to calculate the capitalization index, adjust weighted assets subject to risk, accordance with the market and credit risk. By considering only the credit risk, the capitalization index determined by the BANCEN at December 31, 2004 reached 122% (107.28% in 2003), with a basic capital of 121.44% (106.03% in 2003). By including market risks in the determination of assets weighted by risk, the total capitalization index of BANCEN reached 66.74% (66.79% in 2003), with a basic capital of 66.43% (66.01% in 2003). The index exceeds the legal requirements for both years.

Relevant events discussed in Note 2, affected the determination of net capital of the BANCEN as follows:

	2004		2003	
Risk assets %	Credit risk	Credit and market risk	Credit risk	Credit and market risk
Basic capital	121.44%	66.43%	106.01%	66.01%
Complementary capital	0.56%	0.31%	1.27%	0.78%
Net capital	**122.00%**	**66.74%**	**107.28%**	**66.79%**
Assets subject to credit risk		Ps 2,604		Ps 2,279
Assets subject to market risk		2,156		1,381
Total assets subject to risk		**Ps 4,760**		**Ps 3,660**

At December 31, 2004 and 2003, the net capital of BANCEN is comprised as follows:

(Amounts stated in millions of Mexican pesos)	2004	2003
Basic capital	Ps 3,162	Ps 2,549
Complementary capital	Ps 15	Ps 30
Net capital	Ps 3,177	Ps 2,579

At December 31, 2004 and 2003, the amount of weighted positions exposed to market risk is shown below:

	Amount of equivalent positions	
(Amounts stated in millions of Mexican pesos)	2004	2003
Integration of Group I		
Transactions in local currency with nominal rate	Ps 148	Ps 95
Transactions with effective interest rate	17	12
Foreign currency with nominal rate	1	1
Balance in shares or with yield indexed to a share or group or shares' price	6	9
	Ps 172	**Ps 117**

At December 31, 2004 and 2003, the amount of weighted positions exposed to credit risks is shown below:

	Amount of equivalent positions	
(Amounts stated in millions of Mexican pesos)	2004	2003
Integration of Group II		
Per debt certificates position	Ps 8	Ps 1
Per deposits and loans	200	192
	Ps 208	**Ps 193**

The amount of weighted assets subject to market and credit risks is detailed as follows:

	Risk-weighted assets	
(Amounts stated in millions of Mexican pesos)	2004	2003
Concept		
Group I	Ps 172	Ps 117
Group II	208	193
	Ps 380	**Ps 310**

(Amounts stated in thousands of Mexican pesos of December 31, 2004 purchasing power)

The quarterly behavior of the capitalization index and its components is shown below:

Concept	4T03	1T04	2T04	3T04	4T04
Net capital / Assets subject to credit risk	107.28%	88.52%	70.59%	91.40%	122%
Net capital / Assets subject to credit and market risk	66.79%	20.77%	41.98%	32.33%	66.74%
Liquidity = Liquid assets / Liquid liabilities	114.90%	277.1%	545.7%	17408.7%	272.5%
Financial margin / Average productive assets	2.1%	2.6%	3.7%	2.6%	0.8%
Operating efficiency	12.8%	13.7%	12.8%	13.2%	13.1%
ROE = Net income for the quarter /Average stockholders' equity	28.3%	16.1%	11.6%	12.3%	13.5%
ROA = Net income for the quarter / Total average assets	19.0%	12.3%	8.5%	9.0%	9.9%

The net capital calculations and capital requirement are performed during the first week after the closing of each quarter with information at that same date, in order to determine how changes occurring in the capital structure have an impact on the financial ratios and the position of such capital. The aforementioned information is filed with the Risk Policies Committee, which analyzes and determines the feasibility of the new plans and/or investment projects.

Finally, at December 6, 2004, the General Rules issued by the COMMISSION became effective in order to classify Multiple Purpose Banking Institutions considering their capitalization indexes, and when required, to apply the necessary corrective measures to guarantee an adequate capital amount in responding to any liquidity problem faced by this type of institutions.

The categorization of Multiple Purpose Banking Institutions is performed in accordance with their capitalization index and the corrective measures applicable in conformity with each category are shown below:

Category	Capitalization index
I	10% or more
II	8% - 9.9%
III	7% - 7.9%
IV	4% - 6.9%
V	Less than 4%

Multiple Purpose Banking Institutions will be notified in writing by the COMMISSION with respect to their categorization, as well as of the corresponding Minimum and/or Special Additional Corrective Measures.

The Minimum Corrective Measures include reports to the board of directors of such institutions, the prohibition of transactions that could reduce the capitalization index of the institution, the preparation and presentation of a capital restructuring plan, the suspension of payment of dividends to stockholders, as well as benefits and bonuses to employees and officials, obtaining authorization from the COMMISSION to open new branches or purchase assets, among others things.

Special Additional Corrective Measures may be applied by the COMMISSION in addition to the minimum corrective measures, which depending on the category, could include from the presentation of more detailed reports to the board of directors of the institutions and the COMMISSION, the hiring of special auditors for specific situations with external auditors and authorized by the COMMISSION, to the substitution of officials, directors, statutory auditors and auditors, the change of policies on interest rates and the withdrawal of the authorization under which the banking institution operates.

NOTE 26 COMPREHENSIVE INCOME:

In conformity with the new Statement B-4 issued by the MIPA, comprehensive income for the years ended December 31, 2004 and 2003, is summarized below:

	2004	2003
Net income, as shown in statement of income	Ps 2,621,149	Ps 2,339,417
Gain (loss) from holding non-monetary assets	(41,796)	(95,272)
Foreclosed assets reserve, methodology dated August 20, 2004 by the COMMISSION	(524,108)	
Loss from cancellation of portfolio [1]	(258,539)	-
Foreclosed assets written-off and creation of allowance for loan losses of Arrendadora Banorte, S. A. de C. V.	(15,066)	-
Income of Generali Mexico Compañía, de Seguros S. A. (see Note 2).	17,049	-
Comprehensive income	**Ps 1,798,689**	**Ps 2,244,145**

(1)At the end of the first quarter of 2004, the HOLDING's Management applied official letter number 601-II-34966 issued by the COMMISSION, proceeding to recognize an amount of Ps258,539 in "Prior Year Retained Earnings", referring to the restitution of preventive allowances for loan losses that were previously cancelled. Such cancellation was made in the amount of Ps1,577,981 and it constituted the difference between the sales price and the book value of the portfolio at the date of the transaction, instead of the allowances that were associated when such transaction was settled, in the amount of Ps1,319,442.

NOTE 27 NET EARNINGS PER SHARE:

As provided for by Statement B-14, "Earnings per share", issued by the MIPA, earnings per share were calculated as follows:

- Basic earnings per share are the result of dividing the net earnings by the weighted average shares outstanding of the HOLDING.

- Diluted earnings per share consider the effect of future capitalizations of mandatory convertible subordinated debentures into outstanding capital stock.

- Net earnings are adjusted by adding thereto the comprehensive financing cost (interest paid less the monetary gain) of the subordinated debentures. Earnings adjusted as aforementioned are then divided by the weighted average outstanding shares, including those applicable to future capitalizations of outstanding debentures.

Following are the results of the aforementioned calculations, as well as the income effects from ongoing and discontinued operations:

	2004			2003
	Earnings	Weighted average of shares	Earnings per share	Earnings per share
Earnings from continuing operations attributable to paid-in capital	Ps 2,621,149	504,526,919	Ps 5.1953	Ps 4.6612
Net earnings per share	2,621,149	504,526,919	5.1953	4.6612
Diluted earnings per share	2,621,149	504,526,919	5.1953	4.6612

NOTE 28 INCOME TAX, EMPLOYEES' PROFIT SHARING AND ASSET TAX:

a. As a result of the amendments to the Income Tax Law, approved on November 13, 2004, the income tax rate will be 30%, 29% and 28%, in 2005, 2006 and 2007, respectively. Consequently, the effect of these reductions in the tax rate was considered in the valuation of the deferred income tax, resulting in the reduction of the relative liability in 2004 of Ps345,117, and an increase in net income of Ps216,489.

(Amounts stated in thousands of Mexican pesos of December 31, 2004 purchasing power)

b. At December 31, 2004 and 2003, the concept of "current and deferred income tax and employees' profit sharing", shown in the HOLDING's statement of income, comprised the following:

	2004	2003
Asset tax currently payable	Ps 31,103	Ps 40,105
Consolidated subsidiaries' income tax currently payable	230,312	198,853
Employees' profit sharing currently payable	228,189	120,125
Deferred income tax and profit sharing	214,884	(102,974)
Restatement effect	9,977	980
	Ps 714,465	Ps 257,089

c. The tax incurred by the HOLDING is calculated on the tax result of the year, by applying the currently effective tax regulations; however, due to temporary differences in the recognition of income and expenses for accounting and tax purposes, as well as differences between accounting and tax values of assets and liabilities, the HOLDING has recognized a net deferred tax asset in the amount of Ps677,915 (Ps1,023,032 in 2003) determined, in the case of income tax, at the rates at which the temporary differences are expected to reverse, and in the case of profit sharing at 10%, as follows:

	2004			2003		
		Deferred			Deferred	
Concept	Temporary differences	Income tax	Profit sharing	Temporary differences	Income tax	Profit sharing
Allowance for loan losses						
(non-deducted)	Ps -	Ps -	Ps -	Ps 15,812	Ps 5,059	Ps -
Shared loss with FOBAPROA [2]	2,175,529	640,758	-	2,220,024	710,408	-
Tax loss carry forwards [1]	2,241,459	693,231	-	1,535,284	508,740	-
Deficit from valuation of certificates	626,351	187,905	62,635	660,493	217,963	66,049
Excess of tax value over accounting						
value of foreclosed assets	418,122	125,461	-	474,820	156,690	-
Other provisions	389,497	116,853	35,762	362,266	119,526	
Past-due portfolio's principal and						30,768
interest reserves	37,269	10,435	-	-	-	-
IA receivable	1,437	1,437	-	-	973	-
Unrealized surplus from						
interests in Siefore	(63,399)	(19,020)	-	-	-	-
TOTAL DEFERRED ASSETS	Ps 5,826,265	Ps 1,757,060	Ps 98,397	Ps 5,268,699	Ps 1,719,359	Ps 96,817

Concept	2004 Temporary differences	2004 Deferred Income tax	2004 Deferred Profit sharing	2003 Diferencias temporales	2003 Deferred Income tax	2003 Deferred Profit sharing
Excess of accounting value over tax value of fixed assets and prepaid expenses	(Ps 1,855,420)	(Ps 547,605)	(Ps 70,472)	(Ps 1,948,139)	(Ps 633,094)	(Ps 57,941)
Unrealized surplus from interests in Siefore	-	-	-	(61,892)	(20,425)	-
Inventory deduction	-	-	-	(206,082)	(70,068)	-
Acquisition of portfolios	(1,705,736)	(511,721)	-	-	-	-
Income tax payable for UDI Trusts	(42,689)	(14,086)	-	(35,202)	(11,616)	-
Reversion of cost of sales	(112,192)	(33,658)	-	-	-	-
TOTAL DEFERRED LIABILIITES	**(Ps 3,716,037)**	**(Ps 1,107,070)**	**(Ps 70,472)**	**(Ps 2,251,315)**	**(Ps 735,203)**	**(Ps 57,941)**
NET ASSET	**Ps 2,110,228**	**Ps 649,990**	**Ps 27,925**	**Ps 3,017,384**	**Ps 984,156**	**Ps 38,876**
DEFERRED TAX			**Ps 677,915**			**Ps 1,023,032**

(1) Based on the analysis performed by the HOLDING's Management at the end of 2004, an amount of Ps2,241,459 (Ps1,455,921 in 2003) is expected with respect to tax loss carryforwards. Management has prepared financial and tax projections, based on economic conditions estimated as conservative, which justify relying upon the recovery of the deferred tax asset against future taxable profits in the normal course of operations of the HOLDING.

(2)The deferred tax determined by this item was calculated at a 29% rate, since the maturity date of FOBAPROA promissory notes is identified.

Items affecting the deferred tax asset account during 2004 and 2003, are shown below:

	2004	2003
Balance at beginning of year	Ps 1,023,032	Ps 853,420
Loss shared with FOBAPROA	(47,187)	(49,934)
Tax loss carry forwards	344,609	77,430
Excess in accounting value over value of foreclosed assets	(30,143)	(137,206)
Other provisions	47,913	63,071
Past-due portfolio principal and interest reserves	(661)	-
Income asset receivable	141	199
Excess of accounting value over tax value of fixed assets and prepaid expenses	(61,506)	63,651
Income tax payable of UDI Trusts	-	116,370
Inventory deduction	-	33,473
Deficit from valuation of certificates	-	2,558
Reversion of cost of sales	(33,682)	-
Acquisition of loan portfolios	(511,721)	-
Restatement effect	(52,880)	-
Balance at end of year	**Ps 677,915**	**Ps 1,023,032**

d. At December 31, 2004, the HOLDING and subsidiaries had the following tax profits (losses):

Entity (Amounts stated in thousands of Mexican pesos)	Tax profit (loss) for the year	Tax losses from prior years
Banco Mercantil del Norte, S. A.	Ps 1,704,750	(Ps 695,629)
Banco del Centro, S. A.	1,889,163	(1,970,623)
Arrendadora Banorte, S. A. de C. V.	(62,564)	(1,063,141)
Almacenadora Banorte, S. A. de C. V.	100,595	(71,814)

(Amounts stated in thousands of Mexican pesos of December 31, 2004 purchasing power)

Accumulated tax loss carryforwards are restated by applying historical values to the NCPI factors, published by BANXICO, and may be applied against taxable profits in the following years, for a maximum period of ten years as from the year following their origination.

e. At December 31, 2004, the HOLDING incurred in PTU amounting to Ps228,189 (Ps113,916 in 2003), shown in the statement of income, under the item denominated "Currently payable income tax and employees' profit sharing".

f. The HOLDING is subject to asset tax, calculated by applying the 1.8% rate on the average of assets not subject to financial brokerage, less the average of the debts used for the acquisition of such assets. Asset tax is payable only when the amount is higher than that of the income tax currently payable in the same year. The asset tax payments may be recovered to the extent of the excess of income tax over asset tax in the three prior years and the ten subsequent years. At December 31, 2004, the HOLDING incurred asset tax in the amount of Ps31,103 (Ps38,032 in 2003), as an individual entity. Deferred asset tax, shown by subsidiary, are as follows:

	2004	2003
Banco Mercantil del Norte, S. A.	Ps 604,812	Ps 1,605,349
Banco del Centro, S. A.	69,321	(93,716)
Casa de Bolsa Banorte, S. A. de C. V.	22,494	22,728
Almacenadora Banorte, S. A. de C. V.	(25,554)	(24,233)
Factor Banorte, S. A. de C. V.	6,453	24
Grupo Financiero Banorte (Holding)	389	-

NOTE 29 MEMORANDUM ACCOUNTS:

Transactions on behalf of third parties	2004	2003
Customer banks (current accounts)	Ps 7,728	Ps 4,947
Liquidation of customer transactions	9,590	(8,078)
Securities of customers received in custody	106,766,161	155,186,223
Customer repo transactions	29,293,534	18,264,087
Purchase transaction (option price)	-	9,035
Administrative trusts	1,700,170	2,513,537
	Ps 137,777,183	Ps 175,969,751

Transactions for own account		
Guarantees given	Ps 60,274	Ps 34,166
Other contingent liabilities	8,208,153	18,695,966
Opening of irrevocable credits	2,293,617	821,811
Amounts committed in transactions with FOBAPROA	418,689	7,108,828
Asset deposits	643,846	720,945
Securities of the company delivered in custody	253,540	241,083
Government securities of the company in custody	46,229	643
Assets in trust or mandate	61,445,770	86,814,946
Assets in custody or administration	76,581,514	114,927,184
Investments of the funds of the retirement savings system	-	260,709
Investment banking transactions on behalf of third parties, net	80,638,741	57,840,085
Amounts contracted in derivative instruments	27,080,596	10,986,511
	Ps 257,670,969	Ps 298,452,877

Repo transactions	2004	2003
Securities receivable under repo agreements	Ps 145,583,119	Ps 86,148,785
Less: Payables under repo agreements	145,582,274	86,320,147
	Ps 845	(Ps 171,362)
Receivables under repo agreements	Ps 51,011,324	Ps 25,675,509
Less: Securities deliverable under repo agreements	51,038,354	25,676,880
	(Ps 27,030)	(Ps 1,371)

NOTE 30 SECURITIZATION:

The HOLDING, through the BANORTE has undertaken securitization operations whereby the rights on specified future U.S. dollar remittances have been transferred to a trust and in turn, the trust has issued securities to be placed among the investing public. The foregoing results in the right to the yields or proceeds of the sale of the assets traded (securitization), which is found within the cash and cash equivalents item (see Note 6) as a restricted asset.

Certificates of BANORTE have been placed on the international capital markets. At year-end, the balances thereof amounted to Ps102,876 (Ps302,765 in 2003), equivalent to US$9,277,000 (US$27,155,000 in 2003). These securitizations allowed BANORTE to obtain long-term financing in US dollars, in reliance on the cash flows from the US dollar remittances acquired from its customers through the branch network.

The U.S. dollar remittances and cash flows derived there from belong to a trust established in New York in favor of the foreign investors. The certificates issued ("CPOs") backed by the securitized remittances mature in the year 2006. They were originally for seven years and monthly installments of principal are paid. However, certain covenants must be complied with: coverage of remittance deposits should not fall below a 5 to 1 ratio for more than 3 months in a given year; if this occurred it could result in the advance cancellation of the financing.

The main characteristics of these securitizations are summarized below:

	2004	2003
CPOs - Series 1999-2A that cover 300 certificates with a face value amounting to US$250,000 each (US$75 million) payable in a 7-year term at a fixed interest rate of 8.94 %	Ps 102,876	Ps 170,414
CPOs - Series 1999-2B that cover 100 certificates with a face value amounting to US$250,000 each (US$25 million) payable in a 5-year term at a fixed interest rate of 9.49%	-	150,128
Accrued interest payable	407	1,233
	Ps 103,283	Ps 321,775

The HOLDING recognized interest expense in connection with these securitizations in the amount of Ps16,245 (Ps42,457 in 2003).

NOTE 31 RISK MANAGEMENT:

From July 1, 2004, the new Standards regarding Comprehensive Risk Management applicable to credit institutions and issued by the COMMISSION became effective. These standards cancel Circulars 1423 and 1473 issued by the same authority. Also, a term of 90 working days as from the aforementioned date was established for the HOLDING to prepare and file before the COMMISSION a Strategic Implementation Plan for the new standards, and the deadline for their comprehensive implementation in the HOLDING was established at June 30, 2005, except for the implementation of the quantifiable non-discretionary risks (Operating, Technological and Legal Risk) for which the deadline is June 30, 2007.

Pursuant to the aforementioned, the HOLDING filed its Strategic Implementation Plan with the COMMISSION on November 5, 2004. In this Plan, the HOLDING describes actions to be taken, commitment dates and follow-up responsibility areas.

The role of identifying, measuring, monitoring and reporting the different types of risks to which the HOLDING is exposed is the responsibility of the Chief Risk Office.

The Chief Risk Office reports to the Chief Executive Officer of the HOLDING, thereby complying with the new Standards regarding Comprehensive Risk Management, with regard to the independence of the Business Areas.

In order to maintain appropriate Risk Management, the HOLDING has Corporate Bodies that set forth risk policies and strategies and that further follow-up thereon by properly overseeing their performance.

The Risk Policy Committee was established within those Corporate Bodies. In turn, the Institution has the following operating committees:

- Credit Committee
- National Credit Committee
- Recovery Committee
- Money Market and Treasury Committee
- Assets and Liabilities Committee
- Technology and Investment Committee
- Fiduciary Business Committee
- Communication and Control Committee

The Chief Risk Office channels the Risk Management efforts of the following management offices:

- Credit Risk Management;
- Market Risk Management;
- Operations Risk Management; and
- Risk Policies.

At present, the HOLDING has methodologies for risk management in its various areas such as credit, legal, liquidity, market and operations.

The main objectives of the Chief Risk Office are summarized below:

- Provide the different business areas with clear rules to help them have a correct understanding in order to minimize risk and to assure they are within the parameters established and approved by HOLDING's Top Management.

- Establish mechanisms that allow monitoring risk taking within HOLDING striving to make them mostly preventive and supported on advanced systems and processes.
- Standardize risk measurement and control.
- Protect the capital of the institution against unexpected losses due to market changes, bankruptcy and operating risks.
- Develop valuation models for the different type of risks.
- Establish procedures to improve the loan portfolio and portfolio management.

The HOLDING has divided risk evaluation and management as follows:

1. Credit risk: Volatility of income due to potential loan losses from unpaid balances of creditors or counterparties.

2. Market risk: Volatility of income due to changes in the market that influence the valuation of positions on asset and liability operations or those resulting in contingent liabilities, such as: interest rates, exchange rates, price indexes, etc.

3. Operating risk: The potential loss due to failures or deficiencies in information systems, in internal controls or due to mistakes in the processing of operations.

4. Liquidity risk: The potential loss due to the impossibility of renewing liabilities or contracting others in normal conditions for the HOLDING, due to the advance or forced sale of assets at unusual discounts in order to cover its obligations.

5. Legal risk: The potential loss due to non-compliance with applicable legal and administrative rules, the issuance of unfavorable administrative and judicial resolutions and the application of fines, in connection with HOLDING's operations.

At December 1997, the Board of Directors approved the Manual of Risk Policies. As of that date, HOLDING has continued updating and improving the policies and procedures for risk management in accordance with the objectives established and with the participation of all areas involved, continuously maintaining the communication of the manual through presentations via satellite, organizational communications and the continuous updating of HOLDING's Intranet.

Market Risk

At January 2003, the Board of Directors approved the calculation of Value at Risk (VaR) through the non-parametric historical simulation method, replacing the previous methodology applied up to December 2002, which determined VaR through parametric historical simulation. This change was approved with the purpose of applying the best international practices available for the measurement of VaR.

This new methodology is used for the market risk calculation as well as for the establishment and control of internal limits, considering a 99% confidence level for this purpose, in addition to multiplying it by a security factor that depends on the behavior of the main risk factors affecting the valuation of the current portfolios of the HOLDING.

This methodology is applied to all the HOLDING's portfolios exposed to variations of risk factors directly affecting their market valuation (local interest rates, foreign interest rates, exchange rates, among others).

The meaning of VaR under this methodology is the potential one-day loss that could arise from the valuation of portfolios at a given date, with a 99% confidence level, in the event that the last 500 historical scenarios were to be repeated in the future, and multiplying such result by a security factor that ensures covering volatilities not foreseen by the main risk factors affecting such portfolios.

In order to show the VaR behavior and its correlation with the net worth of the HOLDING during 2004, following are the quarterly values.

BANORTE

(Amounts stated in millions of Mexican pesos)	4T03	1T04	2T04	3T04	4T04
VaR [1]	Ps 217	Ps 258	Ps 293	Ps 366	Ps 253
Net worth [2]	11,739	15,135	14,595	14,953	14,497
VaR / Net worth	1.85%	1.70%	2.01%	2.45%	1.75%

BANCEN

(Amounts stated in millions of Mexican pesos)	4T03	1T04	2T04	3T04	4T04
VaR [1]	Ps 51	Ps 12	Ps 27	Ps 25	Ps 25
Net worth [2]	2,445	2,603	2,675	2,793	3,177
VaR / Net worth	2.09%	0.46%	1.01%	0.90%	0.79%

(1) Quarterly average.
(2) Net worth at the end of the corresponding quarter.

Furthermore, the VaR average per risk factor of the instruments portfolio (including bonds, shares, money market transactions, swaps, forwards, futures, and other derivative instruments included or outside the balance sheet) for the financial sector (including BANORTE and BANCEN), behaved as follows during the fourth quarter of 2004 and 2003:

Risk factors (amounts stated in millions of Mexican pesos)	VaR 04	VaR 03
Domestic interest rate	Ps 110	Ps 97
Foreign interest rate	256	106
Exchange rate	284	209
Capital	1	-
Prices of eurobonds	200	184
Total VaR	**Ps 249**	**Ps 217**

The VaR for each of the aforementioned risk factors is determined by simulating 500 historical scenarios of the variables integrating each of such factors, maintaining variables affecting the rest of the risk factors constant. Furthermore, the consolidated VaR for the banking sector considers the correlation of all the risk factors that influence the portfolios' valuation; therefore, the arithmetic sum of VaR per risk factor does not coincide.

Liquidity Risk

The Chief Risk Office has continued with the processes related to the updating and improvement of policies and procedures for risk management, especially in the case of liquidity risks. It has done this through the application of additional methodologies for the calculation of gaps, a wider and deeper analysis of the composition of assets and liabilities in the balance sheet, complemented with the calculation of financial ratios. These measures are intended to measure and monitor the liquidity risk.

Credit Risk

The Credit Risk constitutes the risk of customers not complying with their payment obligations; therefore, its correct administration is essential to maintain a high-quality credit portfolio.

The objectives of the credit risk management in the HOLDING are:

- To develop and execute credit risk policies related to the strategic objectives of the HOLDING.
- To support the decision-making strategies, by maximizing the creation of value for stockholders and guaranteeing customer security.
- To establish specific policies and procedures for the identification of the debtors' risk level, using such procedures as a basis for the granting and monitoring of loans.
- To calculate the credit risk exposure over time, considering and evaluating the exposure concentration per risk ratings, geographic regions, economic activities, foreign currencies, and type of product.
- To create strategies for the diversification of the credit portfolio, defining limits for such portfolio.
- To implement a global credit risk management, by supervising all operations and aspects relative to credit risk.

Individual Credit Risk

The individual risk is identified and measured in the HOLDING through the Credit Risk Rating, the Objective Markets and the Risk Acceptance Criteria.

a. With respect to the Credit Risk Rating for the Portfolio, as from the fourth quarter of 2004 it is rated in conformity with the "General Rules applicable to loan portfolio rating methodologies for credit institutions", published in the Official Gazette on August 20, 2004. In the case of commercial loans with a balance equal to or higher than 900,000 UDIs, the internal rating methodology "Internal Risk Rating Banorte (CIR Banorte)" is used as authorized by the COMMISSION to determine the debtor's rating. In the other hand, loans below 900,000 UDIs, as well as mortgage and consumer loans, are evaluated through risk parametrical systems and rated in conformity with the aforementioned rules.

b. The Objective Markets and Risk Acceptance Criteria are tools that form part of the HOLDING's credit strategy. These tools support the determination of the individual credit risk level by CIR-Banorte. Objective Markets are activities selected by region and economic activity, supported by economic and quality studies relative to portfolios in which the HOLDING is interested in placing credits. The Risk Acceptance Criteria are parameters that describe the risks identified by industry, allowing for the identification of the risk faced by the HOLDING upon granting a credit to a customer, depending on the economic activity performed by the latter. Types of risk considered by the Risk Acceptance Criteria are: financial, operating, market, useful life of the company, legal and statutory, credit experience and management quality.

Portfolio Credit Risk

The HOLDING has designed a portfolio credit risk methodology that besides complying with the international practices regarding the identification, measurement, control and monitoring of risks, has been adapted to work within the context of the Mexican Financial System.

This methodology allows the HOLDING to know the exposure of all its credit portfolios (including those of BANORTE and BANCEN), allowing the monitoring of risk concentration levels per risk rating, geographic regions, economic activities, currencies and types of products, in order to know the profile of the portfolio and take the necessary actions to focus it towards a diversification with the objective of maximizing profitability with less risk.

The calculation of the credit exposure entails the generation of cash flow from each of the loans and from capital, as well as interest to further discount it. This calculation is made under different economic scenarios.

This methodology, besides considering the exposure of loans, takes into account the non-compliance probability, the loss severity, the recovery level associated with each customer and the borrowers' modeling based on the Merton model. The non-compliance probability is the probability of a borrower's not complying with its debt obligation with the HOLDING in accordance with the terms and conditions originally agreed; this probability is based on the transition matrix calculated from the migration of borrowers at different levels of risk rating. The recovery rate is the percentage of total exposure estimated to be recovered in the event that the borrower falls into breach of contract. The severity of the loss is the percentage of the total exposure estimated to be lost in case the borrower falls into breach. The borrowers' modeling, based on the Merton model, is focused on associating the future behavior of the borrower with credit and market factors.

Among the main results obtained from the foregoing are the expected loss and the unexpected loss in a one-year term. The expected loss is the distribution mean of a loan portfolio's losses, with which the average loss for the following year from the lack of compliance or changes in the credit quality of debtors is measured. The unexpected loss is the difference between the maximum loss, given the distribution of losses, at a specific confidence level and the expected loss.

The results obtained are used as a tool to improve decision-making with regard to the granting of credit and the portfolio diversification, in accordance with the global strategy of the HOLDING. The identification tools of individual risk and the credit risk methodology of the portfolio are reviewed and updated periodically in order to create new techniques to support or strengthen them.

At December 31, 2004 and 2003, the credit VaR or unexpected loss to consider for the current and past due loan portfolio of the Banking sector (BANORTE and BANCEN) was as follows:

(Amounts stated in millions of Mexican pesos)	2004	2003
Expected loss	Ps 1,876	Ps 3,025
Current portfolio	789	812
Past due portfolio	1,087	2,213
Unexpected loss	3,625	3,994

General rules for the diversification of risks regarding the realization of lending and borrowing transactions applicable to credit institutions.

In March 2003, the COMMISSION issued "General Rules for the Diversification of Risks with regard to the realization of lending and borrowing transactions applicable to credit institutions", which are obligatory from 2003.

These dispositions establish that the HOLDING should perform an analysis of its borrowers and/or financing on the existence of "Common Risk"; also, the HOLDING should have information and documentation necessary to verify if a person or group of persons represent a common risk in conformity with assumptions referred to in the aforementioned Rules.

The HOLDING, upon granting financing to a single person or group of persons, that due to their representing a Common Risk, should adjust to the maximum financing limit resulting from applying to the basic capital a factor connected to the capitalization level of the HOLDING.

On the other hand, in relation with customer deposits, the HOLDING should diversify its risks, aiming at an adequate integration of its liabilities, in accordance with the placing of these deposits.

In compliance with the risk diversification rules for lending and borrowing transactions, the following information is presented:

Description (amounts stated in millions of Mexican pesos)	BANORTE	BANCEN
Basic capital as of September 30, 2004	**Ps 10,527**	**Ps 2,775**
I Financing for which the individual amount represents more than 10% of the basic capital:		
- Number of loans	3	-
- Amount of total loans [i]	Ps 4,978	Ps -
- % in proportion to the basic capital	47%	0%
II. Monto máximo de financiamiento con los 3 mayores deudores y que representan Riesgo Común [ii].	Ps 7,747	Ps 617

(i) 78% of the amount of loans granted are rated A.

(ii) 68% of the amount of loans granted are rated A.

Operating and Legal Risk

The Operating Risk (OR) is defined as the risk of direct loss resulting from failed or inadequate internal processes, human error, system failures and external events. This definition includes the Legal Risk, which involves the potential loss from sanctions derived from the lack of compliance with legal and administrative dispositions or the issuance of unfavorable legal resolutions in relation with the transactions of the HOLDING. The HOLDING also considers the Strategic and Reputation Risks. This group of risks in the HOLDING is known as Operating Risk.

As from 2003, the HOLDING created a formal OR area denominated "Executive Direction of Operating Risk Management" (ORA), within the General Direction of Comprehensive Risk Management. This area has prepared a master implementation plan (comprising from 2004 to 2007), in accordance with local requirements and approved by the CPR. The plan comprises in general terms the institutional management of OR, the recording of losses and the calculation of the Operation Value at Risk (Op VaR).

The master plan comprises the following phases:

a. Close coordination with the Controller's, Internal Audit and Risk-generating areas,
b. Identifying the main information sources,
c. Creating databases,
d. Defining the type of software for the Op VaR calculation,
e. Acquire the software and implementing it,
f. Implementing the software and performing related tests, and
g. Generating reports through the Management Information System.

As the first pillar of OR management and considering the Basel II Agreement, a record of events including an actual or potential economic loss in the OR database has been initiated, classifying and recording events by Business Line and Category or type of event, also grouping them by their cause-effect relation (Human Factor, Systems, Processes, External Causes), also by their economic loss frequency and severity. The aforementioned is done with the objective of obtaining the basis to calculate the Op VaR in accordance with the Advanced Method (AMA) recommended by Basel II and assigning the capital to cover OR.

To record operating losses, a system called "Operating Losses Recording System"(SCERO) has been developed. This system is in the implementation stage and allows central information-supplying areas to record directly and on line loss situations analyzed permanently by ORA.

(Amounts stated in thousands of Mexican pesos of December 31, 2004 purchasing power)

The Executive Direction of Operating Risk is in coordination with the Internal Audit and Controller's Direction, as part of the Governance and management of Operating Risk, in order to promote and contribute to the other two pillars, which are constituted by having an effective Internal Control to establish procedures for processes and their compliance and, on the other hand, the permanent supervision of the Audit department. There is also coordination with Business and Technology and Operating Directions, who have developed RO mitigation strategies.

In order to face the OR provoked by a high-impact external event, the HOLDING has started a development to implement a Business Continuity Plan (BCP) and a Business Recovery Plan (BRP). The BCP project leader is the General Controller's Direction due to its relationship with procedures and the compliance with standards. However, the Technology, Operating and Business areas and the ORA Direction participate in a fundamental way, since the first success factor of a BCP is teamwork. Regardless of the aforementioned, BANORTE continues counting on the services of an internationally recognized external supplier to backup the critical business systems, guaranteeing ongoing operations in case of a contingency or disaster.

In order to manage and control the legal risk, policies and procedures have been defined for its measurement and analysis. The legal risk reports include the expected loss from trials in process and an estimated liability is recognized, representing a hedge against contingencies.

NOTE 32 RELATED PARTIES:

The HOLDING identifies those balances and transactions with its parent, subsidiaries and other affiliated companies. The principal activities with related parties carried out during the year comprise:

a. Granting loans.
b. Money market transactions.
c. Rendering administrative services.
d. Leasing assets.
e. Rendering software services.
f. Royalties services for the use and benefit of the brand and know-how.
g. Management and recovery of loan portfolio.

The operations and balances with related parties pertaining to the financial sector are summarized below:

	Income		Accounts receivable	
Institution	2004	2003	2004	2003
Arrendadora Banorte, S. A. de C. V.	Ps 59,681	Ps 47,835	Ps 585,697	Ps 574,516
Casa de Bolsa Banorte, S. A. de C. V.	50,963	61,716	-	-
Banco del Centro, S. A.	189,650	3,250,430	1,534,713	983,443
Banorte Generali, S. A. de C. V. AFORE	73	125	-	-
Almacenadora Banorte, S. A. de C. V.	8,186	19,797	111,875	97,181
Factor Banorte, S. A. de C. V.	38,747	40,841	173,744	340,811
Inmobiliaria Bancrecer, S. A. de C. V.	3	-	229,080	241,566
Inmobiliaria Innova, S. A. de C. V.	2	-	79,068	83,378
Inmobiliaria Banorte, S. A. de C. V.	-	-	23,976	27,839
Total	**Ps 347,305**	**Ps 3,420,744**	**Ps 2,738,153**	**Ps 2,348,734**

Institution	Expense 2004	Expense 2003	Accounts payable 2004	Accounts payable 2003
Grupo Financiero Banorte, S. A. de C. V.	Ps 5,200	Ps 3,244	Ps 58,274	Ps 90,536
Arrendadora Banorte, S. A. de C. V.	67,194	15,467	49,751	10,416
Casa de Bolsa Banorte, S. A. de C. V.	1,333,611	153,879	4,412	186
Banco del Centro, S. A.	5,934	104,860	1,725,640	31,467
Banorte Generali, S. A. de C. V. AFORE	26	8	2,434	2,652
Almacenadora Banorte, S. A. de C. V.	2,489	1,168	69,017	3,453
Factor Banorte, S. A. de C. V.	147	143	36,492	24,073
Inmobiliaria Banorte, S. A. de C. V.	48,631	38,477	42,942	34,716
Constructora Primero, S. A. de C. V.	23,038	21,129	15,740	11,821
Inmobiliaria Bancrecer, S. A. de C. V.	32,501	33,973	29,770	25,208
Inmobiliaria Innova, S. A. de C. V.	10,349	7,825	25,750	17,586
Inmobiliaria Banormex, S. A. de C. V.	796	773	6,369	7,176
Inmobiliaria Finsa, S. A. de C. V.	2,397	2,421	16,530	19,261
Inmobiliaria Bra, S. A. de C. V.	12,804	5,140	6,178	33,803
Inmuebles de Occidente, S. A. de C. V.	1,646	1,499	12,873	10,246
Inmuebles de Tijuana, S. A. de C. V.	170	53	3,034	4,977
Derivados Banorte, S. A. de C. V.	-	-	181	194
Total	**Ps 1,546,933**	**Ps 390,059**	**Ps 2,105,387**	**Ps 327,771**

NOTE 33 SEGMENT INFORMATION

In order to analyze the financial information of the HOLDING, the most significant information, classified by sector, excluding consolidation adjustments as of December 31, 2004, is as follows:

a. The amounts per service sector of the HOLDING are comprised as follows:

Banking sector	2004
Net income	Ps 2,388,031
Stockholders' equity	14,125,854
Total portfolio	100,236,940
Past due portfolio	1,765,643
Allowance for loan losses	2,693,245
Net total assets	169,943,206

Brokerage sector	
Net income	Ps 76,584
Stockholders' equity	522,950
Portfolio in custody	106,991,951
Net total assets	635,044

Long-term savings sector	
Net income	Ps 463,942
Stockholders' equity	1,923,528
Net total assets	11,057,610

Auxiliary credit organizations sector	
Net income	Ps 113,800
Stockholders' equity	615,435
Total portfolio	5,212,361
Past due portfolio	38,471
Allowance for loan losses	58,913
Net total assets	5,786,930

(Amounts stated in thousands of Mexican pesos of December 31, 2004 purchasing power)

b. The current loan portfolio grouped by economic sector and geographic area is the following:

	2004				
Economic sector	North	Center	West	South	Total
Agriculture	Ps 1,053,423	Ps 678,912	Ps 443,213	Ps 285,864	Ps 2,461,412
Mining	47,586	69,787	9,219	3,881	130,473
Manufacturing	5,958,514	2,491,702	1,093,507	318,388	9,862,111
Construction	1,576,555	1,264,837	285,443	145,632	3,272,467
Energy, gas and water	1,659	6,159	821	217	8,856
Commerce, restaurants and hotels	4,263,795	3,222,563	2,083,954	839,385	10,409,697
Transportation and communications	2,380,129	311,903	60,580	78,463	2,831,075
Financial services	4,083,211	4,986,995	474,736	201,797	9,746,739
Community social and personal services	1,489,527	1,341,969	344,370	275,098	3,450,964
Professional, social, political and mercantile association	12,210	1,088	25,886	585	39,769
Public administration services	4,103,404	4,273,617	614,130	3,964,053	12,955,204
International organization services	1,871	252	308	-	2,431
Subtotal current loan portfolio					**55,171,198**
Credit card					3,756,024
Consumer					7,653,305
Mortgage loans					18,523,263
Hedging swaps					(81,887)
Loans to FOBAPROA or IPAB, ADE, FOPYME and FINAPE					12,568,186
Consumer					907
Leasing loans					1,678,221
Factoring loans					3,043,983
Total current loan portfolio					**Ps 102,313,200**

	2003				
Economic sector	North	Center	West	South	Total
Agriculture	1,040,110	23,564	409,560	193,736	Ps 1,666,970
Mining	134,915	1,618	3,207	5,805	145,545
Manufacturing	7,345,601	2,159,686	981,308	264,149	10,750,744
Construction	1,481,356	505,954	283,983	124,038	2,395,331
Energy, gas and water	5,565	5,670	852	207	12,294
Commerce, restaurants and hotels	4,576,364	2,042,026	1,534,710	675,090	8,828,190
Transportation and communications	677,121	704,632	49,696	64,114	1,495,563
Financial services	3,046,387	3,348,855	283,721	32,443	6,711,406
Community, social and personal services	2,126,895	1,614,247	324,781	158,964	4,224,887
Professional, social, political and mercantile association	49,471	11,838	1,219	175	62,703
Public administrations services	3,395,068	6,903,522	375,127	905,217	11,578,934
International organization services	2,019	78	38	-	2,135
Subtotal current loan portfolio					**47,874,702**
Credit card					2,800,561
Consumer					6,383,351
Mortgage loans					15,534,619
Loans to FOBAPROA or IPAB, ADE, FOPYME and FINAPE					79,975,809
Hedging swaps					(120,925)
Leasing loans					1,243,570
Factoring loans					3,362,855
Total current loan portfolio					**Ps 157,054,542**

c. Past due loan portfolio grouped by economic sector and geographic area is summarized as shown below:

	2004				
Economic sector	North	Center	West	South	Total
Agriculture	Ps 30,747	Ps 23,124	Ps 24,221	Ps 883	Ps 78,975
Mining	613	475	197	-	1,285
Manufacturing	44,525	76,248	49,249	3,535	173,557
Construction	7,469	22,861	2,965	1,928	35,223
Energy, gas and water	-	59	-	-	59
Commerce, restaurants and hotels	67,619	57,190	91,140	13,318	229,267
Transportation and communications	7,188	10,710	1,701	90	19,689
Financial services	4,513	2,250	473	133	7,369
Community, social and personal services	11,621	20,339	4,126	3,603	39,689
Professional, social, political and mercantile association	-	4,912	-	-	4,912
Public administration services	8,505	-	-	-	8,505
International organization services	900	-	-	-	900
Subtotal current loan portfolio					**599,430**
Credit card					165,089
Consumer					174,032
Mortgage loans					819,777
Others					7,314
Leasing loans					24,527
Factoring loans					13,944
Total past-due loan portfolio					**Ps 1,804,113**

	2003				
Economic sector	North	Center	Occidente	Sur	Total
Agriculture	Ps 73,187	Ps 4,874	Ps 18,579	Ps 1,377	Ps 98,017
Mining	295,295	32	480	111	295,918
Manufacturing	540,276	109,856	322,112	2,341	974,585
Construction	90,242	997	8,001	325	99,565
Energy, gas and water	-	13	-	-	13
Commerce, restaurants and hotels	231,860	43,222	97,673	9,988	382,743
Transportation and communications	20,938	7,210	2,124	2,724	32,996
Financial services	10,526	972	5,474	142	17,114
Community, social and personal services	50,647	9,788	5,926	1,855	68,216
Professional, social, political and mercantile association	-	-	-	-	-
Public administration services	8,549	-	-	-	8,549
Other past due loans					10,155
Subtotal current loan portfolio					**1,987,871**
Credit card					178,465
Consumer					295,728
Mortgage loans					1,247,019
Leasing loans					31,837
Factoring loans					15,645
Total past-due loan portfolio					**Ps 3,756,565**

(Amounts stated in thousands of Mexican pesos of December 31, 2004 purchasing power)

d. Deposits by product and geographic area were as follows:

	2004							
Product	Monterrey	Northeast	México	West	Northwest	Southeast	Treasury and others	Total
Non-interest bearing checking	Ps 5,107,849	Ps -	Ps 8,093,300	Ps 4,435,150	Ps 3,083,860	Ps 1,209,550	(Ps 20,620)	21,909,089
Interest bearing checking	3,949,750	-	9,686,010	3,728,410	2,466,260	1,637,380	(1,040)	21,466,770
Savings accounts	1,110	-	1,450	980	350	190	-	4,080
Current account in Mexican pesos and pre-established	3,432,570	-	4,773,060	2,372,460	2,334,940	842,490	151,950	13,907,470
Non-interest US dollar demand	110,430	-	96,290	125,700	221,900	11,700	-	566,020
Interest-bearing US dollar demand	1,699,480	-	1,953,760	644,140	2,205,110	64,480	750	6,567,720
Over the counter note	5,411,090	-	11,796,280	5,416,170	3,391,390	2,357,490	20	28,372,440
Term deposits in US dollars	2,328,680	-	2,202,670	1,691,490	817,650	238,030	13,790	7,292,310
Money desk customers	4,892,010	-	4,305,330	3,882,890	1,149,610	775,140	-	15,004,980
Financial brokers	-	-	-	-	-	-	11,994,430	11,994,430
FOBAPROA checking	250,060	-	-	-	-	-	1,063,180	1,313,240
Hedging swaps	-	-	-	-	-	-	(670)	(670)
Total deposits	**Ps 27,183,029**	**Ps -**	**Ps 42,908,150**	**Ps 22,297,390**	**Ps 15,671,070**	**Ps 7,136,450**	**Ps 13,201,790**	**Ps 128,397,879**

	2003							
Product	Monterrey	Northeast	México	West	Northwest	Southeast	Treasury and others	Total
Non-interest bearing checking	Ps 5,922,205	Ps 3,697,634	Ps 4,298,019	Ps 3,163,779	Ps 3,105,728	Ps 2,545,341	Ps 465,502	Ps 23,198,208
Interest bearing checking	4,932,949	4,371,856	8,693,137	3,093,401	2,853,426	2,509,108	-	26,453,877
Savings accounts	2,715	2,193	1,118	1,128	506	1,930	-	9,590
Current account in Mexican pesos and pre-established	1,862,668	1,729,911	1,541,924	1,204,512	2,118,518	1,700,342	19,761	10,177,636
Non-interest US dollar demand	1,392,058	1,043,521	733,147	401,451	2,177,676	222,617	-	5,970,470
Over the counter note	5,520,492	5,297,113	6,021,529	3,919,081	3,447,537	3,659,387	21	27,865,160
Term deposits in US dollar	1,206,612	1,327,110	788,604	1,356,414	769,454	818,046	14,573	6,280,813
Money desk customers	14,653,551	7,659,813	6,665,897	8,406,395	3,637,496	3,863,225	370,564	45,256,941
Financial brokers	-	-	-	-	-	-	21,318,059	21,318,059
FOBAPROA checking	-	-	-	-	-	-	4,770,605	4,770,605
Hedging swaps	-	-	-	-	-	-	(2,281)	(2,281)
Total deposits	**Ps 35,493,250**	**Ps 25,129,151**	**Ps 28,743,375**	**Ps 21,546,161**	**Ps 18,110,341**	**Ps 15,319,996**	**Ps 26,956,804**	**Ps171,299,078**

NOTE 34 SUBSEQUENT EVENT:

1. Through official letter DGSIF "A" 601-II-96084 dated December 13, 2004, the HOLDING received from the COMMISSION the authorization for "Créditos Pronegocios Banorte, S.A. de C.V."(Pronegocio), to be organized and to operate as a limited purpose financial corporation.

At January 11, 2005, the Official Gazette published the number of shares owned by Pronegocio, which is comprised by the HOLDING with 99.9%.

2. During January 2005, a restructuring was agreed with Celulosa y Derivados, S. A. de C. V. (CYDSA), through which BANORTE requested the exchange of securities owned by it for shares of its capital stock with market value of Ps36,000 and convertible debt notes with nominal value of USD$1,363 thousand with a negotiated interest rate of 5%.

In February 2005, this transaction had an impact on the accounting records of BANORTE upon the exchange of securities for the aforementioned shares and new debt, respectively.

3. Through official letter number DGSIF"A"-601-II-52011 dated February 24, 2005, the COMMISSION states to BANORTE, in the case of recognition in the stockholders' equity of the initial effect from the application of General Dispositions Applicable to the Credit Portfolio Rating Methodology, these should be recognized in income from prior years net from Income tax and Employees' profit sharing. Derived from the aforementioned, the HOLDING recognized an amount of Ps144,526 and Ps2,210, respectively in accounting records of subsidiaries BANORTE and BANCEN, corresponding to deferred income tax from the reserve of foreclosed assets to be recorded in the first quarter of 2005.