

BANCO MERCANTIL DEL NORTE, S.A.

(Incorporated in accordance with the laws of the United Mexican States)

acting through its Grand Cayman Branch



U.S.\$300,000,000

5.875% Step-Up Subordinated Callable Notes Due 2014

We, Banco Mercantil del Norte, S.A., Institución de Banca Múltiple, Grupo Financiero Banorte, a multiple purpose bank incorporated in accordance with the laws of the United Mexican States ("Mexico"), acting through our Grand Cayman branch, are offering the U.S.\$300,000,000 5.875% Step-Up Subordinated Callable Notes due 2014 (the "Notes"). The Notes will mature on February 17, 2014, unless previously redeemed or the maturity date is deferred. Subject to any regulatory requirements, we may redeem the Notes in whole or in part on any interest payment date, commencing on February 17, 2009. See "Description of the Notes—Call Option." In addition, we may redeem the Notes in whole but not in part, subject to any regulatory requirements, at any time if there are specified changes in the Mexican or Cayman Island laws affecting taxation of the Notes. See "Description of the Notes—Tax Redemption." If our Capital Ratio (as defined in this Luxembourg listing circular) has declined below, or payment of interest or principal on the Notes or redemption of the Notes would cause our Capital Ratio to decline below, the Capital Adequacy Ratio (as defined in this Luxembourg listing circular) imposed under Mexican *Ley de Instituciones de Crédito* (the "Mexican Banking Law"), or any Mexican Regulatory Event (as defined in this Luxembourg listing circular) has occurred and is continuing, we will defer payment under the Notes or redemption of the Notes until the date that is five days after the date on which no such condition exists. See "Description of the Notes—Deferral of Interest and Principal," "—Optional Redemption" and "—Tax Redemption."

The Notes are denominated in U.S. dollars and will earn interest at a fixed rate of 5.875% per year until February 17, 2009, and thereafter at the U.S. Treasury Rate (as defined in this Luxembourg listing circular) as of the second business day preceding February 17, 2009, plus 431.25 basis points per year. Interest on the principal amount of the Notes will be payable semi-annually in arrears on February 17 and August 17 of each year, commencing on August 17, 2004. See "Description of the Notes—Principal and Interest."

The Notes will be our unsecured subordinated obligations. In the event of our bankruptcy, liquidation or dissolution under Mexican law, they will rank at least *pari passu* with all our other present or future subordinated indebtedness and will be junior in right of payment to all of our present or future indebtedness other than the Notes and our other present or future subordinated indebtedness. Payment of principal on the Notes may be accelerated only in the case of certain events involving our bankruptcy, liquidation or dissolution. There will be no right of acceleration in the case of a default in the performance of any of our covenants, including the payment of principal or interest in respect of the Notes, or in the case of any deferral in the payment of principal and interest in respect of the Notes. See "Description of the Notes—Events of Default, Notice and Waiver."

Application has been made to list the Notes on the Luxembourg Stock Exchange ("LSE"). It is a condition of the issuance of the Notes that they be rated at least Baa2 by Moody's Investors Service, Inc. ("Moody's").

Investing in the Notes involves risks. See "Risk Factors" beginning on page 12.

We have not registered the Notes under the Securities Act of 1933, as amended (the "Securities Act") or under any state securities laws. Therefore, we may not offer or sell the Notes within the United States to, or for the account or benefit of, any U.S. person unless the offer or sale would qualify for a registration exemption from the Securities Act and applicable state securities laws. Accordingly, we are only offering the Notes (1) to qualified institutional buyers (as defined in Rule 144A under the Securities Act) and (2) outside the United States in compliance with Regulation S under the Securities Act. See "Transfer Restrictions" for additional information about eligible offerees and transfer restrictions.

THE NOTES HAVE NOT BEEN REGISTERED WITH THE SECCIÓN DE VALORES (THE "SECURITIES SECTION") OF THE REGISTRO NACIONAL DE VALORES (THE "MEXICAN NATIONAL REGISTRY OF SECURITIES") AND THEREFORE, THE NOTES MAY NOT BE OFFERED OR SOLD IN A PUBLIC OFFERING NOR BE THE SUBJECT OF AN INTERMEDIATION IN MEXICO. THE ACQUISITION OF THE NOTES BY ANY INVESTOR OF MEXICAN NATIONALITY WILL BE MADE UNDER ITS OWN RESPONSIBILITY.

U.S.\$250,000,000 of Notes, of which U.S.\$237,500,000 of Notes will be purchased by Deutsche Bank Securities Inc. and of which U.S.\$12,500,000 of Notes will be purchased by Morgan Stanley & Co. Incorporated, will be purchased at the price of 99.543% of their principal amount plus accrued interest, if any.

Deutsche Bank Securities Inc. proposes to offer U.S.\$50,000,000 of Notes from time to time for sale in negotiated transactions, or otherwise, at varying prices to be determined at the time of each sale. Deutsche Bank Securities Inc. has agreed to purchase U.S.\$50,000,000 of Notes from us at the price of 100.200% of their principal amount.

Delivery of the Notes has been made in New York, New York on February 17, 2004.

Sole Book-Runner

Deutsche Bank Securities

Co-Manager

Morgan Stanley

The date of this Luxembourg listing circular is April 13, 2004.

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

In connection with this offer, the initial purchasers or any person acting for such person may over-allot or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail for a limited period after the issue date. However, there is no obligation on the initial purchasers or any of their agents to do this. Such stabilizing, if commenced, may be discontinued at any time, and must be brought to an end after a limited period.

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

We are relying upon an exemption from registration under the Securities Act for an offer and sale of securities which do not involve a public offering. By purchasing the Notes, you will be deemed to have made certain acknowledgements, representations and agreements as set forth under "Transfer Restrictions" in this Luxembourg listing circular. We are not, and the initial purchasers are not, making an offer to sell the Notes in any jurisdiction except where such an offer or sale is permitted. You should understand that you will be required to bear the financial risks of your investment for an indefinite period of time.

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

We have submitted this Luxembourg listing circular solely to a limited number of institutional investors in the United States and to investors outside the United States so they can consider a purchase of the Notes. This Luxembourg listing circular has been prepared solely for use in connection with the placement of the Notes and for the listing of the Notes on the LSE. We have not authorized the use of this Luxembourg listing circular for any other purpose. This Luxembourg listing circular may not be copied or reproduced in whole or in part. This Luxembourg listing circular may be distributed and its contents disclosed only to prospective investors to whom it is provided. By accepting delivery of this Luxembourg listing circular, you agree to these restrictions. See "Transfer Restrictions."

The information contained in this Luxembourg listing circular relating to us was obtained from Banorte and other sources that we believe to be reliable, but no assurance can be given by the initial purchasers as to the accuracy or completeness of such information. The initial purchasers assume no responsibility for the accuracy or completeness of the information contained herein (financial, legal or otherwise). In making an investment decision, investors must rely on their own examinations of us and the terms of this offering, including the merits and risks involved. Moreover, the contents of this Luxembourg listing circular are not to be construed as legal, business or tax advice. You are urged to consult your own attorney, business or tax advisor for legal, business or tax advice.

No dealer, salesperson or other individual has been authorized to give any information or to make any representations other than those contained in this Luxembourg listing circular and, if given or made, such information or representations must not be relied upon as having been authorized. Neither the delivery of this Luxembourg listing circular nor any subscription, sale or purchase hereunder shall create, under any circumstances, any implication that there has been no change in our affairs since the date hereof or that the information contained herein is correct as of any time after its date.

This Luxembourg listing circular does not constitute an offer of, or an invitation by or on behalf of, us or the initial purchasers or any of the respective directors, officers and affiliates to subscribe for or purchase any securities in any jurisdiction to any person to whom it is unlawful to make such an offer in such jurisdiction. Each purchaser of the Notes must comply with all applicable laws and regulations in force in each jurisdiction in which it purchases, offers or sells the Notes or possesses or distributes this Luxembourg listing circular and must obtain any consent, approval or permission required by it for the purchase, offer or sale by it of the Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers or sales. The distribution of this Luxembourg listing circular and the offering of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Luxembourg listing circular comes are required to inform themselves about and to observe any such restrictions. There is no undertaking to register the Notes under any state or federal securities laws of the United States. The

Notes may not be resold in the United States unless they are subsequently registered or an exemption from registration is available. Each subsequent purchaser of the Notes will be deemed by its acceptance of those Notes to have made certain acknowledgments, representations and agreements intended to restrict the resale or other transfer of those Notes as set forth in the Notes or described in this Luxembourg listing circular. For a further description of certain restrictions on the offering, sale and resale of the Notes and on the distribution of this Luxembourg listing circular, see "Description of the Notes," "Certain ERISA Considerations," "Plan of Distribution" and "Transfer Restrictions."

Notwithstanding anything herein to the contrary, each prospective investor (and each employee, representative or other agent of each prospective investor) may disclose to any and all persons, without limitation of any kind, the tax treatment and tax structure of an investment in the Notes and all materials of any kind (including opinions or other tax analyses) that are provided to the prospective investor relating to such tax treatment and tax structure. For these purposes, the tax treatment of an investment in the Notes means the purported or claimed United States federal income tax treatment of an investment in the Notes. Moreover, the tax structure of an investment in the Notes includes any fact that may be relevant to understanding the purported or claimed United States federal income tax treatment of an investment in the Notes.

The Mexican central bank, Banco de México ("Banco de Mexico") has authorized the issuance of the Notes. Authorization of the issuance of the Notes by Banco de Mexico does not address the tax consequences to the holders of the Notes, nor does it imply any certification as to the investment quality of the Notes or our solvency.

We have obtained an authorization from the *Comisión Nacional Bancaria y de Valores* (the Mexican National Banking and Securities Commission, or the "CNBV") for the registration of the Notes with the *Sección Especial* (the "Special Section") of the Mexican National Registry of Securities, maintained by the CNBV.

REGISTRATION OF THE NOTES WITH THE SPECIAL SECTION DOES NOT IMPLY ANY CERTIFICATION AS TO THE INVESTMENT QUALITY OF THE NOTES OR OUR SOLVENCY OR THE ACCURACY OR COMPLETENESS OF THE INFORMATION CONTAINED HEREIN. THE INFORMATION CONTAINED IN THIS LUXEMBOURG LISTING CIRCULAR IS THE RESPONSIBILITY OF BANORTE AND HAS NOT BEEN REVIEWED OR APPROVED BY THE CNBV. THE NOTES HAVE NOT BEEN REGISTERED WITH THE SECURITIES SECTION AND, THEREFORE, THE NOTES MAY NOT BE OFFERED OR SOLD IN A PUBLIC OFFERING NOR BE THE SUBJECT OF AN INTERMEDIATION IN MEXICO. THE ACQUISITION OF THE NOTES BY ANY INVESTOR OF MEXICAN NATIONALITY WILL BE MADE UNDER ITS OWN RESPONSIBILITY.

This Luxembourg listing circular is only being distributed to and is only directed at (i) persons who are outside the United Kingdom, (ii) to investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001 (the "Order") or (iii) high net worth entities, and other persons to whom it may lawfully be communicated, falling within Article 49(2) of the Order (all such persons together being referred to as "relevant persons"). The Notes are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such notes will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this document or any of its contents.

The Notes have not been, and will not be registered with the *Comissão de Valores Mobiliários* (the Brazilian Securities Commission, or the "CVM"). The Notes may not be offered or sold in Brazil, except in circumstances which do not constitute a public offering or distribution under Brazilian laws and regulations.

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

The Notes are not deposits with Banorte and are not insured by the United States Federal Deposit Insurance Corporation or any other United States government agency or any Mexican governmental agency, including, without limitation, the *Instituto para la Protección al Ahorro Bancario* ("IPAB").

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

The Notes may not be purchased or held by (i) any plan, program or arrangement subject to the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), Section 4975 of the Internal Revenue Code of 1986, as amended (the "Code") or comparable provisions of any state or other governmental law or (ii) any person acting on behalf of or using the assets of any such plan, program or arrangement, unless such purchase and holding is covered by the exemptive relief provided by Prohibited Transaction Class Exemption ("PTCE") 96-23, 95-60, 91-38, 90-1 or 84-14 or another applicable exemption. Any purchaser or holder of Notes or any interest therein will be deemed to have represented by its purchase or holding thereof that either (i) it is not a plan, program or arrangement subject to ERISA, Section 4975 of the Code or comparable provisions of any state or other governmental law and it is not

purchasing securities on behalf of or using the assets of any such plan, program or arrangement or (ii) such purchase and holding and any subsequent disposition of the Notes is covered by the exemptive relief provided by PTCE 96-23, 95-60, 91-38, 90-1 or 84-14 or another applicable exemption. If a purchaser or holder of Notes that is a plan, program or arrangement subject to ERISA, Section 4975 of the Code or comparable provisions of any state or other governmental law elects to rely on an exemption other than PTCE 96-23, 95-60, 91-38, 90-1 or 84-14, we may require a satisfactory opinion of counsel or other evidence with respect to the availability of such exemption for such purchase or holding. Prospective purchasers must carefully consider the restrictions on purchase set forth in "Transfer Restrictions" and "Certain ERISA Considerations."

Pursuant to Banking Law Regulation 2019/95 issued by Banco de Mexico (the "Banco de Mexico Regulations"), the Notes may not be acquired by (i) Mexican financial institutions of any kind, acting on their own behalf, with the exception of certain fixed-income investment companies (*sociedades de inversión en instrumentos de deuda*), variable income investment companies (*sociedades de inversión de renta variable*) and insurance and bonding companies (*instituciones y sociedades mutualistas de seguros e instituciones de fianzas*) when investing their technical reserves or securities fluctuation reserve; (ii) Mexican and non-Mexican entities in which we: (A) own voting stock representing at least 51% of paid-in capital; (B) have control of the meetings of shareholders; or (C) are in a position to appoint the majority of the members of the Board of Directors; (iii) Mexican pension and retirement funds managed by us or by any entity belonging to the financial group controlled by GFNorte (as defined in this Luxembourg listing circular); or (iv) us or any entity belonging to the financial group controlled by GFNorte, acting as trustee, representative, agent or attorney in fact if, by acting in such capacity, we have or such entity has discretionary investment power.

Mexican financial institutions or Mexican pension and retirement funds that are not prohibited from investing in the Notes may acquire up to 10% of the Notes. The 10% limit applies in the aggregate to all of the entities forming part of a financial group as well as to the affiliates that are not part of a financial group.

Except in connection with the redemption of the Notes, under Mexican Banking Law we may not acquire the Notes. In addition, the Notes may not be pledged as collateral in favor of any Mexican bank.

NOTICE TO NEW HAMPSHIRE RESIDENTS

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

AVAILABLE INFORMATION

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

ENFORCEMENT OF JUDGMENTS

We are a private multiple purpose bank (an *Institución de Banca Múltiple*) incorporated in accordance with the laws of Mexico with limited liability (a *sociedad anónima*). All of our directors and officers and experts named herein are non-residents of the United States and substantially all of the assets of such non-resident persons and substantially all of our assets are located outside the United States. As a result, it may not be possible for investors to effect service of process within the United States upon such persons or to enforce against them or against us in United States courts judgments predicated upon the civil liability provisions of the United States federal securities laws. We have been advised by our Mexican counsel that there is doubt as to the enforceability, in original actions in Mexican courts, of liabilities predicated solely on United States federal securities laws and as to the enforceability in Mexican courts of judgments of United States courts obtained in actions predicated upon the civil liability provisions of the United States federal securities laws.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

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

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and risks exist that the predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution investors that a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed or implied in such forward-looking statements, including the following factors: competition, limitations on our access to sources of financing on competitive terms, restrictions on foreign currency convertibility and remittance outside of Mexico, failure to meet capital requirements or other requirements, changes in reserve requirements, changes in requirements to make contributions to or for the receipt of support from programs organized by the Mexican government, changes in overall economic conditions in Mexico, changes in exchange rates, market interest rates or the rate of inflation, and the effect of changes in accounting principles, new legislation, intervention by regulatory authorities, government directives or monetary or fiscal policy in Mexico. Should one or more of these factors or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described herein as anticipated, believed, estimated, expected or intended. We have no obligation to update these forward-looking statements in light of new information or future developments.

PRESENTATION OF CERTAIN FINANCIAL AND OTHER INFORMATION

Financial Statements

This Luxembourg listing circular includes (i) our audited consolidated financial statements as of December 31, 2001 and 2002 and for the years ended December 31, 2000, 2001 and 2002 (the "audited financial statements"), together with the notes thereto, and (ii) our unaudited condensed consolidated financial statements as of and for the nine months ended September 30, 2002 and 2003, together with the notes thereto (the "unaudited interim financial statements," and together with the audited financial statements, the "Financial Statements"). The Financial Statements have been prepared in accordance with the accounting principles and regulations prescribed by the CNBV for credit institutions, as amended ("Mexican Banking GAAP").

On October 5, 2001, we entered into a contract for the acquisition of Bancrecer, S.A. ("Bancrecer") from IPAB. Our Financial Statements and the other consolidated financial information contained in this Luxembourg listing circular consolidate the financial results of Bancrecer beginning January 1, 2002. From December 4, 2001 to December 31, 2001, our acquisition of Bancrecer was recorded in investment securities. As a result, our Financial Statements and other consolidated financial information for the years ended December 31, 2000, 2001 and 2002 are not directly comparable from period to period, and evaluation of period to period trends may be difficult or impossible. We have not provided in this Luxembourg listing circular any pro forma financial information reflecting the acquisition of Bancrecer.

Accounting Principles

Mexican Banking GAAP differs from generally accepted accounting principles established by the Mexican Institute of Public Accountants ("Mexican GAAP"). Mexican Banking GAAP also differs from generally accepted accounting principles in the United States of America ("U.S. GAAP") and the SEC guidelines applicable to banking institutions in the United States. See "Significant Differences Between Mexican Banking GAAP and U.S. GAAP." No reconciliation of any of the Financial Statements to U.S. GAAP has been prepared for the purposes of this Luxembourg listing circular. Any such reconciliation would likely result in material differences.

The CNBV requires Mexican banks to account for the comprehensive effects of inflation in accordance with rules which are substantially the same as those in Bulletin B-10, "Recognition of Effects of Inflation in the Financial Information," issued by the Mexican Institute of Public Accountants. Additionally, Mexican Banking GAAP requires that financial information be adjusted for the effect of inflation and presented in constant Pesos. Unless otherwise specified, the Financial Statements and other financial information contained in this Luxembourg listing circular have been restated in accordance with the guidelines established by the CNBV, in order to recognize the effects of inflation. These guidelines require the restatement of all comparative financial statements to Pesos of constant purchasing power as of the date of the latest balance sheet. As such, unless otherwise specified, the Financial Statements and other financial information are presented in Pesos of constant purchasing power as of September 30, 2003. The Financial Statements have been restated and adjusted applying the changes in the value of the UDI (as defined in this Luxembourg listing circular), which is determined based on *Índice Nacional de Precios al Consumidor* (the "National Consumers' Price Index," or "NCPI"), an inflation index determined by Banco de Mexico. For a description of the methodology used to adjust the Financial Statements to reflect the effects of inflation, see "Significant Differences Between Mexican Banking GAAP and U.S. GAAP—Effects of Inflation" and note 3(b) to the audited financial statements included in this Luxembourg listing circular.

There was volatility in the rate of inflation in Mexico during the periods for which financial information is presented herein. The annual rate of inflation was 9.0% for 2000, 4.4% for 2001, 5.7% for 2002 and the rate of inflation for the first nine months of 2003 was 2.3%.

Unless otherwise specified, in accordance with Mexican Banking GAAP, the Financial Statements and the other financial information contained in this Luxembourg listing circular are presented in consolidated form. In accordance with Mexican Banking GAAP, only those subsidiaries that operate in the financial sector or that provide auxiliary or complementary services are consolidated for the purpose of presenting our consolidated financial information. Our subsidiary Sólida Administradora de Portafolios S.A. de C.V. ("Sólida") is 99.99% owned by us, although it is not consolidated in our Financial Statements due to the determination by the Mexican *Secretaria de Hacienda y Crédito Público* (the "Ministry of Finance and Public Credit") that it is not operating in the financial sector. Accordingly, our interest in Sólida is recorded as a permanent stock investment and is valued by using the equity method. See "Significant Differences Between Mexican Banking GAAP and U.S. GAAP—Consolidation."

Currencies

The financial information appearing in this Luxembourg listing circular is presented in Mexican Pesos. In this Luxembourg listing circular references to "Pesos" or "Ps." are to Mexican Pesos and references to "U.S. dollars," "dollars," "U.S.\$" or "\$" are to United States dollars. This Luxembourg listing circular contains translations of certain Peso amounts into U.S. dollars at specified rates solely for the convenience of the reader. These translations should not be construed as representations that the Peso amounts actually represent such U.S. dollar amounts or could be converted into U.S. dollars at the rate indicated. Unless otherwise indicated, U.S. dollar amounts that have been translated from Pesos have been so translated at an exchange rate of Ps.11.0133 per U.S. dollar, the rate calculated for September 30, 2003 and published on October 1, 2003 in the *Diario Oficial de la Federación* (the Mexican Official Gazette of the Federation or the "Federal Gazette") by the Banco de Mexico for the payment of obligations denominated in currencies other than Pesos and payable within Mexico (the "Banco de Mexico Exchange Rate"). As of the same date, the noon buying rate in New York City for cable transfers in Pesos per U.S. dollar as certified for customs purposes by the Federal Reserve Bank of New York was Ps.11.003 per U.S. dollar. See "Exchange Rates and Currency" for information regarding rates of exchange between the Peso and U.S. dollar for the periods specified therein.

References herein to "UDI" are to *Unidades de Inversión*, a Peso equivalent unit of account indexed for Mexican inflation. UDIs are units of account whose value in Pesos is indexed to inflation on a daily basis, as measured by the change in the NCPI. Under a UDI-based loan or financial instrument, the borrower's nominal Peso principal balance is converted either at origination or upon restructuring to a UDI principal balance, and interest on the loan or financial instrument is calculated on the outstanding UDI balance of the loan or financial instrument. Principal and interest payments are made by the borrower in an amount of Pesos equivalent to the amount due in UDIs at the stated value of the UDIs on the day of payment. As of September 30, 2003, one UDI was equal to approximately Ps.3.295959 (U.S.\$0.2993).

Terms Relating to Our Loan Portfolio

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

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

Unless otherwise specified herein, the terms "total performing loans" and "total performing loan portfolio," as used in this Luxembourg listing circular, do not include (i) amounts receivable from the *Fondo Bancario de Protección al Ahorro* ("FOBAPROA") or IPAB in connection with the transfer of loans and foreclosed assets to FOBAPROA as described in "Government Sponsored Support Funds" or otherwise, and (ii) "total non-performing loans," as defined below. The term "net total performing loans" refers to total performing loans less allowance for loan losses on these loans.

The CNBV requires amounts receivable from FOBAPROA and IPAB to be included in a bank's loan portfolio in its financial statements. Accordingly, such amounts receivable from FOBAPROA are referred to as "FOBAPROA notes," and amounts receivable from IPAB are referred to as "IPAB notes." Amounts receivable from FOBAPROA and IPAB are reflected in some instances by agreements that are not necessarily accompanied by a note. FOBAPROA notes and IPAB notes are collectively referred to as the "FOBAPROA and IPAB notes" and in certain instances are included as a separate component of the loan portfolio in the consolidated financial information contained in this Luxembourg listing circular. In addition, although interest accrued on FOBAPROA notes is generally capitalized over the life of the related receivable and is not payable until its maturity, we recognize such interest as current interest income. See "Government Sponsored Support Funds—FOBAPROA."

The terms "total non-performing loans" and "total non-performing loan portfolio" include past-due principal and past-due interest. Unless otherwise specified herein, FOBAPROA and IPAB notes are not included in total non-performing loans. For a description of our policies regarding the classification of loans as non-performing, see "Selected Statistical Information—Non-Performing Loan Portfolio." The term "net non-performing loans" refers to total non-performing loans less allowance for loan losses on these loans.

References in this Luxembourg listing circular to "provisions" are to additions to the loan loss allowance or reserves recorded in a particular period and charged to income, except in the case of certain provisions associated with loans and foreclosed assets transferred to FOBAPROA and other loan losses, which were charged to stockholders' equity (net of deferred taxes). See "Government Sponsored Support Funds—FOBAPROA." References in this Luxembourg listing circular to "allowance" are to the aggregate loan loss allowance or reserves shown as of a particular date as a balance sheet item.

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

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

Terms Relating to Our Capital Adequacy

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

"Total capital" or "total net capital" refers to *capital neto*, as such terms are determined by the Mexican Banking Law and the Mexican Capitalization Rules for commercial banks published in the Federal Gazette on September 22, 1999, as amended on December 13, 1999, February 28, 2000, May 14, 2002 and June 9, 2003 (the "Mexican Capitalization Requirements").

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

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

"Capital Ratio" refers to the ratio of the net capital (*capital neto*) to risk-weighted assets calculated in accordance with the methodology established from time to time by the Ministry of Finance and Public Credit pursuant to Mexican capitalization requirements for commercial banks.

"Capital Adequacy Ratio" refers to the minimum applicable Capital Ratio, established from time to time by the Ministry of Finance and Public Credit pursuant to Mexican capitalization requirements for commercial banks, below which we must fall in order to defer the payment of interest or principal, as applicable, under the Notes or redeem the Notes. As of the date of this Luxembourg listing circular, the Capital Adequacy Ratio is 8.00%.

Market Share and Ranking Information

Unless otherwise indicated, the market share and ranking information included in this Luxembourg listing circular is derived

from statistics of the CNBV, *Asociación de Banqueros de México* ("ABM") or *Controladora Prosa, S.A. de C.V.* ("Prosa," a Mexican clearing agency for automatic teller machines ("ATMs") and credit cards), each as of September 30, 2003.

SUMMARY

This summary highlights selected information from this Luxembourg listing circular and may not contain all the information that is important to you. For a more complete understanding of us and this offering, you should read this entire Luxembourg listing circular, including the risk factors and the Financial Statements appearing elsewhere in this Luxembourg listing circular.

Banorte

We are a multiple purpose bank with limited liability (*sociedad anónima*) incorporated in accordance with the laws of Mexico and provide a full range of banking services, serving more than 190 corporate customers and approximately 4.8 million retail customers in Mexico. We conduct a wide range of commercial and retail banking activities in Mexico through our nationwide network of more than 1,050 branches. As of September 30, 2003, we had total assets of Ps.203,274 million, total deposits of Ps.160,539 million and stockholders' equity of Ps.8,950 million. As of September 30, 2003, we ranked fourth among all Mexican banks both in terms of total assets and in terms of total deposits. In 2002, we generated net income of Ps.1,502 million and a return on average equity of 19.70% (average based on beginning and end-of-period balances). In the first nine months of 2003, we generated net income of Ps.728 million and a return on average equity of 11.23% (average based on beginning and end-of-period balances).

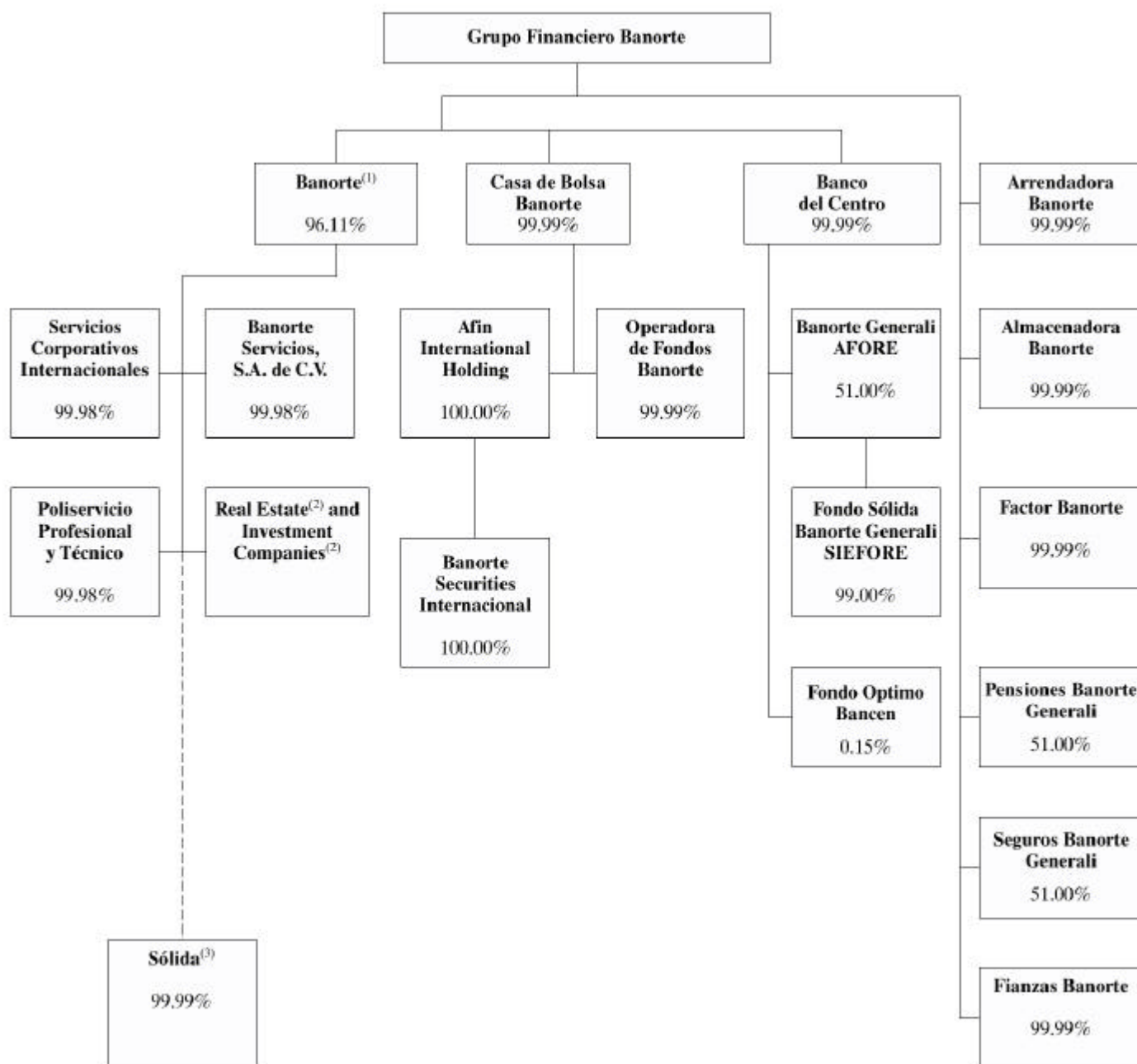
The number of our branches increased from approximately 125 as of December 31, 1992 to 1,056 branches in Mexico and a branch in Grand Cayman as of September 30, 2003. During that time, we have been involved in several strategic mergers and acquisitions, including our acquisition of Bancrecre in 2001 and our mergers with the banking operations of our affiliate Banco del Centro, S.A., Institución de Banca Múltiple, Grupo Financiero Banorte ("Bancentro") and Banpaís, S.A., Institución de Banca Múltiple ("Banpaís") in 2000. Our branches are located throughout Mexico, with approximately 45% located in northern Mexico (which includes the Monterrey region), 23% located in central Mexico (which includes the Mexico City region), 17% located in western Mexico (which includes the Guadalajara region) and 15% located in southern Mexico. We had 2,517 ATMs as of September 30, 2003, 49% of which were not located in our branches. Approximately 50% of our banking transactions are currently conducted by means of ATMs.

Grupo Financiero Banorte

We are the principal banking subsidiary of Grupo Financiero Banorte, S.A. de C.V. ("GFNorte"), the fourth largest financial services holding company in Mexico based on total assets as of September 30, 2003. GFNorte owned 96.11% of our capital stock as of September 30, 2003. Through us and its other subsidiaries, GFNorte provides a wide range of financial and related services in Mexico, including banking, stock brokerage, insurance, bonding, investment fund management, pension fund management and warehousing. As of September 30, 2003, we accounted for 96.3% of the total assets and 64.1% of the total equity of GFNorte.

GFNorte also separately owns another banking subsidiary, Bancentro, which it acquired in 1996. In December 2000, Bancentro's banking operations, including its branch network, loan portfolio (including non-performing loans) and FOBAPROA notes (which were subsequently converted into IPAB notes), were transferred to us. No consideration was paid in connection with this transaction. Currently, Bancentro engages in repurchase operations, maintains some non-performing loan portfolios, conducts trading activities and owns the capital stock of its subsidiaries.

The following chart presents our corporate structure and that of GFNorte, our parent company, indicating principal subsidiaries and respective ownership interests as of September 30, 2003.



(1) Our remaining shares are held by various third parties. See "Principal Shareholders."

(2) See "Business of Banorte—General" for a list of these entities.

(3) Sólida is a non-consolidated subsidiary. See "Business of Banorte—General" for a further description.

Strategy

We seek to become the most profitable commercial and retail bank in Mexico, providing a wide variety of products and services. To achieve this goal, we are focused on the following objectives:

Improve Operating Efficiencies

Following GFNorte's acquisitions of Bancentro in 1996 and Banpaís in 1997, and our acquisition of Bancrecer in 2001, we have endeavored to integrate these businesses and have implemented cost reductions in an effort to improve our efficiency. From January 2002 to September 2003, we closed 142 branches, reduced our total number of employees by approximately 3,000, and consolidated our senior management into a single decision-making unit. In particular, we created new offices and departments including the Office of the General Director of Banking, Regional Directors' Offices and the Office of the General Director of Administration and Finance. We also reorganized other divisions, including the Office of the General Director of Planning and Control. Anticipated benefits from our integration efforts include: (i) a reduction in administrative expenses necessary to support our branch network, (ii) technological efficiencies, (iii) revenue synergies from cross-selling products within GFNorte and (iv) the ability to offer a greater variety of services to our customers.

Increase Our Non-Interest Income

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

Improve the Profitability of Our Branches

We seek to improve the profitability of our branches by: (i) increasing loan placements, particularly in the areas of commercial loans and mortgage loans, (ii) diversifying our deposits base, (iii) increasing non-interest income and (iv) implementing cost reductions. We will continue to review the profitability of our branch network by determining the optimal size of our network and seeking to identify branches that should be closed or relocated. We also believe that we can improve the profitability of our branches by increasing loan activities in the former Bancrecer branch network. Bancrecer was a financially troubled bank at the time of our acquisition, and we believe there are opportunities to increase loan placements through our enhanced branch network.

Promote Synergies Within the GFNorte Group

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

In addition, we are always exploring the possibility of improving synergies and efficiencies within the GFNorte group, including transactions with affiliates. We are currently reviewing the possibility of merging with our affiliate Bancentro.

Expand Our Credit Card Business

We intend to expand the number of credit cards issued to individuals and businesses throughout Mexico. The credit card business is a market in which we have not been active in the past. We have created certain incentive programs to encourage the use of our credit cards and believe that we offer a competitive interest rate in the market. As of September 30, 2003, we had 372,718 credit cards in circulation, of which 232,775 carried a balance. We seek to issue approximately 220,000 new credit cards in 2004.

Acquisition of Bancrecer

On September 24, 2001, IPAB announced that we had obtained the right to purchase 100% of the capital stock of Bancrecer. We entered into a contract for the acquisition of Bancrecer on October 5, 2001 and eventually paid a total purchase price of Ps.1,804 million. Our acquisition of Bancrecer was funded with resources from GFNorte, including resources in cash and dividends obtained from its subsidiaries, as well as the use of the proceeds from our issuance of debentures and the use of additional financing obtained before the date of the acquisition. The Ministry of Finance and Public Credit authorized the merger between us and Bancrecer, and we merged with and into Bancrecer on March 31, 2002. Our products are now sold in each of the former branches of Bancrecer that remain operational and our corporate image extends throughout the entire branch network.

In nominal value, we had approximately Ps.106,528 million in assets, Ps.99,839 million in liabilities and Ps.6,689 million in stockholders' equity immediately prior to the merger on March 31, 2002. In nominal value, Bancrecer had approximately Ps.69,681 million in assets, of which Ps.46,291 million were IPAB notes, Ps.67,838 million in liabilities and Ps.1,843 million in stockholders' equity. In nominal value, after the cancellation of approximately Ps.10,264 million of liabilities, Ps.12,107 million of assets and Ps.1,843 million as a result of intercompany operations, the combined entity had approximately Ps.164,102 million in assets, Ps.157,413 million in liabilities and Ps.6,689 million in stockholders' equity immediately after the merger.

Recent Developments

Recent Corporate Events

Transfer of Bancentro's Money Market Position

From October 2003 to December 2003, our parent GFNorte decided to effectively transfer the money market position of Bancentro to us. Accordingly, substantially all of the repurchase obligations that had been previously carried on the balance sheet of Bancentro have been placed on our balance sheet. This transfer of Bancentro's money market position to us was made in an effort to take advantage of Banorte's tax loss carryforwards, to improve controls relating to the clearing of repurchase transactions and to more efficiently conduct the back office operations of Banorte and Bancentro. No consideration was paid in connection with this transaction.

Although we believe that the effective transfer of Bancentro's money market position will allow us to attain the benefits described above, we have experienced a significant decrease in our Capital Ratio in recent months as a result of this transfer. We estimate that our Capital Ratio decreased from 13.1% as of September 30, 2003 to 10.9% as of December 31, 2003, primarily due to the increase in the balance of our risk-weighted assets that are subject to market risk and credit risk as a result of this transaction.

The table below presents our risk-weighted assets and capital ratios as of September 30, 2003 and December 31, 2003.

	As of September 30, 2003	As of December 31, 2003
	(Ps. millions of constant purchasing power of September 30, 2003, except percentages)	(Ps. millions of constant purchasing power of December 31, 2003, except percentages)
Capital:		
Tier 1	8,963	9,271
Tier 2	2,366	2,468
Total capital	11,329	11,739
Risk-Weighted Assets:		
Credit risk.....	74,316	81,884
Credit and market risk.....	86,353	107,719
Capital Ratios (credit and market risk):		
Tier 1 capital to risk-weighted assets	10.38%	8.60%
Tier 2 capital to risk-weighted assets	2.74%	2.29%
Total capital to risk-weighted assets	13.12%	10.90%

Resignation of Chief Executive Officer and Director

Mr. Othón Ruiz Montemayor has tendered his resignation as Chief Executive Officer and member of our Board of Directors, such resignation to be effective February 15, 2004. In addition, Mr. Ruiz Montemayor has tendered his resignation as Executive Vice Chairman of the Board of Directors and Chief Executive Officer of GFNorte, such resignation to be effective February 15, 2004. We will announce the successor Chief Executive Officer in the near future.

Recent Financial Information

Our unaudited condensed consolidated financial statements as of and for the year ended December 31, 2003 are presented in the "Recent Financial Information" section of this Luxembourg listing circular. Such financial information has been prepared in accordance with Mexican Banking GAAP and is presented in pesos of constant purchasing power as of December 31, 2003. Such information is preliminary and is subject to adjustment based upon an audit of such year-end information. For the purposes of providing financial comparisons in connection with the narrative contained in "—Recent Developments—Recent Financial Information" and "Management's Discussion and Analysis of Financial Condition and Results of Operations—Recent Financial Information" sections only, we have restated our financial information as of and for the year ended December 31, 2002 to Pesos of constant purchasing power of December 31, 2003. For the period from October 1, 2003 to December 31, 2003, the change in the value of UDIs was 1.7%.

Results of Operations

We estimate that our net interest income decreased to Ps.8,248 million in 2003 from Ps.8,299 million in 2002. The decrease in net interest income was primarily the result of a decline in our interest income by Ps.1,948 million, or 8.8%, in 2003 compared to 2002, which more than offset a decline in our interest expense by Ps.1,903 million, or 13.8%, in the comparable periods. These results were largely attributable to a continuation of the trends identified in the discussion of our interest income in "Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations—First Nine Months of 2003 Compared to First Nine Months of 2002—Net Interest Income."

We estimate that our net income decreased to Ps.1,003 million in 2003 from Ps.1,527 million in 2002, a decrease of Ps.524 million, or 34.3%. This decrease in net income was due primarily to the following reasons:

- Extraordinary net income of Ps.427 million in 2002 resulting primarily from a one-time fee paid by Assicurizazioni Generali in connection with a distribution agreement with us;
- An increase in non-interest expenses to Ps.9,247 million in 2003 from Ps.9,065 million in 2002, an increase of Ps.182 million, or 2.0%, due to an increase in depreciation and amortization expenses and higher contributions to IPAB;
- A decrease in our trading income to Ps.340 million in 2003 from Ps.465 million in 2002, a decrease of Ps.125 million, or 26.9%; and
- A decrease of Ps.51 million in net interest income in 2003 compared to 2002, as discussed above.

Financial Position

We estimate that our total assets increased to Ps.204,281 million as of December 31, 2003 from Ps.200,919 million as of December 31, 2002, an increase of Ps.3,361 million, or 1.7%. This increase in total assets was due primarily to increases in cash and cash due from banks and investment securities, which more than offset decreases in IPAB notes and allowances for loan losses.

Cash and cash due from banks increased by 29.3% to Ps.30,820 million as of December 31, 2003 from Ps.23,841 million as of December 31, 2002, primarily as a result of higher cash levels resulting from prepayments made by IPAB and an increase of Ps. 3,045 million (nominal value) in the amount of our cash deposited with Banco de Mexico for regulatory purposes. Investment securities increased by 44.9% to Ps.18,138 million as of December 31, 2003 from Ps.12,516 million as of December 31, 2002, primarily as a result of the acquisition of highly liquid securities. On the other hand, IPAB notes decreased by 16.1% to Ps.69,041 million as of December 31, 2003 from Ps.82,271 million as of December 31, 2002, primarily resulting from prepayments. Allowance for loan losses decreased by 28.2% to Ps.3,845 million as of December 31, 2003 from Ps.5,355 million as of December 31, 2002, primarily as a result of a write-down in the amount of Ps.1,577 million (nominal value) relating to the sale of loans to Sólida.

We estimate that our total liabilities increased to Ps.194,885 million as of December 31, 2003 from Ps.192,445 million as of December 31, 2002, an increase of Ps.2,440 million, or 1.3%. This increase in total liabilities was due primarily to a 9.1% increase in our total deposits to Ps.162,593 million as of December 31, 2003 from Ps.149,027 million as of December 31, 2002, which more than offset a 30.6% decrease in interbank loans and loans to other financial entities to Ps.25,572 million as of December 31, 2003 from Ps.36,865 million as of December 31, 2002.

We estimate that our total shareholders' equity increased to Ps.9,395 million as of December 31, 2003 from Ps.8,474 million as of December 31, 2002, primarily due to our net income in 2003.

The Offering

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

Issuer.....	Banco Mercantil del Norte, S.A., Institución de Banca Múltiple, Grupo Financiero Banorte, acting through its Grand Cayman branch.
Notes	U.S.\$300,000,000 in aggregate principal amount of 5.875% Step-Up Subordinated Callable Notes due 2014. The indenture under which the Notes will be issued allows us to issue additional tranches of Notes.
Issue Price	99.543% of the principal amount for U.S.\$250,000,000 of Notes, of which U.S.\$237,500,000 of Notes will be purchased by Deutsche Bank Securities Inc. and of which U.S.\$12,500,000 of Notes will be purchased by Morgan Stanley & Co. Incorporated.
	100.200% of the principal amount for U.S.\$50,000,000 of Notes will be purchased by Deutsche Bank Securities Inc.
Issue Date.....	February 17, 2004.
Maturity Date.....	February 17, 2014, <i>provided that</i> : • We may redeem the Notes prior to the maturity date pursuant to a call option or a tax redemption. See "Call Option" and "Tax Redemption" below. • The maturity date may be extended under the circumstances described under "Deferral of Interest, Principal and Redemption" below.
Indenture	The Notes will be issued under an indenture dated as of February 17, 2004 between the issuer and The Bank of New York, as trustee.
Rating.....	It is a condition to the issuance of the Notes that the Notes be rated at least Baa2 by Moody's Investors Service, Inc. The rating addresses the likelihood of payment of principal on the maturity date and the timely payment of interest on each interest payment date. The rating is not a recommendation to purchase, hold or sell the Notes, inasmuch as it does not comment on market price or suitability for a particular investor.
Interest.....	The Notes will bear interest from February 17, 2004 at the rate of 5.875% per year until February 17, 2009, and thereafter at the rate of the U.S. Treasury Rate (as defined in this Luxembourg listing circular) as of the second business day preceding February 17, 2009, plus 431.25 basis points per year, payable semi-annually in arrears. Any amount of interest or principal in respect of the Notes not paid on an interest payment date, the maturity date or the redemption date shall bear interest (in the case of any interest payment amount, as if it constituted the principal of the Notes), to the extent permitted by applicable law, at the relevant interest rate plus 1.00%.

Interest Payment.....	February 17 and August 17 of each year, commencing August 17, 2004.
Call Option.....	We may redeem the Notes in whole or in part, at 100% of their par value, plus accrued interest, if any, on any interest payment date on or after February 17, 2009, subject to any regulatory requirements. Notes redeemed in part will be redeemed on a pro rata basis. See "Description of the Notes—Optional Redemption."
Tax Redemption.....	Subject to any regulatory requirements, we may redeem the Notes in whole but not in part at 100% of their principal amount, plus accrued interest, if any, to the date of redemption and any additional amounts then due and payable, at our option in the event of specified changes affecting taxation of the Notes. Other than in accordance with the foregoing and the call option, the Notes will not otherwise be redeemable prior to maturity. See "Description of the Notes—Tax Redemption."
Deferral of Interest, Principal and Redemption.....	If (i) our Capital Ratio (as defined in this Luxembourg listing circular) has declined below the Capital Adequacy Ratio (as defined in this Luxembourg listing circular) on any interest payment date or on the second business day prior to the maturity date or any redemption date, (ii) on any interest payment date or on the second business day prior to the maturity date or any redemption date any Mexican Regulatory Event (as defined in this Luxembourg listing circular) has occurred and is continuing, or (iii) payment of interest on or principal of the Notes would cause us to no longer be in compliance with the Capital Adequacy Ratio, then such interest or principal payment will be deferred until the date that is five days after the date on which no such condition exists. The deferral of any payment will not be an event of default under the Notes. See "Description of the Notes—Deferral of Interest and Principal," "—Optional Redemption" and "—Tax Redemption."
Ranking.....	The Notes will be unsecured subordinated obligations of the issuer. In the event of our bankruptcy, liquidation or dissolution under Mexican law, the Notes will rank: • junior in right of payment to the payment of all our present or future indebtedness other than the Notes and our other present or future subordinated indebtedness; • <i>pari passu</i> among themselves; • at least <i>pari passu</i> with all our other present or future subordinated indebtedness; and • senior in right of payment to payments to holders of all classes of our share capital. See "Description of the Notes—Subordination of the Notes."

Use of Proceeds.....	Subject to market conditions, we intend to use the net proceeds of the issuance of the Notes to prepay in June 2004 the outstanding balance of our 8% 436 million UDIs (Ps.1,436.1 million as of September 30, 2003) subordinated notes due 2011 that constitute Tier 2 capital (our "2011 notes"). We intend to use the remainder of the net proceeds, or all of the net proceeds if we elect not to prepay the 2011 notes, for general corporate purposes, including increasing our base capital.
Covenants	The terms of the indenture will require us, among other things, to: • pay all amounts owed by us under the Notes when those amounts are due and perform each of our other obligations under the various transaction documents entered into by us in connection with the issuance of the Notes; • if we defer any interest or principal payments as described under "Deferral of Interest, Principal and Redemption" above, use reasonable efforts to comply with the Capital Adequacy Ratio as soon as reasonably possible; • maintain all necessary governmental and third-party approvals and consents necessary in connection with the issuance of the Notes and payments made thereunder; and • give notice to the trustee of any default or event of default under the indenture and of certain other events. In addition, the indenture will require us to meet certain conditions before we consolidate, merge or transfer substantially all our assets to another person, unless we receive the consent of the holders of at least 66 ²/₃% in principal amount of the outstanding Notes. See "Description of the Notes—Consolidation, Merger, Sale or Transfer of Assets."
Events of Default.....	The indenture will contain limited events of default, consisting of the following: • failure to pay principal on the due date thereof, unless the principal payment is deferred as described in "Deferral of Interest, Principal and Redemption" above; • failure to pay interest due on any Note within 10 days of the due date thereof, unless the interest payment is deferred as described in "Deferral of Interest, Principal and Redemption" above; and • certain events involving bankruptcy, liquidation or dissolution proceedings, whether voluntary or involuntary.

No Acceleration Except in Case of Certain Events Involving
Bankruptcy, Liquidation or Dissolution.....

Payment of principal of the Notes may be accelerated only in the case of certain events involving our bankruptcy (including *concurso mercantil* or *quiebra*), liquidation or dissolution, and we will be required to make payment after acceleration only after we have been declared bankrupt, put into liquidation or otherwise dissolved for purposes of Mexican law. For the avoidance of doubt, no Mexican Regulatory Event will constitute our bankruptcy (including *concurso mercantil* or *quiebra*), liquidation or dissolution, nor will a Mexican Regulatory Event or deferral in the payment of principal and interest as described in "Deferral of Interest, Principal and Redemption" above entitle the holders of the Notes to accelerate or otherwise cause the acceleration of the payment of principal of the Notes. See "Risk Factors—Risks Relating to the Notes—If we do not satisfy our obligations under the Notes, your remedies will be limited."

Clearance and Settlement.....

The Notes offered and sold to qualified institutional buyers in reliance on Rule 144A under the Securities Act will be issued in book-entry form through the facilities of The Depository Trust Company ("DTC"), for the accounts of DTC's direct and indirect participants. The Notes offered and sold in reliance on Regulation S under the Securities Act will be issued in book-entry form through the facilities of DTC for credit to the accounts of Euroclear Bank S.A./N.V. as operator of the Euroclear System ("Euroclear"), and Clearstream Banking, *société anonyme* ("Clearstream"). Owners of beneficial interests in Notes held in book-entry form will not be entitled to receive physical delivery of individual certificated Notes except in limited circumstances. See "Description of the Notes—Book Entry System."

Withholding Taxes; Additional Amounts.....

All payments of principal, redemption amount and interest in respect of the Notes will be made without withholding or deduction for any taxes or other governmental charges imposed by Mexico or the Cayman Islands, or any political subdivision or any taxing authority thereof, unless such withholding or deduction is required by law. In that event, we will pay such additional amounts as are necessary to ensure that the holders of the Notes receive the same amounts as they would have received without such withholding or deduction, subject to certain exceptions. See "Description of the Notes—Payment of Additional Amounts."

Listing.....

We have submitted an application to list the Notes on the LSE.

ERISA Considerations.....

Sales of the Notes to specified types of employee benefit plans and affiliates are subject to certain conditions. See "Certain ERISA Considerations."

Transfer Restrictions

The Notes have not been registered under the Securities Act and may be transferred only as described under "Transfer Restrictions."

Governing Law.....	The indenture, the Notes and related documents will be governed by the laws of New York.
Form and Denomination	The Notes will be in fully registered form without interest coupons attached. Notes sold pursuant to Rule 144A will be represented by interests in a Rule 144A Global Note (as defined in this Luxembourg listing circular) and any Notes sold outside the United States to non-U.S. persons in accordance with Regulation S will be represented by interests in a Regulation S Global Note (as defined in this Luxembourg listing circular). Notes in individual certificated form will only be available under certain circumstances. The Notes will be issued in denominations of U.S.\$100,000 and integral multiples of U.S.\$1,000 in excess thereof. See "Description of the Notes—General" and "—Book Entry System."

RISK FACTORS

Before making a decision to invest in the Notes, you should carefully consider the risks described below as well as the other information contained in this Luxembourg listing circular, such as among other things, risk factors with respect to Mexican banks and other corporations not normally associated with investments in other countries and other issuers.

Risks Relating to Our Business

A substantial portion of our assets is represented by loans to the Mexican government in the form of agreements with IPAB, or the IPAB notes, the principal amount of which may be reduced or not paid.

As a result of GFNorte's acquisition of Bancentro and Banpaís and our acquisition of Bancrecer, and the restructuring of certain agreements in connection with our merger with Banpaís and the transfer of the banking operations of Bancentro, a substantial portion of our assets is represented by IPAB notes. See "Government Sponsored Support Funds—IPAB." As of September 30, 2003, we held Ps.76,019 million in IPAB notes, representing 37.4% of our total assets. Accordingly, the Mexican government will have substantial repayment obligations to us in respect of the IPAB notes at the time of their maturities, which are scheduled to occur between 2009 and 2010. The Mexican government has from time to time experienced liquidity problems in the past and no assurance can be given that the Mexican government might not attempt to restructure or extend the maturity of the IPAB notes because of liquidity problems occurring at the time of the maturity of the IPAB notes. Any significant failure or delay by the Mexican government to fund such repayment obligations or other payment obligations in respect of the IPAB notes, would have a material adverse effect on our financial condition. See "Government Sponsored Support Funds—IPAB."

We may be required to make significant contributions to IPAB.

Under Mexican law, banks are required to make monthly contributions to IPAB to support its operations that are equal to $\frac{1}{12}$ of 0.40% (the annual rate) multiplied by the average of certain liabilities minus the average of certain assets. IPAB was created in January 1999 to manage the bank savings protection system and regulate financial support granted to banks in Mexico. Mexican authorities impose regular assessments on banking institutions covered by IPAB for funding. We contributed Ps.658 million in 2002 and Ps.533 million in the first nine months of 2003. In the event that IPAB's reserves are insufficient to manage the bank savings protection system and provide the necessary financial support granted to troubled banking institutions, IPAB maintains the limited right to impose extraordinary assessments on participants in the system.

Exchanging our FOBAPROA notes for notes issued by IPAB may result in a reduction in the principal amount of such notes and may require us to establish additional reserves.

Effective January 20, 1999, the Mexican government established the bank deposit protection agency IPAB to replace FOBAPROA. Under the 1999 Bank Savings Protection Law, banks have the option to exchange their FOBAPROA notes for notes issued by IPAB with substantially similar terms. It is expected that all of the notes issued by FOBAPROA will eventually be replaced by notes issued by IPAB. As of September 30, 2003, we held Ps.12,271 million (including principal and accrued interest, but excluding provisions and collections) in FOBAPROA notes, representing approximately 6.0% of our total assets. We have been informed by IPAB that it is in the process of adopting certain procedures and conditions applicable to all Mexican banks holding FOBAPROA notes regarding the conduct of the exchange of such notes for IPAB notes. These procedures include a review by IPAB of the existence of the loans originally transferred to FOBAPROA, a continuing review of our performance in connection with the collection of such loans and a determination by IPAB as to whether such loans were properly and legally made. Among the possible effects of such review could be that:

- certain of such loans may be returned to us by IPAB;
- the corresponding principal amount of the related FOBAPROA note may be reduced; and
- additional reserves may be required to be recorded by us in respect of the returned loans.

In July 2002, we filed an injunction (*juicio de amparo*) in a Mexican federal court requesting an order suspending the effectiveness of IPAB's adoption of proposed procedures and conditions. The Mexican federal court ruled in favor of us in September 2003, and IPAB subsequently filed a motion to appeal the court's decision. We are discussing with IPAB the procedures and conditions that might be required in connection with the exchange of our FOBAPROA notes, and it is possible that a reduction in the principal amount of the notes could occur or additional reserves in respect of returned loans may be required. See "Government Sponsored Support Funds—IPAB."

The Mexican government may not be in a position to repay our FOBAPROA notes or may extend the maturity of these notes.

The adverse economic conditions experienced by Mexico in late 1994 and early 1995 significantly impacted Mexican banks, including us. Like other Mexican banks, we responded to these conditions by taking advantage of the Mexican government's support programs under which we transferred a portion of our loan portfolio and other assets in exchange for promissory notes of FOBAPROA. As of September 30, 2003, we held Ps.12,271 million (including principal and accrued interest, but excluding provisions and collections) in FOBAPROA notes, representing approximately 6.0% of our total assets. The capitalized interest in respect of the FOBAPROA notes represented 4.3% of our interest income in 2002 and 3.4% of our interest income for the first nine months of 2003. All of the FOBAPROA notes will continue to accrue interest that will be capitalized and will not be payable until their final maturity. Accordingly, the Mexican government will have substantial repayment obligations to Mexican banks, including us, in respect of FOBAPROA notes at the time of their respective maturities, which are scheduled to occur between 2005 and 2006. Any significant failure or delay by the Mexican government to fund such repayment obligations or other payment obligations in respect of the FOBAPROA notes would have a material adverse effect on the financial condition of Mexican banks, including us.

We cannot assure you that the Mexican government will not seek to restructure the FOBAPROA notes in a way that will be materially adverse to us, including an extension of the maturity of these notes. In addition, there can be no assurance that the Mexican Congress will allocate adequate funds to pay interest and principal on the FOBAPROA notes. If the maturity on FOBAPROA notes is extended, the risk that these notes will not be paid upon maturity would increase.

A portion of our loan portfolio is represented by loans to the Mexican government in the form of FOBAPROA notes, the principal amount of which may be reduced by our loss sharing on the FOBAPROA program.

We are responsible for 29% and 25% of the difference between the balance of the FOBAPROA I and FOBAPROA II notes, respectively, and the cash collections on the loans transferred to the applicable FOBAPROA I and FOBAPROA II trusts under the Mexican government's support programs. Since July 1998, Mexican banks that used FOBAPROA's Capitalization and Loan Sale Program are required to create loan loss reserves equal to their loss contingency exposure under the applicable FOBAPROA program. In the event we fail to maintain 100% of the loss sharing contingency, we will be liable for additional loss contingency that may adversely affect our financial condition. See "Government Sponsored Support Funds—FOBAPROA."

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

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

There can be no assurance that future transactions involving GFNorte or any of its affiliates or subsidiaries will not have an adverse effect on our financial condition. For example, as a result of the transfer of Bancentro's money market position to us in the fourth quarter of 2003, our Capital Adequacy Ratio declined from 13.1% as of September 30, 2003 to 10.9% as of December 31, 2003.

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

We are part of a financial group controlled by GFNorte. Other entities within the group include Bancentro, which is a multiple purpose bank incorporated in accordance with the laws of Mexico and engages in repurchase operations and maintains some non-performing loan portfolios and trading positions. GFNorte could, at any point in time, devote more resources or divert our business or business opportunities to Bancentro or other subsidiaries of GFNorte that directly or indirectly compete with us, as well as transfer certain operations of Bancentro or other subsidiaries of GFNorte to us, on grounds of capital efficiency, regulatory constraints, or other criteria. GFNorte estimates that Bancentro contributed approximately 2.2% of GFNorte's total assets as of December 31, 2003 and approximately 42.6% of GFNorte's net income in 2003. Bancentro, on an unconsolidated basis, currently has no employees and primarily

relies upon Banorte to conduct its business. Should more resources be devoted to our business or business opportunities are diverted to other subsidiaries of GFNorte, or unprofitable operations of Bancentro or other subsidiaries of GFNorte are transferred to us, our financial position could be adversely affected.

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

The asset quality of our loan portfolio, including with respect to collateral, and the loan portfolios of other Mexican banks have been negatively affected by the unfavorable financial and economic conditions prevailing in Mexico following the December 1994 devaluation of the Peso. Mexican regulatory authorities and the banking system responded to this situation in several ways, including making revisions to Mexican Banking GAAP and imposing more stringent loan loss reserve requirements and capitalization standards, as well as adopting a number of programs designed to provide relief to Mexican borrowers in connection with the restructuring of outstanding loans. The result of unfavorable financial and economic conditions in Mexico and these initiatives have caused Mexican banks, including us, to experience asset quality problems and to record relatively large loan loss provisions. See "Selected Statistical Information—Non-Performing Loan Portfolio." We also believe that recoveries from those non-performing loans as a percentage of the non-performing loan portfolio are likely to decline over time as a consequence of the aging of such non-performing loan portfolio, as well as the decreased value of the collateral supporting these loans.

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

Loan loss reserves in Mexico are generally less stringent than those applicable to banks in the United States and certain other countries.

Except for loans to the Mexican government and Banco de Mexico, we are required to classify each loan or type of loan according to an assessment of risk based on criteria set forth by Mexican banking regulations and to establish corresponding reserves. The criteria to establish reserves include both qualitative and quantitative factors. Mexican regulations relating to loan classification and determination of loan loss reserves are generally less stringent than those applicable to banks in the United States and certain other countries. The Mexican government has enacted new rules regarding the manner in which Mexican banks classify loans and determine loan loss reserves. These rules allow banks to use additional objective and subjective factors in determining loan loss reserves. If the rules applicable in the United States were applicable in Mexico today, the level of our loan loss reserves may be required to be greater than the reserves currently recorded.

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

Many Mexican banks have suffered severe liquidity problems since December 1994, particularly in connection with refinancing short-term dollar liabilities in the international capital markets. No assurance can be given that liquidity problems will not affect the Mexican banking system again or that liquidity constraints will not affect us in the future. While we expect to be able to pay or refinance our projected liabilities, no assurance can be given that we will be able to repay such liabilities or refinance such liabilities on favorable terms.

We anticipate that customers in Mexico will continue in the near future to demand short-term deposits (particularly demand deposits and short-term time deposits) and loans, and we intend to maintain our emphasis on the use of banking deposits as a source of funds. As of September 30, 2003, approximately 98% of our Peso and foreign currency deposits had remaining maturities of one year or less or were payable on demand. In the past, a substantial portion of such customer deposits have been rolled over upon maturity or maintained with us (in the case of deposits payable on demand) and, as a result, such deposits have over time been a stable source of funding. No assurance can be given, however, that customers will continue to roll over or maintain their deposits with us. If a substantial number of our customers fail to roll over their deposits upon maturity or withdraw their deposits from us, our liquidity position could be adversely affected, and we may be required to seek funding from more expensive sources.

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

We are exposed to currency risk any time we hold an open position in a currency other than Pesos and to interest rate risk when we have an interest rate repricing gap or carry interest-earning securities having fixed real or nominal interest rates. Peso exchange rates and interest rates in Mexico have been subject to significant fluctuations in recent years. Because of the volatility in Peso exchange rates and interest rates in Mexico, the risks associated with such positions may be greater than in certain other countries. Although we follow various risk management procedures in connection with our trading and treasury activities, there can be no assurance that we will not experience losses with respect to these positions in the future, any of which could have a material adverse effect on our results of operations and financial position. See "Selected Statistical Information—Interest Rate Sensitivity of Assets and Liabilities" and "Risk Management."

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

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

We face significant competition from other banks in providing financial services to the Mexican retail and corporate banking sectors and have significant competition from international financial institutions, mainly in providing dollar-denominated and other financing to Mexican corporate borrowers. Our principal competitors are Scotiabank Inverlat, S.A., Institución de Banca Múltiple, Grupo Financiero Scotiabank Inverlat ("Scotiabank Inverlat"), which was acquired by Scotiabank in 2000, BBVA Bancomer, S.A., Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer ("BBVA Bancomer"), which was acquired by BBVA in 2000, Banco Nacional de Mexico, S.A., Integrante del Grupo Financiero Banamex ("Banamex"), which was acquired by Citigroup in 2001, Banco Santander Mexicano, S.A., Institución de Banca Múltiple, Grupo Financiero Santander Serfin ("Santander Mexicano") and Banca Serfin, S.A., Institución de Banca Múltiple, Grupo Financiero Santander Serfin ("Serfin"), which were acquired by Banco Santander Central Hispano S.A. in 1997 and 2000, respectively, and Banco Internacional, S.A., Institución de Banca Múltiple, Grupo Financiero Bital ("Bital"), which was acquired by HSBC in 2002. Some of our competitors are significantly larger and have more financial resources than we, including a larger asset size and capital base.

In addition, general regulatory reforms in the Mexican banking industry have increased competition among banks. We believe that Mexico's recent economic difficulties and the Mexican government's commitments to address these difficulties have accelerated regulatory reforms in, and the liberalization of, the Mexican financial industry, leading to increased competition among financial institutions in Mexico. As the reform of the financial sector continues, foreign financial institutions, many with greater resources than we, have entered and may continue to enter the Mexican market either by themselves or in partnership with existing Mexican financial institutions and compete with us. There can be no assurance that we will be able to compete successfully with such domestic or foreign financial institutions or that increased competition will not have a material adverse effect on our financial condition or operating results.

The integration of Bancrecer or future mergers or acquisitions of financial institutions could disrupt our operations and adversely affect our financial condition.

We acquired Bancrecer in December 2001. The integration of the operation of this merged entity is continuing but is not yet complete, and we could face integration difficulties or unanticipated problems as a result of these transactions. Prior to our acquisition of Bancrecer, the Mexican government took over Bancrecer because of its failure to comply with certain financial and regulatory requirements. We cannot assure you that the continued integration of our business will not disrupt our operations or affect our financial condition.

We have been subject from time to time to speculative reports regarding the possibility of a merger with other financial institutions. We intend to review potential merger or acquisition opportunities as they arise. In addition, we are currently reviewing the possibility of merging with our affiliate Bancentro. The possibility of a new merger, acquisition or other business combination involving us is likely to entail risks, including diversion of management attention, unknown or unforeseen liabilities relating to the counterparty, difficulty in integrating and managing new or combined operations, labor unrest and loss of key personnel.

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

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

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

The Mexican government and commercial banks have from time to time agreed to modify the terms of loans made to states and municipalities. Such modifications have included extensions in maturity of up to 12 years, reductions in interest rates and prepayment options. As of September 30, 2003, approximately Ps.1,077 million of these loans, or 1.6% of our total loan portfolio (excluding FOBAPROA and IPAB notes), was included under such programs. There can be no assurance that these loans will not be similarly restructured in the future in a way that would be materially adverse to us.

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

We are subject to extensive regulation by Mexican governmental authorities regarding our organization, operations, capitalization, transactions with related parties and other matters. These laws and regulations impose numerous requirements on us including the maintenance of minimum risk-based capital levels and loan loss reserves, regulation of our business practices, diversification of our investments, maintenance of liquidity ratios, regulation of loan granting policies and interest rates charged, and application of required accounting regulations. Many of the applicable laws and regulations have been subject to extensive changes in recent years, some of which have had a material effect on our financial position and results of operations. Given the current environment of frequent changes to laws and regulations affecting the financial services sector, there may be future changes in the regulatory system or in the enforcement of the laws and regulations that could adversely affect us. See "Supervision and Regulation" for a discussion of the governmental authorities that regulate us.

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

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

Risks Relating to Mexico

The Mexican economy has experienced adverse economic conditions that could adversely affect our business, financial condition and results of operations.

We are incorporated in Mexico and substantially all of our operations are located in Mexico. As a result, we are subject to economic, political, legal and regulatory risks specific to Mexico. Mexico has previously experienced adverse economic conditions, including high levels of inflation. Beginning in December 1994 and continuing through 1995, Mexico experienced an economic crisis characterized by exchange rate instability, devaluation of the Peso, high inflation, high domestic interest rates, negative economic growth, reduced consumer purchasing power and high unemployment. The economic crisis occurred in the context of a series of internal disruptions and political events including a large current account deficit, civil unrest in the southern state of Chiapas, the assassination of two prominent political figures and a substantial outflow of capital.

In response, the Mexican government implemented broad economic reform programs. Economic conditions in Mexico improved in 1996 and 1997. However, a combination of factors led to a slowdown in Mexico's economic growth in 1998. Notably, the decline in the international price of oil resulted in a reduction of federal revenues, approximately one-third of which are derived from petroleum taxes and duties. In addition, the economic crises in Asia and Russia and the financial turmoil in Brazil and Venezuela produced greater volatility in the international financial markets, which further slowed Mexico's economic growth. In 2000, annual

inflation in Mexico was 8.9%, interest rates on 28-day Mexican government treasury securities averaged 15.2% per annum and the Peso lost 1.0% in value (in nominal terms) against the U.S. dollar. In 2001, annual inflation was 4.4%, interest rates on 28-day Mexican government treasury securities averaged 11.3% per annum and the Peso appreciated 1.2% in value (in nominal terms) against the U.S. dollar. In 2002, annual inflation was 5.7%, interest rates on 28-day Mexican government treasury securities averaged 7.1% per annum and the Peso depreciated 13.5% in value (in nominal terms) against the U.S. dollar. According to Mexican government estimates, real gross domestic product ("GDP") in Mexico grew by 6.6% in 2000, decreased by 0.3% in 2001, increased by 0.9% in 2002 and increased by 1.0% in the nine months ended September 30, 2003.

No assurance can be given that events similar to those described above will not occur in the future. If the Mexican economy were to experience a recession or if inflation and interest rates increase significantly, our business, financial condition and results of operations could be adversely affected.

Severe devaluation or depreciation of the Peso may adversely affect our financial condition and results of operations.

Severe devaluation or depreciation of the Peso may limit our ability to transfer or to convert Pesos into U.S. dollars and other currencies and may have an adverse effect on our financial condition, results of operations and cash flows in future periods by, for example, increasing in Peso terms the amount of its foreign currency-denominated liabilities and the rate of default among our borrowers. From January 1, 2003 through September 30, 2003 the Peso has depreciated by approximately 5.8%.

Severe devaluation or depreciation of the Peso may also result in governmental intervention, as has occurred in Argentina, or disruption of international foreign exchange markets. While the Mexican government does not currently restrict, and for many years has not restricted, the right or ability of Mexican or foreign persons or entities to convert Pesos into U.S. dollars or to transfer other currencies outside of Mexico, the Mexican government could institute restrictive exchange control policies in the future.

Political events in Mexico may affect our operations.

In the Mexican federal elections held on July 2, 2000, Vicente Fox of the *Partido Acción Nacional* (the "PAN") was elected President of Mexico. His inauguration on December 1, 2000 ended more than 70 years of presidential rule by the *Partido Revolucionario Institucional* (the "PRI"). Neither the PRI nor the PAN succeeded in securing a majority in either chamber of the Mexican Congress and many of the structural reform proposals of the Fox administration have not been favorably received or approved by the Mexican Congress. The PAN lost additional seats in the Mexican midterm congressional voting held in July 2003. The increased party opposition and legislative gridlock arising out of the elections could further hinder President Fox's ability to implement his economic initiatives. We cannot provide any assurance that future political developments in Mexico, over which we have no control, will not have an unfavorable impact on our financial condition or results of operations.

Developments in other countries could adversely affect the Mexican economy and our results of operations.

The Mexican economy may be, to varying degrees, affected by economic and market conditions in other countries. Although economic conditions in other countries may differ significantly from economic conditions in Mexico, investors' reactions to adverse developments in other countries may have an adverse effect on the market value of securities of Mexican issuers. In October 1997, prices of both Mexican debt and equity securities decreased substantially as a result of the sharp drop in Asian securities markets. Similarly, in the second half of 1998 and in early 1999, prices of Mexican securities were adversely affected by the economic crises in Russia and Brazil. The economic recession in Argentina and the volatility of the Brazilian currency and of the spreads of Brazilian sovereign bonds in the international capital markets may have an adverse effect on the rest of Latin America and Mexico.

In addition, in recent years economic conditions in Mexico have become increasingly correlated to economic conditions in the United States. Therefore, adverse economic conditions in the United States could have a significant adverse effect on the Mexican economy. We cannot assure you that the events in other emerging market countries, in the United States or elsewhere will not adversely affect our business, financial condition and results of operations.

Additional terrorist attacks could adversely affect economic conditions globally.

The terrorist attacks in the United States on September 11, 2001 depressed economic activities in the United States and had a negative effect on the global economy. If additional terrorist attacks were to occur, global economic conditions are likely to deteriorate. Our business, financial condition and results of operations may be materially and adversely affected as a result of any additional terrorist attacks.

Corporate disclosure in Mexico may differ from disclosure regularly published by or about issuers of securities in other countries,

including the United States.

There may be less publicly available information about issuers of securities in Mexico than is regularly made available by public companies in countries with highly developed capital markets, including the United States. In addition, accounting standards and disclosure requirements for credit institutions in Mexico were recently developed. In particular, our Financial Statements are prepared in accordance with Mexican Banking GAAP, and the financial results reported using Mexican Banking GAAP will differ in certain material respects from those results that would have been obtained using other principles and standards such as U.S. GAAP. See "Significant Differences Between Mexican Banking GAAP and U.S. GAAP."

Risks Relating to the Notes

The Notes will be unsecured and subordinated and rank junior in right of payment to all our present or future indebtedness other than the Notes and other present or future subordinated indebtedness.

The Notes rank at least *pari passu* with all our other present or future subordinated indebtedness. However, the Notes are by their terms unsecured and subordinated in right and rank junior in right of payment to all our present or future indebtedness other than the Notes and our other present or future subordinated indebtedness. The Notes will also rank effectively junior to all of our subsidiaries' indebtedness and other liabilities. By reason of the subordination of the Notes, in the case of certain events involving bankruptcy, liquidation or dissolution, although the Notes would become immediately due and payable at their principal amount together with accrued interest thereon, our assets would be available to pay such amounts only after all our senior indebtedness had been paid in full. As of December 31, 2003, we had, on a consolidated basis, an aggregate of approximately Ps.192,153 million of senior indebtedness outstanding. We expect to incur additional senior indebtedness from time to time, and the indenture does not prohibit or limit the incurrence of other indebtedness, including additional senior indebtedness. See "Description of the Notes—Subordination of the Notes."

If we do not satisfy our obligations under the Notes, your remedies will be limited.

Payment of principal of the Notes may be accelerated only in specified instances involving our bankruptcy (including *concurso mercantil*), liquidation or dissolution. There is no right of acceleration in the case of a default in the performance of any of our covenants, including the payment of principal or interest or in the case of the deferral of payment of principal or interest on the Notes. See "Description of the Notes—Deferral of Interest and Principal."

Even if the payment of principal on the Notes is accelerated due to our bankruptcy, liquidation or dissolution, our assets will be available to pay those amounts only after:

- all of our senior obligations have been paid in full, as described above in "Description of the Notes—Subordination of the Notes"; and
- we are actually declared bankruptcy or are dissolved or put into liquidation for purposes of Mexican law.

The Notes are subject to optional redemption and redemption in the event of specified changes affecting taxation of the Notes.

Subject to any regulatory requirements, we have the option to redeem the Notes, in whole or in part, at par plus accrued and unpaid interest on any interest payment date on or after February 17, 2009. See "Description of the Notes—Optional Redemption."

Upon the occurrence and continuation of certain specified changes affecting taxation of the Notes, as described under "Description of the Notes—Tax Redemption," we will have an option to redeem the Notes in whole (but not in part) at 100% of their principal amount, plus accrued and unpaid interest, subject to any regulatory requirements. See "Description of the Notes—Tax Redemption."

In the event proceedings are brought in Mexico, the currency of payment for judgments will be the Mexican currency.

Under Article 8 of *Ley Monetaria de los Estados Unidos Mexicanos* (the "Mexican Monetary Law"), in the event that proceedings are brought in Mexico seeking to enforce in Mexico our obligations under the Notes, we would not be required to discharge such obligations in Mexico in a currency other than the Mexican currency. Pursuant to Article 8, an obligation which is payable in Mexico in a currency other than the Mexican currency may be satisfied in Mexican currency at the rate of exchange in effect on the date and in the place such payment occurs. Such exchange rate currently is determined by Banco de Mexico every business banking day in Mexico and published the following business banking day in the Federal Gazette.

Under the *Ley de Concursos Mercantiles* (the "Mexican Bankruptcy Law"), in the case of our bankruptcy, foreign currency denominated liabilities would be converted into Mexican Pesos at the prevailing rate of exchange on the date the insolvency judgment is rendered, and the resulting amount, in turn, would be converted into UDIs.

Payments to be made by us under the Notes could be suspended if our Capital Ratio has declined below, or such payment would cause our Capital Ratio to decline below, the Capital Adequacy Ratio, or if a Mexican Regulatory Event has occurred and is continuing.

Under the Mexican Capitalization Requirements, "Tier 2 Capital" is that part of the second tier of the adjusted capital taken into account when assessing a bank's risk weighted capital adequacy. In order for the subordinated debt represented by the Notes to qualify as Tier 2 Capital, the "Description of the Notes" provide that principal and interest payments to be made by us under the Notes on the corresponding payment dates and maturity date (including as a result of early redemption for taxation reasons or redemption at our option on any interest payment date commencing on February 17, 2009) would be deferred if our Capital Ratio declined below the Capital Adequacy Ratio as in effect from time to time (8.00% as of the date of the Luxembourg listing circular), if such payments would cause us to decline below the Capital Adequacy Ratio, or if any Mexican Regulatory Event has occurred and is continuing. See "Description of the Notes—Deferral of Interest and Principal."

In any such case, all payments under the Notes would be deferred until we were, and after making such payment would continue to be, in compliance with the Capital Adequacy Ratio or the relevant corrective measure. See "Supervision and Regulation" for a discussion of the Mexican Capitalization Requirements. Any suspension of payments due to our failure to satisfy the Mexican Capitalization Requirements or relevant Mexican Regulatory Event would have a material adverse effect on our ability to make scheduled payments under the Notes.

We estimate that our Capital Ratio declined from 13.1% as of September 30, 2003 to 10.9% as of December 31, 2003, primarily as a result of the transfer of Bancentro's money market position to us. See "Summary—Recent Developments—Recent Corporate Events."

For United States federal income tax purposes, we believe that, as of the issue date of the Notes, there is a remote likelihood that payments of principal or interest on the Notes will be deferred. If, however, payments of stated interest or, in some circumstances, principal on the Notes are deferred, the Notes would at that time be treated as having been issued with original issue discount for United States federal income tax purposes. This means that you would be required to include accrued interest in your income for United States federal income tax purposes before you receive any cash distributions. See "Taxation—Certain United States Federal Income Tax Considerations."

The rating of the Notes may be lowered or withdrawn depending on various factors, including the rating agency's assessments of our financial strength and Mexican sovereign risk.

It is a condition to the issuance of the Notes that they be rated at least Baa2 by Moody's Investors Service, Inc. The rating addresses the likelihood of payment of principal at their maturity. The rating also addresses the timely payment of interest on each payment date. The rating of the Notes is not a recommendation to purchase, hold or sell the Notes, and the rating does not comment on market price or suitability for a particular investor. We cannot assure you that the rating of the Notes will remain for any given period of time or that the rating will not be lowered or withdrawn. A downgrade in or withdrawal of the rating of the Notes will not be an event of default under the indenture. The assigned rating may be raised or lowered depending, among other things, on the rating agency's assessment of our financial strength, as well as its assessment of Mexican sovereign risk generally.

A trading market for the Notes may not develop or continue; thus it may be difficult to resell your Notes.

We have submitted an application to list the Notes on the LSE and use our reasonable efforts to list the Notes on the LSE. Changed circumstances, including changes in listing requirements, could cause us to conclude that continued listing of the Notes on the LSE is unduly burdensome. The Notes will be a new issue of securities with no established trading market. See "General Listing Information." No assurance can be given as to the liquidity of any markets that may develop for the Notes or that an active public market for the Notes will develop, your ability to sell your Notes or the price at which you will be able to sell your Notes, as the case may be. In addition, the Notes have not been registered under the Securities Act and will be subject to transfer restrictions. See "Transfer Restrictions." We do not intend to provide registration rights to holders of Notes and do not intend to file any registration statement with the SEC in respect of the Notes. The Notes have not been registered with the Securities Section of the Mexican National Registry of Securities and therefore, the Notes may not be offered or sold in a public offering nor be the subject of an intermediation in Mexico. Future trading prices of the Notes will depend on many factors including, among other things, prevailing interest rates, our operating results, and the market for similar securities. The initial purchasers have informed us that they may make a market in the Notes. However, the initial purchasers are not obligated to do so and any such market making activity may be terminated at any time

without notice to you. In addition, such market making activity will be subject to the limits of the Securities Act. If an active public trading market for the Notes does not develop, the market price and liquidity of the Notes may be adversely affected. See "Plan of Distribution."

USE OF PROCEEDS

Our net proceeds from the issuance of the Notes are estimated to be approximately U.S.\$297.8 million, not including the expenses of the offering. Subject to market conditions, we intend to use the net proceeds of the issuance of the Notes to prepay in June 2004 the outstanding balance of our 2011 notes. We intend to use the remainder of the net proceeds, or all of the net proceeds if we elect not to prepay the 2011 notes, for general corporate purposes, including increasing our base capital.

EXCHANGE RATES AND CURRENCY

On December 21, 1994, Banco de Mexico implemented a floating foreign exchange rate regime under which the Peso is allowed to float freely against the U.S. dollar and other foreign currencies. Banco de Mexico will intervene directly in the foreign exchange market only to reduce what it deems to be excessive short-term volatility. Since late 2003, Banco de Mexico has been conducting auctions of U.S. dollars in an attempt to reduce the levels of its foreign reserves. Banco de Mexico conducts open market operations on a regular basis to determine the size of Mexico's monetary base. Changes in Mexico's monetary base have an impact on the exchange rate. Banco de Mexico may increase or decrease the reserve of funds that financial institutions are required to maintain. If the reserve requirement is increased, financial institutions will be required to allocate more funds to their reserves, which will reduce the amount of funds available for operations. This causes the amount of available funds in the market to decrease and the cost, or interest rate, to obtain funds to increase. The opposite happens if reserve requirements are lowered. This mechanism, known as "*corto*" or "*largo*," as the case may be, or more formally "the daily settlement balance target," represents a device used by Banco de Mexico to adjust the level of interest and foreign exchange rates.

Volatility in the exchange rate market has gradually declined from the high levels observed during 1995, when the exchange rate fluctuated between Ps.5.00 and Ps.8.14 per dollar. During 2000, 2001 and 2002, the exchange rate was less volatile, fluctuating between Ps.9.17 and Ps.10.08, Ps.8.94 and Ps.9.98 and Ps.9.02 and Ps.10.44 per dollar, respectively.

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

Banco de Mexico has provided for risk management and hedging mechanisms against fluctuations in the Peso/dollar exchange rate. Banco de Mexico allows Mexican banks and brokerage houses to participate in futures markets for the Peso. In April 1995, the Chicago Mercantile Exchange introduced Peso futures contracts and options on Peso futures contracts and started trading these options and futures. On December 18, 1998, trading started at the Mexican Derivatives Exchange, or "MexDer," including Peso futures contracts.

The following table sets forth, for the periods indicated, the period-end, average, high and low Banco de Mexico Exchange Rate expressed in Pesos per U.S. dollar. The rates shown below are in nominal Pesos that have not been restated in constant currency units. No representation is made that the Peso amounts referred to in this Luxembourg listing circular could have been or could be converted into U.S. dollars at any particular rate or at all. Unless otherwise indicated, U.S. dollar amounts that have been translated from Pesos have been so translated at an exchange rate of Ps.11.0133 to U.S.\$1.00, the Banco de Mexico Exchange Rate on September 30, 2003. The Banco de Mexico Exchange Rate on December 31, 2003 and published in the Federal Gazette on January 2, 2004 was Ps.11.2372 per U.S.\$1.00.

Period	Banco de Mexico Exchange Rate⁽¹⁾			
	High	Low	Average⁽²⁾	Period-end
	(nominal Pesos per U.S. dollar)			
2000.....	10.08	9.17	9.46	9.61
2001.....	9.98	8.94	9.34	9.17
2002.....	10.44	9.00	9.67	10.44
2003 (through December 31, 2003).....	11.40	10.11	10.80	11.24
August.....	11.05	10.59	10.78	11.05
September.....	11.05	10.77	10.93	11.01
October.....	11.29	10.96	11.18	11.05
November.....	11.40	10.96	11.15	11.40
December.....	11.38	11.16	11.25	11.24
2004 (through January 23, 2004).....	11.09	10.82	10.93	10.96

(1) Source: Banco de Mexico.

(2) Average of end-of-month rates for 2000, 2001, 2002 and 2003. Average of daily rates for each month of 2003.

In the event of shortages of foreign currency, there can be no assurance that foreign currency would continue to be available to private-sector companies or that foreign currency needed by us to service foreign currency obligations would continue to be available without substantial additional cost.

DIVIDENDS

We paid dividends in October 2002 in an aggregate amount of Ps.208 million (expressed in purchasing power Pesos as of September 30, 2003). We did not pay any dividends in 2003.

The declaration and payment of dividends are determined, subject to the limitations set forth below, by the affirmative vote of a majority of the holders of our common voting shares present at the relevant general ordinary shareholders' meeting. Pursuant to Mexican law, we cannot pay dividends if our capitalization ratio is below the minimum percentage required by the Mexican Capitalization Requirements or if ordered by a corrective measure by the CNBV under Article 134 Bis of the Mexican Banking Law as described in "Supervision and Regulation—Introduction." As of September 30, 2003, we reached the required capitalization level, and therefore we are entitled to declare and pay dividends. Although no assurance can be given, we expect to comply with these capital ratio requirements in 2004 and expect to declare and pay dividends thereafter.

Under Mexican law, at least 10% of our net income (on a non-consolidated basis and after employee profit sharing and other deductions required by Mexican law) must be allocated annually to a legal reserve fund until such fund reaches an amount equal to at least 100% of our paid-in capital (without adjustment for inflation). We may pay dividends only out of earnings (including retained earnings after all losses have been absorbed or paid up) and only after such allocation to the legal reserve fund. The reserve fund is required to be funded on a stand-alone basis for each company, rather than on a consolidated basis. The level of earnings available for the payment of dividends is determined under Mexican Banking GAAP. As of September 30, 2003, we were in compliance with the regulations pertaining to our legal reserve. As of September 30, 2003, we had set aside approximately Ps.1,523 million in legal reserves compared to paid-in capital of Ps.5,468 million.

CAPITALIZATION

The following table sets forth, as of September 30, 2003, our actual capitalization and adjusted capitalization to reflect the issuance of the U.S.\$300,000,000 of Notes. Subject to market conditions, we currently intend to use a portion of the net proceeds from the issuance of the U.S.\$300,000,000 of Notes to prepay the outstanding balance of our 2011 notes in June 2004.

	As of September 30, 2003 ⁽¹⁾		
	Actual	As Adjusted for the Offering	
	(Ps. millions)	(Ps. millions)	(U.S.\$ millions)
LONG-TERM DEBT:			
Interbank loans and other long-term loans	10,653	10,653	967
Subordinated debt ⁽²⁾	2,735	4,571	415
Total long-term debt ⁽²⁾	13,388	15,224	1,382
STOCKHOLDERS' EQUITY:			
Subscribed capital ⁽³⁾	5,468	5,468	496
Earned capital	3,481	3,481	316
Minority interest	1	1	0
Total stockholders' equity	8,950	8,950	812
TOTAL CAPITALIZATION⁽²⁾	22,338	24,174	2,194

- (1) Except as disclosed in this Luxembourg listing circular, there has been no material change in our total capitalization since September 30, 2003.
- (2) The "As Adjusted for the Offerings" columns include the U.S.\$300,000,000 of Notes, and assume the prepayment in June 2004 of the outstanding balance of our 2011 notes, the outstanding balance of which was approximately Ps.1,467.3 million as of January 25, 2004.
- (3) As of September 30, 2003, our authorized capital stock consisted of 23,080,347,212 Series O Shares (common shares), par value Ps.0.10 per share, of which 22,734,829,630 Series O Shares (common shares) were issued, outstanding and fully paid. Of these shares, 21,850,846,321 Series O Shares (common shares) (96.11% of our issued, outstanding and fully paid capital stock) are held by GFNorte.

RECENT FINANCIAL INFORMATION

Set forth below is our unaudited condensed consolidated financial information as of and for the year ended December 31, 2003. Such financial information has been prepared in accordance with Mexican Banking GAAP and is presented in Pesos of constant purchasing power as of December 31, 2003. Such information is preliminary and is subject to adjustment based upon an audit of such year-end information. The Financial Statements included in this Luxembourg listing circular and substantially all of the other financial information contained herein is presented in Pesos of constant purchasing power as of September 30, 2003. The financial information included herein as recent financial information is, therefore, not directly comparable with the other financial information included in this Luxembourg listing circular that is restated to constant Pesos as of a different date. For the period from October 1, 2003 to December 31, 2003, the change in the value of UDIs was 1.7%. For a discussion of the results of operations of 2003 compared to 2002 and the financial position as of December 31, 2003 compared to December 31, 2002, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Recent Financial Information." Audited condensed consolidated financial statements as of and for the year ended December 31, 2003 will not be available until April 2004.

Unaudited Condensed Consolidated Balance Sheet
As of December 31, 2003
(In thousands of Mexican Pesos in purchasing power of December 31, 2003)

ASSETS

CASH AND CASH EQUIVALENTS	30,819,657
INVESTMENT SECURITIES:	
Trading securities	8,851,254
Available-for-sale securities	239,885
Held-to-maturity securities	9,047,300
TOTAL INVESTMENT SECURITIES	18,138,439
SECURITIES AND DERIVATIVES TRADING:	
Range operations	1,281
Debit balances on repurchase transactions	26,485
Derivatives trading	2,886
	30,652
CURRENT LOAN PORTFOLIO:	
Commercial portfolio	33,805,198
Loans to financial intermediaries	3,349,559
Consumer loans	8,654,924
Mortgage loans	14,451,651
Loans to IPAB	69,040,770
Loans to government entities	9,135,211
Loans to FOBAPROA	6,685,775
TOTAL CURRENT LOAN PORTFOLIO	145,123,088
PAST-DUE LOAN PORTFOLIO:	
Commercial portfolio	1,718,313
Consumer loans	449,360
Mortgage loans	1,036,912
Loans to government entities	8,107
TOTAL PAST-DUE LOAN PORTFOLIO	3,212,692
TOTAL LOAN PORTFOLIO	148,335,780
ALLOWANCE FOR LOAN LOSSES	3,845,362
NET LOAN PORTFOLIO	144,490,418
OTHER RECEIVABLES, NET	1,789,348
FORECLOSED ASSETS	1,098,768
PROPERTY, FURNITURE AND EQUIPMENT, NET	5,122,869
PERMANENT STOCK INVESTMENTS	917,722
DEFERRED TAXES, NET	1,065,349
OTHER ASSETS, NET:	
Other assets, deferred charges and intangibles	807,342
TOTAL ASSETS	204,280,564

Unaudited Condensed Consolidated Balance Sheet (Continued)
As of December 31, 2003
(In thousands of Mexican Pesos in purchasing power of December 31, 2003)

LIABILITIES

DEPOSITS:

Demand deposits	66,221,193
Time deposits:	
General public	75,406,295
Money market	20,965,314
TOTAL DEPOSITS	162,592,802

BANK AND OTHER ENTITY LOANS:

Demand loans	4,736,228
Short-term	10,635,961
Long-term	10,199,348
	25,571,537

SECURITIES AND DERIVATIVES TRADING:

Range operations	1,144
Credit balances on repurchase transactions	194,266
Derivatives trading	11,983
	207,393

OTHER PAYABLES:

Income tax and employees statutory profit sharing	132,662
Sundry creditors and other payables	3,569,593
	3,702,255

OUTSTANDING SUBORDINATED DEBENTURES	2,731,188

DEFERRED CREDITS	80,098

TOTAL LIABILITIES	194,885,273

STOCKHOLDERS' EQUITY

PAID-IN CAPITAL:

Capital stock	4,578,412
Share premiums	982,814
TOTAL PAID-IN CAPITAL	5,561,226

EARNED SURPLUS:

Capital reserves	2,476,458
Retained earnings	2,930,472
Available-for-sale securities — valuation gain (loss)	142,725
Surplus or deficit from restatement of stockholders' equity	(2,371,528)
Loss from holding non-monetary assets:	
from valuation of permanent stock investments	(82,102)
from valuation of fixed assets	11,456
Initial effect of deferred taxes	(276,980)
Net income	1,002,985
TOTAL EARNED SURPLUS	3,833,486

MINORITY INTEREST IN STOCKHOLDERS' EQUITY	579

TOTAL STOCKHOLDERS' EQUITY	9,395,291

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	204,280,564

Unaudited Condensed Consolidated Statements of Income
For the Year Ended December 31, 2003
(In thousands of Mexican Pesos in purchasing power of December 31, 2003)

Interest income	20,087,170
Interest expense.....	(11,935,925)
Monetary gain, net.....	97,002
NET INTEREST INCOME.....	8,248,247
Allowance for loan losses	(771,721)
NET INTEREST INCOME ADJUSTED FOR CREDIT RISKS	7,476,526
Fees and commission income	2,967,703
Fees and commission expense	(456,482)
Brokerage income	340,251
	2,851,472
TOTAL OPERATING INCOME.....	10,327,998
Administrative and promotion expenses	(9,247,206)
OPERATING INCOME.....	1,080,792
Other income	539,608
Other expense	(553,173)
INCOME BEFORE INCOME TAX AND EMPLOYEES' STATUTORY PROFIT SHARING	1,067,227
Current income tax and employees' statutory profit sharing	(191,623)
Deferred income tax and employees' statutory profit sharing.....	94,028
	(97,595)
INCOME BEFORE EQUITY IN EARNINGS OF ASSOCIATE AND AFFILIATED COMPANIES, AND MINORITY INTEREST AND OTHER.....	969,632
Equity in earnings (losses) of associate and affiliated companies, Net.....	32,916
INCOME FROM CONTINUING OPERATIONS BEFORE MINORITY INTEREST AND OTHER	1,002,548
Discontinued operations, extraordinary item and changes in accounting standards	693
	1,003,241
Minority interest.....	(256)
NET INCOME.....	1,002,985

SELECTED CONSOLIDATED FINANCIAL INFORMATION

The selected consolidated financial information presented in this section is derived from our accounting records or from the Financial Statements and relates only to us and our consolidated subsidiaries. This information should be read in conjunction with "Presentation of Certain Financial and Other Information," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the audited financial statements and unaudited interim financial statements included elsewhere in this Luxembourg listing circular.

In accordance with Mexican Banking GAAP, our financial statements and the other financial information contained in this Luxembourg listing circular as of December 31, 2001 and 2002 and for the years ended December 31, 2000, 2001 and 2002 and as of and for the nine months ended September 30, 2002 and 2003 are consolidated with the results of our subsidiaries that operate in the financial sector or that provide auxiliary or complementary services. Although our subsidiary Sólida is 99.99% owned by us, it is not consolidated in our Financial Statements due to the determination by the Ministry of Finance and Public Credit that it is not operating in the financial sector. Accordingly, our interest in Sólida is recorded as a permanent stock investment and is valued by using the equity method.

The selected consolidated financial information below consolidate the financial results of Bancrecer beginning January 1, 2002. From December 4, 2001 to December 31, 2001, our investment in Bancrecer was recorded in investment securities. As a result, the financial information for the years ended December 31, 2000, 2001 and 2002 are not directly comparable from period to period, and evaluation of period to period trends may be difficult or impossible. We have not provided in this Luxembourg listing circular any pro forma financial information reflecting the acquisition of Bancrecer.

In the opinion of management, the selected consolidated interim financial information presented below includes all adjustments necessary for a fair presentation of our consolidated financial condition and results of operations as of the dates and for the periods specified. Results of the first nine months, however, are not necessarily indicative of results to be expected for the full year.

For the year ended				For the nine months ended		
December 31,				September 30,		
2000	2001	2002	2002 ⁽¹⁾	2002	2003	2003 ⁽¹⁾
(Ps. millions)			(U.S.\$ millions)	(Ps. millions)		(U.S.\$ millions)
21,523	20,180	21,667	1,967	15,776	15,042	1,366
(16,240)	(13,951)	(13,608)	(1,236)	(9,740)	(9,020)	(819)
77	102	102	9	56	53	5
5,360	6,331	8,161	740	6,092	6,075	552
(583)	(1,173)	(801)	(73)	(552)	(760)	(69)
4,777	5,158	7,360	667	5,540	5,315	483
1,594	1,491	2,740	249	2,075	2,137	194
6,371	6,649	10,100	916	7,615	7,452	677
(5,642)	(6,581)	(8,913)	(809)	(6,708)	(6,717)	(610)
729	68	1,187	107	907	735	67
692	888	739	67	551	389	34
(652)	(284)	(712)	(65)	(475)	(340)	(31)
769	672	1,214	109	983	784	70
(28)	(15)	(211)	(19)	(142)	(132)	(12)
—	(143)	20	2	(90)	66	6
741	514	1,023	92	751	718	64
78	(2)	59	5	(8)	9	—
819	512	1,082	97	743	727	64
—	—	420	38	422	1	—
819	512	1,502	135	1,165	728	64
—	—	—	—	—	—	—
819	512	1,502	135	1,165	728	64

- (1) Statement of income and balance sheet data expressed in U.S. dollars have been translated at the rate of Ps.11.0133 per U.S.\$1.00, based on the Banco de Mexico Exchange Rate on September 30, 2003. See "Risk Factors—Risks Relating to Mexico—Severe devaluation or depreciation of the Peso may adversely affect our financial condition and results of operations" and "Exchange Rates and Currency."

	As of December 31,			As of September 30,		
	2001	2002	2002 ⁽¹⁾	2002	2003	2003 ⁽¹⁾
	(Ps. millions)		(U.S.\$ millions)	(Ps. millions)		(U.S.\$ millions)
BALANCE SHEET DATA:						
Cash and due from banks	8,773	23,443	2,129	19,626	29,492	2,678
Securities	6,284	12,307	1,117	10,184	14,461	1,313
Repurchase agreements and derivatives (net)	97	47	4	120	67	6
Total loans (excluding FOBAPROA and IPAB notes)	38,915	68,314	6,203	54,107	67,539	6,132
FOBAPROA notes ⁽²⁾	10,897	6,669	606	10,634	6,652	604
IPAB notes	38,171	80,896	7,345	82,380	76,019	6,902
Allowance for loan losses	4,384	5,265	478	5,380	3,912	355
Deferred taxes, net	1,037	1,024	93	897	1,051	95
Other assets	7,295	10,125	919	9,463	11,905	1,082
Total assets	107,085	197,560	17,938	182,031	203,274	18,457
Deposits	80,340	145,213	13,185	133,817	160,539	14,577
Bank bonds outstanding ⁽³⁾	1,404	1,323	120	1,380	0	0
Interbank and other financial entities loans	14,667	36,249	3,291	33,745	24,902	2,261
Repurchase agreements and derivatives (net)	66	850	77	626	1,464	133
Subordinated debt	1,440	2,642	240	1,470	2,735	248
Other liabilities	2,255	2,951	268	3,055	4,684	425
Total liabilities	100,172	189,228	17,181	174,093	194,324	17,644
Total stockholders' equity	6,913	8,332	757	7,938	8,950	813

	As of or for the year ended			As of or for the nine months		
	December 31,			ended September 30,		
	2001	2002	2002 ⁽¹⁾	2002	2003	2003 ⁽¹⁾
	(Ps. millions, except percentages)		(U.S.\$ millions, except percentages)	(Ps. millions, except percentages)		(U.S.\$ millions, except percentages)

PROFITABILITY AND EFFICIENCY:

Return on average total assets ⁽⁴⁾	0.47%	0.99%		1.07%	0.48%	
Return on average stockholders' equity ⁽⁴⁾	7.75%	19.70%		20.91%	11.23%	
Net interest margin ⁽⁵⁾	6.15%	5.64%		5.94%	4.25%	
Efficiency ratio ⁽⁶⁾	85.25%	82.54%		82.71%	82.32%	

CAPITALIZATION:

Stockholders' equity as a percentage of total assets ..	6.46%	4.22%		4.36%	4.40%	
Tier 1 capital as a percentage of risk-weighted assets	7.20%	11.26%		10.69%	10.38%	
Total capital as a percentage of risk-weighted assets	10.97%	14.21%		13.80%	13.12%	

CREDIT QUALITY DATA:

Total performing loans	34,437	63,786	5,792	49,516	64,436	5,850
Total non-performing loans	4,478	4,528	411	4,591	3,103	282
Total loans	38,915	68,314	6,203	54,107	67,539	6,132
Loans graded "C," "D" and "E" ⁽⁷⁾	5,213	5,582	507	5,881	4,418	401
Allowance for loan losses	4,384	5,265	478	5,380	3,912	355

	As of or for the year ended December 31,			As of or for the nine months ended September 30,		
	2001	2002	2002 ⁽¹⁾	2002	2003	2003 ⁽¹⁾
	(Ps. millions, except percentages)		(U.S.\$ millions, except percentages)	(Ps. millions, except percentages)		(U.S.\$ millions, except percentages)
CREDIT QUALITY RATIOS:						
Allowance for loan losses as a percentage of total loans	11.26%	7.70%	7.0%	9.94%	5.79%	5.79%
Allowance for loan losses as a percentage of total non-performing loans ⁽⁸⁾	97.90%	116.29%	116.29%	117.18%	126.07%	126.07%
Allowance for loan losses as a percentage of loans graded "C," "D" and "E" ⁽⁷⁾	84.11%	94.33%	94.33%	91.47%	88.55%	88.55%
Total non-performing loans as a percentage of total loans	11.51%	6.62%	6.62%	8.48%	4.59%	4.59%
Net non-performing loans (total non-performing loans less allowance for loan losses) as a percentage of net total loans (total performing loans plus net non-performing loans)	0.27%	(1.17)%	(1.17)%	(1.62)%	(1.27)%	(1.27)%
Net non-performing loans (total non-performing loans less allowance for loan losses) as a percentage of stockholders' equity	1.35%	(8.85)%	(8.85)%	(9.94)%	(9.03)%	(9.03)%
Loans graded "C," "D" and "E" as a percentage of total loans ⁽⁷⁾	13.40%	8.17%	8.17%	10.87%	6.54%	6.54%

- (1) Statement of income and balance sheet data expressed in U.S. dollars have been translated at the rate of Ps.11.0133 per U.S.\$1.00, based on the Banco de Mexico Exchange Rate on September 30, 2003. See "Risk Factors—Risks Relating to Mexico—Severe devaluation or depreciation of the Peso may adversely affect our financial condition and results of operations" and "Exchange Rates and Currency."
- (2) Interest in respect of the FOBAPROA notes is capitalized.
- (3) Represents Peso-denominated long-term debt instruments.
- (4) Determined on an annualized basis, based on beginning and end-of-period balances using constant Pesos as of September 30, 2003.
- (5) Represents net interest income divided by average interest-earning assets. Average earning assets are determined on an annualized basis, based on beginning and end-of-period balances using constant Pesos.
- (6) Efficiency ratio is equal to total non-interest expense as a percentage of the aggregate of net interest income and non-interest income. For this purpose, net interest income and non-interest income are calculated before provision for loan losses.
- (7) Refers to our loan portfolio classified pursuant to the Rules for Rating the Loan Portfolio of Credit Institutions issued by the Ministry of Finance and Public Credit and supervised by the CNBV. Under applicable regulations, such classification is determined by reference to our loan portfolio at the end of the preceding quarter. See "Selected Statistical Information—Grading of Loan Portfolio."
- (8) Corresponds to end-of-period balance, which is different from guidelines prescribed by the CNBV regarding calculation of required additional reserves. See "Selected Statistical Information—Allowance for Loan Losses."

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

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

Effect of Acquisition of Bancrecer

In recent years, we have undergone a number of major corporate events, including our acquisition of Bancrecer and its subsequent merger with us. See "Business of Banorte—Acquisition of Bancrecer."

On September 24, 2001, IPAB announced that we obtained the right to purchase 100% of the capital stock of Bancrecer. We entered into a contract for the acquisition of Bancrecer and paid Ps.445 million on October 5, 2001 and the remaining Ps.1,335 million on December 4, 2001, equivalent to 66% of the historical book value of Bancrecer's stockholders' equity on December 31, 2001. Interest expense and additional expenses directly related to the acquisition brought the total purchase price to Ps.1,804 million. Our acquisition of Bancrecer was funded with resources from GFNorte, including resources in cash and dividends obtained from its subsidiaries, as well as the use of the surplus from our issuance of debentures and the use of additional financing obtained before the date of the purchase of the stock.

The Ministry of Finance and Public Credit authorized the merger between us and Bancrecer, and we were merged with and into Bancrecer on March 31, 2002. The surviving entity changed its name to "Banco Mercantil del Norte, S.A., Institución de Banca Múltiple, Grupo Financiero Banorte."

CNBV required Bancrecer to reduce the book value of its stockholders' equity by an amount equal to the known integration expenses at December 31, 2001. Accordingly, Bancrecer established Ps.732 million in capital reserves in December 2001 to cover reorganization, integration and post-retirement benefits expenses. See note 2(a) to the audited financial statements.

On December 11, 2001, CNBV authorized us to temporarily record our purchase of Bancrecer's capital stock in investment securities from December 4, 2001 to December 31, 2001. Our financial statements and the other consolidated financial information presented in this Luxembourg listing circular consolidate the financial results of Bancrecer beginning January 1, 2002. As a result, our financial statements and the consolidated financial information presented in this Luxembourg listing circular for the years ended December 31, 2000, 2001 and 2002 are not directly comparable from period to period, and evaluation of period to period trends may be difficult or impossible. We have not provided any pro forma financial information reflecting the acquisition of Bancrecer in this Luxembourg listing circular. Our assets, liabilities and stockholders' equity were transferred to Bancrecer, thereby eliminating intercompany operations between the two entities.

No changes were made to the accounting policies applicable to the two entities as a result of the merger. The merger of Banorte into Bancrecer was treated as a reorganization, or transaction between companies that are under common control, which was voluntarily applied in compliance with the Accounting Criteria for Financial Institutions referred to in Regulations 1448 and 1488 issued by the CNBV.

Mexican Economic Environment

From 1995 through 1999, the Mexican government adopted measures to support the raising of domestic funds by Mexican banks, to control the effects of non-performing loans and to strengthen the financial condition of the banking system. All of these steps, together with the correction of the macroeconomic imbalances of the Mexican economy (such as maturities of short-term external debt and the Mexican current account deficit), significantly contributed to the gradual improvement of the financial markets in 2000.

According to Mexican government estimates, GDP grew by 6.6% in 2000, the inflation rate decreased from 12.3% to 9.0% and the benchmark *Certificados de la Tesorería de la Federación* ("CETES") (28-day Mexican government bonds) interest rate decreased from 21.4% in 1999 to 15.2% in 2000. The Mexican Peso depreciated against the U.S. dollar by approximately 1.5% in 2000. The main

contributing factors were: (a) strength of the United States economy which grew at a rate of 4.1%, (b) an increase in the international price of oil, which reached its highest level in ten years, and (c) an increase in internal demand for consumer goods. However, the accelerated economic growth, both in the United States and Mexico, led authorities to implement more restrictive monetary policies to reduce inflationary pressures by increasing interest rates. The effects of these policies began to appear in the United States during the third quarter of 2000 with lower GDP growth rates.

During 2001, the Mexican economy was adversely affected by the economic recession in the United States. According to Mexican government estimates, Mexican GDP decreased by 0.26% in 2001 and the CETES interest rate decreased from 15.2% in 2000 to 11.3% in 2001. The recession in the United States economy negatively affected economic growth and employment in Mexico and Mexico entered into an economic slowdown. With respect to the Mexican financial markets, however, interest rates declined to historically low levels and the Peso remained stable without triggering significant imbalances in the current and foreign trade accounts. For the third consecutive year, the inflation rate was lower than government forecasts, and the inflation rate was 4.4% in 2001. The Mexican Peso appreciated against the U.S. dollar by approximately 4.8% in 2001.

During 2002, the Mexican economy continued to be affected by the slowdown in the growth of the United States economy. According to Mexican government estimates, GDP grew by 0.9% in 2002, the inflation rate against the U.S. dollar increased from 4.4% in 2001 to 5.7% in 2002 and the CETES interest rate decreased from 11.3% in 2001 to 7.1% in 2002. The Mexican Peso depreciated against the U.S. dollar by approximately 13.5% in 2002.

During the first nine months of 2003, the Mexican economy continued its sluggish growth, in large part, as a result of the continued weakness of the United States economy, uncertainty generated by hostilities in the Middle East and the related potential impacts on oil prices and consumer confidence, uncertainty caused by the continuing threat of large scale international terrorist attacks and a decrease in consumption as a result of the recent depreciation of the Mexican Peso as compared to the U.S. dollar. The inflation rate decreased from 5.3% in 2002 to 2.3% during the first nine months of 2003. The CETES interest rate decreased to 6.5% from 7.1% in 2002 for the first nine months of 2003 and the Mexican Peso depreciated against the U.S. dollar by approximately 5.8%.

Although the Mexican economy has shown signs of improvement and the Mexican government has exhibited increasing fiscal discipline, general macro-economic sluggishness continues. The third quarter of 2003 presented mixed economic indicators as interest rates and inflation continued their decline, while the economy performed below expectations. In addition, the U.S. dollar/Mexican exchange rate remained volatile during this period and raised new concerns about the Mexican economy. Any material devaluation or depreciation of the Mexican Peso could thwart any improvement in the Mexican economy and, accordingly, adversely effect our financial condition and results of operation. In addition, decreases in the value of the Peso against the U.S. dollar could cause us to incur foreign exchange losses, reducing our net income. Recent political events could further slow economic reform and progress. The political party of Mexico's President Vicente Fox lost additional seats in the Mexican midterm congressional voting held in July 2003. The increased party opposition and legislative gridlock arising out of the elections could further hinder President Fox's ability to implement his economic initiatives. In late 2003, the PRI's representatives in the Mexican lower house of congress succeeded in blocking President Fox's tax reform program. Additional structural reforms may be blocked in the Mexican congress in the future.

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

Effects of Changes in Interest Rates

Interest rate fluctuations in Mexico have a significant effect on our interest income, interest expense and other statement of income items. Changes in market interest rates may lead to temporary repricing gaps between our interest-earning assets and our interest-bearing liabilities. Most of our interest-earning assets and interest-bearing liabilities carry floating interest rates or are subject to frequent repricing. Upward or downward adjustments of the interest rates on our assets and liabilities occur approximately every 28 days. The repricing generally limits the effects of net exposures that regularly occur upon movements in interest rates. See "Selected Statistical Information—Interest Rate Sensitivity of Assets and Liabilities."

During the periods discussed below, the benchmark market interest rate in Mexico was the annual interest rate paid in connection with primary offerings of CETES, which are Mexican government Peso-denominated treasury bills with 28-day maturities. Most of our interest-bearing liabilities are referenced or based on the 28-day CETES and most of interest-earning assets are referenced to the *Tasa de Interés Interbancaria de Equilibrio* (the Interbank Equilibrium Rate of Interest or "TIIE"). In recent years, the spread, or differential, between these two reference rates has decreased, thus negatively impacting our financial margin.

Average Interest Rates For CETES and TIE with 28-Day Maturities

<u>Period</u>	<u>Average Interest Rates for CETES with 28-Day Maturities⁽¹⁾</u>	<u>Average Interest Rates For TIE with 28-Day Maturities⁽²⁾</u>
2000	15.24	16.97
2001	11.31	12.90
2002	7.08	8.16
2003	6.23	6.83
August	4.45	4.96
September	4.73	5.02
October	5.11	5.61
November	4.99	5.38
December	6.06	6.39

Source: Banco de Mexico

- (1) Annual averages are obtained from monthly averages based on rates established at weekly auctions. Monthly averages obtained from weekly averages based on rates established at weekly auctions.
- (2) Annual averages and monthly averages are based on rates established at daily auctions.

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

There has been a significant decrease in the inflation rate in Mexico from 2000 to 2003. The annual rate of inflation was 9.0% in 2000, 4.4% in 2001, 5.7% in 2002 and inflation in the first nine months of 2003 was 2.3%. We are required to adjust our financial information for the effects of inflation and to present such information using constant Pesos. Unless otherwise specified, the Financial Statements and other financial information contained in this Luxembourg listing circular as of December 31, 2001 and 2002, and for the years ended December 31, 2000, 2001 and 2002 and as of and for the nine months ended September 30, 2002 and 2003 have been restated in accordance with Mexican Banking GAAP in order to recognize the effects of inflation. These guidelines require the restatement of all comparative financial statements to Pesos of constant purchasing power as of the date of the latest balance sheet. Accordingly, unless otherwise specified, the Financial Statements are presented in Pesos of constant purchasing power of September 30, 2003. For a description of the methodology used to adjust the Financial Statements to reflect the effects of inflation, see note 3(b) to our audited financial statements.

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

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

Government Sponsored Support Funds

The adverse economic conditions in Mexico that began in late 1994 and continued into 1995 significantly impacted our business, financial condition and results of operations. We responded to these conditions by participating in various Mexican government support programs under which we transferred a portion of our loan portfolio to the Mexican government and committed to increase our capital levels through a capitalization program. For a more complete discussion of these support programs, see "Government Sponsored Support Funds."

FOBAPROA

We transferred a portion of the economic interest in our loan portfolio to FOBAPROA in 1995 and 1996.

In November 1995, we entered into an agreement with FOBAPROA (subsequently amended on several occasions between November 1995 and December 1997) providing for the transfer by us to FOBAPROA of certain commercial loans for a total amount of Ps.1,600 million (in nominal terms) of net loans ("FOBAPROA I"). In consideration for the loans that were denominated in Pesos, FOBAPROA delivered to us three 10-year notes issued by FOBAPROA, having principal balances equal to Ps.835 million, Ps.284 million and Ps.315 million (collectively, the "FOBAPROA I notes"). Interest on the FOBAPROA I notes is capitalized quarterly and accrues by reference to the rate for 91-day CETES minus 135 basis points. For the U.S. dollar-denominated loans, FOBAPROA made a commitment to pay us an aggregate amount of U.S.\$22 million. As of September 30, 2003, the contractual commitment derived from the FOBAPROA I loans that were denominated in U.S. dollars had been converted to Pesos, was added to the outstanding balance of the FOBAPROA I notes and now accrues interest by reference to the rate for 91-day CETES minus 135 basis points.

In January 1997, we entered into an agreement (subsequently amended in March 1998), effective as of June 1996, providing for the transfer by us to FOBAPROA of certain commercial loans for a total amount of Ps.2,000 million (in nominal terms) of net loans ("FOBAPROA II"). In consideration for the loans that were denominated in Pesos, FOBAPROA delivered to us one 10-year note issued by FOBAPROA, having an aggregate principal amount equivalent to Ps.1,782 million (the "FOBAPROA II note"). Interest on the FOBAPROA II note is capitalized quarterly and accrues by reference to the rate for 91-day CETES minus 135 basis points. For the U.S. dollar-denominated loans, FOBAPROA made a commitment to pay us an aggregate amount of U.S.\$29 million, which accrues interest at a rate of six-month London Interbank Offered Rate Index ("LIBOR"), plus 100 basis points. Since 1999, the contractual commitment derived from the FOBAPROA II loans that were denominated in U.S. dollars have been gradually converted into Pesos upon providing one month's notice to IPAB. Between July 1999 and January 2003, we caused approximately U.S.\$30 million or Ps.286 million, of such contractual commitment to be converted to Pesos, which were added to the outstanding balance of the FOBAPROA II notes and now accrue interest by reference to the rate for 91-day CETES minus 135 basis points.

In June 1997, we entered into an agreement with FOBAPROA providing for the transfer by us to FOBAPROA of a loan portfolio for a total amount of Ps.467 million (in nominal terms, net of reserves) ("FOBAPROA III"). In consideration for the loans, FOBAPROA delivered to us a 10-year note issued by FOBAPROA, having a principal balance equal to Ps.467 million and accruing interest at a rate equal to 91-day CETES (the "FOBAPROA III note").

As of September 30, 2003, the aggregate principal amount outstanding under the FOBAPROA I, FOBAPROA II and FOBAPROA III transactions, net of collections and allowances, was Ps.6,652 million.

FOBAPROA notes represented 10.5% and 10.3% of our total performing loans (excluding FOBAPROA and IPAB notes) as of December 31, 2002 and September 30, 2003, respectively. During 2002, interest income derived from these FOBAPROA notes represented 4.3% of total interest income. For the nine months ended September 30, 2003, interest income derived from these FOBAPROA notes represented 3.4% of total interest income.

FOBAPROA Contingencies and Related Reserves

Under the terms of the transfer of loans to FOBAPROA, we are responsible for 29% with respect to FOBAPROA I notes and 25% with respect to FOBAPROA II note of the losses resulting from the difference between the principal amount plus accrued interest on the FOBAPROA note and the collections made on the loans (the "Loss-Sharing Contingency"). There is no loss-sharing with respect to FOBAPROA III. In addition, we may have an additional liability, depending on the level of recoveries, in connection with the commercial loans transferred to FOBAPROA pursuant to FOBAPROA II as a result of an incentive program contingency. As of September 30, 2003, our total loss-sharing and incentive program contingencies amounted to Ps.2,451 million and we had established loan loss reserves of Ps.2,451 million (100% of the total contingencies) in respect of such contingencies. The reserves established by

us for these contingencies have been created both through charges against earnings as well as a one time direct charge against stockholders' equity taken in September 2000.

IPAB

In November 1999, IPAB attempted to normalize Bancrecre's operations, reduce its operating expenses and prepare it for sale. IPAB declared an *administración cautelar* (a "precautionary intervention") of Bancrecre and entered into a credit agreement with Banco de Mexico whereby Banco de Mexico provided IPAB with approximately Ps.102,200 million (nominal value) (U.S.\$9,280 million) in credit for the purpose of capitalizing Bancrecre. Also in November 1999, Banco de Mexico assigned its rights as lender under the credit agreement in favor of Bancrecre. From June 2000 to December 2000, IPAB prepaid Bancrecre approximately Ps.56,259 million (U.S.\$5,108 million), and the outstanding balance was approximately Ps.46,148 million (U.S.\$4,190 million) as of September 30, 2003, bearing interest at a rate of 28-day TIIE plus 40 basis points.

In November 2000, we entered into a credit agreement with IPAB in the amount of Ps.35,248 million (nominal value), pursuant to which IPAB issued four promissory notes with an aggregate principal amount of Ps.8,812 million (nominal value), each payable in 13 semi-annual installments of Ps.678 million and bearing interest at a rate of 28-day TIIE plus 0.85%. The purpose of the agreement was to refinance the original financial obligations that FOBAPROA had with Bancentro and Banpaís and that are now the obligations of IPAB. In August 2002, September 2002, June 2003, July 2003, October 2003, November 2003 and December 2003, IPAB made prepayments (each in nominal value) of Ps.1,250 million, Ps.1,250 million, Ps.740 million, Ps.2,220 million, Ps.740 million, Ps.2,220 million and Ps.4,050 million, respectively. In January 2004, we expect IPAB to make a prepayment of Ps.1,350 million. As of September 30, 2003, the outstanding aggregate balance was Ps.29,871 million (U.S.\$2,712 million).

Critical Accounting Policies

We have identified certain key accounting policies on which our financial condition and results of operations are dependent. These key accounting policies generally involve complex quantitative analyses or are based on subjective judgments or decisions. In the opinion of management, our most critical accounting policies under Mexican Banking GAAP are those related to the establishment of allowances for loan losses, valuation of securities and derivatives, valuation of foreclosed assets, valuation of deferred income tax assets and pension benefits. For a further description of our significant accounting policies, see the notes to our audited financial statements, which are included elsewhere in this Luxembourg listing circular.

Allowance for Loan Losses

Our allowance for loan losses is maintained in accordance with the loan portfolio grading system called the "Rules for Rating the Loan Portfolio of Credit Institutions" promulgated by the Ministry of Finance and Public Credit and supervised by the CNBV. Such rules establish that the commercial portfolio must be rated every three months.

The allowance for loan losses for our commercial loan portfolio is calculated primarily based on the classification of the loans into prescribed categories. Since September 2000, we have been required to follow CNBV Regulation 1480 entitled "Methodology for the rating and constitution of the allowance for loan losses of the commercial portfolio" to calculate our commercial loan loss reserve. This regulation requires a methodology that incorporates an evaluation of the related guarantees in the loan's rating analysis to estimate a probable loss and define the percentage of necessary reserves. In accordance with this regulation, we use our own methodology to assign a risk rating to each debtor, and this methodology is subject to the annual evaluation by the CNBV. The CNBV initially certified our methodology on June 15, 2001 and has subsequently renewed the certification on June 15th of each of the past two years. We are required to classify at least 80% of the aggregate balance of our commercial loans, including all loans with an outstanding balance equal to or greater than 700,000 UDIs as of the classification date. We classify our commercial loans into prescribed categories based upon several factors relating to a borrower's ability to repay its loan, including analyzing the amount and quality of pledged collateral and loan guarantees. If our analysis for the classification of a commercial loan changes from period to period, then the calculation of the amount of our loan loss reserve will adjust accordingly.

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

The determination of the allowance for loan losses, particularly for commercial loans, requires the exercise of management's judgment. The loan loss reserve calculation that results from using the estimated and prescribed loss percentages may not be indicative of future losses. Because of the changing conditions of our borrowers and the markets in which we operate, it is possible that significant adjustments to the loan loss reserve for changes in estimates of the collectibility of loans will be made in the short term.

Securities and Derivatives

We reflect on our balance sheet certain assets and liabilities related to our securities and derivative portfolios at their estimated fair value. Such amounts are based on either quoted market prices or estimated values derived by utilizing dealer quotes or internally generated modeling techniques. As market conditions change, adjustments to the fair value of these securities and derivatives will be made to reflect those conditions. Future sales of these securities will reflect the market conditions at the time and may differ significantly from the estimated fair market value reflected on the balance sheet.

Foreclosed Assets

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

Deferred Income Tax Assets

We apply the provisions of Mexican GAAP Bulletin D-4, "Accounting for Income and Assets Taxes, and Employee Statutory Profit Sharing," which is a comprehensive asset and liability method for determining the current and deferred portion of income tax and employee profit sharing obligations. We recognized a deferred tax asset of approximately Ps.335 million as of December 31, 2002, in connection with tax net operating loss carryforwards. Management anticipates that such tax net operating loss carryforwards will be realized before their expiration dates. The determination of whether or not this asset will be realized is based on our most recent one-year taxable income projection. Our projection is based on certain assumptions, some of which are under our control and others of which are not. Key assumptions include inflation, devaluation, interest rates and future lending activities. If our assumptions are not correct, we would recognize an impairment to this asset and charge the amount of the impairment against earnings.

Pension Benefits

We sponsor pension and other retirement plans, applicable to substantially all employees who meet eligibility requirements. We use statistical and other factors that attempt to anticipate future events in calculating the expense and liability related to these plans. These factors include assumptions concerning the discount rate, the expected return on plan assets and the rate of future compensation increases. In addition, our actuarial consultants use subjective factors, such as withdrawal and mortality rates, to estimate these factors. The actuarial assumptions used by us may differ materially from actual results due to changing market and economic conditions, higher or lower withdrawal rates, or longer or shorter life spans of plan participants. These differences may have a significant effect on the amount of pension expense that we record.

Results of Operations—First Nine Months of 2003 Compared to First Nine Months of 2002

Net Interest Income

Net interest income before monetary gain was Ps.6,022 million for the first nine months of 2003 compared to Ps.6,036 million for the first nine months of 2002, a decrease of Ps.14 million, or 0.2%. This decrease was the result of a decline in our interest income by Ps.734 million, or 4.7%, for the first nine months of 2003 compared to the first nine months of 2002, which more than offset a decline in our interest expense by Ps.720 million, or 7.4%, in the comparable periods.

Mexican Banking GAAP requires that we recognize as part of net interest income the effects of inflation on monetary assets and liabilities that generate interest income or expense. Accordingly, we recorded a net monetary gain of Ps.53 million for the first nine months of 2003 compared to Ps.56 million for the first nine months of 2002, a reduction of Ps.3 million, or 5.4%. This decline in net monetary gain was the result of lower inflation rates in Mexico, which decreased from approximately 4.9% during the first nine months of 2002 to 2.3% during the first nine months of 2003.

In terms of margins, our average interest rate earned on interest-earning assets for the first nine months of 2003 was 8.5% and the average interest rate paid on interest-bearing liabilities was 5.6%, resulting in a yield spread of 2.9%. Our average interest rate earned on interest-earning assets for the first nine months of 2002 was 9.2% and the average interest rate paid on interest-bearing liabilities was 5.9%, resulting in a yield spread of 3.3%.

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

	For the nine months ended September 30,	
	2002	2003
	(Ps. millions)	
INTEREST INCOME:		
Interest on loans	3,897	4,923
Interest on FOBAPROA and IPAB notes ⁽¹⁾	6,251	5,150
Fees on loans ⁽²⁾	487	562
Interest on cash and due from banks and securities	1,520	1,724
Interest on repurchase operations ⁽³⁾	3,617	2,683
Foreign exchange valuation ⁽⁴⁾	4	—
Total interest income	15,776	15,042
INTEREST EXPENSE:		
Interest on deposits and funding	6,241	6,424
Interest on repurchase operations ⁽⁵⁾	3,429	2,488
Foreign exchange valuation ⁽⁴⁾	—	43
UDI valuation ⁽⁶⁾	40	27
Fees paid ⁽⁷⁾	30	38
Total interest expense	9,740	9,020
Monetary gain, net	56	53
Net interest income	6,092	6,075

- (1) We recognize interest earned on the FOBAPROA notes with loss-sharing or incentive contingencies. Loss contingencies of 29% or 25%, as the case may be, is added to the reserves necessary to maintain 100% coverage of these contingencies and is charged against earnings. Interest in respect of the FOBAPROA notes is capitalized. See "Government Sponsored Support Funds—FOBAPROA."
- (2) Fees on loans represent fees generated in connection with the issuance, renewal, draw-down or prepayment of a loan that is recorded as interest income in accordance with Mexican Banking GAAP.
- (3) Interest income on repurchase operations represents interest income on securities purchased pursuant to our agreements to resell, in accordance with Mexican Banking GAAP.
- (4) Foreign exchange valuation represents the net changes in the foreign exchange valuation that is recorded as interest income or interest expense depending on the net effect, in accordance with Mexican Banking GAAP.
- (5) Interest expense on repurchase operations represents interest expense on securities sold under agreements to repurchase, in accordance with Mexican Banking GAAP.
- (6) UDI valuation represents part of the effect from changes in the inflation rate on UDI-denominated liabilities that is recorded as interest expense in accordance with Mexican Banking GAAP.
- (7) Fees paid represents fees incurred in connection with our withdrawal, renewal and drawing down of loans that are recorded as interest expense in accordance with Mexican Banking GAAP.

Interest Income

Our interest income was Ps.15,042 million for the first nine months of 2003 compared to Ps.15,776 million for the first nine months of 2002, a decrease of Ps.734 million, or 4.7%. This reduction was a result of a decrease in the average interest rate earned on interest-earning assets, which more than offset an increase in the average balance of these assets. There was a 70 basis point decrease in the average interest rate earned on interest-earning assets from 9.2% for the first nine months of 2002 to 8.5% for the first nine months of 2003. On the other hand, there was a 3.2% increase in the average balance of interest-earning assets from Ps.229,733 million for the first nine months of 2002 to Ps.237,063 million for the first nine months of 2003. The decrease in the average rate charged reflected the lower level of interest rates for the first nine months of 2003 compared to the first nine months of 2002. The rate on 28-day TIIE averaged 7.17% for the first nine months of 2003, 90 basis points lower than the 8.1% average rate recorded for the first nine months of 2002. The average balance of interest-earning assets increased primarily as a result of increases in loans, deposits in banks and investment securities, which more than offset decreases in securities purchased under agreements to resell and IPAB notes resulting from prepayment during this period.

Interest on FOBAPROA and IPAB notes was Ps.5,150 million (or 34.2% of interest income) for the first nine months of 2003 compared to Ps.6,251 million (or 39.6% of interest income) for the first nine months of 2002, a decrease of Ps.1,101 million or 17.6%. This decrease was primarily the result of prepayments made by IPAB during this period and lower interest rates earned on FOBAPROA and IPAB notes in the first nine months of 2003 compared to the corresponding period in 2002.

Interest income from repurchase operations was Ps.2,683 million (or 17.8% of interest income) for the first nine months of 2003 compared to Ps.3,617 million (or 22.9% of interest income) for the first nine months of 2002, a decrease of Ps.934 million, or 25.8%. This decrease was primarily due to lower interest rates earned on repurchase operations in the first nine months of 2003 compared to the corresponding period in 2002 and a decrease in volume of repurchase operations.

Interest on loans was Ps.4,923 million (or 32.7% of interest income) for the first nine months of 2003 compared to Ps.3,896 million (or 24.7% of interest income) for the first nine months of 2002, an increase of Ps.1,027 million, or 26.4%. This increase was primarily the result of new loan placements, primarily to consumers, which more than offset the decrease in interest relating to the FINAPE government support programs and lower interest rates earned on loans in the first nine months of 2003 compared to the corresponding period in 2002.

Interest income from cash and due from banks and securities was Ps.1,724 million (or 11.5% of interest income) for the first nine months of 2003 compared to Ps.1,520 million (or 9.6% of interest income) for the first nine months of 2002, an increase of Ps.204 million, or 13.4%. The increase was due primarily to an increase in our investment in fixed income securities in the first nine months of 2003 compared to the corresponding period in 2002, which more than offset the lower interest rates earned on cash and due from banks and securities on loans in the first nine months of 2003 compared to the corresponding period in 2002.

Fees on loans were Ps.562 million (or 3.7% of interest income) for the first nine months of 2003 compared to Ps.487 million (or 3.1% of interest income) for the first nine months of 2002, an increase of Ps.75 million, or 15.4%. This increase was primarily the result of an increase in new loan placements.

Interest Expense

Interest expense was Ps.9,020 million for the first nine months of 2003 compared to Ps.9,740 million for the first nine months of 2002, a decrease of Ps.720 million, or 7.4%. This reduction was a result of a decrease in the average interest rate paid on interest-bearing liabilities, as well as a decrease in the average balance of these liabilities. Our average interest rate paid on interest-bearing liabilities decreased by 30 basis points from 5.9% for the first nine months of 2002 to 5.6% for the first nine months of 2003 while our average balance of these liabilities decreased by 0.4% from Ps.218,498 million for the first nine months of 2002 to Ps.215,486 million for the first nine months of 2003. The decrease in the average rate paid on interest-bearing liabilities was a function of a general decline in market interest rates in Mexico in the first nine months of 2003 compared to the first nine months of 2002. The rate on 28 day CETES averaged 6.56% for the first nine months of 2003, 44 basis points lower than the 7.00% average rate for the first nine months of 2002. The average balance of interest-bearing liabilities decreased primarily as a result of decreases in securities sold under agreements to repurchase and bank loans, which more than offsets increases in time deposits.

Interest expense from repurchase operations was Ps.2,488 million (or 27.6% of interest expense) for the first nine months of 2003 compared to Ps.3,429 million (or 35.2% of interest expense) for the first nine months of 2002, a decrease of Ps.941 million, or 27.4%. This decrease was the result of a decrease in volume of repurchase operations, as well as lower interest rates paid on repurchase operations in the first nine months of 2003 compared to the corresponding period in 2002.

Interest on deposits and funding was Ps.6,424 million (or 71.2% of interest expense) for the first nine months of 2003 compared to Ps.6,241 million (or 64.1% of interest expense) for the first nine months of 2002, an increase of Ps.183 million, or 2.9%. This increase was the result of an increase in the average volume of demand and time deposits, which more than offset a decrease in the average interest rate paid on deposits generally in the first nine months of 2003 compared to the corresponding period in 2002.

Provisions

The following table sets forth the components of our provisions for the nine months periods indicated.

	For the nine months ended September 30,	
	2002	2003
	(Ps. millions)	
PROVISIONS CHARGED AGAINST EARNINGS:		
Provision for loan losses	530	714
FOBAPROA provisions	22	46
Total provisions	552	760

During the first nine months of 2003, we continued funding provisions for loan losses. Provisions for loan losses charged against earnings were Ps.714 million for the first nine months of 2003 compared to Ps.530 million for the first nine months of 2002, an increase of Ps.184 million, or 34.7%, primarily due to two corporate loans of an aggregate of Ps.598 million that became classified as "non-performing" during the second quarter of 2003.

The allowance for loan losses as a percentage of non-performing loans increased to 126.1% as of September 30, 2003 from 116.3% on December 31, 2002. The increase in the ratio of allowance for loan losses to non-performing loans reflects the sale of non-performing loans to our non-consolidated subsidiary Sólida during the first quarter of 2003 and the recovery of a non-performing loan, the original principal amount of which was U.S.\$50 million during the third quarter of 2003.

FOBAPROA provisions charged against earnings were Ps.46 million and Ps.22 million for the first nine months of 2003 and 2002, respectively. We recognize interest earned on the FOBAPROA notes with loss-sharing or incentive contingencies. Loss contingencies of 29% or 25%, as the case may be, is added to the reserves necessary to maintain 100% coverage of these contingencies and is charged against earnings. FOBAPROA provisions charged against earnings increased for the first nine months of 2003 compared to the corresponding period in 2002 because of a decrease in the rate of cash recoveries from the portion of our loan portfolio relating to FOBAPROA trusts administered by us.

Non-Interest Income

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

	For the nine months ended September 30,	
	2002	2003
	(Ps. millions)	
COMMISSIONS AND FEES:		
Fund transfers	145	132
Account management	505	496
Fiduciary	130	114
Credit card	410	460
From FOBAPROA	245	295
Other service fees	616	600
Total commissions and fees	2,051	2,097
Fees paid	(334)	(325)
Net commissions and fees	1,717	1,772
TRADING INCOME:		
Foreign exchange	250	304
Realized gains on securities	145	56
Unrealized gains (losses) on securities	(37)	5
Total trading income, net	358	365
Total non-interest income	2,075	2,137

Total non-interest income was Ps.2,137 million for the first nine months of 2003 compared to Ps.2,075 million for the first nine months of 2002, an increase of Ps.62 million, or 3.0%, due to an increase in both net commissions and fees and net trading income.

Net commissions and fees earned were Ps.1,772 million for the first nine months of 2003 compared to Ps.1,717 million for the first nine months of 2002, an increase of Ps.55 million or 3.2%, mainly due to increases in fees charged to FOBAPROA and credit card fees, which more than offset a decrease in fees from fiduciary services and other service fees.

Fees charged to FOBAPROA were Ps.295 million (or 14.1% of total commissions and fees) for the first nine months of 2003 compared to Ps.245 million (or 11.9% of total commissions and fees) for the first nine months of 2002, an increase of Ps.50 million, or 20.4%. The higher level of fees charged to FOBAPROA during the first nine months of 2003 was primarily the result of a higher amount of recoveries with respect to the trusts that were originally administered by Bancentro and Banpaís (which are the only trusts generating such fees).

Credit card fees were Ps.460 million (or 21.9% of total commissions and fees) for the first nine months of 2003 compared to Ps.410 million (or 20.0% of total commissions and fees) for the first nine months of 2002, an increase of Ps.50 million, or 12.2%. The higher level of credit card fees charged during the first nine months of 2003 was primarily the result of new credit card placements and a higher level of usage of credit cards by our customers.

Fees from fiduciary services were Ps.114 million (or 5.4% of total commissions and fees) for the first nine months of 2003 compared to Ps.130 million (or 6.3% of total commissions and fees) for the first nine months of 2002, a decrease of Ps.16 million, or 12.3%. This decrease was primarily the result of a lower level of trust services.

Other service fees were Ps.600 million (or 28.6% of total commissions and fees) for the first nine months of 2003 compared to Ps.616 million (or 30.0% of total commissions and fees) for the first nine months of 2002, a decrease of Ps.16 million, or 2.6%. This decrease was primarily the result of increased efforts by our customers to avoid service fees, including ATM fees.

Net income from trading activities was Ps.365 million for the first nine months of 2003 compared to Ps.358 million for the first nine months of 2002, an increase of Ps.7 million, or 2.0%, due to increases in foreign exchange revenues and unrealized gains on securities, which more than offset a decrease in realized gains on securities. Foreign exchange revenues were Ps.304 million for the first nine months of 2003 compared to Ps.250 million for the first nine months of 2002, an increase of Ps.54 million, or 21.6%, due primarily to increased volatility in exchange rates that benefited U.S. dollar positions. We recorded unrealized gains on securities of Ps.5 million in the first nine months of 2003 compared to unrealized losses on securities of Ps.37 million in the first nine months of 2002, which was attributable principally to marking-to-market gains on our debt securities resulting from a general decline in interest rates. These effects more than offset a decrease in realized gains on securities to Ps.56 million for the first nine months of 2003 compared to Ps.145 million for the first nine months of 2002, a decrease of Ps.89 million, or 61.4%, which was attributable principally to a decrease in the value of debt securities sold and increased volatility in interest rates.

Non-Interest Expense

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

	For the nine months ended September 30,	
	2002	2003
	(Ps. millions)	
Salaries and employee benefits	2,915	2,832
Professional fees	285	279
Leases	454	467
Promotional expenses	336	341
Other administrative and operational expenses	1,410	1,347
Taxes other than income taxes	411	438
Contribution to IPAB.....	485	533
Depreciation and amortization.....	478	531
Corporate expenses recoveries	(66)	(51)
Total non-interest expense.....	<u>6,708</u>	<u>6,717</u>

Non-interest expense was Ps.6,717 million for the first nine months of 2003 compared to Ps.6,708 million for the first nine months of 2002, an increase of Ps.9 million, or 0.1%, primarily as a result of an increase in our depreciation and amortization and contribution to IPAB, which more than offset a decrease in salaries and employee benefits and other administrative and operational expenses.

Depreciation and amortization expenses were Ps.531 million (or 7.9% of non-interest expense) for the first nine months of 2003 compared to Ps.478 million (or 7.1% of non-interest expense) for the first nine months of 2002, an increase of Ps.53 million, or 11.1%. This increase was primarily the result of an increase in the amortization of operating and technology expenses relating to the integration of Bancrecer in the first nine months of 2003.

Our contribution to IPAB was Ps.533 million (or 7.9% of non-interest expense) for the first nine months of 2003 compared to Ps.485 million (or 7.2% of non-interest expense) for the first nine months of 2002, an increase of Ps.48 million, or 9.9%. This increase was primarily the result of an increase in our deposit base during the first nine months in 2003.

Salaries and employee benefits, the largest component of non-interest expense, were Ps.2,832 million (or 42.2% of non-interest expense) for the first nine months of 2003 compared to Ps.2,915 million (or 43.5% of non-interest expense) for the first nine months of 2002, a decrease of Ps.83 million, or 2.8%. This decrease was primarily the result of a decrease in the number of employees.

Other administrative and operational expenses were Ps.1,347 million (or 20.1% of non-interest expense) for the first nine months of 2003 compared to Ps.1,410 million (or 21.0% of non-interest expense) for the first nine months of 2002, a decrease of Ps.63 million, or 4.5%. This decrease was primarily the result of a reduction of miscellaneous expenses.

Other Income and Expenses, Net

Other income includes, among others, interest income from recoveries in excess of amounts for which we have provisioned, interest income from loans to employees, gain on sale of fixed and foreclosed assets and other income and gains, and other expenses include miscellaneous losses, write-offs and discounts, losses on the sale of fixed and foreclosed assets, and losses on monetary positions. The net amount of other income and expenses resulted in a net income of Ps.49 million for the first nine months of 2003 compared to a net income of Ps.76 million for the first nine months of 2002, a decrease of Ps.27 million, or 35.5%. This difference was primarily due to a reduction in recoveries and an increase in miscellaneous provisions partially offset by a decrease in miscellaneous write-offs relating to the operation of branches.

Income Tax and Employee Profit Sharing

Income tax and employee profit sharing expense, which also includes an asset tax expense, was Ps.132 million for the first nine months of 2003 compared to Ps.142 million for the first nine months of 2002, a decrease of Ps.10 million, or 7.0%. This decrease was due mainly to lower profit sharing liability provisions taken in the first nine months of 2003 compared to the corresponding period in 2002. The asset tax is calculated at the rate of 1.8% of the average value of certain of our fixed assets and is paid in lieu of income tax when, in any given year, the amount of asset tax and subsidiary income tax exceeds the amount of income tax. We paid Ps.30 million and Ps.24 million in asset tax during the first nine months of 2003 and the first nine months of 2002, respectively. Although some of our subsidiaries paid income tax, we, on an unconsolidated basis, paid no income tax in 2002 due to our tax loss carryforwards.

Deferred income tax represented a benefit of Ps.66 million for the first nine months of 2003 compared to an expense of Ps.90 million for the first nine months of 2002, a difference of Ps.156 million. For the nine months ended September 30, 2002, we utilized tax loss carryforwards that reduced our net deferred tax asset and increased our expense charge. For the nine months ended September 30, 2003, we recognized additional benefits from tax loss carryforwards that we expect to realize.

Share in Net Loss of Non-consolidated Subsidiaries and Affiliates

Our share of the results of our non-consolidated subsidiaries and affiliates was a net income of Ps.9 million for the first nine months of 2003 compared to a net expense of Ps.8 million for first nine months of 2002. This difference was mainly due to an increased contribution from our real estate subsidiaries in the first nine months of 2003 compared to the corresponding period in 2002.

Discontinued Operations and Extraordinary Items

We received extraordinary income in June 2002 from Assicurizazoni Generali in the amount of Ps.459 million in connection with the payment under a distribution agreement with Seguros Banorte Generali, S.A. de C.V., Grupo Financiero Banorte ("Seguros Banorte Generali"), Banorte Generali, S.A. de C.V., Afore ("Banorte Generali Afore") and Pensiones Banorte Generali, S.A. de C.V., Grupo Financiero Banorte ("Pensiones Banorte Generali"). See "Business of Banorte—Strategic Alliances." We did not receive any significant extraordinary income during the first nine months of 2003.

Net Income

Net income was Ps.728 million for the first nine months of 2003 compared to Ps.1,165 million for the first nine months of 2002, a decrease of Ps.437 million, or 37.5%, due to reasons discussed above.

Results of Operations—2002 Compared to 2001

Net Interest Income

Net interest income before monetary gain was Ps.8,059 million for 2002 compared to Ps.6,229 million for 2001, an increase of Ps.1,830 million, or 29.4%. This increase was the result of an increase in our interest income by Ps.1,487 million, or 7.4%, in 2002 compared to 2001, as well as a decrease in our interest expense by Ps.343 million, or 2.5%, in the comparable periods.

We recorded a net monetary gain on items generating interest income or expense of Ps.102 million for each of 2002 and 2001. The inflation rate in Mexico was 5.7% in 2002 compared to 4.4% in 2001, indicating a net increase in our monetary items generating interest income or expense in 2002 compared to 2001.

In terms of margins, the difference between our average interest rate earned on interest-earning assets of 9.2% and the average interest rate paid on interest-bearing liabilities of 6.3% resulted in a yield spread of 2.9% for 2002, compared to a yield spread of 3.2% for 2001.

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

	For the year ended December 31,	
	2001	2002
	(Ps. millions)	
INTEREST INCOME:		
Interest on loans	4,719	5,503
Interest on FOBAPROA and IPAB notes ⁽¹⁾	7,159	8,229
Fees on loans ⁽²⁾	335	656
Interest on cash and due from banks and securities	2,812	2,184
Interest on repurchase operations ⁽³⁾	5,155	5,095
Total interest income	20,180	21,667
INTEREST EXPENSE:		
Interest on deposits and funding	8,415	8,688
Interest on repurchase operations ⁽⁴⁾	5,483	4,802
Foreign exchange valuation ⁽⁵⁾	16	16
UDI valuation ⁽⁶⁾	13	62
Fees paid ⁽⁷⁾	24	40
Total interest expense	13,951	13,608
Monetary gain, net.....	102	102
Net interest income	6,331	8,161

- (1) We recognize interest earned on the FOBAPROA notes with loss-sharing or incentive contingencies. Loss contingencies of 29% or 25%, as the case may be, is added to the reserves necessary to maintain 100% coverage of these contingencies and is charged against earnings. Interest in respect of the FOBAPROA notes is capitalized. See "Government Sponsored Support Funds—FOBAPROA."
- (2) Fees on loans represent fees generated in connection with the issuance, renewal, draw-down or prepayment of a loan that is recorded as interest income in accordance with Mexican Banking GAAP.
- (3) Interest income on repurchase operations represents interest income on securities purchased pursuant to our agreements to resell, in accordance with Mexican Banking GAAP.
- (4) Interest expense on repurchase operations represents interest expense on securities sold under agreements to repurchase, in accordance with Mexican Banking GAAP.
- (5) Foreign exchange valuation represents the net changes in the foreign exchange valuation that is recorded as interest income or interest expense depending on the net effect, in accordance with Mexican Banking GAAP.
- (6) UDI valuation represents part of the effect from changes in the inflation rate on UDI-denominated liabilities that is recorded as interest expense in accordance with Mexican Banking GAAP.
- (7) Fees paid represents fees incurred in connection with our withdrawal, renewal and drawing down of loans that are recorded as interest expense in accordance with Mexican Banking GAAP.

Interest Income

Our interest income was Ps.21,667 million for 2002 compared to Ps.20,180 million for 2001, an increase of Ps.1,487 million, or 7.4%. This increase was a result of an increase in the average balance of interest-earning assets, partially offset by a decrease in the average interest rate earned on interest-earning assets. The average balance of interest-earning assets, which increased from Ps.152,695 million for 2001 to Ps.236,341 million for 2002, had a greater effect than the 400 basis point decrease in the average rate earned on interest-earning assets, which decreased from 13.2% for 2001 to 9.2% for 2002. The rate on 28-day TIE averaged 8.16% for 2002, 474 basis points lower than the 12.90% average rate recorded for 2001. The average balance of interest-earning assets increased by 54.8% in 2002 as a result of the consolidation of interest-earning assets of Bancracer.

Interest on FOBAPROA and IPAB notes was Ps.8,229 million (or 37.9% of interest income) for 2002 compared to Ps.7,159 million (or 35.5% of interest income) for 2001, an increase of Ps.1,070 million, or 14.9%. This increase was primarily the result of the consolidation of FOBAPROA and IPAB notes of Bancracer, which more than offset the decrease in interest rates earned on FOBAPROA and IPAB loans in 2002 compared to 2001.

Interest on loans was Ps.5,502 million (or 25.4% of interest income) for 2002 compared to Ps.4,719 million (or 23.4% of interest income) for 2001, an increase of Ps.783 million, or 16.6%. This increase was due primarily to an increase in new loan placements, the consolidation of the loan portfolio of Bancrecer and the increase in interest relating to the FINAPE government support program, which more than offset the decrease in interest rates earned on loans in 2002 compared to 2001.

Fees on loans was Ps.656 million (or 3.0% of interest income) for 2002 compared to Ps.335 million (or 1.7% of interest income) for 2001, an increase of Ps.321 million, or 95.8%. This increase was due to new loan placements and increased fees charged to our customers.

Interest income from cash and due from banks and securities was Ps.2,184 million (or 10.0% of interest income) for 2002 compared to Ps.2,812 million (or 13.9% of interest income) for 2001, a decrease of Ps.628 million, or 22.3%. The decrease was due primarily to lower interest rates earned on cash and due from the banks and securities in 2002 compared to 2001.

Interest income from repurchase operations was Ps.5,095 million (or 23.5% of interest income) for 2002 compared to Ps.5,155 million (or 25.5% of interest income) for 2001, a decrease of Ps.60 million, or 1.2%. This decrease was due primarily to lower interest rates earned on repurchase operations in 2002 compared to 2001, which more than offset an increase in volume of repurchase operations during this period.

Interest Expense

Interest expense was Ps.13,608 million for 2002 compared to Ps.13,951 million for 2001, a decrease of Ps.343 million, or 2.5%. This reduction was a result of a decrease in the average interest rate paid on interest-bearing liabilities, partially offset by an increase in the average balance of these liabilities. Our 370 basis point decrease in the average interest rate paid on interest-bearing liabilities from 10.0% for 2001 to 6.3% for 2002 had a greater effect than a 55.7% increase in the average balance of interest-bearing liabilities from Ps.139,260 million for 2001 to Ps.216,870 million for 2002. The decrease in the average interest rate paid on interest-bearing liabilities was a function of a general decline in interest rates in Mexico in 2002 compared to 2001. The rate on 28-day CETES averaged 7.1% in 2002, 420 basis points lower than the 11.3% average rate for 2001. The average balance of interest-bearing liabilities increased primarily as a result of the consolidation of interest-bearing liabilities of Bancrecer.

Interest expense from repurchase operations was Ps.4,802 million (or 35.3% of interest expense) for 2002 compared to Ps.5,483 million (or 39.3% of interest expense) for 2001, a decrease of Ps.681 million, or 12.4%. This decrease was due primarily to lower interest rates paid on repurchase operations in 2002 compared to 2001, which more than offset an increase in volume of repurchase operations during this period.

Interest on deposits and funding was Ps.8,688 million (or 63.9% of interest expense) for 2002, compared to Ps.8,415 million (or 60.3% of interest expense) for 2001, an increase of Ps.273 million, or 3.2%. This increase was primarily the result of an increase in the average volume of demand and time deposits and bank loans in 2002 compared to 2001 resulting from consolidation of Bancrecer's deposits, which more than offset a decrease in lower interest rates paid on these deposits during this period.

Provisions

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

	For the year ended December 31,	
	2001	2002
	(Ps. millions)	
PROVISIONS CHARGED AGAINST EARNINGS:		
Provision for loan losses	990	764
FOBAPROA provisions	183	37
Total provisions	1,173	801

Provisions for loan losses charged against earnings were Ps.764 million for 2002 compared to Ps.990 million for 2001, a decrease of Ps.226 million, or 22.8%. This decrease was primarily due to provisions of approximately Ps.250 million charged against earnings during the second quarter of 2001 when loans of an aggregate of U.S.\$50 million relating to one of our corporate customers became classified as "non-performing."

The allowance for loan losses as a percentage of non-performing loans increased to 116.3% as of December 31, 2002 from 97.9% on December 31, 2001. This increase was primarily due to the consolidation of allowance for loan losses of Bancrecre, which had a higher ratio of provisions for loan losses to non-performing loans than us.

FOBAPROA provisions charged against earnings were Ps.37 million for 2002 compared to Ps.183 million for 2001, a decrease of Ps.146 million, or 80.0%. This decrease was primarily due to an increase in the rate of cash recoveries from the portion of our portfolio relating to the FOBAPROA trusts administered by us and lower interest rates.

Non-Interest Income

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

	For the year ended December 31,	
	2001	2002
	(Ps. millions)	
COMMISSIONS AND FEES:		
Fund transfers	54	191
Account management	312	655
Fiduciary	75	161
Credit card	371	549
From FOBAPROA	271	361
Other service fees	375	815
Total commissions and fees	1,458	2,732
Fees paid	(320)	(449)
Net commissions and fees	1,138	2,283
TRADING INCOME:		
Foreign exchange	209	337
Realized gains on securities	123	152
Unrealized gains (losses) on securities	21	(32)
Total trading income, net	353	457
Total non-interest income	1,491	2,740

Total non-interest income was Ps.2,740 million for 2002 compared to Ps.1,491 million for 2001, an increase of Ps.1,249 million, or 83.8%, due to an increase in both net commissions and fees and net trading income.

Net commissions and fees earned were Ps.2,283 million for 2002 compared to Ps.1,138 million for 2001, an increase of Ps.1,145 million, or 100.6%, due primarily to increases in other service fees, account management fees, credit card fees and fund transfer fees, which more than offset an increase in fees paid.

Other service fees were Ps.815 million (or 29.8% of total commissions and fees) for 2002 compared to Ps.375 million (or 25.7% of total commissions and fees) for 2001, an increase of Ps.440 million, or 117.3%. This increase in other service fees was mainly due to the consolidation of other service fees of Bancrecer and an increase in fees charged in the first quarter of 2002 with respect to most of our banking products and services.

Fees from account management were Ps.655 million (or 24.0% of total commissions and fees) for 2002 compared to Ps.312 million (or 21.4% of total commissions and fees) for 2001, an increase of Ps.343 million, or 110.0%. This increase was primarily due to the consolidation of the account management fees of Bancrecer and an increase in fees charged in the first quarter of 2002 with respect to most of our products and services.

Credit card fees were Ps.549 million (or 20.1% of total commissions and fees) for 2002 compared to Ps.371 million (or 25.4% of total commissions and fees) for 2001, an increase of Ps.178 million, or 48.0%. The higher level of credit card fees charged during 2002 was the result of the consolidation of the credit card fees of Bancrecer, as well as an increase in fees charged to credit card customers in the first quarter of 2002 and an increased number of credit card customers.

Fees from fund transfers were Ps.191 million (or 7.0% of total commissions and fees) for 2002 compared to Ps.54 million (or 3.7% of total commissions and fees) for 2001, an increase of Ps.137 million, or 253.7%. This increase was primarily due to the consolidation of the fees from fund transfers of Bancrecer and an increase in fees charged for the transfer of funds in the first quarter of 2002.

Fees paid were Ps.449 million for 2002 compared to Ps.320 million for 2001, an increase of Ps.129 million, or 40.3%. This increase was mainly due to the consolidation of our financial statements with those of Bancrecer.

Net income from trading activities was Ps.457 million for 2002 compared to Ps.353 million for 2001, an increase of Ps.104 million, or 29.5%. This increase was due to increases in foreign exchange revenues and realized gains on securities, which more than offset a decrease in unrealized gains on securities. Foreign exchange revenues were Ps.337 million for 2002 compared to Ps.209 million for 2001, an increase of Ps.128 million, or 61.2%, due to the consolidation of the foreign exchange revenues of Bancrecre. We recorded realized gains on securities of Ps.152 million in 2002 compared to realized gains on securities of Ps.124 million in 2001, which was attributable principally to an increase in the value of our debt securities sold resulting from a general decline in interest rates. This effect more than offset a decrease in unrealized gains on securities, which was a loss of Ps.32 million for 2002 compared to a gain of Ps.21 million for 2001. The decrease in unrealized gains was attributable principally to marking-to-market losses on our debt securities resulting from fluctuations in interest rates.

Non-Interest Expense

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

	For the year ended December 31,	
	2001	2002
	(Ps. millions)	
Salaries and employee benefits	2,860	3,850
Professional fees	319	381
Leases	365	588
Promotional expenses	399	432
Other administrative and operational expenses	1,407	1,887
Taxes other than income taxes	522	596
Contribution to IPAB.....	377	658
Depreciation and amortization.....	376	611
Corporate expenses recoveries	(44)	(99)
Total non-interest expense	6,581	8,904

Non-interest expense was Ps.8,904 million for 2002 compared to Ps.6,581 million for 2001, an increase of Ps.2,323 million, or 35.3%, primarily as a result of increases in salaries and employee benefits, other administrative and operational expenses, contributions to IPAB, depreciation and amortization and leases resulting from the consolidation of our financial statement with those of Bancrecre.

Salaries and employee benefits, the largest component of non-interest expense, were Ps.3,850 million (or 43.2% of non-interest expense) for 2002 compared to Ps.2,860 million (or 43.5% of non-interest expense) for 2001, an increase of Ps.990 million, or 34.6%. This increase was primarily the result of incorporating Bancrecre's personnel into our operations.

Other administrative and operational expenses were Ps.1,887 million (or 21.2% of non-interest expense) for 2002 compared to Ps.1,407 million (or 21.4% of non-interest expense) for 2001, an increase of Ps.480 million, or 34.1%. This increase was primarily the result of additional administrative and operational expenses resulting from our merger with Bancrecre in 2002.

Our contribution to IPAB was Ps.658 million (or 7.4% of non-interest expense) for 2002 compared to Ps.377 million (or 5.7% of non-interest expense) for 2001, an increase of Ps.281 million, or 74.5%. This increase was primarily the result of the increase in the average balance of our deposits resulting from the consolidation of the deposits of Bancrecre.

Depreciation and amortization was Ps.611 million (or 6.9% of non-interest expense) for 2002 compared to Ps.376 million (or 5.7% of non-interest expense) for 2001, an increase of Ps.235 million, or 62.5%. This increase was primarily the result of the increase in the amount of our fixed assets and technology expenses resulting from our initiation of the consolidation of the fixed assets and the technological integration of Bancrecre.

Leases were Ps.588 million (or 6.6% of non-interest expense) for 2002 compared to Ps.365 million (or 5.6% of non-interest expense) for 2001, an increase of Ps.223 million, or 61.1%. This increase was primarily the result of our initiation of the process to incorporate Bancrecre's branches into our operations in 2002.

Other Income and Expenses, Net

The net amount of other income and expenses resulted in a net income of Ps.27 million for 2002 compared to a net income of Ps.604 million for 2001, a decrease of Ps.597 million or 95.6%. The 95.6% reduction in 2002 was mainly due to a drop in recoveries and a significant increase in miscellaneous write-offs relating to the operation of branches resulting from the consolidation of Bancrecre's branches into our network and an increase in the loss on the sale of purchase assets.

Income Tax and Employee Profit Sharing

Income tax and employee profit sharing, which also includes an asset tax expense, resulted in an expense of Ps.211 million for 2002 compared to an expense of Ps.15 million for 2001, an increase of Ps.196 million. This increase was the result of the consolidation of the assets of Bancrecre and the consequential increase in our asset tax. In 2002, income tax and employee profit sharing was comprised of asset tax, employee profit sharing expense and the income tax payable by our consolidated subsidiaries. The asset tax is calculated at the rate of 1.8% of the average value of certain of our fixed assets and is paid in lieu of income tax when, in any given year, the amount of asset tax exceeds the amount of income tax. Although some of our subsidiaries paid income tax, we, on an unconsolidated basis, did not pay any income tax in 2002 or 2001 due to our tax loss carryforwards.

Deferred income tax resulted in a benefit of Ps.20 million in 2002 compared to an expense of Ps.143 million in 2001. This difference was primarily the result of an adjustment to the realizability of our tax loss carryforwards, which generated a benefit for 2002, and the application of Mexican GAAP Bulletin D-4 in 2002, which resulted in us recognizing deferred income tax expense for 2001. See note 15 to our audited financial statements.

Share in Net Income of Non-consolidated Subsidiaries and Affiliates

Our share of the results of our non-consolidated subsidiaries and affiliates was an income of Ps.59 million for 2002 compared to an expense of Ps.3 million for 2001, an increase of Ps.62 million. This increase was primarily due to improved results by our subsidiary Sólida, resulting from increased activity beginning in the second half of 2002.

Discontinued Operations and Extraordinary Items

We received extraordinary income in June 2002 from Assicurizazoni Generali in the amount of Ps.459 million in connection with the payment under a distribution agreement with Seguros Banorte Generali, Banorte Generali Afore and Pensiones Banorte Generali. See "Business of Banorte—Strategic Alliances." We did not receive any significant extraordinary income during 2001.

Net Income

Net income was Ps.1,502 million for 2002 compared to Ps.512 million for 2001, an increase of Ps.990 million or 193.3%, due to reasons discussed above.

Results of Operations—2001 Compared to 2000

Net Interest Income

Net interest income before monetary gain was Ps.6,229 million for 2001 compared to Ps.5,283 million for 2000, an increase of Ps.946 million, or 17.9%. This increase was the result of a decrease in our interest expense by Ps.2,289 million, or 14.1%, which more than offset a decrease in our interest income by Ps.1,343 million, or 6.2%.

We recorded a net monetary gain of Ps.102 million in 2001 compared to Ps.77 million in 2000, an increase of Ps.25 million or 32.5%, which primarily resulted from the reclassification of the securities called "Eurobonos" from the held-to-maturity category to the available-for-sale category in 2001.

In terms of margins, the difference between our interest rate earned on average interest-earning assets of 13.2% and the interest rate paid on average interest-bearing liabilities of 10.0% resulted in a yield spread of 3.2% for 2001, compared to a yield spread of 2.7% during 2000.

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

	For the year ended December 31,	
	2000	2001
	(Ps. millions)	
INTEREST INCOME:		
Interest on loans	4,737	4,719
Interest on FOBAPROA and IPAB notes ⁽¹⁾	7,108	7,159
Fees on loans ⁽²⁾	312	335
Interest on cash and due from banks and securities	5,672	2,812
Interest on repurchase operations ⁽³⁾	3,679	5,155
Foreign exchange valuation ⁽⁴⁾	15	—
Total interest income	21,523	20,180
INTEREST EXPENSE:		
Interest on deposits and funding	12,560	8,415
Interest on repurchase operations ⁽⁵⁾	3,598	5,483
Foreign exchange valuation ⁽⁴⁾	—	16
UDI valuation ⁽⁶⁾	66	13
Fees paid ⁽⁷⁾	16	24
Total interest expense	16,240	13,951
Monetary gain, net.....	77	102
Net interest income	5,360	6,331

- (1) We recognize interest earned on the FOBAPROA notes with loss-sharing or incentive contingencies. Loss contingencies of 29% or 25%, as the case may be, is added to the reserves necessary to maintain 100% coverage of these contingencies and is charged against earnings. Interest in respect of the FOBAPROA notes is capitalized. See "Government Sponsored Support Funds—FOBAPROA."
- (2) Fees on loans represent fees generated in connection with the issuance, renewal, draw-down or prepayment of a loan that is recorded as interest income in accordance with Mexican Banking GAAP.
- (3) Interest income on repurchase operations represents interest income on securities purchased pursuant to our agreements to resell, in accordance with Mexican Banking GAAP.
- (4) Foreign exchange valuation represents the net changes in the foreign exchange valuation that is recorded as interest income or interest expense depending on the net effect, in accordance with Mexican Banking GAAP.
- (5) Interest expense on repurchase operations represents interest expense on securities sold under agreements to repurchase, in accordance with Mexican Banking GAAP.
- (6) UDI valuation represents part of the effect from changes in the inflation rate on UDI-denominated liabilities that is recorded as interest expense in accordance with Mexican Banking GAAP.
- (7) Fees paid represents fees incurred in connection with our withdrawal, renewal and drawing down of loans that are recorded as interest expense in accordance with Mexican Banking GAAP.

Interest Income

Interest income was Ps.20,180 million for 2001 compared to Ps.21,523 million for 2000, a decrease of Ps.1,343 million, or 6.2%. This reduction was a result of a decrease in the average interest rate earned on interest-earning assets, which more than offset an increase in the average balance of these assets as well as our reclassification of fees charged for the use of our ATMs as non-interest income starting in 2001. Our 320 basis point decrease in the average interest rate earned on interest-earning assets from 16.4% for 2000 to 13.2% for 2001 had a greater effect than a 16.4% increase in the average balance of these assets from Ps.131,146 million for 2000 to Ps.152,695 million for 2001. The decrease in the average rate charged on interest-earning assets reflected the lower interest rates for 2001 compared to 2000. The rate on 28-day TIIE averaged 12.90% for 2001, 407 basis points lower than the 16.97% average rate recorded for 2000. The average balance of interest-earning assets increased as a result of the transfer of Bancentro's banking operations to us in December 2000.

Interest income from cash and due from banks and securities was Ps.2,812 million (or 13.9% of interest income) for 2001 compared to Ps.5,672 million (or 26.3% of interest income) for 2000, a decrease of Ps.2,860 million, or 50.4%. This decrease was due primarily to lower interest rates earned on cash and due from banks and securities in 2001 compared to 2000 and a reduction by Banco de Mexico of the rates used to determine interest income on regulatory deposits.

Interest income from repurchase operations was Ps.5,155 million (or 25.5% of interest income) for 2001 compared to Ps.3,679 million (or 17.1% of interest income) for 2000, an increase of Ps.1,476 million, or 40.1%. This increase was mainly due to a change by the CNBV in the accounting treatment of interest income and expense on repurchase operations (which had previously been presented as a net amount) and a higher volume of repurchase operations, which more than offset the impact of lower interest rates earned on repurchase operations in 2001 compared to 2000.

Interest on FOBAPROA and IPAB notes was Ps.7,159 million (or 35.5% of interest income) for 2001 compared to Ps.7,108 million (or 33.0% of interest income) for 2000, an increase of Ps.51 million, or 0.7%. This increase was primarily the result of our receipt of IPAB notes in connection with the transfer of the banking operations of Bancentro to us in December 2000 and an increase in the interest rate borne by the IPAB notes compared to the FOBAPROA notes for which they were exchanged, which more than offset the decline in interest rates earned on FOBAPROA and IPAB notes in 2001 compared to 2000.

Interest Expense

Interest expense was Ps.13,951 million for 2001 compared to Ps.16,240 million for 2000, a decrease of Ps.2,289 million, or 14.1%. This reduction was a result of a decrease in the average interest rate paid on interest-bearing liabilities, which more than offset an increase in the average balance of these liabilities. Our 370 basis point decrease in the average interest rate paid on interest-bearing liabilities from 13.7% for 2000 to 10.0% for 2001 had a greater effect than a 17.4% increase in the average balance of these liabilities from Ps.118,572 million for 2000 to Ps.139,260 million for 2001. The decrease in the average interest rate paid on interest-bearing liabilities was a function of a general decline in interest rates in Mexico in 2001 compared to 2000. The rate on 28-day CETES averaged 11.3% in 2001, 390 basis points lower than the 15.2% average rate for 2000. The average balance of interest-bearing liabilities increased as a result of increased repurchase operations in 2001.

Interest on deposits and funding was Ps.8,415 million (or 60.3% of interest expense) for 2001 compared to Ps.12,560 million (or 77.3% of interest expense) for 2000, a decrease of Ps.4,145 million, or 33.0%. This decrease was due to lower interest rates on deposits and our funding sources in 2001 compared to 2000, as well as lower average balances of deposits and funding in the corresponding period.

Interest expense from repurchase operations was Ps.5,483 million (or 39.3% of interest expense) for 2001 compared to Ps.3,598 million (or 22.2% of interest expense) for 2000, an increase of Ps.1,885 million, or 52.4%. This increase was due primarily to a change by the CNBV in the accounting treatment of interest income and expense on repurchase operations (which had previously been presented as a net amount) and a higher volume of repurchase operations in 2001 compared to 2000, which more than offset the impact of lower interest rates paid on repurchase operations in the corresponding period.

Provisions

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

	For the year ended December 31,	
	2000	2001
	(Ps. millions)	
PROVISIONS CHARGED AGAINST EARNINGS:		
Provision for loan losses	403	990
FOBAPROA provisions.....	180	183
Total provisions.....	583	1,173

Provisions for loan losses were Ps.990 million for 2001 compared to Ps.403 million for 2000, an increase of Ps.587 million, or 145.7%. This increase resulted from the transfer of Bancentro's traditional banking operations and the classification of U.S.\$50 million of loans to one of our corporate customers as non-performing. The allowance for loan losses as a percentage of non-performing loans increased to 97.9% as of December 31, 2001 from 96.5% on December 31, 2000.

FOBAPROA provisions charged against earnings were Ps.183 million for 2001 compared to Ps.180 for 2000, an increase of Ps.3 million, or 1.7%. This increase primarily resulted from the capitalization of interest at a lower rate (due to declining interest rates) and a decrease in the rate of cash recoveries from the portion of our portfolio relating to the FOBAPROA trusts administered by us.

Non-Interest Income

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

	For the year ended December 31,	
	2000	2001
	(Ps. millions)	
COMMISSIONS AND FEES:		
Fund transfers	35	54
Account management	268	312
Fiduciary	62	75
Credit card	328	371
From FOBAPROA	586	271
Other service fees	231	375
Total commissions and fees	1,510	1,458
Fees paid	(340)	(320)
Net commissions and fees	1,170	1,138
TRADING INCOME:		
Foreign exchange	199	209
Realized gains on securities	3	123
Unrealized gains on securities	222	21
Total trading income, net	424	353
Total non-interest income	1,594	1,491

Total non-interest income was Ps.1,491 million for 2001 compared to Ps.1,594 million for 2000, a decrease of Ps.103 million, or 6.5%, due to a decrease in both net commissions and fees and net trading income.

Net commissions and fees earned were Ps.1,138 million for 2001 compared to Ps.1,170 million for 2000, a decrease of Ps.32 million, or 2.7%. This decrease was primarily due to a decrease in fees charged to FOBAPROA, which more than offset an increase in other service fees, account management fees and credit card fees.

Fees charged to FOBAPROA were Ps.271 million (or 18.6% of total commissions and fees) for 2001 compared to Ps.586 million (or 38.8% of total commissions and fees) for 2000, a decrease of Ps.315 million, or 53.8%. The lower level of fees charged to FOBAPROA in 2001 was primarily due to a lower amount of recoveries with respect to the trusts that were originally administered by Bancentro and Banpaís (which are the only trusts generating such fees).

Other service fees were Ps.375 million (or 25.7% of total commissions and fees) for 2001 compared to Ps.231 million (or 15.3% of total commissions and fees) for 2000, an increase of Ps.144 million, or 62.3%. This increase was primarily due to the integration of Bancentro's banking operations during 2001.

Account management fees were Ps.312 million (or 21.4% of total commissions and fees) for 2001 compared to Ps.268 million (or 17.7% of total commissions and fees) for 2000, an increase of Ps.44 million, or 16.4%. This increase was the result of a larger depositor base due to the transfer of Bancentro's banking operations in December 2000.

Credit card fees were Ps.371 million (or 25.4% of total commissions and fees) for 2001 compared to Ps.328 million (or 21.7% of total commissions and fees) for 2000, an increase of Ps.43 million, or 13.1%. The higher level of credit card fees charged during 2001 was the result of new credit card placements and the transfer of Bancentro's credit card operations in December 2000, as well as the issuance of new credit cards in 2001.

Net income from trading activities was Ps.353 million for 2001 compared to Ps.424 million for 2000, a decrease of Ps.71 million, or 16.7%. This decrease was due to a decrease in unrealized gains on securities, which more than offset an increase on realized gains on securities. We recorded unrealized gains on securities of Ps.21 million in 2001 compared to unrealized gains on securities of Ps.222 million in 2000, a decrease of Ps.201 million, or 90.5%. The decrease in unrealized gains on securities was attributable to marking-to-market the value of our debt securities, which value decreased primarily due to fluctuations in interest rates. This effect more than offset an increase in realized gains on securities, which was Ps.123 in 2001 compared to Ps.3 million in 2000, an increase of Ps.120 million. The increase on realized gains was attributable to an increase in the value of debt securities sold primarily resulting from a general decline in interest rates since their purchase.

Non-Interest Expense

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

	For the year ended December 31,	
	2000	2001
	(Ps. millions)	
Salaries and employee benefits	2,507	2,860
Professional fees	290	319
Leases	371	365
Promotional expenses	301	399
Other administrative and operational expenses	1,329	1,407
Taxes other than income taxes	500	522
Contribution to IPAB.....	339	377
Depreciation and amortization.....	286	376
Corporate expense recoveries	(281)	(44)
Total non-interest expense.....	<u>5,642</u>	<u>6,581</u>

Non-interest expense was Ps.6,581 million for 2001 compared to Ps.5,642 million for 2000, an increase of Ps.939 million, or 16.6%, primarily as a result of an increase in salaries and employee benefits and a decrease in our corporate expenses recoveries, as well as increases in promotional expenses and depreciation and amortization.

Salaries and employee benefits, the largest component of non-interest expense, were Ps.2,860 million (or 43.3% of non-interest expense) for 2001 compared to Ps.2,507 million (or 44.4% of non-interest expense) for 2000, an increase of Ps.353 million, or 14.1%. This increase was primarily due to the transfer of employees from Bancentro to Banorte as a result of the transfer of Bancentro's banking operations and an increase in salaries of approximately 10% in July 2001.

Corporate expense recoveries were Ps.44 million for 2001 compared to Ps.281 million for 2000, a decrease of Ps.237 million, or 84.3%. This decrease was primarily the result of the cancellation of certain intercompany expense recoveries as a result of the transfer of Bancentro's banking operations in December 2000.

Promotional expenses were Ps.399 million (or 6.1% of non-interest expense) for 2001 compared to Ps.301 million (or 5.3% of non-interest expense) for 2000, an increase of Ps.98 million, or 32.6%. This increase was due to a significant increase in our advertising expenses relating to a new national advertising campaign.

Depreciation and amortization was Ps.376 million (or 5.7% of non-interest expense) for 2001 compared to Ps.286 million (or 5.0% of non-interest expense) for 2000, an increase of Ps.90 million, or 31.4%. This increase was primarily the result of the transfer of the banking operations of Bancentro in December 2000 and the resulting increase in fixed assets.

Other Income and Expenses, Net

The net amount of other income and expenses was a net income of Ps.604 million for 2001 compared to a net income of Ps.40 million for 2000. This increase was primarily due to an increase in recoveries, the cancellation of provisions relating to other receivables, a monetary gain in 2001 compared to a monetary loss in 2000 and a decrease in the write-offs related to foreclosed assets.

Income Tax and Employee Profit Sharing

Income tax and employee profit sharing, which also includes an asset tax expense, was Ps.15 million for 2001 compared to Ps.28 million for 2000, a decrease of Ps.13 million, or 46.4%, due to lower asset taxes in 2000 and decreased taxes paid by our subsidiaries. The asset tax is calculated at the rate of 1.8% of the average value of certain of our fixed assets and is paid in lieu of income tax when, in any given year, the amount of asset tax exceeds the amount of income tax. Although some of our subsidiaries paid income tax in 2001 and 2000, we, on an unconsolidated basis, paid no income tax in 2001 and 2002 due to our tax loss carryforwards.

Deferred income tax was an expense of Ps.143 million for 2001 compared to no significant deferred income tax expense in 2000. In 2001, we generated deferred income tax expense primarily due to the recognition for tax reporting purposes, of interest accrued and capitalized in respect of FOBAPROA notes. In addition, the application of Mexican GAAP Bulletin D-4 resulted in a one-time charge directly to stockholders' equity for the year ended December 31, 2000.

Share in Net Income of Non-consolidated Subsidiaries and Affiliates

We recognized net loss of Ps.2 million for our share of the results of our non-consolidated subsidiaries and affiliates for 2001 compared to a net income of Ps.78 million for 2000, a decrease of Ps.80 million. This difference was primarily due to the sale of our former subsidiary Banorte Generali Afore to our affiliate Bancentro in September 2000.

Net Income

Net income was Ps.512 million for 2001 compared to Ps.819 million for 2000, a decrease of Ps.307 million, or 37.5%, due to reasons discussed above.

Financial Position

The following discussion compares our consolidated financial position at September 30, 2003, December 31, 2002 and December 31, 2001.

Assets

We had total assets of Ps.203,274 million as of September 30, 2003, compared to Ps.197,560 million as of December 31, 2002, an increase of Ps.5,714 million, or 2.9%. This increase was due principally to increases in cash and due from banks and investment securities, partially offset by decreases in IPAB notes and allowance for loan losses.

We had total assets of Ps.197,560 million as of December 31, 2002, compared to Ps.107,085 million as of December 31, 2001, an increase of Ps.90,475 million, or 84.5%. This increase was principally the result of the consolidation of total assets of Bancrecer.

Loan Portfolio

As of September 30, 2003, total performing loans (excluding FOBAPROA and IPAB notes) were Ps.64,436 million compared to Ps.63,786 million as of December 31, 2002, an increase of Ps.650 million, or 1.0%. This increase was mainly due to new loan placements. Total performing loans represented 31.7% of total assets as of September 30, 2003, compared to 32.3% of total assets as of December 31, 2002. As of September 30, 2003, performing commercial loans represented 48.2% of total performing loans, performing mortgage loans represented 20.8%, performing loans granted to governmental entities (excluding FOBAPROA and IPAB notes) represented 13.7% and performing consumer loans represented 12.0%.

We had total performing loans (excluding FOBAPROA and IPAB notes) of Ps.63,786 million as of December 31, 2002, compared to Ps.34,437 million as of December 31, 2001, an increase of Ps.29,349 million, or 85.2%. This increase was mainly due to the consolidation of the total performing loans of Bancrecre in 2002. Total performing loans represented 32.3% of total assets as of December 31, 2002. As of December 31, 2002, performing mortgage loans represented 19.0% of total performing loans, performing commercial loans represented 51.1% of total performing loans, loans to financial intermediaries represented 12.6%, performing loans to government entities (excluding FOBAPROA and IPAB notes) represented 9.3% and performing consumer loans represented 8.0%.

Total performing loans (excluding FOBAPROA and IPAB notes) represented 32.2% of total assets as of December 31, 2001. As of December 31, 2001, performing commercial loans represented 63.2% of total performing loans, performing mortgage loans represented 13.7%, performing loans to government entities (excluding FOBAPROA and IPAB notes) represented 11.4%, performing consumer loans represented 7.2% and loans to financial intermediaries represented 4.5%.

FOBAPROA and IPAB Notes

As of September 30, 2003, we had a balance of Ps.6,652 million in FOBAPROA notes, compared to Ps.6,669 million and Ps.10,897 million as of December 31, 2002 and December 31, 2001, respectively. The FOBAPROA notes represented 3.3%, 3.4% and 10.2% of total assets as of September 30, 2003, December 31, 2002 and December 31, 2001, respectively. Allowances for loss-sharing and incentives program amounted to Ps.2,457 million, Ps.2,457 million and Ps.2,557 million as of September 30, 2003 and as of December 31, 2002 and 2001, respectively.

As of September 30, 2003, we had a balance of Ps.76,019 million in IPAB notes, compared to Ps.80,896 million and Ps.38,171 million as of December 31, 2002 and December 31, 2001, respectively. The IPAB notes represented 37.4%, 40.9% and 35.6% of total assets as of September 30, 2003, December 31, 2002 and December 31, 2001, respectively.

Non-Performing Loans

We had total non-performing loans of Ps.3,103 million as of September 30, 2003 compared to Ps.4,528 million as of December 31, 2002, a decrease of Ps.1,425 million, or 31.5%. This decrease was primarily due to a write-down in the amount of (i) Ps.1,577 million (nominal value) relating to the sale of loans to Sólida and (ii) Ps.290 million (nominal value) relating to corporate loans from a single borrower. Total non-performing loans represented 1.5% of total assets as of September 30, 2003, compared to 2.3% of total assets as of December 31, 2002. As of September 30, 2003, non-performing commercial loans represented 54.8% of total non-performing loans, non-performing mortgage loans represented 32.8% and non-performing consumer loans represented 12.1%.

We had total non-performing loans of Ps.4,528 million as of December 31, 2002 compared to Ps.4,478 million as of December 31, 2001, an increase of Ps.50 million, or 1.1%. As of December 31, 2002, non-performing commercial loans represented 52.4% of total non-performing loans, non-performing mortgage loans represented 40.3% and non-performing consumer loans represented 7.4%.

Deferred Taxes, Net

Our deferred taxes are a net asset mainly comprised of tax losses, temporary differences to be used as income tax deductions in future fiscal periods and for the calculation of employee profit sharing. Loan loss reserves created in each tax period in excess of 2.5% of the annual average of the loan portfolio must be applied in future fiscal periods. We anticipate that we will be able to use all of our net deferred tax asset.

We had deferred taxes of Ps.1,051 million as of September 30, 2003, compared to Ps.1,024 million as of December 31, 2002, an increase of Ps.27 million, or 2.6%. This increase was due primarily to the reduction of deferred tax liability relating to taxes payable on UDI Trusts.

We had deferred taxes of Ps.1,024 million as of December 31, 2002, compared to Ps.1,037 million as of December 31, 2001, a decrease of Ps.13 million, or 1.2%. This decrease was primarily due to the increase of deferred tax liabilities attributable to the valuation of available-for-sale securities, partially offset by the consolidation of Bancrecre.

Liabilities

We had total liabilities of Ps.194,324 million as of September 30, 2003 compared to Ps.189,228 million as of December 31, 2002, an increase of Ps.5,096 million, or 2.6%. This increase is due primarily to an increase in deposits and sundry creditors and other payables, which more than offset a decrease in Interbank loans and loans from other entities.

We had total liabilities of Ps.189,228 million as of December 30, 2002 compared to Ps.100,172 million as of December 31, 2001, an increase of Ps.89,056 million, or 47.1%. This increase was primarily due to the consolidation of the liabilities of Bancrecre.

Deposits

We had total deposits of Ps.160,539 million as of September 30, 2003 compared to Ps.146,536 million as of December 31, 2002, an increase of Ps.14,003 million, or 9.6%. This increase was primarily due to new depositors and an increase in time deposits. As of September 30, 2003, demand deposits, which bear interest at lower rates, represented 35.8% of total deposits, while time deposits represented the remaining 64.2%.

We had total deposits of Ps.146,536 million as of December 31, 2002 compared to Ps.81,744 million as of December 31, 2001, an increase of Ps.64,792 million, or 79.3%. This increase was due to the consolidation of deposits of Bancrecre. As of December 31, 2002, time deposits represented 62.3% of total deposits, demand deposits represented 36.8% and bank bonds represented the remaining 0.9%. As of December 31, 2001, time deposits represented 59.2% of our total deposits, demand deposits represented 39.0% and bank bonds represented the remaining 1.7%. The ratio of demand deposits to total deposits decreased to 36.8% as of December 31, 2002 compared to 39.0% as of December 31, 2001.

Total deposits represented 82.6%, 77.4% and 81.6% of total liabilities as of September 30, 2003 and December 31, 2002 and 2001, respectively.

Interbank Loans and Loans from Other Entities

We had interbank loans and loans from other entities of Ps.24,902 million as of September 30, 2003, compared to Ps.36,249 million as of December 31, 2002, a decrease of Ps.11,347 million, or 31.3%. This decrease was due to a shift in our funding strategy from the use of repurchase operations to time deposits, which resulted in a decrease in our use of interbank loans. Interbank loans and loans from other entities represented 12.8% of total liabilities as of September 30, 2003 compared to 19.2% as of December 31, 2002.

We had interbank loans and loans from other entities of Ps.36,249 million as of December 31, 2002 compared to Ps.14,667 million as of December 31, 2001, an increase of Ps.21,582 million, or 147.2%. This increase was due to the consolidation of the interbank loans and loans from other entities of Bancrecre and a shift in the funding strategy relating to Bancrecre's assets. Bancrecre had previously funded its assets mainly by issuing high cost promissory notes, due in part to its troubled financial status. We ended the practice of utilizing high cost liabilities and used interbank loans as a cheaper source of funding. Interbank loans and loans from other entities represented 19.2% of total liabilities as of December 31, 2002 compared to 14.6% as of December 31, 2001.

Subordinated Debt

We had non-convertible subordinated debt of Ps.2,735 million, Ps.2,642 million and Ps.1,440 million as of September 30, 2003, December 31, 2002 and December 31, 2001, respectively. Subordinated debt represented 1.4%, 1.4% and 1.4% of total liabilities as of September 30, 2003, December 31, 2002 and December 31, 2001, respectively.

Stockholders' Equity

Our stockholders' equity was Ps.8,950 million as of September 30, 2003 compared to Ps.8,332 million as of December 31, 2002, an increase of Ps.618 million, or 7.4%. This increase is due to our net income for the first nine months of 2003.

Our stockholders' equity was Ps.8,332 million as of December 31, 2002 compared to Ps.6,913 million as of December 31, 2001, an increase of Ps.1,419 million, or 20.5%. This increase was due to the consolidation of the stockholders' equity of Bancrecre and our 2002 net income.

Stockholders' equity represented 4.4%, 4.2% and 6.5% of our total assets as of September 30, 2003, December 31, 2002 and December 31, 2001, respectively.

Liquidity

The purpose of our liquidity management function is to ensure that we have funds available to meet our financial obligations. These obligations arise from withdrawals of deposits, repayments at maturity of short-term notes, extensions of loans or other forms of

credit and working capital needs. One significant element of the liquidity management function is maintaining our compliance with Banco de Mexico liquidity regulations. See "Supervision and Regulation—Reserve Requirements and Liquidity Coefficients."

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

Banco de Mexico Regulations require Mexican banks to comply with certain reserve requirements with respect to non-Peso-denominated liabilities. Reserves on non-Peso-denominated deposits continue to be required. See "Supervision and Regulation—Reserve Requirements and Liquidity Coefficients." As of September 30, 2003, December 31, 2002 and December 31, 2001, we were in compliance with all reserve requirements.

Our management expects that cash flow from operations and other sources of liquidity will be sufficient to meet our liquidity requirements over the next twelve months, including our expected 2004 capital expenditures.

Foreign Currency Position

Banco de Mexico Regulations require that a bank maintain open positions in foreign currencies no higher than a specified level with respect to its total Tier 1 capital. See "Supervision and Regulation—Reserve Requirements and Liquidity Coefficients." As of September 30, 2003, the limit established for us by Banco de Mexico for maturity-adjusted net foreign currency-denominated liabilities was U.S.\$1,255 million (Ps.13,387 million). As of such date, our maturity-adjusted net foreign currency-denominated liabilities were U.S.\$576 million (Ps.6,142 million). For a discussion of the components of Tier 1 capital, see "Supervision and Regulation—Risk-Based Capital and Capital Adequacy."

For the years ended December 31, 2001 and 2002 and the nine months ended September 30, 2003, we were in compliance with regulatory requirements relating to the ratio of dollar-denominated liabilities to total liabilities.

As part of our asset liability management strategy, we closely monitor our exposure to foreign currencies, with a view to minimizing the effect of exchange rate movements on our income. As of September 30, 2003, our foreign currency-denominated assets totaled U.S.\$1,955 million (Ps.21,528 million), representing 10.6% of our total assets. At that date, our foreign currency-denominated liabilities amounted to U.S.\$1,941 million (Ps.21,382 million), representing 11.0% of our total liabilities. See "Selected Statistical Information—Interest-Bearing Deposits with Other Banks."

Funding

Our principal sources of funding are customer deposits, which are highly concentrated in non-interest-bearing checking accounts, short-term notes with interest due at maturity and interest-bearing demand and time deposits. Customer deposits are our least expensive source of funding. Our deposits increased to Ps.160,539 million (or 82.6% of total funding) as of September 30, 2003 from Ps.146,536 million (or 77.4% of total funding) as of December 31, 2002, an increase of Ps.14,003 million, or 9.6%. This increase was primarily due to a shift in our funding strategy from the use of repurchase operations to time deposits.

Repurchase agreements have been another important instrument in Mexico's money markets by providing short-term investments to banking customers, mainly with Mexican government issued paper and to a lesser extent securities issued by other Mexican banks. Management has used repurchase operations to maintain relationships with our customers in light of reduced lending activity. As of September 30, 2003, December 31, 2002 and December 31, 2001, securities of approximately Ps.52,756 million, Ps.73,336 million and Ps.48,570 million, respectively, were pledged as collateral in connection with repurchase agreements.

Long-term debt is another source of funds for us. Long-term debt is issued to match long-term loans and investments and reduce liquidity risk. As of September 30, 2003, we had Ps.10,653 million principal amount of long-term debt outstanding with maturities over one year. We had Ps.10,280 million and Ps.8,795 principal amount of long-term outstanding with maturities over one year as of December 31, 2002 and 2001, respectively.

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

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

Our foreign-currency denominated assets, substantially all of which are dollar denominated, are funded from a number of sources. These sources include deposits of the same currency obtained mainly through deposits of customers, medium and large Mexican companies, primarily in the export sector, the placement of certificates of deposit in the Eurodollar market through our foreign branches, interbank deposits and fixed rate notes. In the case of foreign trade transactions, we use trade financing facilities including from Mexican development banks and foreign export-import banks. Foreign currency funding rates are generally based on the LIBOR. Our position in foreign currency as of September 30, 2003 amounted to Ps.21,528 million in assets (or 11.0% of total assets) and Ps.21,382 million in liabilities.

Capital Expenditures

We invested (in nominal terms) U.S.\$86.5 million, U.S.\$106.3 million and U.S.\$102.5 million in technology (including telecommunications, computer hardware and software and systems development) in 2001, 2002 and 2003, respectively. Our current budget anticipates capital expenditures of approximately U.S.\$122 million during 2004, including investments relating to Internet banking, electronic-commerce initiatives and projects related to the Mexican-American market in the United States. We have made no capital expenditures in 2004.

We expect that capital expenditures for 2004 will be funded with cash generated from future operations and other sources of liquidity. We can give no assurance, however, that the capital expenditures will be made in the amounts currently expected or be funded with cash generated from our future operations.

Risk-Based Capital

The Mexican Capitalization Requirements take into account not only credit risk, but also market risk. See "Supervision and Regulation—Risk-Based Capital and Capital Adequacy." The tables below present our risk-weighted assets and capital ratios as of December 31, 2002 and 2001, and as of September 30, 2003, determined, as required by regulations, on an unconsolidated basis. Those regulations provide that (i) our investment in subsidiaries that are related to us in accordance with Article 73 of the Mexican Banking Law; (ii) our investment in subsidiaries that do not operate in the financial sector; and (iii) revaluation surpluses related to the investments referred to in (i) and (ii) above, must be subtracted from the calculation of Tier 1 capital. As of September 30, 2003, we were in compliance with all applicable capital regulations. The minimum ratio required by the Mexican Capitalization Requirements is 8% for total capital to risk-weighted assets.

	As of December 31,		As of
	2001	2002	September 30,
	(Ps. millions, except percentages)		2003
			(Ps. millions, except percentages)
Capital:			
Tier 1.....	3,705	8,700	8,963
Tier 2.....	1,940	2,279	2,366
Total capital.....	5,645	10,979	11,329
Risk-Weighted Assets:			
Credit risk.....	44,921	68,118	74,316
Credit and market risk.....	51,452	77,261	86,353
Capital Ratios (credit and market risk):			
Tier 1 capital to risk-weighted assets.....	7.20%	11.26%	10.38%
Tier 2 capital to risk-weighted assets.....	3.77%	2.95%	2.74%
Total capital to risk-weighted assets.....	10.97%	14.21%	13.12%

Recent Financial Information

Our unaudited condensed consolidated financial statements as of and for the year ended December 31, 2003 are presented in the "Recent Financial Information" section of this Luxembourg listing circular. Such financial information has been prepared in accordance with Mexican Banking GAAP and is presented in pesos of constant purchasing power as of December 31, 2003. Such information is preliminary and is subject to adjustment based upon an audit of such year-end information. For the purpose of providing financial comparisons in connection with the narrative contained in the "Summary—Recent Developments—Recent Financial Information" and "—Recent Financial Information" sections only, we have restated our financial information as of and for the year ended December 31, 2002 to pesos of constant purchasing power of December 31, 2003. For the period from October 1, 2003 to December 31, 2003, the change in the value of UDIs was 1.7%.

Results of Operations

We estimate that our net interest income decreased to Ps.8,248 million in 2003 from Ps.8,299 million in 2002. The decrease in net interest income was primarily the result of a decline in our interest income by Ps.1,948 million, or 8.8%, in 2003 compared to 2002, which more than offset a decline in our interest expense by Ps.1,903 million, or 13.8%, in the comparable periods. These results were largely attributable to a continuation of the trends identified in the discussion of our interest income in "—Results of Operations—First Nine Months of 2003 Compared to First Nine Months of 2002—Net Interest Income."

We estimate that our net income decreased to Ps.1,003 million in 2003 from Ps.1,527 million in 2002, a decrease of Ps.524 million, or 34.3%. This decrease in net income was due primarily to the following reasons:

- Extraordinary net income of Ps.427 million in 2002 resulting primarily from a one-time fee paid by Assicurizazoni Generali in connection with a distribution agreement with us;
- An increase in non-interest expenses to Ps.9,247 million in 2003 from Ps.9,065 million in 2002, an increase of Ps.182 million, or 2.0%, due to an increase in depreciation and amortization expenses and higher contributions to IPAB;
- A decrease in our trading income to Ps.340 million in 2003 from Ps.465 million in 2002, a decrease of Ps.125 million, or 26.9%; and
- A decrease of Ps.51 million in net interest income in 2003 compared to 2002, as discussed above.

Financial Position

We estimate that our total assets increased to Ps.204,281 million as of December 31, 2003 from Ps.200,919 million as of December 31, 2002, an increase of Ps.3,361 million, or 1.7%. This increase in total assets was due primarily to increases in cash and cash due from banks and investment securities, which more than offset decreases in IPAB notes and allowances for loan losses.

Cash and cash due from banks increased by 29.3% to Ps.30,820 million as of December 31, 2003 from Ps.23,841 million as of December 31, 2002, primarily as a result of higher cash levels resulting from prepayments made by IPAB and an increase of Ps.3,045 million (nominal value) in the amount of our cash deposited with Banco de Mexico for regulatory purposes. Investment securities increased by 44.9% to Ps.18,138 million as of December 31, 2003 from Ps.12,516 million as of December 31, 2002, primarily as a result of the acquisition of highly liquid securities. On the other hand, IPAB notes decreased by 16.1% to Ps.69,041 million as of December 31, 2003 from Ps.82,271 million as of December 31, 2002, primarily resulting from prepayments. Allowance for loan losses decreased by 28.2% to Ps.3,845 million as of December 31, 2003 from Ps.5,355 million as of December 31, 2002, primarily as a result of a write-down in the amount of Ps.1,577 million (nominal value) relating to the sale of loans to Sólida.

We estimate that our total liabilities increased to Ps.194,885 million as of December 31, 2003 from Ps.192,445 million as of December 31, 2002, an increase of Ps.2,440 million, or 1.3%. This increase in total liabilities was due primarily to a 9.1% increase in our total deposits to Ps.162,593 million as of December 31, 2003 from Ps.149,027 million as of December 31, 2002, which more than offset a 30.6% decrease in interbank loans and loans to other financial entities to Ps.25,572 million as of December 31, 2003 from Ps.36,865 million as of December 31, 2002.

We estimate that our total shareholders' equity increased to Ps.9,395 million as of December 31, 2003 from Ps.8,474 million as of

December 31, 2002, primarily due to our net income in 2003.

SELECTED STATISTICAL INFORMATION

The following selected statistical information is provided with respect to Banorte and its consolidated subsidiaries only. Selected statistical information for Banorte is as of and for the years ended December 31, 2000, 2001 and 2002 and as of and for the nine months ended September 30, 2003. The selected statistical information for the year ended December 31, 2002 and the nine months ended September 30, 2003 includes information for Bancreer beginning January 1, 2002. As a result, the selected statistical information for the years ended December 31, 2000, 2001 and 2002 is not directly comparable from period to period, and evaluation of period to period trends may be difficult or impossible. We have not provided in this Luxembourg listing circular any pro forma information reflecting the acquisition of Bancreer.

Assets and liabilities have been classified by currency of denomination (Pesos or foreign currency), rather than by domicile of customer or other criteria, because substantially all of our transactions are effected in Mexico or on behalf of Mexican residents in Pesos or foreign currency. The U.S. dollar is the main foreign currency used in our transactions. However, Euros are also used. For purposes of this section, all foreign currency assets and liabilities have been converted into U.S. dollars and then expressed in Pesos.

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

Unless otherwise indicated, balance sheet and statement of income items in the following tables are presented in millions of constant Pesos as of September 30, 2003. Because Mexican tax law does not currently provide income tax exemptions for any investment securities, we do not hold any income tax-exempt securities and no tax-equivalence adjustments are considered necessary.

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

Average Balance Sheet and Interest Rate Data

Peso-Denominated Average Balances and Interest Income

Average balances for Peso-denominated assets and liabilities have been calculated in the following manner. For each month, an average of the daily Peso balances and the interest income (expense) was determined. The average balance for each year presented below is the average of the 12 monthly balances so determined adjusted to constant Pesos of September 30, 2003. Interest income (expense) for each year is the total of the income (expense) for the 12 months so determined.

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

Average balances and interest income (expense) for foreign currency-denominated and UDI-denominated assets and liabilities have been translated into Pesos and calculated in the following manner. For each month, an average of the daily foreign currency or UDI balances and the total interest income (expense) was determined. In addition, the average balances and the total interest income (expense) were translated into Pesos using the applicable month-end exchange rate published in the Federal Gazette. The average balance for each year presented below is the average of the 12 monthly balances so determined adjusted to constant pesos of September 30, 2003. Interest income (expense) for each year is the total of the income (expense) for the 12 months so determined.

Average Interest Rate

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

Average Assets and Interest Rates

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

	For the year ended December 31,									For the nine months ended September 30,		
	2000			2001			2002			2003		
	Average Balance	Interest Income	Average Interest Rate	Average Balance	Interest Income	Average Interest Rate	Average Balance	Interest Income	Average Interest Rate	Average Balance	Interest Income	Average Interest Rate
(Ps. millions, except percentages)												
Deposits in banks:												
Pesos	2,418	614	25.4%	2,488	497	20.0%	7,722	814	10.5%	15,883	834	7.0%
Foreign currency	6,976	496	7.1%	2,739	114	4.2%	2,700	56	2.1%	2,739	26	1.3%
Sub-total	9,394	1,110	11.8%	5,227	611	11.7%	10,422	870	8.3%	18,622	860	6.2%
Investment securities ⁽¹⁾ :												
Pesos	26,369	4,427	16.8%	8,945	2,073	23.2%	11,085	1,244	11.2%	9,237	818	11.8%
Foreign currency	2,601	217	8.3%	2,882	139	4.8%	4,778	72	1.5%	8,387	46	0.7%
Sub-total	28,970	4,644	16.0%	11,827	2,212	18.7%	15,863	1,316	8.3%	17,624	864	6.5%
Loans ⁽²⁾ :												
Pesos	15,460	4,452	28.8%	24,424	4,187	17.1%	34,941	5,278	15.1%	45,050	4,949	14.6%
UDIs	4,875	581	11.9%	4,289	292	6.8%	5,749	312	5.4%	4,954	169	4.5%
Foreign currency	6,861	161	2.3%	6,510	482	7.4%	8,031	546	6.8%	10,684	413	5.2%
Sub-total	27,196	5,194	19.1%	35,223	4,961	14.1%	48,721	6,136	12.6%	60,688	5,531	12.2%
FOBAPROA and IPAB notes ⁽³⁾ :												
Pesos	38,546	6,488	16.8%	47,674	6,930	14.5%	95,481	8,230	8.6%	91,499	5,190	7.6%
UDIs	—	—	—	—	—	—	—	—	—	—	—	—
Foreign currency	8,127	745	9.2%	6,545	477	7.3%	4,543	199	4.4%	204	2	1.3%
Sub-total	46,673	7,233	15.5%	54,219	7,407	13.7%	100,024	8,429	8.4%	91,703	5,192	7.5%
Securities purchased under agreements to resell:												
Pesos	23,123	3,592	15.5%	50,719	5,150	10.2%	65,026	5,089	7.8%	51,767	2,683	6.9%
Foreign currency	(266)	—	—	(1,400)	—	—	—	—	—	—	—	—
Sub-total	22,857	3,592	15.7%	49,319	5,150	10.4%	65,026	5,089	7.8%	51,767	2,683	6.9%
Foreign exchange valuation:												
Pesos	—	16	—	—	—	—	—	1	—	—	—	—
Sub-total	—	16	—	—	—	—	—	1	—	—	—	—
UDI Trusts' deposits ⁽⁴⁾ :												
UDIs	(3,944)	(267)	6.8%	(3,120)	(161)	5.2%	(3,715)	(174)	4.7%	(3,341)	(88)	3.5%
Sub-total	(3,944)	(267)	6.8%	(3,120)	(161)	5.2%	(3,715)	(174)	4.7%	(3,341)	(88)	3.5%
Total interest-earning assets:												
Pesos	105,916	19,589	18.5%	134,250	18,837	14.0%	214,255	20,656	9.6%	213,436	14,474	9.0%
UDIs	931	314	33.7%	1,169	131	11.2%	2,034	138	6.8%	1,613	81	6.7%
Foreign currency	24,299	1,619	6.7%	17,276	1,212	7.0%	20,052	873	4.4%	22,014	487	2.9%
Sub-total	131,146	21,522	16.4%	152,695	20,180	13.2%	236,341	21,667	9.2%	237,063	15,042	8.5%
Permanent stock investments:												
Pesos	849	—	—	402	—	—	381	—	—	750	—	—
Sub-total	849	—	—	402	—	—	381	—	—	750	—	—
Cash and due from banks:												
Pesos	(637)	—	—	2,452	—	—	10,010	—	—	5,416	—	—
UDIs	—	—	—	400	—	—	(1)	—	—	(2)	—	—
Foreign currency	517	—	—	332	—	—	501	—	—	872	—	—
Sub-total	(120)	—	—	3,184	—	—	10,510	—	—	6,286	—	—
Allowances for loan losses:												
Pesos	(2,267)	—	—	(2,705)	—	—	(2,743)	—	—	(1,941)	—	—
UDIs	(863)	—	—	(853)	—	—	(1,025)	—	—	(1,047)	—	—
Foreign currency	(388)	—	—	(670)	—	—	(1,349)	—	—	(1,332)	—	—
Sub-total	(3,518)	—	—	(4,228)	—	—	(5,117)	—	—	(4,320)	—	—
Property, furniture and equipment, net:												
Pesos	3,035	—	—	3,484	—	—	5,532	—	—	5,350	—	—
Sub-total	3,035	—	—	3,484	—	—	5,532	—	—	5,350	—	—
Other non-interest-earning assets:												
Pesos	3,335	—	—	4,155	—	—	4,530	—	—	4,635	—	—
UDIs	215	—	—	(8)	—	—	(42)	—	—	(52)	—	—
Foreign currency	95	—	—	137	—	—	56	—	—	65	—	—
Sub-total	3,645	—	—	4,284	—	—	4,544	—	—	4,648	—	—
Total assets:												
Pesos	110,231	19,589	17.8%	142,038	18,837	13.3%	231,965	20,656	8.9%	227,646	14,474	8.5%
UDIs	283	314	111.0%	708	131	18.5%	966	138	14.3%	512	81	21.1%
Foreign currency	24,523	1,619	6.6%	17,075	1,212	7.1%	19,260	873	4.5%	21,619	487	3.0%
Total	135,037	21,522	15.9%	159,821	20,180	12.6%	252,191	21,667	8.6%	249,777	15,042	8.0%

(1) Does not include equity investments in subsidiaries and affiliates.

(2) Interest income includes fees on loans of Ps.312 million in 2000, Ps. 335 million in 2001, Ps.656 million in 2002 and Ps. 562 for the nine months ended September 30, 2003, which have been included in interest income on a current basis and are not deferred and subsequently amortized. Fees on loans include fees generated in connection with the issuance, renewal, draw-down or prepayment of a loan. Under Mexican GAAP, such fees are recorded as income at the time of incurrence and are not amortized over the life of the related loan, as would be required under U.S. GAAP.

(3) Interest in respect of the FOBAPROA notes is capitalized.

(4) UDI Trusts' deposits are payable to the Mexican federal government and deducted from CETES Especiales (investment securities) for balance sheet purposes.

Average Liabilities, Stockholders' Equity and Interest Rates

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

	For the year ended December 31,									For the nine months ended September 30,		
	2000			2001			2002			2003		
	Average Balance	Interest Income	Average Interest Rate	Average Balance	Interest Income	Average Interest Rate	Average Balance	Interest Income	Average Interest Rate	Average Balance	Interest Income	Average Interest Rate
(Ps. millions, except percentages)												
Demand deposits:												
Pesos	15,991	1,838	11.5%	15,767	995	6.3%	23,853	864	3.6%	28,419	659	3.1%
Foreign currency	5,217	166	3.2%	3,884	167	4.3%	5,746	96	1.7%	6,214	51	1.1%
Sub-total	21,208	2,004	9.4%	19,651	1,162	5.9%	29,599	960	3.2%	34,633	710	2.7%
Time deposits:												
Peso	46,778	7,230	15.5%	44,776	5,003	11.2%	79,323	4,854	6.1%	95,624	4,258	5.9%
UDIs	605	—	—	505	—	—	331	—	—	302	—	—
Foreign Currency	8,709	614	7.1%	6,575	5	0.1%	5,663	77	1.4%	5,657	28	0.7%
Sub-total	56,092	7,844	14.0%	51,856	5,008	9.7%	85,317	4,931	5.8%	101,583	4,286	5.6%
Bank loans:												
Pesos	4,728	857	18.1%	4,555	732	16.1%	20,390	1,431	7.0%	10,760	538	6.7%
Foreign currency	5,573	662	11.9%	4,919	287	5.8%	3,014	113	3.7%	1,618	36	3.0%
Sub-total	10,301	1,519	14.7%	9,474	1,019	10.8%	23,404	1,544	6.6%	12,378	574	6.2%
Loans from Mexican development banks:												
Pesos	2,833	579	20.4%	3,511	655	18.7%	4,824	451	9.3%	5,252	359	9.1%
Foreign currency	2,635	200	7.6%	1,439	111	7.7%	980	46	4.7%	797	21	3.5%
Sub-total	5,468	779	14.2%	4,950	766	15.5%	5,804	497	8.6%	6,049	380	8.4%
Loans from other entities:												
Pesos	1,197	188	15.7%	1,833	197	10.7%	4,383	467	10.7%	4,608	268	7.8%
Sub-total	1,197	188	15.7%	1,833	197	10.7%	4,383	467	10.7%	4,608	268	7.8%
Bank bonds:												
Pesos	1,059	163	15.4%	1,427	219	15.3%	1,362	208	15.3%	713	81	15.1%
Sub-total	1,059	163	15.4%	1,427	219	15.3%	1,362	208	15.3%	713	81	15.1%
Outstanding subordinated debentures:												
Pesos	647	129	19.9%	—	—	—	—	—	—	—	—	—
UDIs	—	—	—	772	64	8.3%	1,463	117	8.0%	1,457	87	8.0%
Foreign currency	—	—	—	—	—	—	249	8	3.2%	1,221	73	8.0%
Sub-total	647	129	19.9%	772	64	8.3%	1,712	125	7.3%	2,678	160	8.0%
Securities sold under agreements to repurchase:												
Pesos	22,445	3,547	15.8%	49,227	5,487	11.1%	64,175	4,799	7.5%	52,844	2,491	6.3%
Foreign currency	155	—	—	70	—	—	1,114	—	—	—	—	—
Sub-total	22,600	3,547	15.7%	49,297	5,487	11.1%	65,289	4,799	7.4%	52,844	2,491	6.3%
Foreign exchange valuation:												
Pesos	—	67	—	—	29	—	—	77	—	—	70	—
Sub-total	—	67	—	—	29	—	—	77	—	—	70	—
Total interest-bearing liabilities:												
Pesos	95,678	14,598	15.3%	121,096	13,317	11.0%	198,310	13,151	6.6%	198,220	8,724	5.9%
UDIs	605	—	—	1,277	64	5.0%	1,794	117	6.5%	1,759	87	6.6%
Foreign currency	22,289	1,642	7.4%	16,887	570	3.4%	16,766	340	2.0%	15,507	209	1.8%
Sub-total	118,572	16,240	13.7%	139,260	13,951	10.0%	216,870	13,608	6.3%	215,486	9,020	5.6%
Non-interest-bearing liabilities:												
Pesos	10,438	—	—	13,391	—	—	26,921	—	—	24,940	—	—
UDIs	20	—	—	23	—	—	114	—	—	231	—	—
Foreign currency	212	—	—	417	—	—	94	—	—	43	—	—
Sub-total	10,670	—	—	13,831	—	—	27,129	—	—	25,214	—	—
Stockholders' equity:												
Pesos	6,353	—	—	7,185	—	—	8,665	—	—	9,808	—	—
UDIs	(198)	—	—	(252)	—	—	(927)	—	—	(1,355)	—	—
Foreign currency	(360)	—	—	(203)	—	—	454	—	—	624	—	—
Sub-total	5,795	—	—	6,730	—	—	8,192	—	—	9,077	—	—
Total liabilities and stockholders' equity:												
Pesos	112,469	14,598	13.0%	141,672	13,317	9.4%	233,896	13,151	5.6%	232,968	8,724	5.0%
UDIs	427	—	—	1,048	64	6.1%	981	117	11.9%	635	87	18.3%
Foreign currency	22,141	1,642	7.4%	17,101	570	3.3%	17,314	340	2.0%	16,174	209	1.7%
Total	135,037	16,240	12.0%	159,821	13,951	8.7%	252,191	13,608	5.4%	249,777	9,020	4.8%

Changes in Net Interest Income and Expense—Volume and Rate Analysis

The following tables allocate, by currency of denomination, changes in our net interest income between changes in volume and changes in rates for the year 2001 compared to 2000, and 2002 compared to 2001 and the nine months ended September 30, 2003 compared to the nine months ended September 30, 2002. Volume and rate variances have been calculated based on movements in average balances over the period and changes in interest rates on average interest-earning assets and average interest-bearing liabilities. The variances caused by changes in both volume and rate have been allocated to volume.

Interest-Earning Assets

	2001/2000			2002/2001			September 30, 2003/2002		
	Increase (decrease) due to changes in			Increase (decrease) due to changes in			Increase (decrease) due to changes in		
	Volume	Interest Rate	Net Change	Volume	Interest Rate	Net Change	Volume	Interest Rate	Net Change
(Ps. millions)									
Deposits in banks:									
Pesos	18	(135)	(117)	1,046	(729)	317	954	(624)	330
Foreign currency	(301)	(81)	(382)	(2)	(56)	(58)	7	(23)	(16)
Sub-total	(283)	(216)	(499)	1,044	(785)	259	961	(647)	314
Investment securities:									
Pesos	(2,925)	571	(2,354)	496	(1,325)	(829)	(161)	89	(72)
Foreign currency	23	(101)	(78)	91	(158)	(67)	84	(126)	(42)
Sub-total	(2,902)	470	(2,432)	587	(1,483)	(896)	(78)	(36)	(114)
Loans ⁽¹⁾ :									
Pesos	2,581	(2,846)	(265)	1,803	(712)	1,091	1,190	(47)	1,143
UDIs	(70)	(219)	(289)	99	(79)	20	(31)	(56)	(87)
Foreign currency	(8)	329	321	113	(49)	64	160	(116)	44
Sub-total	2,503	(2,736)	(233)	2,015	(840)	1,175	1,318	(218)	1,100
FOBAPROA and IPAB notes:									
Pesos	1,536	(1,094)	442	6,949	(5,649)	1,300	(245)	(700)	(945)
Foreign currency	(145)	(123)	(268)	(146)	(132)	(278)	(195)	(6)	(201)
Sub-total	1,391	(1,217)	174	6,803	(5,781)	1,022	(440)	(706)	(1,146)
Securities purchased under agreements to resell:									
Pesos	4,287	(2,729)	1,558	1,453	(1,514)	(61)	(586)	(344)	(930)
Foreign exchange valuation:									
Pesos	0	(16)	(16)	0	1	1	0	(5)	(5)
Sub-total	0	(16)	(16)	0	1	1	0	(5)	(5)
UDI Trusts' fiduciary liabilities:									
UDIs	56	50	106	(31)	18	(13)	11	36	47
Total interest-earning assets:									
Pesos	5,497	(6,249)	(752)	11,746	(9,927)	1,819	1,153	(1,632)	(479)
UDIs	(14)	169	(183)	69	(62)	7	(20)	(20)	(40)
Foreign currency	(431)	24	(407)	57	(396)	(339)	55	(270)	(215)
Total	5,052	(6,394)	<u>(1,342)</u>	11,872	(10,385)	<u>1,487</u>	1,188	(1,922)	<u>(734)</u>

(1) Interest income includes fees on loans of Ps.312 million in 2000, Ps.335 million in 2001, Ps.656 million in 2002 and Ps.562 for the nine months ended September 30, 2003 which have been included in interest income on a current basis and are not deferred and subsequently amortized. Fees on loans include fees generated in connection with the issuance, renewal, draw-down or prepayment of a loan. Under Mexican

GAAP, such fees are recorded as income at the time of occurrence and are not amortized over the life of the related loan, as would be required under U.S. GAAP.

Interest-Bearing Liabilities

	2001/2000			2002/2001			September 30, 2003/2002		
	Increase (decrease) due to changes in			Increase (decrease) due to changes in			Increase (decrease) due to changes in		
	Volume	Interest Rate	Net Change	Volume	Interest Rate	Net Change	Volume	Interest Rate	Net Change
	(Ps. millions)								
Demand deposits:									
Pesos	(26)	(817)	(843)	510	(641)	(131)	(43)	(7)	(50)
Foreign currency	(42)	43	1	80	(151)	(71)	6	(18)	(12)
Sub-total	(68)	(774)	(842)	590	(792)	(202)	(36)	(26)	(62)
Time deposits:									
Pesos	(309)	(1,918)	(2,227)	3,860	(4,009)	(149)	675	10	685
Foreign currency	(150)	(459)	(609)	(1)	73	72	1	(33)	(32)
Sub-total	(459)	(2,377)	(2,836)	3,859	(3,936)	(77)	676	(23)	653
Bank loans:									
Pesos	(31)	(94)	(125)	2,545	(1,846)	699	(320)	51	(269)
Foreign currency	(78)	(297)	(375)	(111)	(63)	(174)	(52)	(13)	(65)
Sub-total	(109)	(391)	(500)	(2,434)	(1,909)	525	(373)	39	(334)
Loans from Mexican development banks:									
Pesos	139	(63)	76	245	(449)	(204)	21	2	23
Foreign currency	(91)	2	(89)	(35)	(30)	(65)	(7)	(8)	(15)
Sub-total	48	(61)	(13)	210	(479)	(269)	13	(6)	8
Loans from other entities:									
Pesos	100	(91)	9	274	(4)	270	35	(112)	(77)
Bank bonds:									
Pesos	57	(1)	56	(10)	(1)	(11)	(76)	(0)	(76)
Outstanding subordinated debentures:									
Pesos	(129)	—	(129)	—	—	—	—	—	—
UDIs	—	64	64	57	(4)	53	—	—	—
Foreign currency	—	—	—	—	8	8	—	73	73
Sub-total	(129)	64	(65)	57	4	61	—	73	73
Securities sold under agreements to repurchase:									
Pesos	4,232	(2,292)	1,940	1,666	(2,354)	(688)	(458)	(478)	(936)
Foreign exchange valuation:									
Pesos	—	(38)	(38)	—	48	48	—	31	31
Total interest-bearing liabilities:									
Pesos	4,036	(5,317)	(1,281)	9,179	(9,345)	(166)	(252)	(417)	(669)
UDIs	—	64	64	57	(4)	53	—	—	—
Foreign currency	(387)	(685)	(1,072)	(69)	(161)	(230)	(54)	3	(51)
Total	3,649	(5,938)	(2,289)	9,167	(9,510)	(343)	(306)	(414)	(720)

Interest-Earning Assets—Yield and Yield Spread

The following table sets forth, by currency of denomination, the levels of our average interest-earning assets and net interest income, and gross and net yield and yield spread obtained, for each of the periods indicated. In addition, because loan fees are a component of pricing, a table including loan fees (other than fees on credit card cash disbursements and merchant fees on credit card purchases) in net interest income has been included. For purposes of this presentation, 100% of loan fees are recognized as interest income at the time the related loan is made.

	For the year ended December 31,			For the nine months ended September 30,
	2000	2001	2002	2003
	(Ps. millions, except percentages)			(Ps. millions, except percentages)
Total average earning assets:				
Pesos	105,916	134,250	214,255	213,436
UDIs	931	1,169	2,034	1,613
Foreign currency	24,299	17,276	20,052	22,014
Total	131,146	152,695	236,341	237,063
Historical not including loan fees:				
Net interest income:				
Pesos	4,866	5,187	6,904	5,232
UDIs	314	67	21	(6)
Foreign currency	(23)	642	533	278
Total	5,157	5,896	7,458	5,504
Gross yield ⁽¹⁾ :				
Pesos	18.4%	13.8%	9.3%	8.7%
UDIs	33.7%	11.2%	6.8%	6.7%
Foreign currency	6.7%	7.0%	4.4%	2.9%
Weighted-average rate	16.3%	13.0%	8.9%	8.1%
Net yield ⁽²⁾ :				
Pesos	4.6%	3.9%	3.2%	3.3%
UDIs	33.7%	5.7%	1.0%	—
Foreign currency	(0.1)%	3.7%	2.7%	1.7%
Weighted-average rate	3.9%	3.9%	3.2%	3.1%
Yield spread ⁽³⁾ :				
Pesos	3.1%	2.8%	2.7%	2.8%
UDIs	33.7%	6.2%	0.3%	0.1%
Foreign currency	(0.7)%	3.6%	2.3%	1.2%
Weighted-average rate	2.6%	3.0%	2.6%	2.6%

(1) Gross yield is interest income divided by average earning assets.

(2) Net yield represents the total of net interest income divided by average earning assets.

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

	For the year ended December 31,			For the nine months ended September 30,
	2000	2001	2002	2003
	(Ps. millions, except percentages)			(Ps. millions, except percentages)
Historical including loan fees:				
Net interest income:				
Pesos	4,991	5,520	7,505	5,750
UDIs	314	67	21	(6)
Foreign currency	(23)	642	533	278
Total.....	5,282	6,229	8,059	6,022
Gross yield ⁽¹⁾ :				
Pesos	18.5%	14.0%	9.6%	9.0%
UDIs	33.7%	11.2%	6.8%	6.7%
Foreign currency	6.7%	7.0%	4.4%	2.9%
Weighted-average rate	16.4%	13.2%	9.2%	8.5%
Net yield ⁽²⁾ :				
Pesos	4.7%	4.1%	3.5%	3.6%
UDIs	33.7%	5.7%	1.0%	(0.5)%
Foreign currency	(0.1)%	3.7%	2.7%	1.7%
Weighted-average rate	4.0%	4.1%	3.4%	3.4%
Yield spread ⁽³⁾ :				
Pesos	3.2%	3.0%	3.0%	3.2%
UDIs	33.7%	6.2%	0.3%	0.1%
Foreign currency	(0.7)%	3.6%	2.3%	1.2%
Weighted-average rate	2.7%	3.2%	2.9%	2.9%

(1) Gross yield is interest income divided by average earning assets.

(2) Net yield represents the total of net interest income divided by average earning assets.

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

Return on Average Total Assets and Average Stockholders' Equity

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

	For the year ended December 31,			For the nine months ended September 30,
	2000	2001	2002	2003
	(Ps. millions, except percentages)			(Ps. millions, except percentages)
Net income	819	512	1,502	728
Average total assets	135,037	159,821	252,191	249,777
Average stockholders' equity	5,795	6,730	8,192	9,077
Return on average assets ⁽¹⁾	0.61%	0.32%	0.60%	0.39%
Return on average equity	14.14%	7.61%	18.33%	10.69%
Average stockholders' equity as a percentage of average total assets	4.29%	4.21%	3.25%	3.63%

(1) Figures for the nine months ended September 30, 2003 have been annualized.

Interest Rate Sensitivity of Assets and Liabilities

Interest Rates

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

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

Interest Rate Sensitivity

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

The following table reflects our interest-earning assets and interest-bearing liabilities as of September 30, 2003. Fixed-rate instruments were classified in this table according to their final maturity and other instruments according to their time of repricing.

As of September 30, 2003						
	0-30 Days	31-90 Days	91-180 Days	181-365 Days	Non-Rate Sensitive or Over One Year	Total
(Ps. millions, except percentages)						
ASSETS ⁽¹⁾:						
Variable-rate loans	40,160	3,020	80	13	—	43,180
FOBAPROA notes ⁽²⁾	6,652	—	—	—	—	6,652
IPAB notes	76,019	—	—	—	—	76,019
Fixed-rate loans	3,391	2,258	1,202	1,132	15,179	23,162
Total loans	124,222	5,278	1,282	1,145	15,179	147,106
Securities and investments	32,941	300	1,177	443	4,600	39,461
Securities purchased under agreements to resell	65	1	—	—	—	66
Total interest-earning assets	157,228	5,579	2,459	1,588	19,779	186,633
Cash, property and other non-interest-earning assets	—	—	—	—	17,449	17,449
Non-performing loans	—	—	—	—	3,104	3,104
Less: Allowance for loan losses	—	—	—	—	(3,912)	(3,912)
Total assets	157,228	5,579	2,459	1,588	36,420	203,274
LIABILITIES AND STOCKHOLDERS' EQUITY ⁽¹⁾:						
Notes sold through intermediaries ...	18,662	580	1,669	486	2,678	24,075
Notes sold through branches	45,832	939	2	—	—	46,773
Demand deposits	34,329	—	—	—	23,175	57,504
Time deposit	30,632	1,136	321	97	1	32,187
Total deposits	129,455	2,655	1,992	583	25,854	160,539
Short-term debt	14,249	—	—	—	—	14,249
Long-term debt	10,653	—	—	—	—	10,653
Securities sold under agreements to repurchase	1,462	2	—	—	—	1,464
Subordinated debentures	—	—	—	—	2,735	2,735
Other liabilities	—	—	—	—	4,684	4,684
Stockholders' equity	—	—	—	—	8,950	8,950
Total liabilities and stockholders' equity	155,819	2,657	1,992	583	42,223	203,274
Interest rate sensitivity gap	1,409	2,922	467	1,005	(5,803)	—
Cumulative interest rate sensitivity gap	1,409	4,331	4,798	5,803	—	—
Cumulative gap as percentage of total interest-earning assets	1%	2%	3%	3%	—	—

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

(2) Interest in respect of the FOBAPROA notes is capitalized.

As of September 30, 2003, interest-earning assets totaled Ps.186,633 million. Of these assets, 84% repriced periodically every thirty days or less. Such assets included 79% of performing loans and 21% of securities and investments. Of our total loans, 29.4% are variable-rate loans, 15.7% are fixed-rate loans, 4.5% are FOBAPROA notes and the remaining 51.7% are IPAB notes.

Of our liabilities as of September 30, 2003, 83% consisted of deposits, totaling Ps.160,539 million, of which 81% reprice every 30 days or less. The remaining 17% of our liabilities amounting to Ps.33,786 million consisted of Ps.24,902 million of funds from bank borrowings, Ps.2,735 million of subordinated debt and Ps.6,149 million of other liabilities. Of such Ps.194,325 million of liabilities, 80% reprice every 30 days or less.

Interest-Bearing Deposits with Other Banks

Banco de Mexico Regulations require banks to maintain a minimum liquidity coefficient of foreign currency liabilities. See "Supervision and Regulation—Reserve Requirements and Liquidity Coefficients." A substantial majority of our short-term deposits with international banks are denominated in U.S. dollars.

Banco de Mexico Regulations require that a bank maintain balanced positions in foreign currencies no higher than a specified level with respect to its Tier 1 capital. At December 31, 2002, the limit established for us by Banco de Mexico for maturity-adjusted net foreign currency-denominated liabilities was U.S.\$1,255 million (Ps.13,387 million). As of December 31, 2002, our maturity-adjusted net foreign currency liabilities totaled U.S.\$576 million (Ps.6,142 million).

Securities

We held securities in the amount of approximately Ps.14,461 million as of September 30, 2003, representing 7.1% of our total assets.

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

	For the year ended December 31,			For the nine months ended September 30,
	2000	2001	2002	2003
	(Ps. millions)			(Ps. millions)
PESO-DENOMINATED:				
Mexican government securities:				
CETES	—	39	822	1,535
CETES Especiales ⁽¹⁾	986	1,024	3,159	3,211
Bondes	52	1	1	2
Total Mexican government securities	1,038	1,064	3,982	4,748
Bank bonds and certificates	5,279	702	1,991	1,329
Other fixed income securities	114	98	66	63
Equity securities (unlisted)	—	1,803	—	—
Total Peso-denominated	6,431	3,667	6,039	6,140
FOREIGN CURRENCY-DENOMINATED:				
Government securities:				
Mexican government securities issued abroad	—	—	4,824	6,595
U.S. Treasury bills	—	—	—	82
Total government securities	—	—	4,824	6,677
Eurobonds	2,034	1,013	598	475
U.S. commercial paper	217	1,480	549	973
Other fixed income securities	—	—	160	—
Equity securities	—	123	136	196
Total foreign currency-denominated	2,251	2,616	6,267	8,321
Total securities	8,682	6,283	12,306	14,461

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

Securities—Maturities and Average Yields

The following table analyzes, as of September 30, 2003, remaining maturities and weighted-average yields of Banorte's securities that have a specific date of maturity:

	From 1 to 89 days		From 90 to 189 days		From 6 to 12 months		From 1 to 2 years		From 2 to 3 years		From 3 to 4 years		From 4 to 5 years		More than 5 years		Total
	Amnt	Yield	Amnt	Yield	Amnt	Yield	Amnt	Yield	Amnt	Yield	Amnt	Yield	Amnt	Yield	Amnt	Yield	Balance
(Ps. millions, except percentages)																	
PESO DENOMINATED:																	
CETES.....	80	4.95%	1,037	8.14%	193	6.34%	—	—	—	—	—	—	—	—	225	8.60%	1,535
CETES Especiales.....	—	—	—	—	911	4.34%	119	4.34%	928	4.34%	1	4.34%	633	4.34%	3,234	4.34%	5,826
Bondes.....	1	23.66%	—	—	—	—	—	—	1	4.69%	—	—	—	—	—	—	2
Total Mexican government securities.....	81	5.09%	1,037	8.14%	1,104	4.69%	119	4.34%	929	4.34%	1	4.34%	633	4.34%	3,459	4.62%	7,363
Bank bonds and certificates.....	1,153	4.73%	—	—	176	6.15%	—	—	—	—	—	—	—	—	—	—	1,329
Other fixed-income securities.....	—	—	—	—	—	—	63	9.26%	—	—	—	—	—	—	—	—	63
Total Peso-denominated.....	1,234	4.75%	1,037	8.14%	1,280	4.89%	182	6.05%	929	4.34%	1	4.34%	633	4.34%	3,459	4.62%	8,755
FOREIGN CURRENCY DENOMINATED:																	
Mexican government securities																	
issued abroad.....	—	—	—	—	—	—	153	2.88%	1,090	5.68%	314	5.75%	241	6.21%	4,797	6.17%	6,595
U.S. Treasury securities.....	5	0.93%	77	1.00%	—	—	—	—	—	—	—	—	—	—	—	—	82
Eurobonds.....	—	—	—	—	—	—	—	—	—	—	145	3.14%	7	1.93%	323	6.83%	475
U.S. commercial paper.....	973	1.08%	—	—	—	—	—	—	—	—	—	—	—	—	—	—	973
Other fixed-income securities.....	170	1.00%	—	—	—	—	—	—	—	—	—	—	—	—	26	1.00%	196
Total foreign currency-denominated.....	1,148	1.06%	77	1.00%	—	—	153	2.88%	1,090	5.68%	459	4.93%	248	6.09%	5,146	6.18%	8,321
Total securities (excluding equity securities).....	2,382	2.97%	1,114	7.65%	1,280	4.89%	335	4.60%	2,019	5.06%	460	4.93%	881	4.83%	8,605	5.56%	17,076
UDI Trusts' deposits.....	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	(2,621)
Other.....	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	6
Consolidated securities balance.....	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	14,461

Interbank Loans and Securities Sold Under Agreements to Repurchase

The following table sets forth our short-term borrowings and securities sold under agreements to repurchase for the periods indicated.

	As of and for the year ended December 31,						As of and for the nine months ended September 30,	
	2000		2001		2002		2003	
	Amount	Rate	Amount	Rate	Amount	Rate	Amount	Rate
	(Ps. millions, except percentages)						(Ps. millions, except percentages)	
Interbank loans:								
At end of period	26,127	12.80%	14,667	7.10%	36,249	7.80%	24,902	5.10%
Daily average indebtedness during period	10,301	14.70%	9,474	10.80%	23,404	6.6%	12,378	6.2%
Maximum month-end balance	26,127	12.80%	25,292	14.60%	45,691	8.10%	30,208	5.30%
Securities sold under agreements to repurchase:								
At end of period	41,867	16.81%	49,222	6.54%	74,941	6.90%	52,700	4.48%
Daily average indebtedness during period	22,460	15.63%	48,922	11.14%	66,076	6.86%	51,202	4.86%
Maximum month-end balance	41,867	16.81%	52,117	16.97%	77,990	7.39%	60,083	8.86%
Total:								
At end of period	67,994	15.27%	63,889	6.67%	111,190	7.19%	77,602	4.68%
Daily average indebtedness during period	32,761	15.34%	58,396	11.08%	89,480	6.79%	63,580	5.12%
Maximum month-end balance	67,994	15.27%	77,409	16.20%	123,681	7.65%	90,291	7.67%

Deposits

The following table presents the components of our deposit base for the periods indicated.

	As of December 31,			As of
	2000	2001	2002	September 30,
	(Ps. millions)			2003 (Ps. millions)
Interest-bearing demand deposits:				
Peso-denominated	15,731	16,235	27,865	28,703
Non-Peso-denominated	3,641	3,401	5,399	5,495
Sub-total	19,372	19,636	33,264	34,198
Non-interest-bearing demand deposits:				
Peso-denominated	9,942	12,230	20,633	23,175
Non-Peso-denominated	—	—	—	110
Sub-total	9,942	12,230	20,633	23,285
Savings deposits:				
Peso-denominated	53	39	32	22
Sub-total	53	39	32	22
Time deposits:				
Peso-denominated	40,012	43,649	85,492	97,590
Non-Peso-denominated	5,916	4,786	5,792	5,444
Sub-total	45,928	48,435	91,284	103,034
Bank bonds:				
Peso-denominated	1,483	1,404	1,323	—
Sub-total	1,483	1,404	1,323	—

Total	<u>76,778</u>	<u>81,744</u>	<u>146,536</u>	<u>160,539</u>

Loan Portfolio

Total loan amounts set forth in this section include the total principal amount of performing and non-performing loans outstanding at the date presented, which include rediscounted loans and loans in the UDI Trusts, but do not include FOBAPROA or IPAB notes. For purposes of the amounts set forth in this section, the amounts corresponding to FOBAPROA and IPAB notes include amounts net of loan recoveries and reserves and include the FOBAPROA foreclosed assets receivables. See "Significant Differences Between Mexican Banking GAAP and U.S. GAAP—FOBAPROA Loans." The terms "total loans" and "total loan portfolio" include total performing loans plus total non-performing loans. The terms "net total loans" and "net total loan portfolio" refer to net total performing loans plus net non-performing loans. See "Presentation of Certain Financial and Other Information—Terms Relating to Our Portfolio."

Total balance of our loan portfolio as of September 30, 2003 amounted to Ps.67,539 million, a decrease of Ps.775 million, or 1.1%, from the balance at December 31, 2002. This reduction was the result of a decrease in commercial and corporate loans and non-performing loans granted.

As of December 31, 2002, our loan portfolio amounted to Ps.68,314 million, an increase of 75.5% compared to December 31, 2001. This increase was due mainly to the consolidation of our financial statements with those of Bancrecer.

As of December 31, 2001, our loan portfolio amounted to Ps.38,915 million, an increase of 6.4% compared to December 31, 2000. This increase was due mainly to an increase in the amount of unsecured commercial loans.

Loans by Type and by Borrower

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

	As of December 31,			As of
	2000	2001	2002	September 30,
	(Ps. millions)			2003
				(Ps. millions)
Commercial and corporate loans:				
Loans granted to governmental entities (excluding FOBAPROA and IPAB notes).....	2,524	3,915	5,937	8,796
Loans granted to financial intermediaries	2,930	1,537	8,028	3,324
Commercial loans:				
Collateralized or guaranteed.....	15,225	8,782	14,471	18,758
Unsecured.....	6,522	12,998	18,127	12,318
Sub-total.....	21,747	21,780	32,598	31,076
Total commercial and corporate loans.....	27,201	27,232	46,563	43,196
Consumer loans:				
Mortgage	4,228	4,730	12,130	13,402
Credit cards.....	567	882	1,614	2,368
Automobile and other consumer loans	139	1,593	3,479	5,366
Total consumer loans.....	4,934	7,205	17,223	21,136
Other:				
Lease receivables	—	—	—	104
Total performing loans.....	32,135	34,437	63,786	64,436
Total non-performing loans.....	4,443	4,478	4,528	3,103
Total loans	36,578	38,915	68,314	67,539
FOBAPROA notes ⁽¹⁾	13,456	10,897	6,669	6,652
IPAB notes	40,245	38,171	80,896	76,019
Total FOBAPROA and IPAB notes	53,701	49,068	87,505	82,671
Total loans and FOBAPROA and IPAB notes ⁽²⁾	90,279	87,983	155,879	150,210

(1) Interest in respect of the FOBAPROA notes is capitalized.

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

Commercial Loans

Total performing commercial and corporate loans as of September 30, 2003 amounted Ps.43,196 million, which decreased by Ps.3,367 million, or 7.2%, from the amount registered on December 31, 2002. This reduction was due to the decrease in commercial loans as a result of a decrease in unsecured commercial loans and reduced lending activity to financial intermediaries.

Performing commercial and corporate loans totaled Ps.46,563 million as of December 31, 2002, reflecting an increase of Ps.19,331 million, or 71% compared to December 31, 2001. The increase in commercial and corporate lending in 2002 was due primarily to an increased activity in the commercial sector and to the consolidation of our financial statements with those of Bancrecer. Commercial and corporate loans outstanding decreased as a percentage of the total loan portfolio from 69.9% as of December 31, 2001 to 68.2% as of December 31, 2002 and to 63.9% as of September 30, 2003.

As of December 31, 2000, 2001, 2002 and as of September 30, 2003, the aggregate outstanding principal amount and accrued interest of loans to our 10 largest clients (including loans to a single corporate group or to the Mexican government) represented 8.99%, 9.21%, 12.45% and 8.15%, respectively, of total commercial loans. Of these 10 largest clients, as of September 30, 2003, seven were classified as "A," one was classified as "B" and two were classified as "exempted loans" under the CNBV's regulatory loan classification guidelines.

As of September 30, 2003, approximately 39.64% of our commercial loan portfolio was unsecured. Unsecured commercial loans, consisting primarily of short-term working capital loans (with terms of 30 to 90 days), are common in Mexico. The credit analysis and administration of these loans are the same as for secured loans. If we establish an unsecured line of credit, it is because we believe the borrower is a creditworthy customer, and the fact that it is an unsecured loan is taken into consideration during the approval process.

Consumer Loans

Performing consumer loans, including residential mortgage, credit card, automobile and other consumer loans, increased 46.0% in 2001, 139.0% in 2002 and 22.7% during the first nine months of 2003.

Our performing credit card portfolio increased 55.6% in 2001, 83.0% in 2002 and 46.7% during the first nine months of 2003. Like other Mexican banks, we reflect in our interest rates for credit cards the greater risk associated with such loans. Other types of loans, such as mortgage and automobile loans, are generally less risky because borrowers are less able to increase their borrowings without prior approval and must generally provide some form of collateral.

Performing automobile and other consumer loans increased 118.4% from December 31, 2001 to December 31, 2002 and 54.2% from December 31, 2002 to September 30, 2003. The preferred lending products for this market segment have been automobile loans and payroll advances.

As of September 30, 2003, 31.3% of our mortgage portfolio consisted of low-income loans, which are funded by *Fondo de Operacion y Financiamiento Bancario a la Vivienda* (the Operating and Bank Financing Fund for Housing or "FOVI"). During the inflationary period of the 1980s, few residential mortgage loans were made in Mexico. Like other Mexican banks, we are required to participate in programs that promoted loans for low-income housing with funds provided by FOVI. Loans extended under these programs carry below-market interest rates. The monthly payment due in respect to these loans is fixed at the time the loan is issued and increases in accordance with increases in the official monthly minimum wage. Like all other Mexican banks participating in these mandatory programs, we have obtained from Banco de Mexico its commitment to repay any unpaid principal of those loans that are performing at maturity. The aggregate principal amount outstanding on these loans on September 30, 2003 was Ps.4,195 million.

As of September 30, 2003, our mortgage portfolio consisted of 21,174 residential loans, with an aggregate principal amount outstanding of Ps.13,402 million. These loans were originally granted in Pesos or UDIs. The Peso-denominated loans were funded by us and carry market interest rates, but the monthly payment is fixed or variable. The UDI-denominated loans were funded by us and the Mexican government, and the monthly payment is fixed, but the outstanding balance in Pesos increases monthly in proportion to the variation of the National Customer Price Index.

Loans by Currency

Foreign currency-denominated loans amounted to Ps.10,771 million on September 30, 2003, reflecting an increase of 8.1% from December 31, 2002. Foreign currency-denominated loans amounted to Ps.9,963 million on December 31, 2002, reflecting an increase of 52.8% from December 31, 2001, and Ps.6,522 million on December 31, 2001 reflecting a decrease of 4.6% from December 31, 2000. Foreign currency-denominated loans declined as a percentage of the total loan portfolio from 18.7% as of December 31, 2000 to 14.6% as of December 31, 2002. This decrease from 2000 to 2002 is principally the result of higher lending activity of Peso-denominated loans due to lower interest rates and an increase in consumer lending.

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

	As of December 31,						As of September 30,	
	2000		2001		2002		2003	
	Loan		Loan		Loan		Loan	
	Amoun	% of	Amoun	% of	Loan	% of	Loan	% of
t	Portfolio ⁽⁴⁾	t	Portfolio ⁽⁴⁾	Amount	Portfolio ⁽⁴⁾	Amount	Portfolio ⁽⁴⁾	
(Ps. millions, except percentages)						(Ps. millions, except percentages)		
Peso-denominated loans	24,906	27.6%	27,291	31.0%	47,591	30.5%	52,511	35.0%
UDI denominated loans	4,837	5.3	5,101	5.8	10,760	6.9	4,257	2.8
Foreign currency-denominated loans	6,835	7.6	6,522	7.4	9,963	6.4	10,771	7.2
Total loans	36,578	40.5	38,914	44.2	68,314	43.8	67,539	45.0
FOBAPROA notes ⁽¹⁾	13,456	14.9	10,897	12.4	6,669	4.3	6,652	4.4
IPAB notes ⁽²⁾	40,245	44.6	38,171	43.4	80,896	51.9	76,019	50.6
Total FOBAPROA and IPAB notes	53,701	59.5	49,068	55.8	87,565	56.2	82,671	55.0
Total loans and FOBAPROA and IPAB notes ⁽³⁾	90,279	100.0%	87,982	100.0%	155,879	100.0%	150,210	100.0%

(1) FOBAPROA notes are substantially peso-denominated. Interest in respect of FOBAPROA notes is capitalized.

(2) IPAB notes are peso-denominated.

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

(4) Percentage of portfolio equals the relevant loan amount by currency divided by the sum of total loans plus FOBAPROA and IPAB notes.

Loans to the Public and Private Sectors

As of September 30, 2003, our loans to the public sector amounted to Ps.8,804 million, accounting for 13.0% of our total loan portfolio. The percentage of our loan portfolio comprised of public sector loans increased from 6.9% at December 31, 2000 to 10.5% at December 31, 2001, to 18.1% at December 31, 2002 and decreased to 13.0% as of September 30, 2003. The decrease from December 31, 2002 to September 30, 2003 is due to the payment in full of a loan granted in December 2002 to a Mexican governmental financial entity in the amount of Ps.6,000 million (nominal value) that matured in January 2003.

Loans to individuals consisted of loans to individuals for business activities, mortgage loans, credit card loans and automobile and other consumer loans. Loans to individuals totaled Ps.25,133 million as of September 30, 2003 reflecting an increase of 13.3% from Ps.22,182 million as of December 31, 2002, which in turn increased by 96.4% from Ps.11,294 million as of December 31, 2001, which reflected an increase of 11.5% from Ps.10,130 as of December 31, 2000. This positive trend was mainly due to increases in fixed-rate mortgage loans.

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

	As of December 31,						As of September 30,	
	2000		2001		2002		2003	
	Loan Amount	% of Portfolio ⁽³⁾	Loan Amount	% of Portfolio ⁽³⁾	Loan Amount	% of Portfolio ⁽³⁾	Loan Amount	% of Portfolio ⁽³⁾
	(Ps. millions, except percentages)						(Ps. millions, except percentages)	
Public sector ⁽¹⁾	2,524	2.8%	4,083	4.6%	12,348	7.9%	8,804	5.9%
Private sector:								
Businesses	23,924	26.5	23,538	26.8	33,784	21.7	33,602	22.4
Individuals ⁽²⁾	10,130	11.2	11,294	12.8	22,182	14.2	25,133	16.7
Total private sector loans	34,054	37.7	34,832	39.6	55,966	35.9	58,735	39.1
Total loans	36,578	40.5	38,915	44.2	68,314	43.8	67,539	45.0
FOBAPROA notes	13,456	14.9	10,897	12.4	6,669	8.2	6,652	4.4
IPAB notes	40,245	44.6	38,171	43.4	80,896	48.0	76,019	50.6
Total FOBAPROA and IPAB notes	53,701	59.5	49,068	55.8	87,565	56.2	82,671	55.0
Total loans and FOBAPROA and IPAB notes	90,279	100.0%	87,983	100.0%	155,879	100.0%	150,210	100.0%

- (1) Includes loans supported by the full faith and credit of the Mexican government (excluding FOBAPROA and IPAB loans).
(2) Includes loans to individuals for business activities as well as mortgage, credit card and other consumer loans.
(3) Percentage of portfolio equals the relevant loan amount by currency divided by the sum of total loans plus FOBAPROA and IPAB notes.

Loans by Economic Activity

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

From December 31, 2000 to December 31, 2001, mortgage loans increased by Ps.314 million, an increase of 5.1%, due mainly to increased consumer lending activity as a result of the availability of fixed-rate loans (of up to 15 years in duration), which had previously been unavailable in Mexico. By December 31, 2002, the total balance of our mortgage loan portfolio increased by Ps.7,520 million, or 116.9% of our total portfolio mainly as a result of the consolidation of our financial statements with those of Bancracer. As of September 30, 2003, our mortgage loan portfolio totaled Ps.14,420 million, representing an increase of Ps.467 million, or 3.3% from the mortgage loan balance as of December 31, 2002. This increase was mainly the result of rising demand for mortgage loans. Mortgage loans represented 9.6%, 9.0%, 7.3% and 6.8%, respectively, of our total loan portfolio and FOBAPROA and IPAB notes as of September 30, 2003, December 31, 2002, December 31, 2001 and December 31, 2000, respectively.

During the first nine months of 2003, our government loans decreased by Ps.4,650 million, a 30.4% decrease. During the same period, our loans to the financial services sector decreased by Ps.2,234 million, a 47.7% decrease. These decreases were partially offset by Ps.2,849 million, a 34.9% increase in other loans, a Ps.1,369 million or 99.7% increase in loans to the transportation and communication sector and a Ps.800 million or 47.1% increase in credit card loans.

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

Economic Activity ⁽¹⁾ :	As of December 31,						As of September 30,	
	2000		2001		2002		2003	
	Loan Amount	% of Portfolio ⁽⁵⁾	Loan Amount	% of Portfolio ⁽⁵⁾	Loan Amount	% of Portfolio ⁽⁵⁾	Loan Amount	% of Portfolio ⁽⁵⁾
	(Ps. millions, except percentages)						(Ps. millions, except percentages)	
Total mortgages	6,119	6.8%	6,433	7.3%	13,953	9.0%	14,420	9.6%
Social and community services ⁽²⁾	1,099	1.2	1,219	1.4	2,805	1.8	3,106	2.1
Manufacturing	8,321	9.2	7,763	8.8	9,976	6.4	9,636	6.4
Construction and real estate development	739	0.8	1,716	2.0	1,998	1.3	2,512	1.7
Commercial activities ⁽³⁾	4,039	4.5	4,457	5.1	6,562	4.2	6,610	4.4
Credit card	997	1.1	1,032	1.2	1,700	1.1	2,500	1.7
Financial Services ⁽⁴⁾	2,680	3.0	3,100	3.5	4,680	3.0	2,446	1.6
Energy and utilities	20	—	—	—	1	—	5	—
Agriculture, forestry and livestock	815	0.9	839	1.0	1,111	0.7	1,345	0.9
Mining	1,158	1.3	913	1.0	476	0.3	400	0.3
Transportation and communication	1,611	1.8	1,208	1.4	1,373	0.9	2,742	1.8
Government	3,176	3.5	3,615	4.1	15,317	9.8	10,667	7.1
Other	4,713	5.2	6,088	6.9	8,173	5.2	11,022	7.3
ADE, FOPYME and FINAPE	1,091	1.2	532	0.6	189	0.1	128	0.1
Total loan portfolio	36,578	40.5%	38,915	44.2%	68,314	43.8%	67,539	45.0%
IPAB notes	40,245	44.6	38,171	43.4	80,896	51.9	76,019	50.6
FOBAPROA notes	13,456	14.9	10,897	12.4	6,669	4.3	6,652	4.4
Total FOBAPROA and IPAB notes	53,701	59.5%	49,068	55.8%	87,565	56.2%	82,671	55.0%
Total loan portfolio and FOBAPROA and IPAB notes	90,279	100.0%	87,983	100.0%	155,879	100.0%	150,210	100.0%

(1) The loan amounts set out in the above table include accrued interest and non-performing loans.

(2) Includes certain loans to the public sector and to educational and cultural institutions.

(3) Includes loans for commercial activities not directly related to manufacturing.

(4) Includes credit extended to financial institutions and unincorporated businesses except for credit exposures connected to leasing and factoring.

(5) Percentage of portfolio equals the relevant loan amount by economic activity divided by the sum of total loans plus FOBAPROA and IPAB notes.

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

Maturity Composition of the Loan Portfolio

The following table sets forth an analysis with the reference to time remaining to maturity of our loan portfolio, as of December 31, 2000, 2001 and 2002 and as of September 30, 2003:

	As of December 31,						As of September 30,	
	2000		2001		2002		2003	
	Loan Amount	% of Portfolio ⁽⁵⁾	Loan Amount	% of Portfolio ⁽⁵⁾	Loan Amount	% of Portfolio ⁽⁵⁾	Loan Amount	% of Portfolio ⁽⁵⁾
	(Ps. millions, except percentages)						(Ps. millions, except percentages)	
Due within 1 year ⁽¹⁾	14,478	16.0%	14,709	16.7%	27,880	17.9%	19,334	12.9%
Between 1 and 5 years ⁽¹⁾	9,272	10.3	10,132	11.5	16,264	10.4	22,245	14.8
Over 5 years ⁽¹⁾	7,294	8.1	9,064	10.3	19,453	12.5	22,729	15.1
Sub-total loans ⁽²⁾	31,044	34.4	33,905	38.5	63,597	40.8	64,308	42.8
Non-performing loans	4,443	4.9	4,478	5.1	4,528	2.9	3,103	2.1
ADE, FOPYME and FINAPE	1,091	1.2	532	0.6	189	0.1	128	0.1
Total loan portfolio ⁽³⁾	36,578	40.5	38,915	44.2	68,314	43.8	67,539	45.0
IPAB notes (Over 5 years) ⁽⁴⁾	40,245	44.6	38,171	43.4	80,896	51.9	76,019	50.6
FOBAPROA notes (Between 1 and 5 years)	13,456	14.9	10,897	12.4	6,669	4.3	6,652	4.4
Total FOBAPROA and IPAB notes	53,701	59.5	49,068	55.8	87,565	56.2	82,671	55.0
Total loan portfolio and FOBAPROA and IPAB notes ⁽³⁾	90,279	100.0%	87,983	100.0%	155,879	100.0%	150,210	100.0%

- (1) These loans may be prepaid.
- (2) Includes the maturities of our loan portfolio (excluding FOBAPROA and IPAB notes), reduced by allowances for loan losses.
- (3) Maturity composition is based on the period remaining to the maturity of the loans.
- (4) IPAB may prepay these loans upon one month notice.
- (5) Percentage of portfolio equals the relevant loan amount by currency divided by the sum of total loans plus FOBAPROA and IPAB notes.

The amount of loans due within one year increased during the periods presented above through December 31, 2002, and have decreased as of September 30, 2003. Loans due within one year represented 16.0% in 2000, and increased to 16.7% as of December 31, 2001, increased to 17.9% as of December 31, 2002, and decreased to 12.9% as of September 30, 2003.

For the periods ending December 31, 2000, 2001, 2002 and the nine months ended September 30, 2003, our loans with a maturity of over 5 years increased as a percentage of total loans. These trends are the result of an increase in long-term investment by our clients due to an increase in the number of mortgages with maturities of up to 15 years we have placed with customers in recent years.

Interest Rate Sensitivity of Outstanding Loans

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

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

	As of December 31,			As of
	2000	2001	2002	September 30,
	(Ps. millions)			2003
				(Ps. millions)
Fixed-rate	21,240	21,628	41,110	34,395
Variable rate	15,339	17,287	27,204	33,144
Total loan portfolio	36,579	38,915	68,314	67,539
Allowances for loan losses	(4,287)	(4,384)	(5,265)	(3,912)
Net total loan portfolio	32,292	34,531	63,049	63,627
FOBAPROA notes (variable rate)	13,456	10,897	6,669	6,652
IPAB notes (variable rate)	40,245	38,171	80,896	76,019
Net total loans and FOBAPROA and IPAB notes ⁽¹⁾	85,993	83,599	150,614	146,299

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

Non-Performing Loan Portfolio

In assessing the performance of our loan portfolio, we have reviewed both the outstanding amount of our non-performing loan portfolio as well as the classification of loans using the loan grading system adopted by the Ministry of Finance and Public Credit in 1991. In accordance with the practice of most Mexican banks, we have traditionally monitored the performance of our loan portfolio by reference to our *cartera vencida*, or non-performing loan portfolio.

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

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

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

As of September 30, 2003, the total amount of non-performing loans was Ps.3,103 million, which represented 4.6% of total loans. Of this amount, Ps.83 million, or 2.7% of the total amount of non-performing loans, represented non-performing interest. The total amount of non-performing loans decreased by Ps.1,425 million, or 31.5%, during the first nine months of 2003, mainly as a result of the sale of non-performing assets to our non-consolidated subsidiary Sólida.

As of December 31, 2002, the total amount of non-performing loans was Ps.4,528 million, or 6.6% of total loans. Of this amount, Ps.344 million, or 7.6% of total amount of non-performing loans, represented non-performing interest. The total amount of non-performing loans increased by Ps.50 million, or 1.1%, during 2002. This increase was mainly the result of an increase in non-performing mortgage loans.

As of December 31, 2001, the total amount of non-performing loans was Ps.4,478 million, or 11.5% of total loans. Of this amount, Ps.383 million, or 8.6% of total amount of non-performing loans represented non-performing interest. The total amount of non-performing loans increased by Ps.35 million, or 0.8%, during 2001, mainly as a result of an increase in non-performing commercial and corporate loans, which off-set a decrease in consumer loans.

The amounts of our total non-performing loan portfolio as of December 31, 2000, 2001 and 2002 and as of September 30, 2003 exclude FOBAPROA and IPAB notes.

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

	As of December 31,			As of
	2000	2001	2002	September 30,
	(Ps. millions)			2003
				(Ps. millions)
NON-PERFORMING LOANS:				
Commercial loans:				
Collateralized or guaranteed	1,664	1,815	1,782	1,304
Unsecured	214	620	589	405
Total commercial and corporate loans	1,878	2,435	2,371	1,709
Consumer loans:				
Residential mortgage	1,891	1,702	1,823	1,018
Credit card	323	149	86	132
Other consumer credit	351	192	248	244
Total consumer loans	2,565	2,043	2,157	1,394
Total non-performing loans	4,443	4,478	4,528	3,103
Allowance for loan losses	(4,287)	(4,384)	(5,265)	(3,912)
Total non-performing portfolio net of allowance for loan losses	156	94	(737)	(809)

Grading of Loan Portfolio

On March 1, 1991, the Mexican Ministry of Finance and Public Credit published in the Federal Gazette the Regulations for the Classification of Loans of Credit Institutions, which were amended on September 22, 1999 (the "Loan Classification Rules"). The Loan Classification Rules provide for ranges of loan loss reserves in accordance with the level of credit risk assigned by a bank to the specific loan. Pursuant to the Mexican Capitalization Requirements published in the Federal Gazette on September 22, 1999, loan loss reserves not created in connection with specific loans (known as general loan loss reserves or "*provisiones generales*") will qualify as Tier 2 capital up to an amount not to exceed 1.25% of certain assets subject to credit risk. In addition, on September 29, 2000, the CNBV issued Regulation 1480, "Rating Methodology for the Commercial Credit Portfolio," for the classification of commercial loans and the creation of related reserves (the "Loan Classification Rules"). The Loan Classification Rules are effective as of January 1, 2001 and apply to all loans other than mortgage, credit card and consumer loans granted to individuals and loans granted to or guaranteed by the Mexican federal government or Banco de Mexico. See "Risk Management—Individual Loan Credit Risk Measurement."

Along with all other Mexican banks, we grade loans in accordance with the Loan Classification Rules. The Loan Classification Rules require that Mexican banks grade at least 80.0% of their loan portfolio (except loans made to the Mexican federal government and Banco de Mexico, or to any other party, but guaranteed by the Mexican government or Banco de Mexico) as of the end of each quarter. In addition, the Loan Classification Rules require that Mexican banks grade individually at least 80.0% of their commercial loans, including those loans with balances equal to or greater than 700,000 UDIs as of the classification date. The grading and corresponding reserves are generally required to be recorded by the end of the same quarter. The Loan Classification Rules establish the following categories corresponding to levels of risk and set forth procedures for the grading of loans: Grade "A" loans, representing minimal risk of non-payment; Grade "B" loans, representing low risk loans; Grade "C" loans, representing loans with moderate risk; Grade "D"

loans, representing high risk loans; and Grade "E" loans, representing non-collectible loans.

The Loan Classification Rules provide for additional subcategories of grading depending on the probability of default, as follows:

<u>Probability of Default</u>			<u>Risk Level</u>
0.00%	to	0.49%.....	A1
0.50%	to	0.99%.....	A2
1.00%	to	19.99%.....	B
20.00%	to	39.99%.....	C1
40.00%	to	59.99%.....	C2
60.00%	to	89.99%.....	D
90.00%	to	100.00%.....	E

The Loan Classification Rules requires consideration of the following eight factors in determining the applicable grade of a loan: (i) the payment history of the particular loan, (ii) the history of the bank's other dealings with the borrower in question, (iii) the borrower's financial condition, (iv) the management and operation of the borrower's business, (v) market conditions for the borrower's industry, (vi) the status of any collateral and guarantees, (vii) the status of the borrower's labor relations, and (viii) any other relevant factors. The Loan Classification Rules establish that the credit quality of each borrower should also take into account the country risk, financial risk, industry risk and payment experience of such borrower. See "Risk Management—Individual Loan Credit Risk Measurement."

With respect to non-performing consumer loans and credit card accounts, we downgrade monthly the rating of such accounts based on the amount of time such credit card accounts have been past-due. Currently, consumer loans and credit card accounts with zero past-due payments are rated "A," those past-due for one month are rated "B," those past-due for two months are rated "C," accounts past-due three to six months are rated "D" and past-due accounts of seven months or more are rated "E." Under our procedure, a qualitative review of the borrower is also taken into account and may result in the adjustment of the grade of a particular credit by one level.

Residential real estate loans must be graded monthly according to criteria established by CNBV. The results of the loan portfolio grading must be reported to the CNBV within 30 days following the end of the following month to which the grading relates. Although not required by banking regulations, we grade 100% of our credit portfolio on a monthly and quarterly basis (excluding loans to the Mexican federal government and Banco de Mexico or to any party that is guaranteed by these institutions).

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

	As of December 31,						As of September 30,	
	2000		2001		2002		2003	
	Amount	%	Amount	%	Amount	%	Amount	%
	(Ps. millions, except percentages)						(Ps. millions, except percentages)	
Total graded loans:								
A	19,215	57.49%	20,362	57.08%	31,311	55.18	34,588	53.99%
B	2,863	8.57	961	2.69	624	1.10	1,065	1.66
C	1,028	3.08	852	2.39	715	1.26	1,201	1.87
D	902	2.70	41	0.11	40	0.07	32	0.05
E	281	0.84	1,320	3.70	1,514	2.67	876	1.37
Loans not individually graded	9,135	27.33	12,135	34.02	22,542	39.72	26,303	41.06
Total graded loans ⁽¹⁾	33,424	100.00%	35,671	100.00%	56,746	100.00%	64,065	100.00%
Allowance grading of our loans:								
Additional allowances derived from grading:								
Commercial loans	1,442	33.64%	2,574	58.71%	2,569	48.79%	1,907	48.75%
Mortgage loans	1,447	33.75	1,243	28.35	1,477	28.05	774	19.79
Credit card	425	9.93	396	9.03	445	8.45	570	14.57
Non-performing interest	191	4.45	86	1.97	74	1.41	16	0.41
Excess over minimum regulatory requirements	782	18.23	85	1.94	700	13.30	645	16.49
Total allowance for loan losses	4,287	100.00%	4,384	100.00%	5,265	100.00%	3,912	100.00%
Total loans graded C, D or E ⁽²⁾	5,733	—	5,213	—	5,582	—	4,418	—
Allowances as a percentage of:								
Graded loans		12.83%		12.29%		9.28%		6.11%
Total loans plus interest ⁽³⁾		11.72		11.27		7.71		5.79
Total non-performing amounts		96.49		97.90		116.28		126.07
Total loans graded C, D or E ⁽²⁾		74.78		84.11		94.33		88.55
Total non-performing amounts as a percentage of total loans plus interest ⁽³⁾		12.14		11.51		6.63%		4.59%
Total net non-performing loans (non-performing amounts less allowance) as percentage of net total loans plus interest		0.48%		0.27%		(1.17)%		(1.27)%
Total loans graded C, D or E as a percentage of total loans ⁽²⁾		15.67%		13.40%		8.17%		6.54%

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

(2) Total loans graded C, D or E includes loans not individually graded that are graded C, D or E.

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

As of December 31, 2002 and September 30, 2003, the aggregate outstanding principal amount of our 15 largest loans (including loan exposures to a single corporate group or to an agency of the Mexican government) represented 14.60% and 10.43%, respectively, of our total loans (not including FOBAPROA and IPAB notes). The largest single loan exposure at December 31, 2002 and September 30, 2003 (excluding the Mexican government and our affiliates) accounted for 19.71% and 12.36% of our stockholders' equity, respectively. As of December 31, 2002, of our 15 largest loans, eight loans were rated "A," two were rated "B," and five were designated "exempted loans." As of September 30, 2003, of our 15 largest loans, 10 loans were rated "A," three were rated "B," and two were rated "exempted loans."

Allowance for Loan Losses

We provide for possible loan losses in accordance with the administrative guidelines of the CNBV and currently we are in compliance with the Rules for Rating the Loan Portfolio of Credit Institutions issued by the Ministry of Finance and Public Credit. The grading of loans determines the amount of the allowance for loan losses required to be set aside, which is determined based on the percent of the outstanding balance of such loans: between 0.0% and 0.99% for Grade "A" loans, between 1% and 19.99% for Grade "B" loans, between 20% and 59.99% for Grade "C" loans, between 60% and 89.99% for Grade "D" loans and between 90% and 100% for Grade "E" loans. Mexican government and Banco de Mexico loans or loans to a third party guaranteed by these institutions are not subject to the grading system and are effectively deemed to be Grade "A" loans for loan loss allowance purposes. The loan loss reserves are held in a separate account on our balance sheet and all write-offs of uncollectible loans are charged against this reserve. Mexican banks are required to obtain authorization from their boards of directors in order to write off loans. In addition, Mexican banks are required to inform the CNBV after such write-offs have been recorded.

For the year ended December 31, 2002, we recorded provisions charged against earnings totaling Ps.801 million, including FOBAPROA loss-sharing provisions of Ps.37 million. During the first nine months of 2003, we recorded provisions charged against earnings totaling Ps.760 million, including Ps.46 million for FOBAPROA loss-sharing provisions. In addition, in September 2000, we recorded charges against stockholders' equity for provisions totaling Ps.2,266 million for FOBAPROA provisions. Consequently, our allowance for loan losses amounted to 126% of non-performing loans at September 30, 2003, compared to 116% as of December 31, 2002.

On August 30, 2002, CNBV completed an audit of our loan portfolio and asked us to create additional provisions in the amount of Ps.92 million (in nominal terms) by September 30, 2002.

Analysis of Allowance for Loan Losses

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

	For the year ended December 31,			For the nine months ended September 30,
	2000	2001	2002	2003
	(Ps. millions)			(Ps. millions)
Balance at beginning of year	2,174	4,287	4,384	5,265
Increase:				
Allowances charged to income	395	990	764	698
Bancrer reserves existing at January 1, 2002	—	—	804	—
Appreciation of foreign currency items and UDIs	83	17	237	105
Change in allowances due to sale/purchase of loan portfolios	—	179	—	—
Allowances due to merger with Bancentro	3,016	—	—	—
Other	—	3	54	37
Sub-total	3,494	1,189	1,859	840
Decrease:				
Benefits and reductions granted to UDI loan programs	72	—	—	—
Allowances charged to stockholders' equity	227	—	—	—
Losses and write-offs	305	696	628	2,105
Change in allowances due to sale/purchase of loan portfolio	170	—	—	—
Inflation restatement effects	253	223	212	—
Reduction and benefits granted to mortgage debtors	178	161	125	82
Benefits granted as part of FINAPE and FOPYME programs	57	12	13	6
Other	119	—	—	—
Sub-total	1,381	1,092	978	2,193
Balance at the end of year	4,287	4,384	5,265	3,912

Allocation of Allowance for Loan Losses by Category

	As of December 31,						As of September 30,	
	2000		2001		2002		2003	
	Allowance	%	Allowance	%	Allowance	%	Allowance	%
	(Ps. millions, except percentages)						(Ps. millions, except percentages)	
Commercial, financial and agricultural	1,442	33.6%	2,574	58.7%	2,569	48.8%	1,907	48.7%
Residential mortgages	1,447	33.8	1,243	28.4	1,477	28.1	774	19.8
Credit card	426	9.9	152	3.5	81	1.5	118	3.0
Other consumer loans	—	—	244	5.6	362	6.9	452	11.6
Non-performing interest	191	4.5	86	2.0	76	1.4	16	0.4
Excess over minimum regulatory requirements	781	18.2	85	1.9	700	13.3	645	16.5
Total	4,287	100.0%	4,384	100.0%	5,265	100.0%	3,912	100.0%

Rules for the UDI Trusts require a minimum level of loan loss allowance based upon the CNBV's loan classification rules in the case of commercial loans, and in the case of mortgage loans the greater of (i) the minimum required by the loan classification rules and (ii) 8% of such loans. This loan loss allowance forms part of the loan loss allowance shown in our financial statements included elsewhere in this Luxembourg listing circular.

Foreclosed Real Estate and Other Assets

As of September 30, 2003, the book value of real estate and non-real estate assets on which we foreclosed totaled Ps.971 million and Ps.356 million, respectively.

As of December 31, 2002, the book value of real estate and non-real estate assets on which we foreclosed totaled Ps.1,072 million and Ps.371 million, respectively, a 9.4% decrease and a 2.5% increase, respectively, from December 31, 2001.

Under CNBV regulations, Mexican banks that are awarded title to foreclosed property in a judicial auction are required to account for such property at the lesser of the amount set in the auction and the appraised value. Real estate assets we received in a negotiated settlement with the borrower are required to be recorded at the lower of the appraised value of the property and the amount of the loan recorded in such settlement. In addition, although time limits to sell foreclosed real estate assets or real estate assets received by the bank in negotiated settlements have not been eliminated from the regulations, as a general practice such time limits have been waived by the CNBV in order to allow banks to sell such assets depending on market conditions and liquidity requirements.

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

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

	As of December 31,			As of
	2000	2001	2002	September 30,
	(Ps. millions)			2003
				(Ps. millions)
Real estate:				
Rural land	114	96	97	82
Urban land	195	378	290	284
Single-family houses	93	103	84	68
Condominiums	7	1	7	8
Industrial plants	21	87	155	114
Commercial buildings	522	513	439	415
Other	335	7	—	—
Sub-total	1,287	1,185	1,072	971
Non-real estate	404	362	371	356
Provisions for losses	(82)	(106)	(228)	(185)
Total	1,609	1,441	1,215	1,142

Restructuring of Loans

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

When we restructure a loan, we reclassify current accrued interest, past-due principal and past-due interest as current principal. If the restructuring results in a sufficient improvement in the quality of a loan, we may also maintain a smaller allowance for

loan loss with respect to such loan and use the excess allowance to reduce the amount of additional provisions on other loans.

Debtor Support Programs

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

UDI Program

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

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

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

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

	As of December 31,						As of September 30,	
	2000		2001		2002		2003	
	Loan Amount	% of the total loan portfolio	Loan Amount	% of the total loan portfolio	Loan Amount	% of the total loan portfolio	Loan Amount	% of the total loan portfolio
	(Ps. millions, except percentages)						(Ps. millions, except percentages)	
States and municipalities loans	1,434	3.9%	1,312	3.4%	1,175	1.7%	1,077	1.6%
Small- and medium-size businesses loans	1,513	4.1	591	1.5	459	0.7	30	0.04
Home mortgage loans	1,795	4.9	1,573	4.0	2,540	3.7	2,079	3.1
Total ⁽¹⁾	4,742	12.9%	3,476	8.9%	4,174	6.1%	3,186	4.7%

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

The following table sets forth, by type of loan, the number of UDI-restructured loans active as of December 31, 2000, 2001, 2002 and as of September 30, 2003:

	As of December 31,			As of September 30,	
	2000	2001	2002	2003	
States and municipalities loans	8	8	9	7	
Small and medium size businesses loans	406	311	174	9	
Home mortgage loans	2,840	2,490	4,221	3,749	
Total	3,254	2,809	4,404	3,765	

As of September 30, 2003, we had approximately Ps.3,186 million aggregate amount of principal and interest of UDI-restructured loans representing approximately 4.7% of our total loans at that date. As of the same date, approximately 65.2% of our UDI restructurings were home mortgage loans, 0.9% were small and medium-size business loans and 33.8% were loans to state and municipal governments.

As of December 31, 2002, we had approximately Ps.4,174 million aggregate amount of principal and interest of UDI-restructured loans, representing approximately 6.1% of our total loans at that date. As of the same date, approximately 60.8% of our UDI restructurings were home mortgage loans, 11.0% were small and medium-size business loans and 28.1% were loans to state and municipal governments.

As of December 31, 2001, we had approximately Ps.3,476 million aggregate amount of principal and interest of UDI-restructured loans, representing approximately 8.9% of our total loans at that date. As of the same date, approximately 45.2% of our UDI restructurings were home mortgage loans, 17.0% were small- and medium-size business loans and 37.7% were loans to state and municipal governments.

For the year ended December 31, 2000, we had approximately Ps.4,742 million aggregate amount of principal and interest of UDI-restructured loans, representing approximately 13% of our total loans at that date. As of the same date, approximately 37.8% of our UDI restructurings were home mortgage loans, 31.9% were small- and medium-sized business loans and 30.2% were loans to states and municipalities. In conformity with Mexican Banking GAAP, the UDI Trusts are consolidated for the purpose of presenting our financial information.

Local Government Loan Restructuring Program

On April 25, 1997, the Mexican government and commercial banks agreed to modify the terms of loans made to states and municipalities. The modifications included extensions in maturity, which may be extended up to an additional 12 years, reductions in interest rates and prepayment options. As of December 31, 2000, approximately Ps.1,434 million of our loan portfolio was included under this program, representing 3.9% of our total loan portfolio at that date. As of December 31, 2001, approximately Ps.1,312 million of our loan portfolio was included under this program, representing 3.4% of our total loan portfolio at that date. As of December 31, 2002, approximately Ps.1,175 million of our loan portfolio was included under this program, representing 1.7% of our total loan portfolio at that date. As of September 30, 2003, approximately Ps.1,077 million of our loan portfolio was included under this program, representing 1.6% of our total loan portfolio at that date.

ADE Program

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

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

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

Mortgage Loan Program

On May 16, 1996, the Mexican government announced the *Programa de Beneficios a los Deudores de Créditos Para la Vivienda* (the "Mortgage Loan Program"), which sought to mitigate the effects of the Mexican economic crisis on mortgage loan debtors and to increase such debtors' ability to repay their outstanding loans. Mortgage loan debtors who had UDI-denominated loans and were current on their mortgage loans were able to obtain discounts on their monthly payments for a 10-year period retroactive for all payments made on the loan from January 1, 1996. Debtors with Peso-denominated mortgage loans who wished to participate in the Mortgage Loan Program converted their Peso denominated mortgage loans into UDI-denominated mortgage loans in order to be eligible to receive such discount from the time of conversion. A borrower who converted a loan to UDIs in order to participate in the Mortgage Loan Program could elect new loan maturities of 15, 20 or 25 years, which has resulted in 60.1% of our mortgage loan portfolio. The Mexican government bears the cost of the discounts and will pay such amounts to mortgage lenders either in cash or by issuing Mexican government securities. A similar discount program applies to mortgage loans funded through FOVI, although the discount applies during a period of four or five years depending upon the credit history of the debtor.

FINAPE

On July 23, 1996, the Mexican government announced the *Programa de Apoyo Financiero al Sector Agropecuario y Pesquero* (Financial Support Program for the Agriculture and Fishing Sector or "FINAPE"), a debt restructuring program designed to help borrowers in the agriculture and fishing sector restructure their payment obligations to Mexican banks. Under FINAPE, our borrowers in the agriculture and fishing sector are permitted to restructure their loans and were allowed to prepay their loans without penalty and to reduce the outstanding principal amount of their loans. Borrowers who were current on their payments automatically received discounts on the outstanding principal amount of their loans, retroactive to July 1, 1996 (or the date of restructuring if such date is after July 1, 1996). The cost of such reductions in outstanding principal balances is absorbed principally by the banks unless they grant new credits to the food, agriculture and fishing sectors, in which case the Mexican government will absorb a larger share of such costs. Beginning in 1999 we elected to extend new loans to the agricultural sector with the support of the *Fideicomiso de Apoyo a*

Actividades Relacionadas a la Agricultura ("FIRA").

FOPYME

On August 16, 1996, the Mexican government announced the *Acuerdo de Apoyo Financiero y Fomento a la Micro, Pequeña y Mediana Empresa* (Agreement of Financial Support and Development for Micro-, Small- and Medium-Size Firms or "FOPYME"), which became effective on October 1, 1996. FOPYME benefited 97.8% of firms with indebtedness of up to Ps.6 million. Under the program, discounts were applied to indebtedness of qualifying borrowers. The program's benefits may last up to 10 years. In the case of revolving credit lines, a program to reduce the interest rate for a maximum period of two years has been implemented. Debtors that were past-due in their credits were able to restructure their debt from October 1996 until January 31, 1997 and take advantage of the FOPYME benefits from the date of restructuring.

The following table shows the aggregate principal and accrued interest outstanding of our loans under the FINAPE and FOPYME programs as of December 31, 2002 and as of September 30, 2003:

	As of December 31, 2002				As of September 30, 2003			
	Performing	Non-Performing	Total	% of total loan portfolio	Performing	Non-Performing	Total	% of total loan portfolio
	(Ps. millions, except percentages)				(Ps. millions, except percentages)			
FINAPE.....	64	85	149	0.22%	44	6	50	0.07%
FOPYME.....	167	290	457	0.66	104	149	253	0.37
Total.....	231	375	606	0.89%	148	155	303	0.45%

Punto Final Program

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

Mortgage Borrowers

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

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

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

	As of December 31,			As of September 30,
	2000	2001	2002	2003
	(Ps. millions, except percentages)			(Ps. millions, except percentages)
Total residential mortgage performing loans.....	1,662	1,456	2,205	1,944
Total residential mortgage non-performing loans	1,136	497	627	519
Total residential mortgage loans in <i>Punto Final</i>	2,798	1,953	2,832	2,463
Total mortgage loans portfolio	6,119	6,433	13,953	14,420
Residential mortgage loans in <i>Punto Final</i> as a percentage of the total mortgage loans portfolio	45.72%	30.36%	20.30%	17.08%

The following table sets forth the aggregate principal and accrued interest outstanding of our low-income mortgage loans (FOVI-supported loans) participating in the *Punto Final* program at the periods indicated:

	As of December 31,			As of September 30,
	2000	2001	2002	2003
	(Ps. millions, except percentages)			(Ps. millions, except percentages)
Total low-income mortgage performing loans	1,235	1,099	3,090	2,834
Total low-income mortgage non-performing.....	131	142	178	105
Total low-income mortgage loans	1,366	1,241	3,268	2,939
Total mortgage loans portfolio	6,119	6,433	13,952	14,420
Low-income mortgage loans as a percentage of the total mortgage loans portfolio .	22.32%	19.28%	23.42%	20.38%

Agricultural Borrowers

The benefits of the *Punto Final* program to agricultural borrowers were offered only to those borrowers with loans granted prior to September 30, 1996. This program offered borrowers a discount on all payments on such loans, including principal, ranging from a 60% discount on loans up to Ps.500,000 to 23% on loans up to Ps.4 million. These discounts were offered for payments made within two years from the date the program became effective.

The cost of the program offered to agricultural borrowers was shared by the Mexican government and Banorte with Banorte absorbing a percentage of the program ranging from a minimum of 25% of the cost of the discounts for loans under Ps.500,000 to a maximum of 62.5% on loans greater than Ps.2 million.

As of December 31, 2001 and 2002, our agricultural loans subject to the *Punto Final* program totaled Ps.124 million and Ps.149 million, respectively, representing 0.3% and 0.2% of our total commercial loans at those dates. As of September 30, 2003, outstanding balance of restructured agricultural loans was Ps.50 million, representing 0.1% of our total loan portfolio. This decreasing trend in our restructured agricultural loans is due to payments at maturity of these loans.

Small and Medium-Sized Borrowers

The benefits of the *Punto Final* program to small and medium-sized business borrowers were offered only to those borrowers

with loans granted prior to September 30, 1996. This program offered such borrowers a 45% discount on all payments on such loans, including principal, for the first Ps.500,000 of a loan's outstanding balance. An additional 20% discount was offered on the remaining balance up to Ps.2 million. The maximum amount that may be refinanced under this program was Ps.10 million of outstanding balances as of November 30, 1998. These discounts were offered for payments made within two years from the date the program went into effect.

The cost of the program offered to small and medium-sized business borrowers was shared by the Mexican government and us. The amount of the write-off ranges from 50% to 42.5% of the amount of the outstanding balance. Of the write-off, we were responsible for 1/3 and the Mexican government 2/3 of the write-off under Ps.500,000 and 42.5% on loans above this amount.

As of December 31, 2001, December 31, 2002 and September 30, 2003, our loans to small and medium-sized business borrowers subject to the *Punto Final* program totaled to Ps.540 million, Ps.457 million and Ps.253 million, respectively, representing 1.4%, 0.7% and 0.4% of our total loan portfolio at those dates.

Agricultural and small and medium-sized business borrowers who took advantage of balance reduction offered under the *Punto Final* program could not benefit from additional balance reduction offered by previously established debtor support programs.

The following table sets forth the aggregated principal and interest outstanding of the agricultural and small and medium-sized loans participating in the *Punto Final* program:

	As of December 31, 2001				As of December 31, 2002				As of September 30, 2003			
	Non-			% of the	Non-			% of the	Non-			% of the
	Performing	Performing	Total	total loan portfolio	Performing	Performing	Total	total loan portfolio	Performing	Performing	Total	total loan portfolio
	(Ps. millions, except percentages)				(Ps. millions, except percentages)				(Ps. millions, except percentages)			
Agricultural loans	30	94	124	0.3%	64	85	149	0.2%	44	6	50	0.1%
Small and medium-size borrowers	218	322	540	1.4%	167	290	457	0.7%	104	149	253	0.4%
Total	248	416	664	1.7%	231	375	606	0.9%	148	155	303	0.5%

Other Programs

On May 6, 2003, we entered into a credit program sponsored by NAFIN for the promotion of loans to small- and medium- sized companies. Under this program, NAFIN granted to us a line of credit for up to Ps.240 million to finance the working capital of two finance entities, which in turn will issue credit to small- and medium- sized companies. Up to Ps.80 million of the financing provided by us to these entities is fully guaranteed by NAFIN.

On June 18, 2003, we entered into an agreement with *Sociedad Hipotecaria Federal S.N.C.* (the Federal Mortgage Company or "SHF"), a Mexican federal government entity, pursuant to the *Garantía de Pago Oportuno para Créditos Puente* (the "Guarantee of Payment Program"). Under the program, SHF guarantees up to 100% of lines of credit in favor of, or securities issued by, SOFOLES in connection with the financing of housing construction. Pursuant to this program, we granted a SHF guaranteed line of credit to each of eight different SOFOLES in an aggregate amount of Ps.4,750 million.

Other Restructurings

As of September 2003, we restructured two major loans in our corporate and international banking segment that collectively totaled over Ps.906 million, representing approximately 6.0% of our total loan portfolio. One of these loans is rated "B" and the other is rated "C." The borrowers under these loans are engaged in the businesses of pulp and paper production and steel mining. We have forgiven Ps.2.6 million of the outstanding amount of one of these loans and have agreed to extend the maturity of both loans.

As of September 30, 2003, the largest corporate loan pending restructuring had an aggregate outstanding balance of approximately Ps.250 million. The debtor under this loan is engaged in the business of automobile parts production. This loan was fully restructured as of December 31, 2003.

Workout and Credit Recovery

Our workout unit handles debt recovery from borrowers with non-performing loans. The workout unit focuses on consumer

loan recovery, mortgage collections and commercial loan recovery.

Consumer Loan Recovery

For the year ended December 31, 2002, the consumer loan recovery unit settled 17,060 non-performing loan accounts amounting to more than Ps.410 million. As of September 30, 2003, this unit managed 21,320 accounts involving Ps.376 million.

Mortgage Collections

During 2002, 1,414 mortgage loans were settled in the aggregate amount of Ps.272 million. For the nine months ended September 30, 2003, the unit settled 1,534 cases. The total number of cases settled for the nine months ended September 30, 2003 represented an aggregate amount of Ps.694 million.

Commercial Loan Recovery

The commercial loan recovery unit focuses on recovering non-performing loans in excess of Ps.500,000 which have missed three payments. For the year ended December 31, 2002 this unit has settled 2,820 cases representing a total value of Ps.537 million. As of September 30, 2003, this unit is negotiating 1,298 loans totaling Ps.347 million.

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

BUSINESS OF BANORTE

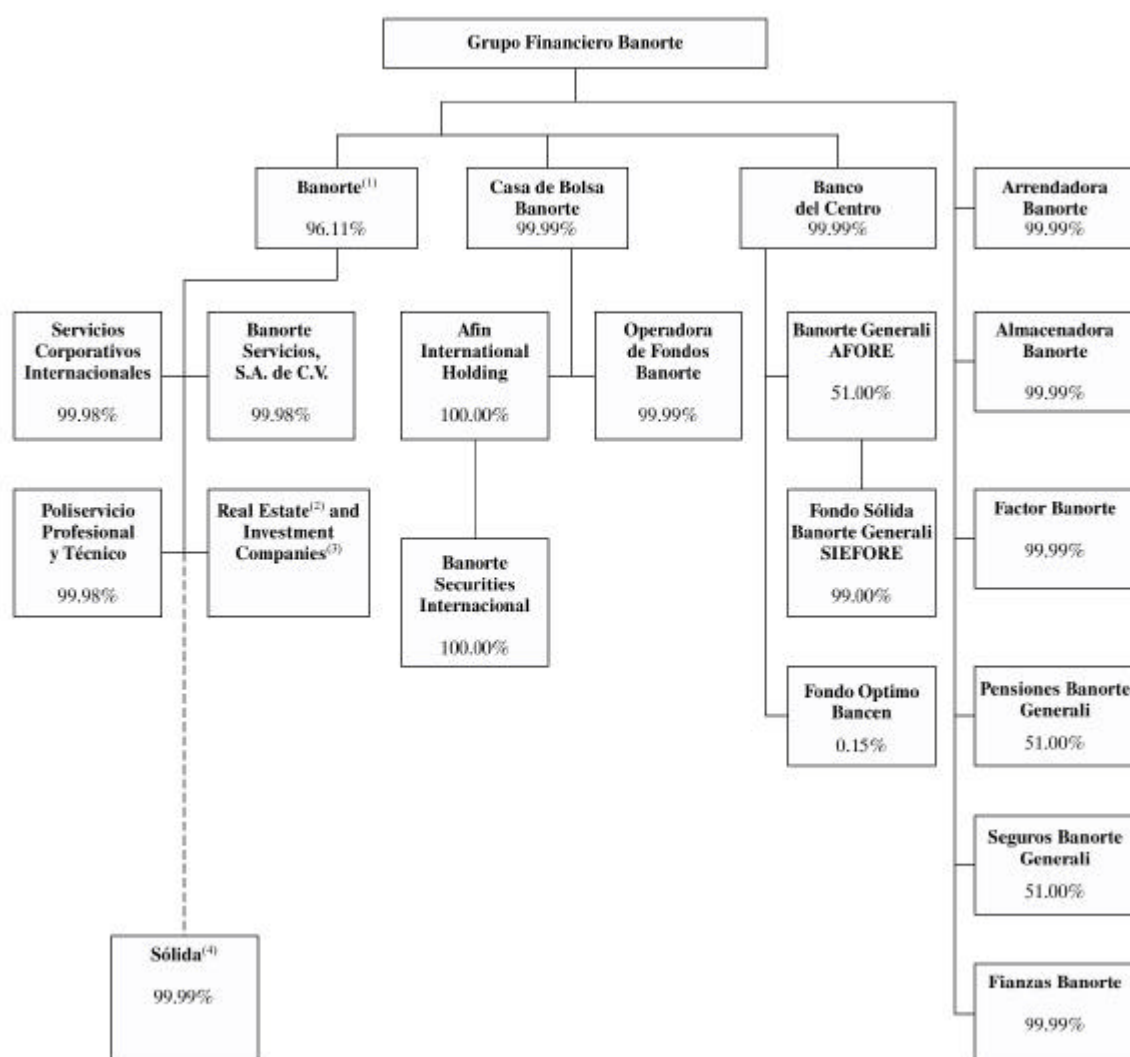
General

We are a multiple purpose bank with limited liability (*sociedad anónima*) incorporated on November 16, 1899 in accordance with the laws of Mexico and provide a full range of banking services, serving more than 190 corporate customers and approximately 4.8 million retail customers in Mexico. We conduct a wide range of commercial and retail banking activities in Mexico through our nationwide network of more than 1,050 branches. As of September 30, 2003, we had total assets of Ps.203,274 million, total deposits of Ps.160,539 million and stockholders' equity of Ps.8,950 million. As of September 30, 2003, we ranked fourth among all Mexican banks both in terms of total assets and total deposits. In 2002, we generated net income of Ps.1,502 million and a return on average equity of 19.70% (average based on beginning and end-of-period balances). In the first nine months of 2003, we generated net income of Ps.728 million and a return on average equity of 11.23% (average based on beginning and end-of-period balances).

The number of our branches increased from approximately 125 as of December 31, 1992 to 1,056 branches in Mexico and a branch in Grand Cayman as of September 30, 2003. Our branches are located throughout Mexico, with approximately 45% located in northern Mexico (which encompasses the Monterrey region), 23% located in central Mexico (which encompasses the Mexico City region), 17% located in western Mexico (which encompasses the Guadalajara region) and 15% located in southern Mexico. We had 2,517 ATMs as of September 30, 2003, 49% of which were not located in our branches. Approximately 50% of our banking transactions are currently made by means of ATMs.

On September 24, 2001, IPAB announced that we had obtained the right to purchase 100% of the capital stock of Bancrecer. We entered into a contract for the acquisition of Bancrecer on October 5, 2001 and paid a total purchase price of Ps.1,804 million. Our financial statements and the other consolidated financial information contained in this Luxembourg listing circular consolidate the financial results of Bancrecer beginning January 1, 2002. From December 4, 2001 to December 31, 2001, our investment in Bancrecer was recorded in investment securities. The Ministry of Finance and Public Credit authorized the merger of Banorte into Bancrecer and we merged with Bancrecer on March 31, 2002. The surviving entity changed its name to "Banco Mercantil del Norte, S.A., Institución de Banca Múltiple, Grupo Financiero Banorte."

As a result of the steps we have taken since the acquisition of Bancrecer, we believe that we have developed a number of significant strengths that should help contribute to our future growth in the Mexican financial services industry, including our nationwide branch network, a service-oriented approach and a broad range of products. The following chart presents our corporate structure and that of GFNorte, our parent company, indicating principal subsidiaries and respective ownership interests as of September 30, 2003.



(1) Our remaining shares are held by various third parties. See "Principal Shareholders."

(2) Real Estate Companies consist of the following, with Banorte's ownership percentage indicated in parenthesis: Inmobiliaria Banorte, S.A. de C.V. (99.99%); Constructora Primero, S.A. de C.V. (99.99%); Lérida, S.A. de C.V. (99.99%); Inmobiliaria Bra, S.A. de C.V. (99.89%); Inmobiliaria Banormex, S.A. de C.V. (99.99%); Inmobiliaria Finsa, S.A. de C.V. (99.99%); Inmuebles Tijuana, S.A. de C.V. (99.86%); Inmuebles de Occidente, S.A. (99.99%); Inmobiliaria Bancreer, S.A. de C.V. (99.99%); and Inmobiliaria Innova, S.A. de C.V. (99.99%).

(3) Investment Companies consist of the following, with Banorte's ownership percentage indicated in parenthesis: Afin, S.A. de C.V., Sociedad de Inversión en Instrumentos de Deuda (98.99%); AfinMD, S.A. de C.V., Sociedad de Inversión en Instrumentos de Deuda para Personas Morales (98.998%); Afintr, S.A. de C.V., Sociedad de Inversión en Instrumentos de Deuda (98.99%); Afinpzo, S.A. de C.V., Sociedad de Inversión en Instrumentos de Deuda (98.99%); Fondo Banpaís, S.A. de C.V., Sociedad de Inversión en Instrumentos de Deuda (57.99%); Fondo Bancreer Plus, S.A. de C.V., Sociedad de Inversión en Instrumentos de Deuda para Personas Físicas (99.99%); Fondo de Dinero Innova, S.A. de C.V., Sociedad de Inversión en Instrumentos de Deuda (99.99%); Fondo Empresarial Bancreer, S.A. de C.V., Sociedad de Inversión en Instrumentos de Deuda para Personas Morales (99.96%); Nortev, S.A. de C.V., Sociedad de Inversión de Renta Variable (98.99%); Afincob, S.A. de C.V., Sociedad de Inversión de Renta Variable (98.99%); and Fondo Banpaís Diamante, S.A. de C.V., Sociedad de Inversión de Renta Variable (99.99%).

(4) Sólida is not consolidated in our financial statements, although it is 99.99% owned by us. The Ministry of Finance and Public Credit has determined that Sólida is not a subsidiary operating in the financial sector and, consequently, should not be consolidated in our financial statements. Accordingly, our interest in Sólida is recorded as a permanent stock investment and is valued by using the equity method.

Strategy

We seek to become the most profitable commercial and retail bank in Mexico, providing a wide variety of products and services. To achieve this goal, we are focused on the following objectives:

Improve Operating Efficiencies

Following GFNorte's acquisitions of Bancentro in 1996 and Banpaís in 1997 and our acquisition of Bancrecer in 2001, we have endeavored to integrate these businesses and have implemented cost reductions in an effort to improve our efficiency. From January 2002 to September 2003, we closed 142 branches, reduced our total number of employees by approximately 3,000, and consolidated our senior management into a single decision-making unit. In particular, we created new offices and departments including the Office of the General Director of Banking, Regional Directors' Offices and the Office of the General Director of Administration and Finance. We also reorganized other divisions, including the Office of the General Director of Planning and Control. Anticipated benefits from our integration efforts include: (i) a reduction in administrative expenses necessary to support our branch network, (ii) technological efficiencies, (iii) revenue synergies from cross-selling products within GFNorte and (iv) the ability to offer a greater variety of services to our customers.

Increase Our Non-Interest Income

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

Improve the Profitability of Our Branches

We seek to improve the profitability of our branches by: (i) increasing loan placements, particularly in the areas of commercial loans and mortgage loans, (ii) diversifying our deposits base, (iii) increasing non-interest income and (iv) implementing cost reductions. We will continue to review the profitability of our branch network by determining the optimal size of our network and seeking to identify branches that should be closed or relocated. We also believe that we can improve the profitability of our branches by increasing loan activities in the former Bancrecer branch network. Bancrecer was a financially troubled bank at the time of our acquisition, and we believe there are opportunities to increase loan placements through our enhanced branch network.

Promote Synergies Within the GFNorte Group

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

In addition, we are always exploring the possibility of improving synergies and efficiencies within the GFNorte group, including transactions with affiliates. We are currently reviewing the possibility of merging with our affiliate Bancentro.

Expand Our Credit Card Business

We intend to expand the number of credit cards issued to individuals and businesses throughout Mexico. The credit card business is a market in which we have not been active in the past. We have created certain incentive programs to encourage the use of our credit cards and believe that we offer a competitive interest rate in the market. As of September 30, 2003, we had 372,718 credit cards in circulation, of which 232,775 carried a balance. We seek to issue approximately 220,000 new credit cards in 2004.

History and Ownership

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

government privatization initiative, the government sold approximately 34% of our capital stock to the Mexican public. In 1990, the Mexican Constitution was amended to permit the total reprivatization of Mexican commercial banks, and the government enacted the Mexican Banking Law which provided for private ownership of Mexican commercial banks. The reprivatization of Mexican commercial banks began in 1991.

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

A group of Mexican investors led by Don Roberto González Barrera acquired 66.0% of our outstanding shares from the Mexican government in 1992. In September 1993, this same group of investors entered into an exchange offer whereby they purchased 186 million newly issued shares of AFIN, 89.3% of AFIN's then outstanding shares, in exchange for AFIN's purchase of the investors' 66.0% interest in us. Following the exchange offer, we became a subsidiary of AFIN and our parent company was renamed Grupo Financiero Banorte, S.A. de C.V. In May 1993, GFNorte carried out a tender offer for the remaining 34.0% of our outstanding shares. As a result of the transaction, GFNorte increased its ownership interest in us to 97.5%. GFNorte currently owns 96.1% of our outstanding shares.

The 1995 Mexican Peso crisis and the penetration of foreign institutions in Mexico prompted a consolidation in the Mexican banking system which resulted in the absorption of many smaller Mexican banks. With the objective of becoming a national financial institution and taking advantage of our relative strength in the Mexican banking system, GFNorte purchased Bancentro in 1996 and Banpaís in 1997. GFNorte's management of Bancentro began a year before the actual purchase, with the objective of acquiring it as a subsidiary of GFNorte. GFNorte's primary goals were to gain additional market share and add 195 additional branches, 80% of which were located in the central and western regions of Mexico. GFNorte completed the acquisition of Bancentro on June 30, 1997, at which time it became formally integrated into the group. On August 29, 1997, GFNorte also acquired 81% of Banpaís's shares, enabling further expansion of GFNorte's client base, geographical position and national coverage through the addition of 161 branches. In an effort to consolidate the banking activities of GFNorte and to strengthen our capitalization, we were merged with Banpaís in January 2000 and the banking operations of Bancentro, including its branch network, loan portfolio (including non-performing loans) and FOBAPROA notes (which were subsequently converted into IPAB notes), were merged with us in December 2000.

Acquisition of Bancrecer

On September 24, 2001, IPAB announced that we had obtained the right to purchase 100% of the capital stock of Bancrecer. We entered into a contract for the acquisition of Bancrecer on October 5, 2001 and paid Ps.445 million on October 5, 2001 and the remaining Ps.1,335 million on December 4, 2001, equivalent to 66% of the historical book value of Bancrecer's stockholders' equity on December 31, 2001. Interest expense and additional expenses directly related to the acquisition brought the total purchase price to Ps.1,804 million. Our acquisition of Bancrecer was funded with resources from GFNorte, including resources in cash and dividends obtained from its subsidiaries, as well as the use of the proceeds from our issuance of debentures and the use of additional financing obtained before the date of the acquisition. In March 2002, we sought a post-closing adjustment from IPAB because of fees we believed were owed to us in connection with government support programs related to Bancrecer. IPAB denied our right to any post-closing adjustment and we have ceased to pursue any additional remedy.

The Ministry of Finance and Public Credit authorized the merger between us and Bancrecer, and we merged with and into Bancrecer on March 31, 2002. Our assets, liabilities and stockholders' equity were transferred to Bancrecer, thereby eliminating intercompany operations between the two entities. The surviving entity changed its name to "Banco Mercantil del Norte, S.A., Institución de Banca Múltiple, Grupo Financiero Banorte."

In nominal value, we had approximately Ps.106,528 million in assets, Ps.99,839 million in liabilities and Ps.6,689 million in stockholders' equity immediately prior to the merger on March 31, 2002. In nominal value, Bancrecer had approximately Ps.69,681 million in assets, of which Ps.46,291 million were in the form of loans to IPAB (as evidenced by IPAB notes), Ps.67,838 million in liabilities and Ps.1,843 million in stockholders' equity. In nominal value, after the cancellation of approximately Ps.10,264 million of liabilities, Ps.12,107 million of assets and Ps.1,843 million as a result of intercompany operations, the combined entity had approximately Ps.164,102 million in assets, Ps.157,413 million in liabilities and Ps.6,689 million in stockholders' equity immediately after the merger.

After the merger, we began integrating Bancrecer into our operations in an effort to take advantage of synergies between the two banks. We implemented a single organizational structure in the first quarter of 2002 and transferred Bancrecer employees that were re-hired to our payroll and benefits plans. Over 2,000 of Bancrecer's employees, or approximately 30% of its workforce, were terminated

during the course of the integration. We also closed 121 branches of Bancrecer in 2002. We established a new institutional pay scale and restructured the organization of personnel in our branches to standardize their positions and functions. We also provided intensive training to former Bancrecer employees regarding our sales policy and products.

Our products are now sold in each of the former branches of Bancrecer that remains operational and our corporate image extends throughout the entire branch network. Back office operations have yet to be unified and we anticipate the roll out of the unified branch network will be completed by the end of 2004. Promotion of our products in the former branches of Bancrecer contributed to an increase in our loan portfolio and deposits in 2003.

Principal Business Activities

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

- retail banking,
- corporate banking and international business banking,
- entrepreneurial banking,
- federal governmental banking and
- recovery banking.

Each of these segments reports to the main office in one of our six territories in Mexico: Mexico City, Monterrey, West, Northeast, Northwest and South.

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

Retail Banking

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

Products and services offered through this segment include checking and deposit accounts, credit cards, mortgage loans and consumer loans. See "—Products and Services." One of our main products in this segment, *CrediActivo*, is a loan issued in amounts of up to Ps.3.2 million that is targeted towards small businesses.

Corporate Banking and International Business Banking

The corporate banking portion of this segment is committed to providing integral financial solutions to our corporate customers through various types of specialized financing, including structured credits, syndicated credits, financing for mergers and acquisitions and financing of investment plans. Other products and services offered to our corporate customers include cash management services, collection services, syndicated loans and structured transactions. The customers in the corporate banking portion of this segment generally consist of Mexican and non-Mexican multinational companies, large Mexican companies and emerging Mexican companies. Our corporate customers consist of more than 190 large corporations. As of September 30, 2003, the average outstanding individual balances of our loans to these corporations was approximately Ps.77 million. Our corporate customers generally have revenues in excess of U.S.\$50 million.

The international business banking portion of this segment engages in various strategic alliances with the goal of developing new products and services relating to foreign commerce. Some of the products and services that our international business banking portion offers include: (i) credit support for the export of goods and services, including letters of credit, payment orders and checking accounts denominated in U.S. dollars; (ii) consultation and credit support in connection with the importing of goods and services, including financing for the import of livestock and machinery, financing of working capital and investment projects, letters of credit and payment orders, (iii) hedging instruments protecting against currency fluctuations, including Peso futures and (iv) exchange products,

including currency exchange, travelers checks and remittances. These services are also offered to our entrepreneurial and retail segments.

Entrepreneurial Banking

Our entrepreneurial banking segment specializes in high margin credit products for medium-sized business customers, as well as loans to state and local governments in Mexico. Our medium-sized business customers consist primarily of approximately 8,310 enterprises, varying in size from medium businesses to sizable corporate enterprises operating in a broad range of industrial sectors. As of September 30, 2003, the average outstanding individual balances of the loans to our medium-sized business customers, of which there were approximately 2,200, was Ps.8.2 million.

Our main products in this segment are loans and lines of credit, cash management services, fiduciary services, checking account services and payroll services.

Federal Government Banking

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

The products and services offered by this segment include, among others, checking accounts, loans (typically subject to a bidding process), payroll processing, cash management, collection and payment processing services to government agencies. Serving these institutions also allows us to cross-sell checking accounts, credit card services, loan products, insurance products and collection services to their employees. As of September 30, 2003, the aggregate outstanding balance due from our loans in this segment was Ps.5,506 million, approximately 76% of which was granted to the Mexican federal government.

Recovery Banking

The assets administered by our recovery banking segment are comprised of loan portfolios and foreclosed assets, including stocks and other securities. In addition, our non-consolidated subsidiary Sólida engages in workout and recovery activities with respect to its own loan portfolio and portions of our loan portfolio and that of our affiliate Bancentro. See "Risk Management—Workout." We recognize our 99.99% interest in Sólida as a permanent stock investment, which is valued by using the equity method.

As of September 30, 2003, the aggregate amount of assets managed by the recovery banking segment and Sólida was Ps.59,488 million. For the nine months ended September 30, 2003, Ps.6,812 million were recovered by this segment, of which Ps.3,297 million were recovered in cash, Ps.2,540 million in property, Ps.514 million in restructurings and Ps.462 million in debt settlements. Recoveries are ultimately recorded by the entity owning the relevant portfolio. The recovery banking segment of Sólida contributed approximately Ps.40 million to our net income for the nine months ended September 30, 2003, equivalent to 5.5% of our net income.

We occasionally buy certain troubled loan portfolios to be administered by our non-consolidated subsidiary Sólida. In 2002, we agreed to purchase from Banca Quadrum a commercial and consumer loan portfolio, the gross amount of which was Ps.351 million, at a price of Ps.288 million. The servicing of this loan portfolio was transferred to Sólida. In February 2003, we classified this loan portfolio as performing.

Sólida has also made a series of loan portfolio acquisitions in the last few years. In the third quarter of 2001, Sólida won a bid to acquire the derivative rights to two mortgage portfolios, which consisted of a Ps.3,442 million portfolio from Goldman Sachs and a Ps.219 million portfolio from Bancrecer. In December 2001, Sólida won a bid to acquire a Ps.364 million portfolio of mortgage loans from Banca Cremi, S.A., Institución de Banca Múltiple, a Mexican bank that had been intervened by IPAB. Sólida has previously securitized a portion of its troubled mortgage loan portfolio.

In February 2003, we sold Ps.1,925 million (including accrued interest) of non-performing loans, together with its related loan loss allowance of Ps.1,577 million, to Sólida for Ps.378 million. Our objective in selling these loans to Sólida was to improve the quality of our loan portfolio and to transfer these troubled loans to Sólida, which specializes in workout and loan recovery. The CNBV has indicated that sales of non-performing loans to Sólida should not be a recurring activity. We believe that the price of the transfer of the loans was consistent with the market value of such loans. See "—Litigation and Regulatory Proceedings." During the first quarter of 2003, Sólida acquired a portfolio of real estate assets from Serfin for approximately Ps.618 million. In addition, during the third quarter of 2003, Sólida obtained a commercial loan portfolio of Ps.934 million from Banco Industrial and a mortgage loan portfolio of

Ps.1,189 million from BBVA Bancomer.

Between December 1, 2002 and July 30, 2003, we received an aggregate of Ps.119 million in fees from FOBAPROA as a result of a renegotiation of our agreement with IPAB in June 2003 relating to the management of Bancentro's and Banpaís's loan portfolios, pursuant to which we extended that agreement until December 31, 2004. We are also negotiating with IPAB to extend the term of our agreement relating to the Serfin loan portfolio that was acquired in the first quarter of 2000. That agreement is currently scheduled to expire in the first quarter of 2004. In addition, we collected from IPAB retroactive fees of approximately Ps.100 million for the period from February 28, 2000 to September 30, 2003 derived from the administration of certain assets that were not included in the original agreement but were serviced by us.

Treasury and Money Market Divisions

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

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

From October 2003 to December 2003, our parent GFNorte decided to effectively transfer the money market position of Bancentro to us. Accordingly, substantially all of the repurchase obligations that had been previously carried on the balance sheet of Bancentro have been placed on our balance sheet. This transfer of Bancentro's money market position to us was made in an effort to take advantage of Banorte's tax loss carry forwards, to improve controls relating to the clearing of repurchase transactions and to more efficiently conduct the back office operations of Banorte and Bancentro. No consideration was paid in connection with this transaction.

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

Products and Services

Checking and Deposit Accounts

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

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

Credit Card Operations

We issue our own credit cards, corporate and personal, associated with both MasterCard and VISA. As of September 30, 2003, we had 372,718 credit cards in circulation, of which 232,775 carried a balance. As of September 30, 2003, 10,487 of these credit cards carried a past-due balance. Credit card approvals are based on our internal credit scoring system, which we believe increases the

quality of the portfolio and response time. Our credit cards can be used in approximately 18,700 ATMs in Mexico, of which 2,517 are directly owned by us. Revenues from our credit card operations consist principally of merchant fees paid by retail and service establishments, cash advance fees, installment purchase fees, fees on late payments, variable and fixed interest rates charged on monthly account balances and annual membership fees paid by cardholders. Merchant fees paid by retailers and service establishments in Mexico range from 1.8% to 4.8%.

We currently rank fourth in number of transactions and fifth in total value of transactions in the Prosa system, an ATM and credit card processing system comprised of 15 Mexican banking institutions. Our market share based on the number of holders in the Mexican credit card business was 4.6% as of September 30, 2003 compared to 4.2% as of September 30, 2002. Currently, the most important method for promoting credit cards is through our branch network. We intend to promote our credit cards by cross-selling them to customers within GFNorte and offering special promotions.

We charge an average annual fee of Ps.150 per credit card. Credit card loans, which are fully underwritten by us, are unsecured, having an initial maturity of one to two years, generally accrue interest at effective annual fixed rates of 25.0% and range from Ps.10,000 to Ps.200,000. The average credit limit of our credit cards is Ps.26,000 and the minimum required monthly salary for new cardholders is Ps.6,000. The past due rate on our credit card portfolio is approximately 5.1% and charge-offs as a percentage of gross sales is approximately 1.2%. The annual attrition rate with respect to our credit card customers is approximately 4.2%.

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

Mortgages

We offer long-term mortgage financings for individuals and families acquiring houses or apartments. Such financings are generally secured by the property being purchased and are denominated in Mexican Pesos with fixed interest rates for the entire life of the mortgages. The term of a mortgage ranges from five to fifteen years for up to a financing of 80% of the appraised value of the property. We offer financings exclusively for residential mortgages. We do not offer commercial mortgages, although we plan to offer bridge loans to construction companies in order to finance residential construction projects. As of September 30, 2003, we provide mortgages to approximately 66,700 customers, and the aggregate outstanding balance due from our mortgages was Ps.13,402 million and the aggregate balance of non-performing mortgages was Ps.1,018 million.

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

Consumer Loans

Our consumer loans are denominated in Mexican Pesos, bear interest at fixed rates and have maturities of up to four years. We offer two main personal consumer loans: automotive financing and advance on payroll. We provide automotive financing through loans that bear interest at a fixed rate with maturities of up to four years. As of September 30, 2003, the aggregate outstanding balance due from our automotive financings was Ps.4,260 million and this product was utilized by approximately 60,200 customers. *CrediNomina* is a fixed rate advance loan on payroll of up to three months salary with maximum maturity of two years. As of September 30, 2003, this product was utilized by approximately 114,088 customers, and the aggregate outstanding balance due from our *CrediNomina* program was Ps.1,100 million. The aggregate balance of non-performing loans from our *CrediNomina* program was Ps.34 million as of September 30, 2003.

Commercial Loans

We offer various loan products, including general commercial loans, syndicated loans and letters of credit, to our business customers. Our business customers vary from small- and medium-sized businesses to large companies that have revenues in excess of U.S.\$50 million. Approximately 40% of our commercial loans are secured by collateral.

Collection Services

In 2002, we established an automatic payment collection processing service. This service allows individuals and companies to make payments for telephone bills, tuition and cellular phone bills, among others, through our branch network or alternative distribution channels. In the first nine months of 2003, we have handled 8.1 million transactions representing a 17.5% increase

compared to the corresponding period in 2002. Collection services are complemented by invoice distribution through the Internet.

Payroll Services

Since 1993, we have offered our corporate customers, *Suma Nomina*, a service through which they can pay their personnel payrolls via direct deposits. Currently, more than 8,370 businesses process payrolls of nearly 1.3 million employees with us. We believe that *Suma Nomina* improves customer retention and reduces risk in consumer lending by strengthening customer relationships. Every employee that is paid through *Suma Nomina* is automatically eligible for a personal loan of up to three months of salary and enjoys preferential interest rates on other types of loans.

Cash Management Services

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

Distribution Channel

As of September 30, 2003, we have the fourth largest branch network in Mexico with 1,056 branches located throughout Mexico. Our strategy of branch expansion has lowered our funding costs by building a loyal customer base for deposits. We have added more than 900 branches since 1992, including a net increase of 610 branches from our integration of Bancrecer. On average, each of our branches has seven employees.

In addition to our nationwide branch network, we have increased the automation of our services and improved alternative channels of distribution which serve our customers by ATMs, telephone banking, PC Banking and through the Internet. Approximately 50% of all our transactions are done through our ATMs, telephone banking or electronic banking services.

Our ATM network has grown from 1,341 ATMs as of December 31, 1999 to 2,517 as of September 30, 2003. We offer a number of additional electronic banking products and services, including a debit card, which can be used at all our ATMs, as well as at ATMs worldwide through our participation in the VISA and Plus ATM networks. We believe that further development and promotion of these and other electronic banking services will allow us to provide more convenient banking channels and reduce waiting time at our branches.

Banortel, our telephone banking system, allows our customers to check balances, transfer funds between their accounts at Banorte and at other banks and pay credit card bills or receive account statements via fax. Currently the system receives more than 1.7 million calls per month. Approximately 84% of these calls are handled through our interactive voice recording system, with the rest being handled through our nearly 200 telephone banking customer service representatives.

Banorte x Internet is our on-line banking service for our retail and small- and medium-sized business customers. It allows our customers to utilize the Internet to access their credit card and other accounts balances, transfer funds domestically and internationally, pay their credit cards, other bills, and taxes, and invest in mutual funds and certificates of deposits. Currently, more than 5,000 new customers register for this service each month, and we had approximately 178,000 active users of our on-line banking service as of September 30, 2003, who log-in to their on-line accounts at least once per month.

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

Strategic Alliances

On November 27, 2002, we entered into an alliance with Banco Popular Español whereby complementary products and services are offered to our customers in Spain, France and Portugal where Banco Popular Español has branches, and we offer similar services to Banco Popular Español's customers in Mexico. This alliance allows us to compete more effectively with Spanish banks operating in Mexico and enables us to offer global solutions and services of Banco Popular Español's commercial network to our customers.

In February 2003, we signed a memorandum of understanding with Export Development Canada, committing to increase our cooperation and coordination for financing and providing assistance to Mexican importers of Canadian goods and services.

In 1998, we entered into an alliance entitled *Conexión Americas* with Bank of America and 16 other banks located in Latin America and Europe. The objective of this alliance is to offer banking services to multinational companies through one bank in each country where *Conexión Americas* has a presence. Under this alliance, we have 28 customers with a total of 120 accounts who are utilizing our employee payroll and collection services.

On December 2, 1997, we entered into a purchase agreement with Assicurizazoni Generali whereby that entity indirectly purchased from us and GFNorte shares representing 49% of the capital stock of the entities presently known as Seguros Banorte Generali, Banorte Generali Afore and Pensiones Banorte Generali in exchange for certain fees relating to technological efforts, licensing rights, brand ownership rights and the use of our branch network to distribute the products and services of the purchased entities. Pursuant to this agreement, Assicurizazoni Generali paid us a one-time fee of Ps.459 million in June 2002 as consideration for the increased size of our branch network resulting from our merger with Bancrecre. We have also entered into certain services agreements with Seguros Banorte Generali, Banorte Generali Afore and Pensiones Banorte Generali to allow these companies to offer their products and services within our branch network in consideration for certain fees.

Competition

We face strong domestic competition in all aspects of our business from other Mexican financial groups, commercial banks, insurance companies and securities-brokerage houses as well as from non-Mexican banks and international financial intermediaries. We compete for both commercial and retail customers with other large Mexican banks, including subsidiaries of foreign banks, which, like us, are a part of financial groups. In some areas of Mexico, we also compete with regional banks. We also compete with certain non-Mexican banks (principally those based in the United States and Spain) for the business of the largest Mexican industrial groups and government entities as well as high net worth individuals. Our principal competitors are BBVA Bancomer, Banamex, Santander Mexicano, Scotiabank Inverlat, Serfin and Bital. Some of the Mexican banks with which we compete are significantly larger and have more financial resources than us, including a larger asset size and capital base. In addition, a number of significant mergers and acquisitions in the financial industry have taken place in Mexico over the past several years, and we expect that consolidations will continue. As a result of such consolidations, we may have to compete in the future with even larger financial institutions with greater financial resources.

The table below sets forth our rank and market share of the Mexican banking industry in the following categories as of September 30, 2003:

	As of September 30, 2003		
	Banorte (Ps. millions)	Banorte's Rank	Market Share (Percentage)
Total assets	203,383	4	11.37%
Total deposits	188,340	4	13.90%
Total performing loans (including FOBAPROA and IPAB notes).....	147,107	3	15.83%
Number of branches	1,056	4	13.50%

Source: CNBV statistical bulletin dated as of September 30, 2003.

Recent amendments to Mexican law have allowed 100% foreign ownership of the equity of Mexican financial groups and commercial banks and have permitted any individual or corporation to acquire control, through one or more transactions, of Mexican financial groups and commercial banks; provided, however, that the authorization of the Ministry of Finance and Public Credit and favorable opinion from the relevant Mexican National Commission are obtained if the acquired interest exceeds 5% of the total capital stock of such institution.

As of September 30, 2003, the Mexican banking system was comprised of 32 private-sector banks (of which 20 are affiliated with non-Mexican institutions) and seven public-sector banks. According to the CNBV, 56% of the total assets and 65% of the total shareholders' equity of private-sector banks in Mexico were controlled by banks with affiliation with foreign institutions, as of September 30, 2003.

Commercial banks in Mexico also compete in the retail market with non-banking institutions known as *sociedades financieras de objeto limitado* (limited purpose financial companies, or "SOFOLES"), which focus primarily on offering consumer and mortgage

loans to middle- and low-income individuals. Until recently, the commercial credit market for middle- and low-income individual customers has been serviced almost exclusively by non-banking institutions. Currently, 33 non-banking institutions are licensed to operate in Mexico. Mexican non-banking institutions may engage in certain specific lending activities and are supervised by the same regulatory authorities as commercial banks, but are prohibited from engaging in many banking operations, including foreign trade financing, offering checking accounts and engaging in foreign currency operations. Traditional banks have begun to extend their credit services to the markets previously denominated by SOFOLES.

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

The following table sets out certain statistics on the Mexican commercial banking system as of June 30, 2003:

	Assets		Loans		Deposits		Shareholders' Equity	
	Amount	Market Share	Amount	Market Share	Amount	Market Share	Amount	Market Share
(Ps. millions as of June 30, 2003, except percentages)								
Domestic private-sector banks								
.....	327,779	13%	228,006	15%	266,592	14%	38,001	15%
Foreign-owned banks	1,397,462	56%	733,790	47%	1,082,770	56%	164,063	65%
Private-sector total.....	1,725,241	69%	961,796	62%	1,349,362	69%	202,063	80%
Public-sector banks	656,907	26%	476,475	31%	600,465	31%	40,233	16%
Total banking system.....	2,382,148	95%	1,438,271	92%	1,949,826	100%	242,296	96%
Non-banking institutions ⁽¹⁾	129,816	5%	122,917	8%	—	—	11,164	4%
Financial system total.....	2,511,964	100%	1,561,188	100%	1,949,826	100%	253,460	100%

Source: CNBV.

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

Employees

As of September 30, 2003, we had approximately 12,671 employees on an unconsolidated basis. Approximately 43% of our employees were unionized as of such date. All upper-level management positions are held by non-union employees. During each of the years ended December 31, 2002, 2001 and 2000 we had approximately 12,437, 8,704 and 9,158 employees, respectively, on an unconsolidated basis. The increase in employees in 2002 was attributable primarily to our merger with Bancrecer and an increase in our sales force. In general, we consider labor relations with our employees to be good. Since our privatization in 1992, we have never experienced a work stoppage or strike.

Properties

As of September 30, 2003, the book value of our real property was Ps.3,295 million. Our principal executive offices are located in Monterrey, Mexico. We also have offices located throughout Mexico on 109 properties, comprising of an aggregate of 123,634 square meters of which we own 28 properties and lease 55 properties. The remaining 26 properties are owned by our real estate subsidiaries.

Our aggregate branch space is 434,588 square meters. As of September 30, 2003, we owned 130 of the properties on which our branches were located, leased 784 of the properties and our real estate subsidiaries owned 103 of the properties. The remaining 33 properties on which our branches are located were used pursuant to other arrangements. The average size of our branch space is approximately 415 square meters.

Litigation and Regulatory Proceedings

In July 2002, we, along with three other Mexican banks, filed an injunction (*juicio de amparo*) in a Mexican federal court requesting the suspension of the effectiveness of certain procedures and conditions for the exchange of FOBAPROA notes for IPAB

notes set forth in a letter that we and the other banks received from IPAB in June 2002. In September 2003, the Mexican federal court ruled in favor of the banks and IPAB subsequently filed a motion to appeal the Mexican federal court's decision. We cannot predict the outcome of the ruling on IPAB's motion to appeal and we cannot assure you that we will receive a favorable ruling on this motion. We and the other three banks are in the process of discussing with IPAB the procedures and conditions for any review or new audit that IPAB may undertake in connection with the exchange of the FOBAPROA notes. We cannot predict the effect that IPAB's proposed review of loans and other procedures set forth in the letter may have on the value of our FOBAPROA notes. It is possible that a reduction in the principal amount of our FOBAPROA notes might occur or that IPAB may require us to make additional reserves. We intend to exchange our FOBAPROA notes for IPAB notes; however, there is still uncertainty about the final outcome of the negotiations. If IPAB were to propose an agreement with terms not acceptable to us deriving from such negotiations, the currently existing FOBAPROA notes will be held to maturity. See "Government Sponsored Support Funds—IPAB" and "Risk Factors—Risks Relating to our Business—Exchanging our FOBAPROA notes for notes issued by IPAB may result in a reduction in the principal amount of such notes and may require us to establish additional reserves."

Derivative proceedings relating to the aforementioned IPAB dispute have been filed by us against the *Auditor Superior de la Federacion* and certain accounting firms. Derivative proceedings have also been initiated by Banco de Mexico, as trustee of the FOBAPROA trusts, in connection with this matter.

Our 99.99%-owned subsidiary Sólida engages in recovery banking, which the Ministry of Finance and Public Credit has indicated is not an activity within the financial sector and, consequently, is not consolidated with our financial statements. In February 2003, we sold Ps.1,925 million (including accrued interest) of non-performing loans to Sólida for Ps. 378 million, a price we considered to be consistent with market value of such loans. These loans had associated allowances for losses in the amount of Ps.1,577 million. In August 2003, we were contacted by the CNBV with respect to this transaction and, after various communications, the CNBV indicated that we should publicly disclose certain information regarding the transaction, including: (i) the amount invested in Sólida and any relevant transactions affecting our participation in that entity; (ii) an explanation of the transaction and confirmation that it was a one-time occurrence; and (iii) an analysis of the methodology used to determine the adequacy of allowances for losses, among others. We complied with the CNBV's request during the third quarter of 2003 by means of disclosing the terms of the sale in a press release.

Due to the nature of our transactions, we frequently encounter judicial, administrative and arbitration proceedings. Customers, users or suppliers may also take legal action against us. We are currently subject to a number of other legal and regulatory proceedings, including tax and labor claims, arising in the ordinary course of our business, none of which our management believes is reasonably likely to have a material adverse effect on our financial condition or results of operations. See note 23(d) to the audited financial statements.

BANORTE CAYMAN

General

Banorte Cayman became a part of our branch network as a result of our merger with Bancrecer. Banorte Cayman was initially registered under Part IX of the Companies Law (2003 Revision) of the Cayman Islands on February 22, 1991 as Banco de Credito y Servicio S.N.C. By Special Resolution dated February 9, 1993, the name of that entity was changed to Bancrecer, S.A. On March 31, 2002, Banco Mercantil del Norte S.A., which was registered under Part IX of the Companies Law (2003 Revision) on November 23, 1989, was merged into Bancrecer, the surviving entity, subsequent to which the surviving entity was renamed "Banco Mercantil del Norte S.A., Institución de Banca Múltiple, Grupo Financiero Banorte." The registered office of Banorte Cayman is at Coutts (Cayman) Limited, P.O. Box 707GT, Coutts House, West Bay Road, Grand Cayman, Cayman Islands, British West Indies. We operate Banorte Cayman under a Category "B" Banking License, under the Banks and Trust Companies Law (2003 Revision) (the "CI Banking Law") of the Cayman Islands. This license is unrestricted allowing Banorte Cayman to conduct business with other licensees and offshore companies and not to engage in business locally with the public or residents of Cayman Islands, subject to the terms of local regulatory requirements. This license does not allow Banorte Cayman to take deposits from residents of the Cayman Islands, or invest in any asset representing a claim on any person resident in the Cayman Islands, subject to certain exceptions such as exempted or ordinary non-resident companies and other licensees.

Activities

The main activities of Banorte Cayman are:

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

Regulation of Banorte Cayman

Under Mexican law, the obligations of Banorte Cayman are obligations of Banorte as a whole. Indeed, Banorte Cayman is subject to the regulations issued by the CNBV and Banco de Mexico, including liquidity requirements. See "Supervision and Regulation—Reserve Requirements and Liquidity Coefficients."

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

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

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

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

Banorte Cayman has been granted an unrestricted "B" License.

There are no specified ratio or liquidity requirements under the Banks and Trust Companies Law (2003 Revision). However, the Monetary Authority will expect observance of prudent banking practices and follows the guidelines and recommendations of the Basle Committee for Bank Regulation and Supervisory Practices for the calculation of capital adequacy ratios (risk asset ratios).

RISK MANAGEMENT

General

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

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

Risk Management Organizational Structure

Our risk management has traditionally been delegated to a CPR Committee, established in 1997 in advance of the Mexican regulatory requirement to do so. The CPR Committee reports directly to our Board of Directors the strategies to be followed in order to accomplish risk-return objectives. The CPR Committee currently (i) decides on the strategies and policies related to mitigating financial risks, including the setting of risk limits, (ii) evaluates our overall risk-return ratio, (iii) analyzes catastrophic event and stress testing scenarios, (iv) defines and monitors the general strategy for the asset and liability ratio, (v) defines our general pricing processes and monitors their effects, and (vi) analyzes the impact of new products on our asset and liability ratio. Our Board of Directors reviews and approves the strategies and limits set by the CPR Committee. The CPR Committee includes seven members (including Othón Ruiz Montemayor, who has tendered his resignation to be effective February 15, 2004) of our Board of Directors (one of whom serves as Chairman), our Corporate General Director, our General Director of Integral Risk Management Office, our Business Area Directors (who do not have voting power on the CPR Committee) and our General Director of Auditing (who does not have voting power on the CPR Committee). The CPR Committee meets on a monthly basis or more frequently, as needed.

The CPR Committee receives information on a monthly basis with respect to credit risk, market risk, operational risk and liquidity risk. Credit committees and workout committees report to the CPR Committee with information regarding credit risk, the Treasury Committee reports with information regarding market risk, the Assets and Liabilities Committee (the "ALCO Committee") reports with information regarding liquidity risk and each of the Technology and Operations Committee, the Communication and Control Committee, the New Products Committee and the Fiduciary Business Committee reports with information regarding operational risk. The Integral Risk Management Office prepares a weekly report regarding liquidity.

Our Integral Risk Management Office is comprised of four specialized divisions, which directly report to the General Director of each of the respective divisions: (i) credit risk management, (ii) market risk management, (iii) operational risk management and (iv) risk policy management.

Credit Risk

Credit Policies

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

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

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

Individual Loan Credit Risk Evaluation

Consumer Lending

We perform credit analyses of our individual consumer loans through the computerized consumer credit scoring system known as "DIANA," which we began to use in February 2000. DIANA is based on a scoring system used primarily in Europe and the United States in the financial and automotive sectors. DIANA considers such factors as a borrower's income, expenses, repayment capacity, demographic data, personal assets and credit history.

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

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

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

Commercial Lending

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

Account officers are responsible for reviewing commercial loan applications. Each loan application is classified according to its industry sector and is then reviewed by a credit officer. In the case of loans exceeding 2,000,000 UDIs, the account officer must present a proposal to either: (i) one of our six Territorial Credit Committees, (ii) our National Credit Committee or (iii) our Central Credit Committee, depending on the loan amount approval intervals as indicated below:

<u>Credit Committee</u>	<u>Loan Amount Approval Intervals</u>
Central Credit Committee.....	85,000,000 UDIs to 15% of our net capital
National Credit Committee	11,000,000 UDIs to 85,000,000 UDIs
Territorial Credit Committee (located in Monterrey, Mexico, D.F. and Western Mexico).....	2,000,000 UDIs to 11,000,000 UDIs
Territorial Credit Committee (located in Northeastern, Northwestern and Southeastern Mexico).....	2,000,000 UDIs to 8,000,000 UDIs

Loans for less than 2,000,000 UDIs do not need committee approval, but are approved by two of our officers, one of whom must be a senior credit officer. Under Mexican Banking Law, loans above 15% of our net capital and loans to a related party must be presented to our Board of Directors for approval. In addition to our internal lending limits, we are also subject to certain lending limits imposed by law. For a discussion of these regulatory requirements, see "Supervision and Regulation—Lending Limits."

Individual Loan Credit Risk Measurement

Individual loan credit risk is identified and measured by us through the use of target markets, risk acceptance criteria and an internal credit rating model. Since the first quarter of 2001, we have used our own credit grading system ("CIR Banorte"), which is based on the Loan Classification Rules, to calculate borrower risk. In addition, we also use the Loan Classification Rules to evaluate borrower risk and calculate a rating on a loan by loan basis. See "Selected Statistical Information—Grading of Loan Portfolio." For small loans in

the amount of up to approximately Ps.3.2 million, we utilize the scoring system DIANA. Mortgage loans, consumer loans and credit cards are classified using the relevant CNBV Regulation.

Credit Risk Rating Model—CIR Banorte

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

In September 2000, the CNBV issued the Loan Classification Rules, in which it proposed a methodology for assigning a rating to each client and a grade to each loan in order to estimate probable loss and define the percentage of necessary reserves. This regulation permits us to use an internal methodology to assign a risk rating per client with prior assessment and certification from the CNBV.

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

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

The evaluation of the different criteria mentioned above is reflected by a single credit risk grade using our CIR Banorte system. CIR Banorte grades range from 1 to 10, with 1 representing minimum risk and 10 representing maximum risk. To receive a loan, the risk grade must be between 1 and 5. Although our grading methodology is substantially different from that of the CNBV, the following table indicates the approximate equivalence between our grades and those of the CNBV:

<u>Risk Level</u>	<u>Banorte Grade</u>	<u>CNBV Grade</u>
Minimum	1	A1
Low	2	A2
	3	A2
	4	B
Medium	5	B
	6	C1
	7	C2
High	8	C2
	9	D
	10	E

In addition to our internal lending limits, we are also subject to certain lending limits imposed by law. For a discussion of these regulatory requirements, see "Supervision and Regulation—Lending Limits."

Account officers are responsible for assigning risk ratings according to our CIR Banorte grading system. These ratings are used as a part of the credit risk review process with the objective of evaluating the quality of our loan assets, and identifying the risk level represented by each borrower through the assignment of an individual risk rating. The CIR Banorte grades are assigned depending on the overall credit exposure of the borrower rather than the default risk of an individual loan. In addition, the grades are based on the borrower's credit history, current payment ability, projected payment ability and collateral support information.

The grading system also serves as a basis for analyzing changes in the quality of our loan portfolio, estimating the probability of non-compliance and expected losses, standardizing the credit selection process and determining the allowance for loan losses necessary to cover our loan portfolio risk. The grades are subject to internal audit, are updated as the risk is perceived to change and are reviewed every three months by the associated account officer. For loans in excess of 2,000,000 UDIs, they are also reviewed at

least once a year by the relevant credit committee. An account officer's analysis of a loan application is accompanied by a summary of major sources of risk.

Monitoring

We operate a central compliance operations center in Monterrey, Mexico, that monitors compliance with terms and conditions of loans. This central compliance operations center monitors the dates and payments of the loans, the conditions and covenants of the loans and any authorized exceptions to standard procedures.

The monitoring process also includes verification of the use of proceeds and contractual conditions, financial analysis of the borrower and guarantors, on-site visits to the borrower's place of business, confirmation of credit bureau information and analysis of the economic environment, among others.

Workout

The workout and recovery of problem loans is an important business area for us. In 1997, we created a specialized workout unit (or *banco de recuperacion*), seeking to maximize the recovery of non-performing and problem loans, as well as foreclosures and execution on collateral.

As a result of its performance and in order to acquire or manage third party portfolios, we decided to spin-off the workout unit as our non-consolidated subsidiary of Sólida. Sólida is dedicated to servicing distressed loans for us and Bancentro, as well as servicing its own loan portfolio of distressed loans. Our workout unit manages not only our non-performing portfolios originally transferred to Sólida in 1997, but Sólida has also acquired significant portfolios primarily from IPAB and other Mexican banking institutions.

In order to take full advantage of Sólida's Mexican experience and infrastructure, we and Sólida are currently in the process of implementing a permanent program to transfer non-performing and problem loans from us to Sólida under conditions acceptable to both entities. This program will not only help us recover our non-performing and problem loans in a more efficient way, it will also liberate time and efforts that we had previously devoted to recovery efforts and will allow us to direct our efforts more efficiently.

Credit Exposure Resulting from Derivative Financial Instruments

Credit exposure from derivative financial instruments arises from the risk that customers or counterparties will default on their obligations to us. In order to reduce this risk, each customer or counterparty engaged in these transactions must have either a trading line of credit, which takes into account the trading risk for each customer or counterparty, or a collateral deposit. The amount of risk implied in derivative financial instrument transactions, measured as the potential credit exposure, is added to the total risk authorized for a specific customer and must be authorized by a credit committee. In order to quantify the amount of line of credit utilized by a specific customer or counterparty in a derivative financial instrument transaction, the Risk Management Unit calculates, by use of statistics and volatility levels, the maximum expected credit exposure within a pre-defined confidence level. This amount is the potential credit exposure and corresponds to an amount that must be withheld from the customer's or counterparties' line of credit. Lines of credit are monitored during the day by a support area of the Risk Management Unit and by the Risk Management Unit at the end of each day.

Line of credit limits are determined in terms of notional amounts in light of the underlying credit exposure, which is calculated by the Credit Risk Management System. In addition, this risk is monitored on a daily basis in a counterparty credit risk report for the positions held by each counterparty. This report is prepared by the Risk Management Unit and distributed to traders, the Treasury Division, our Chief Executive Officer and the Auditing Unit among others.

Portfolio Risk

We have an integrated bank-wide risk assessment system that provides us with sophisticated risk measurement tools and risk management practices. We use two measures for this purpose:

- Expected loss represents the long-term average loss rate expected for a portfolio based on our current credit quality. Expected loss is determined by using a credit score to reflect the expected default frequency of a borrower, and a second measure to reflect the likely loss in the event of default given the characteristics of the credit facility; and
- Unexpected loss represents the uncertainty that actual losses will, in fact, differ from expected losses.

We have designed a portfolio risk methodology utilizing internationally recognized practices in the identification, measurement, control and follow-up of portfolio risk. We have adapted these techniques and methodologies to the current conditions of the Mexican financial system in order to better assess portfolio risk.

This portfolio risk methodology involves calculating the current value of the portfolio, or loan exposure, which is sub-divided into categories, including rating, geographical region, economic activity, currency and type of product, in order to better understand the characteristics of the portfolio and take action to guide it toward a diversification that will maximize profitability with the lowest risk.

In order to determine portfolio credit risk, it is necessary to calculate, with respect to each loan, expected cash flows, probability of default and the percentage of recovery in the event of a default. The results from these calculations help us to determine expected and unexpected loss at a one-year horizon. The expected loss is the portfolio's loss distribution average. The unexpected loss is the maximum loss suffered by the portfolio at a specific confidence level given the loss distribution average. The expected and unexpected loss calculations are used to make decisions and better diversify the portfolio in accordance with our strategy. The portfolio risk methodology and the underlying individual loan calculations are periodically reviewed and updated.

Liquidity Risk

Liquidity risk arises when an unusual increase in withdrawals of deposits creates the need to increase funding positions at a high cost or liquidate asset positions in the short-term at significantly reduced prices. The purpose of managing liquidity risk is to minimize the cost of funds through adequate coverage of liquidity needs that arise in either the ordinary course of business or from unforeseen events.

The Treasury Division is responsible for maintaining adequate liquidity levels in Pesos, UDIs and foreign currencies. Our principal sources of Peso funding are customer deposits, which are highly concentrated in non-interest-bearing checking accounts, short-term notes with interest due at maturity and interest-bearing demand and time deposits. Our principal source of dollar funding is provided by our customer deposits.

We believe that it is necessary to have an information system capable of identifying, measuring, monitoring and limiting our liquidity risk. In addition, we also believe it is necessary to evaluate the structure of our balance sheet in order to avoid unnecessary concentrations in funding sources and to measure the impact of the structure of our balance sheet and certain business decisions on our earnings and stockholders' equity.

Operational Risk

Operational risk is the risk of direct or indirect loss resulting from inadequate or failed internal processes, personnel, and systems or from external events, including legal risk, but excluding strategic risk.

In January 2003, we created a new unit, the Operational Risk Management Unit, responsible for assessing and dealing with operational risk. The Operational and Risk Management Unit has instituted a comprehensive five-year plan designed to implement operational risk strategies and record operational risk events, which plan was approved by our Risk Management Committee and involves the following activities: (i) identifying main sources of operational risk data, (ii) creating databases and software to make analysis and reports and to compute operational Value-At-Risk, (iii) acquiring software and testing software, (iv) implementing software and (v) creating reports through the management and information system.

The Operational Risk Management Unit has started registering operational risk events in a database with the data recommended by the Basle II Accord, including business lines, type of event, cause, effect and amount of loss, among others, in an effort to calculate capital allocation and "Op VaR" under the advanced method approach. The operational risk events will be evaluated based on severity and frequency and will be classified as one of four different types of risk: visible, secondary, primary and invisible.

The Operational Risk Management Unit works closely with our Internal Audit Unit and our Internal Comptroller Unit in an effort to improve our internal controls, which are important factors in managing operational risk. The Operational Risk Management Unit and the Internal Comptroller Unit jointly establish policies and procedures designed to improve processes and mitigate operational risk.

In September 2001, the CNBV issued Regulation 1506 in an effort to help banks efficiently manage operational risk. The main points of this Regulation 1506 are: (i) reinforcement of internal controls, (ii) enhancement of information process systems, (iii) enforcement of business continuity planning and (iv) reliable documents custody. We believe that we are in compliance with Regulation 1506.

Market Risk

Our exposure to market risk arises from trading and investment in financial instruments, where interest rates, foreign exchange rates (principally the Peso/U.S. dollar exchange rate) and Eurobond prices are the main sources of market risks, as well as from traditional banking services such as deposit taking and lending where the balance sheet is exposed to interest rate and foreign exchange risks.

Trading Position

Treasury and trading positions are evaluated on a daily basis for market risk using "Value-At-Risk" methodology. In addition, daily information regarding risk versus limits is assessed. For balance sheet risk and asset and liability risk management, simulation models and stress testing are used to evaluate risk in different scenarios and to improve performance of funding and investing strategies. Our treasury positions are intended to reduce balance sheet risk and to hedge certain long-term positions.

Our risk management unit uses non-parametric historical simulation to calculate Value-At-Risk through the simulation of the effect of the previous 500 historical scenarios. Our current portfolio is exposed to various factors directly affecting the valuation of portfolios (e.g., local interest rates, foreign interest rates and exchange rates, among others). Historical simulation is the central measure against which limits are compared.

Historical data of market parameters such as interest rate curves, foreign exchange prices and stock indexes for the last two years is available for Value-At-Risk calculations. The information presented below corresponds exclusively to our positions as of September 30, 2003. Value-At-Risk is calculated to represent the maximum loss at a 99% confidence level due to changes in market values of trading and structural positions. During the first nine months of 2003, daily Value-At-Risk did not exceed Ps.220 million. The following table sets forth the average, maximum and minimum values of the weekly Value-At-Risk for the nine months ended September 30, 2003:

	<u>Average</u>	<u>Maximum</u>	<u>Minimum</u>
	<u>(Ps. millions)</u>		
Local interest rates	33.41	100.47	10.24
Foreign interest rates	85.09	123.07	13.62
Foreign exchange rate.....	58.31	161.75	1.94
Eurobonds prices	166.20	200.56	97.73
Total.....	152.80	217.14	115.01

Stress testing and scenario analysis methods are used to complement the Value-At-Risk methodology. Stress testing involves the creation of scenarios based on infrequent or catastrophic events in order to evaluate contingencies, and is of particular importance during periods of high volatility or illiquid markets. The scenario analysis method is used to create hypothetical or expected market shifts. Sensitivity analysis shows the effect on positions caused by predetermined changes in market variables (for example a 1% increase or decrease in interest rates).

Structural Interest Rate Risk

A majority of our non-trading interest-bearing Peso liabilities generally reprice more frequently than our interest-earning assets. For this reason, the ALCO Committee monitors our maturity exposures and positions. We seek to manage our assets and liabilities to reduce any potential adverse impact on our results of operations and financial position that might result from changes in interest rates.

As discussed in connection with our trading position, balance sheet risk and asset and liability risk management, simulation models and stress testing are used to evaluate risk in different scenarios and improve performance of funding and investment strategies. The two primary methods used to estimate the interest rate risk of the balance sheet portfolio are scenario analysis and interest rate simulation.

GOVERNMENT SPONSORED SUPPORT FUNDS

General

The following table sets forth the principal terms and balances of the notes issued by FOBAPROA and IPAB to us as of September 30, 2003:

<u>Note</u>	<u>Original Principal Amount⁽⁴⁾</u> (Ps. million)	<u>Balance⁽⁵⁾</u> (Ps. million)	<u>Denominatio n</u>	<u>Term</u>	<u>Maturity</u>	<u>Interest Rate</u>	<u>Interest Payment</u>
FOBAPROA I ⁽¹⁾	1,456	4,397	Pesos	10 years	2005	91-day CETES minus 1.35%	Capitalized
FOBAPROA II ⁽¹⁾	1,783	6,479	Pesos	10 years	2006	91-day CETES minus 1.35%	Capitalized
FOBAPROA II ⁽¹⁾	217	128	U.S. dollars	10 years	2006	6-month LIBOR plus 1.00%	Capitalized
FOBAPROA III ⁽¹⁾	467	1,394	Pesos	10 years	2006	91-day CETES	Capitalized
IPAB (Bancrer) ⁽²⁾	102,200	46,149	Pesos	10 years	2009	TIIE plus 0.40%	Paid monthly
IPAB (Bancentro and Banpaís) ⁽³⁾	35,248	29,871	Pesos	10 years	2010	TIIE plus 0.85%	Paid monthly
Total	141,371	88,418					

(1) Interest in respect of the FOBAPROA notes is capitalized.

(2) At the time of our acquisition of Bancrer, the outstanding balance was approximately Ps.45,940 million due to prepayments made by IPAB prior to the acquisition.

(3) These obligations were initially notes issued by FOBAPROA and were refinanced in 2000, thus becoming obligations of IPAB with a 10-year maturity.

(4) On the respective issuance date.

(5) In millions of Pesos as of September 30, 2003.

FOBAPROA

Introduction

Commencing in 1995, the Mexican government adopted several measures to support the Mexican banking sector, including expanding the role of FOBAPROA, which previously served as a deposit insurance trust. FOBAPROA is a trust administered by Banco de Mexico that, prior to its replacement by IPAB, supported Mexican banking institutions with liquidity problems. Currently, FOBAPROA's sole purpose is to manage existing recapitalization programs. Pursuant to certain programs relating to recapitalization and the purchase of loan portfolios in exchange for a commitment on the part of certain banks to increase their capital within a certain time frame, the Mexican government, through FOBAPROA, agreed to purchase certain troubled loans from such banks. Originally structured as transfers of assets, these transactions were finally restructured as transfers of rights to future cash flows generated by the loans. The transferred loans are held in trusts established by each participating bank. Each trust is administered by a technical committee consisting of eight members, which has the right to make final decisions concerning the portfolios of the loans underlying the rights transferred to FOBAPROA and to formulate policies for the management of these portfolios. Since 1997, FOBAPROA has generally permitted banks to apply their own respective procedures and policies when managing such loan portfolios, thereby minimizing the roles of FOBAPROA and the technical committees.

Unless otherwise indicated, figures presented in this section (including the tables) are in nominal Pesos that have not been restated in constant currency units.

Banorte

Under the terms of our FOBAPROA program relating to the recapitalization and the purchase of loan portfolios, we completed our capital-raising through several transactions, each of which was assigned a weighted value by FOBAPROA corresponding to a portion of the loans transferred. The transactions constituting FOBAPROA programs relating to the recapitalization and repurchase of loan portfolios are set out in the following table:

	Actual capital increase	Net loan sale
	(Ps. millions)	
FOBAPROA I:		
Issuance of Banorte stock ⁽¹⁾	550	1,100
Non-convertible subordinated floating rate debentures ⁽²⁾	500	500
Sub-total.....	1,050	1,600
FOBAPROA II:		
Issuance of Banorte stock ⁽³⁾	500	1,000
Casa de Bolsa's managed funds holding company merger ⁽⁴⁾	22	44
Casa de Bolsa's managed fixed-assets merger ⁽⁵⁾	53	106
Mandatorily convertible subordinated debentures ⁽⁶⁾	425	850
Sub-total.....	1,000	2,000
FOBAPROA III:		
No capital increase requested by FOBAPROA	—	467
Sub-total.....	—	467
Total.....	2,050	4,067

- (1) In October 1995, our Board of Directors approved and formalized an increase in equity through the issuance of 5,500 million shares of stock for a total of Ps.550 million.
- (2) In October 1997, our Board of Directors approved the issuance of Ps.500 million in non-convertible subordinated floating rate debentures with a maturity date in December 2003.
- (3) In April 1998, the Board of Directors approved an increase of Ps.540 million, which was subscribed by GFNorte. The resources came from the issuance of mandatorily convertible obligations by GFNorte.
- (4) As a result of the transfer of the fixed assets of Casa de Bolsa Banorte to Banoperadora, the managed funds formerly administered by Casa de Bolsa Banorte were merged into us in March 1997.
- (5) In March 1997, the fixed assets of Casa de Bolsa Banorte were separated from that entity and merged into us.
- (6) In November 1997, our Board of Directors approved the issuance of Ps.425 million principal amount in mandatorily convertible subordinated debentures in December 1997 with a maturity of 5 years and a variable interest rate.

In addition to the transfer of loans to FOBAPROA, we transferred to FOBAPROA certain foreclosed real estate assets as more fully described below.

Transfer of Loans

FOBAPROA I

In November 1995, we entered into an agreement with FOBAPROA (subsequently amended on several occasions between November 1995 and December 1997) providing for the transfer by us to FOBAPROA of certain commercial loans for a total amount of Ps.1,600 million of net loans, which consisted of Ps.1,814 million of gross loans and Ps.214 million of loan loss allowances. We refer to this transaction as FOBAPROA I. The loans were transferred to a special trust administered by us. In consideration for the loans that were denominated in Pesos, FOBAPROA delivered to us three 10-year notes issued by FOBAPROA, having principal balances equal to Ps.835 million, Ps.284 million and Ps.315 million. Interest on the FOBAPROA I notes is capitalized

quarterly and accrues by reference to the rate for 91-day CETES minus 135 basis points. For the U.S. dollar-denominated loans, FOBAPROA made a contractual commitment to pay us an aggregate amount of U.S.\$21.9 million. As of September 30, 2003, the contractual commitment derived from the FOBAPROA I loans that were denominated in U.S. dollars had been converted to Pesos and accrues interest by reference to the rate for 91-day CETES minus 135 basis points. Although there were no additional notes issued with respect to the amounts converted to Pesos, these amounts were added to the outstanding amount of the FOBAPROA I notes. The composition of the gross loan portfolio transferred to FOBAPROA pursuant to FOBAPROA I is set out in the following table:

	Net loan sale	Percentage of total loans sold
	(Ps. millions)	
Commercial Loans:		
Peso-denominated	1,403	87.7%
Foreign-denominated	144	9.0
UDI-denominated	52	3.3
Total	<u>1,600</u>	<u>100.00%</u>

Non-performing loans constituted approximately 50% of the portfolio transferred to FOBAPROA under the applicable standards for grading loans at the time of the transfer of the loans, although 100% of that portfolio would be deemed non-performing in the current grading standards.

Collections on the loans transferred to FOBAPROA are deposited in a checking account opened on behalf of the special trust administered by us and, at the instruction of FOBAPROA, may be transferred to us to prepay, in whole or in part, the FOBAPROA I notes. The outstanding principal amount of the FOBAPROA I notes is reduced by any amount so transferred. In addition, the collections on the loans that are deposited with the special trust bear interest at the same rates as the FOBAPROA I notes. In the event that collections on the loans deposited with the special trust permit the full amortization of the FOBAPROA I notes prior to maturity, all loans and other assets then remaining in the special trust will be transferred to us.

At maturity, after applying all amounts held by the special trust to reduce the principal amount of the FOBAPROA I notes outstanding, FOBAPROA will repurchase the FOBAPROA I notes at 71% of their remaining outstanding principal amount, (including interest accrued and capitalized through such date). Consequently, under the Loss-Sharing Contingency, we will bear 29% of the collection risk on amounts of principal and interest on the loans transferred to the special trust pursuant to FOBAPROA I to the extent such amounts have not been collected at or prior to the maturity of the FOBAPROA I notes. Following the loan sales to FOBAPROA, we continue to manage and administer the loans and may at any time repurchase any of such loans. Since 1999, we have created reserves against our revenues to fully cover the loss-sharing contingencies associated with the FOBAPROA I transactions. In addition, in September 2000, the CNBV authorized us to charge provisions directly to stockholders' equity in the amount of Ps.1,654 million to partially reserve our loss-sharing contingencies associated with the FOBAPROA I and FOBAPROA II transactions.

FOBAPROA II

In January 1997, we entered into an agreement with FOBAPROA (subsequently amended in March 1998), effective as of June 1996, providing for the transfer by us to FOBAPROA of certain commercial loans for a total amount of Ps.2,000 million of net loans, which consisted of Ps.2,134 million of gross loans and Ps.134 million of loan loss allowances. We refer to this transaction as FOBAPROA II. The loans were transferred to a special trust administered by us. In consideration for the loans that were denominated in Pesos, FOBAPROA delivered to us one 10-year note issued by FOBAPROA, having an aggregate principal amount equivalent to Ps.1,782 million. Interest on the FOBAPROA II note is capitalized quarterly and accrues by reference to the rate for 91-day CETES minus 135 basis points. For the U.S. dollar-denominated loans, FOBAPROA made a commitment to pay us an aggregate amount of U.S.\$29 million, which accrues interest at a rate of six-month LIBOR, plus 100 basis points. Since 1999, the contractual commitment derived from FOBAPROA II loans that were denominated in U.S. dollars have been gradually converted into Pesos upon providing one month's notice to IPAB. Between July 1999 and January 2003, we have caused approximately U.S.\$30 million or Ps.286 million of such contractual commitment to be converted to Pesos, which now accrue interest by reference to the rate for 91-day CETES minus 135 basis points. Although no additional notes are issued with respect to the amounts converted to Pesos, these amounts are added to the outstanding amount of the FOBAPROA II note. The composition of the gross loan portfolio transferred to FOBAPROA pursuant to FOBAPROA II is set out in the following table:

	<u>Amount</u> <u>(Ps. millions)</u>	<u>Percentage of</u> <u>total loans sold</u>
Commercial Loans:		
Peso-denominated	1,139	56.0%
Foreign-denominated	217	10.8
UDI-denominated	644	32.2
Total	2,000	100.0%

At maturity, after applying all amounts held by the special trust to reduce the principal amount of the FOBAPROA II note and contractual commitment that remain outstanding, FOBAPROA will repurchase the FOBAPROA II note and the contractual commitment at 75% of their remaining outstanding principal amount, (including interest accrued and capitalized through such date). Consequently, under the Loss-Sharing Contingency, we will bear 25% of the collection risk on amounts of principal and interest on the loans transferred to the special trust pursuant to FOBAPROA II to the extent such amounts have not been collected at or prior to the maturity of the FOBAPROA II note and the contractual commitment.

We may have an additional liability, depending on the level of recoveries, in connection with the commercial loans transferred to FOBAPROA pursuant to FOBAPROA II as a result of an incentive program contingency. If our level of recoveries with respect to the commercial loans associated with the incentive programs is less than 20% of the total amount of such loans, we will be required to pay the entire amount of the related contingency.

Since 1999, we have created reserves against our revenues to cover the loss-sharing and the incentive program contingencies associated with the FOBAPROA II transactions. In addition, on September 2000, the CNBV authorized us to charge provisions directly to stockholders' equity in the amount of Ps.1,654 million to partially reserve our loss-sharing contingencies associated with the FOBAPROA I and FOBAPROA II transactions.

Our collective Loss-Sharing Contingency under our FOBAPROA I notes and FOBAPROA II note and the contractual commitment derived from FOBAPROA II U.S. dollar-denominated loans that remain outstanding as of September 30, 2003 is Ps.2,451 million, with respect to which we have established loan loss reserves of Ps.2,451 million.

FOBAPROA III

In June 1997, we entered into an agreement with FOBAPROA providing for the transfer by us to FOBAPROA of a loan portfolio for a total amount of Ps.467 million. We refer to this transaction as FOBAPROA III. The loans were transferred to a special trust administered by us. In consideration for the loans, FOBAPROA delivered to us a 10-year note issued by FOBAPROA, having a principal balance equal to Ps.467 million and accruing interest at a rate equal to 91-day CETES. There is no Loss-Sharing Contingency or an incentive scheme under our FOBAPROA III note.

Transfer of Foreclosed Real Estate Assets

In October 1996, we entered into an agreement with FOBAPROA to transfer Ps.352 million of foreclosed real estate assets to a trust. In exchange for the transferred assets, we recorded a receivable in an amount equivalent to the value of the assets and with the same maturity date as the trust. This account receivable accrued interest at a rate of 28-day TIIE, which capitalized on a monthly basis. On September 30, 2001, the trust was terminated and we cancelled the account receivable, which totaled Ps.734.1 million. In exchange for the cancellation of the receivable, we received from the trust the related unsold real estate assets, which amounted to Ps.243 million.

Other Capitalization Notes

As a result of our acquisition and subsequent merger of Banpaís, we acquired a promissory note originally issued to Banpaís in the principal amount of U.S.\$606 million (nominal value as of January 31, 2000). This note was prepaid in full on October 29, 2002.

IPAB

Effective January 20, 1999, FOBAPROA was replaced by IPAB. IPAB was created pursuant to the IPAB Law to manage the bank savings protection system and regulate financial support granted to banks. In accordance with the IPAB Law, IPAB assumed the rights and obligations of FOBAPROA.

Under the new IPAB Law, banks will have the option to exchange the FOBAPROA notes for notes issued by IPAB. IPAB notes are expected to have terms and bear interest substantially similar to those of the FOBAPROA notes, although no assurance can be given that IPAB will not require an amendment to these terms. IPAB notes will be classified in two types: "A" and "B." Type "A" notes will be issued by a trust to IPAB and IPAB will transfer them to us in an amount anticipated to equal to that portion of the FOBAPROA notes plus accrued and capitalized interest that is not subject to our Loss-Sharing Contingency minus amounts of participation losses. Type "B" notes will be issued by the trust that holds the transferred loans in an amount equal to that portion of the FOBAPROA notes plus accrued interest that represents our Loss-Sharing Contingency.

In June 2002, we, along with three other Mexican banks, received notification from IPAB setting forth certain procedures and conditions for the exchange of such FOBAPROA notes for IPAB notes. These procedures include a review by IPAB of the existence of the loans originally transferred to FOBAPROA, a continuing review of our performance in connection with the collection of such loans and a determination by IPAB as to whether such loans were properly and legally made. Possible effects of such review could be that certain of such loans will be returned to us by IPAB, that the corresponding principal amount of the related FOBAPROA note will be reduced and that additional reserves may be required to be recorded by us in respect of the returned loans. We and other banks believe that IPAB does not have a legal basis to perform a new review of the loans originally transferred or to determine whether such loans were legally made. In July 2002, we and the other three banks filed an injunction (*juicio de amparo*) in a Mexican federal court requesting the suspension of the effectiveness of certain procedures and conditions for the exchange of FOBAPROA notes for IPAB notes set forth in a letter that we and the other banks received from IPAB in June 2002. In September 2003, the Mexican federal court ruled in favor of the banks and IPAB subsequently filed a motion to appeal the Mexican federal court's decision. We cannot predict the outcome of the ruling on IPAB's motion to appeal and we cannot assure you that we will receive a favorable ruling on this motion. We and the other three banks are in the process of discussing with IPAB the procedures and conditions for any review or new audit that IPAB may undertake in connection with the exchange of the FOBAPROA notes. We cannot predict the effect that IPAB's proposed review of loans and other procedures set forth in the letter may have on the value of our FOBAPROA notes. It is possible that a reduction in the principal amount of our FOBAPROA notes might occur or that IPAB may require us to make additional reserves. We and the other three banks intend to exchange the FOBAPROA notes for IPAB notes; however, there is still uncertainty about the final outcome of the negotiations. If IPAB were to propose an agreement with terms not acceptable to us deriving from such negotiations, the currently existing FOBAPROA notes will be held to maturity. See "Risk Factors—Risks Relating to Our Business—Exchanging our FOBAPROA notes for notes issued by IPAB may result in a reduction in the principal amount of such notes and may require us to establish additional reserves."

Bancrecer

In November 1999, IPAB, in order to normalize Bancrecer's operations, reduce its operating expenses and prepare it for sale declared a precautionary intervention of Bancrecer and entered into a credit agreement with Banco de Mexico whereby Banco de Mexico provided IPAB with approximately Ps.102,200 million (nominal value) (U.S.\$9,280 million) in credit for the purpose of capitalizing Bancrecer. Also in November 1999, Banco de Mexico assigned its rights as lender under the credit agreement in favor of Bancrecer. From June 2000 to December 2000, IPAB made prepayments of approximately Ps.56,259 million (U.S.\$5,108 million) and the outstanding

balance was approximately Ps.45,940 million (U.S.\$4,171 million) as of September 30, 2003, bearing interest at a rate of 28-day TIIE plus 0.40%.

Bancentro and Banpaís

In November 2000, we entered into a credit agreement with IPAB in the amount of Ps.35,248 million (nominal value), pursuant to which IPAB issued four promissory notes with an aggregate principal amount of Ps.8,812 million (nominal value), each payable in 13 semi-annual installments of Ps.678 million and bearing interest at a rate of 28-day TIIE plus 0.85%. The purpose of the agreement was to refinance the original financial obligations that FOBAPROA had with Bancentro and Banpaís and that are now the obligations of IPAB. In August 2002, September 2002, June 2003, July 2003, October 2003, November 2003 and December 2003, IPAB made prepayments (each in nominal value) of Ps.1,250 million, Ps.1,250 million, Ps.740 million, Ps.2,220 million, Ps.740 million, Ps.2,220 million and Ps.4,050 million, respectively. In January 2004, we expect IPAB to make a prepayment of Ps.1,350 million. As of September 30, 2003, the outstanding aggregate balance was Ps.29,789 million (U.S.\$2,705 million).

MANAGEMENT AND EMPLOYEES

Employees and Labor Relations

As of September 30, 2003, we had approximately 12,671 employees on an unconsolidated basis. Approximately 43% of our employees were unionized as of such date. All upper-level management positions are held by non-union employees.

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

Management

Board of Directors

Management of our business is vested in our Board of Directors, which is composed of 11 regular members (including Othón Ruiz Montemayor, who has tendered his resignation, such resignation to be effective February 15, 2004) elected for one-year terms at our annual ordinary general meeting of shareholders and is responsible for the management of our business.

The following table sets forth our current directors and their alternates:

Directors

Roberto González Barrera
Rodolfo Barrera Villarreal
Jacobo Zaidenweber Cvilich (Independent)
Alejandro Álvarez Figueroa (Independent)
Richard Frank
José G. Garza Montemayor
Bertha González Moreno
Othón Ruiz Montemayor
Francisco Alcalá de León (Independent)
Eduardo Livas Cantú
Juan Diez-Canedo Ruiz

Alternate Directors

Juan Manuel Quiroga Garza
Jesús L. Barrera Lozano
Simón Nizri Cohen (Independent)
César Verdes Sánchez (Independent)
Alejandro Schwedhelm
David Villarreal Montemayor
Federico Valenzuela Ochoa
Manuel Sescosse Varela
Issac Becker Kabacnic
Germán Francisco Moreno Pérez
Javier Vélez Bautista
José Antonio Díaz Vicente

Members of our Board of Directors receive cash fees per meeting equal to the market value of two Ps.50 gold coins commonly referred to as *centenarios*.

Our by-laws provide that the Board of Directors may designate committees. Our principal committees are the following:

Executive Committee

Our Executive Committee has seven members (including Othón Ruiz Montemayor, who has tendered his resignation to be effective February 15, 2004) and is responsible for proposing and approving certain matters that normally would be considered by the Board of Directors, but which due to time constraints or other factors cannot be directly reviewed by the Board of Directors, and assigns certain matters to other committees and officers. The adoption of any resolutions by the Executive Committee is subject to ratification by our Board of Directors. The Executive Committee may also recommend to the Board of Directors loans in excess of up to 15% of our net consolidated equity. The Committee is also responsible for calling any extraordinary meetings of our Board of Directors and may also resolve any matter for which it is expressly empowered by the Board of Directors. The current members of the Executive

Committee are Roberto González Barrera, Rodolfo Barrera Villarreal, Carlos Maldonado Quiroga, José G. Garza Montemayor, Jacobo Zaidenweber Cvilich, Alejandro Álvarez Figueroa and Othón Ruiz Montemayor.

Audit Committee

Our Audit Committee has seven members (including Othón Ruiz Montemayor, who has tendered his resignation to be effective February 15, 2004) and its primary purpose is to give support to the Board of Directors in connection with the external and internal audit of us and to deliver information to the Board of Directors, shareholders and the general public. The Audit Committee is responsible for proposing the selection of statutory auditors, accounting policies, analyses of profits and losses, an evaluation of the code of ethics and an evaluation and determination of what information should be presented to the public. The current members of the Audit Committee are: Francisco Alcalá de León, Eduardo Livas Cantu, Alejandro Alvarez Figueroa, Othón Ruiz Montemayor, Javier Vélez Bautista, Juan Diez-Canedo Ruiz and Fernando Olvera Escalona.

Risk Policy Committee

Our Risk Policy Committee is comprised of voting and non-voting members. The objective of the Risk Policy Committee is to manage our risk. The current voting members are: Rodolfo Barrera Villarreal, Francisco Alcalá de León, Alejandro Alvarez Figueroa, Juan Diez-Canedo Ruiz, Eduardo Livas Cantú, Juan Manuel Quiroga Garza, Othón Ruiz Montemayor, Javier Vélez Bautista, Carlos Herrera Prats, Enrique Castellón Vega and Gerardo Coindreau Farias. Current members without voting rights are: Enrique Catalán Guzmán, Miguel Angel García Padilla, Sergio García Robles Gil, Eugenio López Macías, Antonio Ortiz Cobos, Alejandro Ramos Larios, Manuel Sescosse Varela, Federico Valenzuela Ochoa, Jose Rocha Vacio, Román Martínez Méndez, Aurora Cervantes Martínez and Jorge A. García Garza.

Alternate Directors

Alternate Directors have been appointed at our annual shareholders' meeting to substitute for Directors in their permanent or temporary absences. An Alternate Director attends meetings of our Board of Directors when called to substitute for a Director.

Statutory Auditors

In addition to the Board of Directors, our by-laws provide for a statutory auditor to be designated at a special meeting of shareholders and, if determined at such meeting, an alternate statutory auditor. Under Mexican law, the duties of statutory auditors include, among other things, the examination of the operations, books, records and any other documents of a company and the presentation of a report of such examination at the annual ordinary general meeting of shareholders.

The following persons are our statutory auditors:

Principal Statutory Auditors	Alternate Statutory Auditors
Carlos Arreola Enríquez	Fernando Morales Gutierrez

Principal Officers of Banorte

The following persons are our principal officers:

<u>Name</u>	<u>Position</u>	<u>Years with Banorte</u>	<u>Age</u>
Roberto González Barrera	President	10	73
Othón Ruiz Montemayor.....	Chief Executive Officer	7	60
Juan Manuel Quiroga Garza	Corporate General Director	9	56
Federico Valenzuela Ochoa.....	General Director of Administration and Finance	18	55
Sergio García Robles Gil	General Director of Planning and Control	9	43
Manuel Sescosse Varela	General Director of Banking	10	51
Enrique Castellón Vega	General Director of Long-Term Savings Sector	7	62
Miguel Angel García-Padilla Fernández.....	General Director of Recovery Banking	8	49
Aurora Cervantes Martínez	General Director of the Legal Department	7	38
Román Martínez Méndez.....	General Director of Auditing	8	66
Gerardo Coindreau Farías.....	General Director of Integral Risk Management	6	49
Gerardo Soto Pérez.....	General Director of Human Resources	8	46
Alejandro Ramos Larios	General Director of Technology and Operations	3	49
Cecilia Miller Suárez.....	General Director of Marketing	6	39
	General Director of the Office of Comptroller and		
Jorge Eduardo Vega Camargo	Special Projects	11	43
Eduardo Sastré de la Riva	General Director of Communications	9	51
Ricardo Acevedo de Garay	General Director of Fixed Income Operations	15	47
Enrique Catalán Guzmán.....	General Director of Entrepreneurial Banking	7	54
	General Director of Corporate Banking and		
Antonio Emilio Ortiz Cobos	International Business	6	51
	General Director of Government Banking and		
Rafael del Castillo Torre de Mer.....	Government Relations	3	42
Alejandro Valenzuela del Río	General Director of Institutional Relations	1	42
Jesús Oswaldo Garza Martínez.....	Monterrey Territorial Director	4	47
Marcelo Guajardo Vizcaya	Mexico City Territorial Director	4	45
David Alberto Salazar Vite	West Territorial Director	11	43
Juan Carlos Cuéllar Sánchez.....	Northeast Territorial Director	18	41
Juan Antonio de la Fuente Arredondo	Northwest Territorial Director	15	55
Jaime Leonides Ocampo	Southeast Territorial Director	6	49

Each of our principal officers has extensive experience in the banking industry. Set forth below is biographical information for each of our principal officers.

Roberto González Barrera, 73, President. Mr. González joined us in 1993. Mr. González is President of Grupo Maseca, S.A. de C.V. and GFNorte.

Othón Ruiz Montemayor, 60, Executive Vice Chairman of the Board of Directors and Chief Executive Officer. Mr. Ruiz Montemayor joined us in June 1996 and has a bachelor's degree in Public Accounting. Other entities for which Mr. Ruiz Montemayor has worked include Grupo VISA and the government of Nuevo León. Mr. Othón Ruiz Montemayor also serves as the Executive Vice Chairman of the Board of Directors and Chief Executive Officer of GFNorte.

Mr. Othón Ruiz Montemayor has tendered his resignation as Chief Executive Officer and member of our Board of Directors, such resignation to be effective February 15, 2004.

Juan Manuel Quiroga Garza, 56, Corporate General Director. Mr. Quiroga joined us in June 1994 and has a master's degree in Business Direction. Other companies for which he has worked include Atlantico and Banpaís.

Federico Valenzuela Ochoa, 55, General Director of Administration and Finance. Mr. Valenzuela joined us in March 1985 and has a bachelor's degree in Public Accounting. Other companies for which he has worked include AFIN Casa Bolsa, Grupo Técnico Asesor and Invermexico.

Sergio García Robles Gil, 43, General Director of Planning and Control. Mr. García joined us in October 1994 and has a master's degree in Business Administration. He has previously worked at Fina Consultores.

Manuel Sescosse Varela, 51, General Director of Banking. Mr. Sescosse joined us in February 1993 and has a bachelor's degree in Business Administration. Other companies for which he has worked include Bancen Multiva, Casa de Bolsa Probursa, Impresiones Sesvar and Sesscose Hnos. Constructores.

Enrique Castellón Vega, 62, General Director of Long-Term Savings Sector. Mr. Castellón joined us in November 1996 and has a bachelor's degree in Public Accounting. Other companies for which he has worked include Invermexico, Seguros Monterrey Aetna, Fianzas Monterrey and Seguros Monterrey.

Miguel Angel García-Padilla Fernández, 49, General Director of Recovery Banking. Mr. García-Padilla joined us in June 1995 and has a master's degree in Business Administration. Other companies for which he has worked include Gruma, Gimsa and Grupo Alfa.

Aurora Cervantes Martínez, 38, General Director of the Legal Department. Ms. Cervantes joined us in June 1996 and has a bachelor's degree in Law and Social Science. She has worked at Procuraduría General de la República.

Román Martínez Méndez, 66, General Director of Auditing. Mr. Martínez joined us in July 1995 and has a bachelor's degree in Accounting and a master's degree in Business Administration. He has worked at Grupo Industrial Maseca, S.A. de C.V.

Gerardo Coindreau Farías, 49, General Director of Integral Risk Management. Mr. Coindreau joined us in August 1997 and has a master's degree in Industrial Administration. Other companies for which he has previously worked include Serfin and Citibank.

Gerardo Soto Pérez, 46, General Director of Human Resources. Mr. Soto joined us in June 1995 and has a master's degree in Economics. Other companies for which he has worked include Productora e Impresora de Papel, S.A., Presidencia de la República and Instituto Mexicano de Comercio Exterior.

Alejandro Ramos Larios, 49, General Director of Technology and Operations. Mr. Ramos joined us in September 2000 and has a master's degree in Business Administration. Other companies for which he has worked include Banca Quadrum, Hidelbrando, BBV Probursa, Casa de Bolsa Probursa and Culliet Mexicana.

Cecilia Miller Suárez, 39, General Director of Marketing. Ms. Miller joined us in August 1997 and has a bachelor's degree in Marketing. Other companies for which she has worked include Duraligh de México and Industrias Cannon.

Jorge Eduardo Vega Camargo, 43, General Director of the Office of Comptroller and Special Projects. Mr. Vega joined us in August 1992 and has a master's degree in Economics. He has previously worked at Banco Internacional S.N.C.

Eduardo Sastré de la Riva, 51, General Director of Communications. Mr. Sastré joined us in March 1994 and has a bachelor's degree in Law. Other companies for which he has worked include Radio Programas de México, Canal 40 and MVS.

Ricardo Acevedo de Garay, 47, General Director of Fixed Income Operations. Mr. Acevedo joined us in November 1988 and has a bachelor's degree in Public Accounting. Other companies for which he has worked include Banco del Atlántico, Casa de Bolsa Banpaís, Afin Casa de Bolsa, Valores Mexicanos Casa de Bolsa.

Enrique Catalán Guzmán, 54, General Director of Entrepreneurial Banking. Mr. Catalán joined us in November 1996 and has a bachelor's degree in Chemical Industrial Engineering. Other companies for which he has worked include Fitchibca, Banpaís, Nacional Financiera and Productos Químicos Vegetales.

Antonio Emilio Ortiz Cobos, 51, General Director of Corporate Banking and International Business. Mr. Ortiz joined us in April 1997 and has a master's degree in Economics. He has previously worked at Bancomext and Citibank.

Rafael del Castillo Torre de Mer, 42, General Director of Government Banking and Government Relations. Mr. Castillo joined us in February 2000 and has a bachelor's degree in Law. He has previously worked at Bancrecer.

Alejandro Valenzuela del Río, 42, General Director of Institutional Relations. Mr. Valenzuela joined us in October 2003 and has a master's degree in Economics. He has previously worked at European Aeronautic Defense and Space Company, Ofavi, Laredo National Bank and Dexia Public Finance Bank.

Jesús Oswaldo Garza Martínez, 47, Monterrey Territorial Director. Mr. Garza joined us in August 1999 and has a master's degree in Finance. Other companies for which he has previously worked include BBV, Casa de Bolsa Probursa and Valores Finamex.

Marcelo Guajardo Vizcaya, 45, Mexico City Territorial Director. Mr. Guajardo joined us in February 1999 and has a master's degree in Administration. Other companies for which he has previously worked include Promex, Bancomer, Pulsar and Banamex.

David Alberto Salazar Vite, 43, West Territorial Director. Mr. Salazar joined us in April 1992 and has a master's degree in Business Administration. He has previously worked at Banamex.

Juan Carlos Cuéllar Sánchez, 41, Northeast Territorial Director. Mr. Cuellar joined us in May 1985 and has a master's degree in Business Direction.

Juan Antonio de la Fuente Arredondo, 55, Northwest Territorial Director. Mr. Fuente joined us in August 1988 and has a bachelor's degree in Public Accounting. Other companies for which he has previously worked include Banca Confia and Banamex.

Jaime Leonides Ocampo, 49, Southeast Territorial Director. Mr. Ocampo joined us in March 1997. He has previously worked at Banco Santander Mexicano.

RELATED PARTY TRANSACTIONS

Loans to Related Parties

Pursuant to Mexican rules and regulations, no loans may be made (i) to any bank officer or employee, except in connection with certain employee benefits, (ii) statutory auditors, including alternate statutory auditors; (iii) external auditors and (iv) certain close relatives of any of the persons mentioned in (i), (ii) and (iii) above. The CNBV may, upon request, grant exemptions from these provisions. As permitted by Mexican Banking Law, we currently provide loans to our employees at favorable rates.

Articles 73, 73 Bis and 73 Bis 1 of the Mexican Banking Law regulates and limits our loans to related parties, including loans to (i) holders of 2% or more of our shares or the shares of GFNorte or of an affiliate of GFNorte, (ii) principal and alternate members of our Board, or of the Board of GFNorte or of an affiliate of GFNorte, (iii) relatives of a Board member or of a 2% or more shareholder mentioned in (i) and (ii) above, (iv) any person not an officer or employee of us who, nevertheless, is empowered to bind us contractually, (v) an entity in which we or any of our directors or officers, or any of the persons included in subsections (i) to (v), holds, directly or indirectly, 10% or more of the outstanding capital stock, and (vi) board members, officers and employees of entities mentioned in (v) above. A three-fourths majority of our Board of Directors present at the relevant Board meeting must approve such loans. Prior to such approval, however, the loan must undergo our customary review procedures for loans, which vary depending on the nature and amount of the loan, except that such loans must always be reviewed and recommended by the Credit Committee. Loans for amounts of less than 2 million UDIs, or 1% of our Tier 1 capital, whichever is higher, do not require Board approval. In addition, certain filings must be made with the CNBV with respect to such loans.

As of September 30, 2003, our loans to related parties under Articles 73, 73 Bis and 73 Bis 1 totaled approximately Ps.3,754 million, which comprised 2.50% of our total loan portfolio at such date. Our loans to related parties are made on terms and conditions comparable to other loans of like quality and risk. Of all the related party loans outstanding on September 30, 2003, approximately 99.7% were graded "A" and 0.32% were graded "B" under the regulations of the CNBV.

Relationship with Bancentro

Our parent GFNorte completed its acquisition of Bancentro in June 1997. In December 2000, Bancentro's banking operations, including its branch network, loan portfolio (including non-performing loans) and FOBAPROA notes (which were subsequently converted into IPAB notes), were transferred to us. No consideration was paid in connection with this transaction. Currently, Bancentro engages in repurchase operations, maintains some non-performing loan portfolios, conducts trading activities and owns the capital stock of its subsidiaries. GFNorte estimates that Bancentro contributed approximately 2.2% of GFNorte's total assets as of December 31, 2003, and approximately 42.6% of GFNorte's net income in 2003. Bancentro, other than its subsidiaries, currently has no employees and primarily relies upon Banorte to conduct its business.

In September 2000, we sold our entire 51% interest in our former subsidiary Banorte Generali Afore, a pension management fund, to Bancentro for Ps.400 million (in nominal terms) in order to strengthen our capitalization. We sold our interest due to the Tier 1 capital requirements associated with investments in pension management funds, which require Tier 1 capital equal to the amount of such investment. This transaction was also undertaken in an effort to maximize our capitalization ratios.

From October 2003 to December 2003, our parent GFNorte decided to effectively transfer the money market position of Bancentro to us. Accordingly, substantially all of the repurchase obligations that had been previously carried on the balance sheet of Bancentro have been placed on our balance sheet. This transfer of Bancentro's money market position to us was made in an effort to take advantage of Banorte's tax loss carryforwards, to improve controls relating to the clearing of repurchase transactions and to more efficiently conduct the back office operations of Banorte and Bancentro.

Relationship with Sólida

We occasionally enter into transactions with our non-consolidated subsidiary Sólida, which specializes in recovery banking with respect to its own portfolio consisting of troubled loans and troubled loans transferred by us and our affiliates, including Bancentro, pursuant to which we seek to improve the quality of our loan portfolio. In addition, we periodically purchase troubled loan portfolios to be transferred and serviced by Sólida. We believe that the price of any such transfers were consistent with the market value of such loans. Amounts recovered by Sólida are generally reflected on our statement of income and we generally pay no fees to Sólida. We have also in the past funded a portion of Sólida's expenses on terms that are favorable to Sólida.

In February 2003, we sold Ps.1,925 million (including accrued interest) of non-performing loans, together with its related loan loss allowance of Ps.1,577 million, to Sólida for Ps.378 million. Our objective in transferring these loans to Sólida was to improve the quality of our loan portfolio and to transfer these troubled loans to Sólida, which specializes in workout and loan recovery. The CNBV has indicated that sales of non-performing loans to Sólida should not be a recurring activity. See "Business of Banorte—Litigation and Regulatory Proceedings." We believe that the price of the transfer of the loans was consistent with the market value of such loans.

In order to take full advantage of Sólida's Mexican experience and infrastructure, we and Sólida are currently in the process of implementing a permanent program to transfer non-performing and problem loans from us to Sólida under conditions acceptable to both entities. This program will not only help us recover our non-performing and problem loans in a more efficient way, it will also liberate time and efforts that we had previously devoted to recovery efforts and will allow us to direct our efforts more efficiently.

Affiliated Transactions

No assurance can be given that transactions between us and our parent GFNorte or any of its subsidiaries or affiliates have been or will be conducted on a basis as favorable to us as could be obtained by us from unaffiliated parties. For instance, the transfer of Bancentro's money market position to us, our merger with Bancentro's banking operations after Bancentro's spin-off of that portion of its business and the sale of our interest in Banorte Generali Afore to Bancentro were not arm's length transactions. We have also entered into certain services agreements with Seguros Banorte Generali, Banorte Generali Afore and Pensiones Banorte Generali to allow these companies to offer their products and services within our branch network in consideration for certain fees. In addition, we, GFNorte and other subsidiaries or affiliates have entered into a number of agreements providing for the sharing of revenues or expenses in connection with the performance of certain activities, including loan recovery. We are likely to continue to engage in transactions with our parent or any of its subsidiaries or affiliates, and no assurance can be given that we will do so on an arm's length basis. In addition, future conflicts of interest between us and GFNorte or any of its subsidiaries or affiliates may arise, which conflicts are not required to be and may not be resolved in our favor.

We have granted lines of credit to Sólida, our non-consolidated recovery banking subsidiary, Arrendadora Banorte, a leasing company affiliate, Factor Banorte, a factoring company affiliate, and Almacén Banorte, our warehousing affiliate. As of September 30, 2003, the outstanding balances under these lines of credit were Ps.815 million, Ps.437 million, Ps.553 million and Ps.107 million, respectively.

See note 32 to our audited financial statements and note 25 to our unaudited interim financial statements for further information regarding our related party transactions with our parent, subsidiaries and other affiliated companies.

PRINCIPAL SHAREHOLDERS

Approximately 96.11% of our capital stock is owned by GFNorte, and therefore GFNorte is in a position to elect all of our directors and otherwise control the management and affairs of Banorte. The table below sets forth the ownership of GFNorte's capital stock as of September 30, 2003.

Shareholder	Series O Shares Owned	Percentage
Grupo Financiero Banorte, S.A. de C.V.	21,850,846,321	96.11%
Other ⁽¹⁾	883,983,309	3.89%
Total	22,734,829,630	100.00%

(1) These shares are held by various third parties.

DEVELOPMENTS IN THE MEXICAN FINANCIAL SYSTEM

General

Mexico's financial system is currently comprised of commercial banks, national development banks, securities brokerage houses, development trust funds and other non-bank institutions, such as insurance companies, bonding companies, foreign exchange houses, factoring companies, bonded warehouses, financial leasing companies, mutual fund companies, pension fund management companies and limited-scope financial institutions. In 1990, Mexico adopted the Financial Groups Law aimed at achieving the benefits of universal banking, which permits a number of financial services companies to operate as a single financial services group. Most major Mexican financial institutions are members of financial groups.

The principal financial authorities that regulate financial institutions are the Ministry of Finance and Public Credit, Banco de Mexico, the CNBV, *Comisión Nacional del Sistema de Ahorro para el Retiro* (the National Commission for Retirement Savings or "CONSAR"), *Comisión Nacional de Seguros y Fianzas* (the National Insurance and Bonding Commission or "CNSF") and *Comisión Nacional para la Protección y Defensa de los Usuarios de Servicios Financieros* (the National Commission for the Defense of Financial Service Users or "CONDUSEF").

The Banking Sector

In September 1982, Mexico's President decreed the nationalization of private Mexican commercial banks. Effective November 18, 1982, a constitutional amendment was adopted to implement the nationalization, which granted the government a monopoly on the banking and credit service. The number of banking institutions was reduced from 68 to 29 in the first two years of nationalized banking. By 1988, the number had been further reduced to 18, of which six had national coverage, five were regional banks and seven were multi-regional banks. Only two banks, Banco Obrero S.A. and Citibank N.A., were excluded from the nationalization and continued limited operations as privately owned commercial banks.

Effective June 28, 1990, the Mexican Constitution was amended to permit Mexican individuals and financial holding companies to own controlling interests in the then-existing 18 Mexican commercial banks owned by the government, including Banorte. Subsequently, a new banking law was enacted to regulate the ownership and operation of Mexican commercial banks, national development banks and foreign financial institutions. Pursuant to the Mexican Banking Law, Mexico began the process of privatizing the commercial banks. By the third quarter of 1992, the government had privatized all 18 state-owned commercial banks, including Banorte. Since that time, new commercial banks have been chartered and regulations regarding investment in the banking sector by foreign investors have been relaxed.

Banking activities in Mexico have been and continue to be affected by prevailing conditions in the Mexican economy, and the demand for and supply of banking services has been vulnerable to economic downturns and changes in government policies. Prior to the early 1990s, lending by Mexican banks to the private sector had fallen to very low levels. However, it is believed that by the end of 1994 average total indebtedness of the private sector to Mexican commercial banks had grown to represent approximately 40.7% of Mexican GDP, with mortgage loans and credit card indebtedness generally growing faster than commercial loans. The devaluation of the Mexican Peso in December 1994 initiated a crisis and the resulting high interest rates and the contraction of the Mexican economy in 1995 severely impacted most borrowers' ability to both repay loans when due and meet debt service requirements. These effects, among others, caused an increase in the non-performing loan portfolio of Mexican financial institutions, particularly during 1995, that required us to create additional loss reserves and adversely affected the capitalization level of financial institutions, including ours. Also, the increased domestic interest rates and deteriorating value of the Peso made it more difficult for financial institutions to renew dollar-denominated certificates of deposit and credit lines.

From 1995 through the end of 1997, the CNBV had assumed or intervened in the operations of 13 banks and adopted several measures designed to protect, stabilize and strengthen the Mexican banking sector. These measures included (i) creating a temporary capitalization program to assist banks; (ii) establishing a foreign exchange credit facility with Banco de Mexico to help banks with dollar liquidity problems; (iii) increasing the level of required loan loss reserves; (iv) establishing a temporary program for the reduction of interest rates on certain loans; (v) establishing a program to absorb a portion of debt service cost for mortgage loan debtors; and (vi) broadening the ability of foreign and Mexican investors to participate in Mexican financial institutions. In addition, to address deteriorating asset quality, the Mexican government established debt restructuring and conversion support programs to help restructure or convert loans of borrowers facing cash-flow problems. Finally, the Mexican government created a program to promote increased capitalization of Mexican banks by, among other things, providing for the transfer of loans and other assets to FOBAPROA. Effective January 20, 1999, FOBAPROA was replaced by the new bank savings protection institute known as IPAB, which was created to manage the banking savings protection system and regulate financial support granted to banks.

Mechanisms to Strengthen the Stability of the Banking Sector

Commencing in 1995, the Mexican government sponsored a series of restructuring and conversion programs of loans for borrowers facing cash-flow problems, the purpose of which was to improve the capitalization level of Mexican banks. See "Selected Statistical Information—Debtor Support Programs" for a description of these programs.

As credit quality and capitalization ratios deteriorated in the banking system following December 1994, the Mexican financial authorities and some banks entered into capitalization and asset sale programs whereby, in exchange for a commitment on the part of the banks to increase their capital within a certain period of time, the Mexican government, through FOBAPROA, agreed to purchase from such banks certain loans and other assets. In general, under such programs, FOBAPROA purchased troubled loans in exchange for promissory notes having an aggregate principal amount, net of associated reserves, equal to approximately twice the amount of the bank's Tier 1 capital increase commitment. The selling banks retained varying degrees of risk for losses on loan portfolio. Substantially all Mexican banks, including us, other than newly-chartered banks or banks in which the Mexican government has intervened, have participated in this program. See "Government Sponsored Support Programs—FOBAPROA" Under the IPAB Law, which became effective on January 20, 1999, IPAB assumed the rights and obligations of FOBAPROA.

Mexican Banking GAAP, which came into effect as of January 1, 1997, adopted significant changes in the accounting practices applicable to Mexican banks, with the intent of making those practices more consistent with international accounting standards and Basle Committee recommendations. The new rules require that the entire principal amount of a loan (rather than the overdue portion only) be treated as non-performing after default continues for more than a specified period (generally 90 days), and that the loan be placed on non-accrual status after that period. In addition, Mexican Banking GAAP requires that banks' securities portfolios be marked-to-market, and that variations in the valuation of marketable securities be fully disclosed in the financial statements. Mexican Banking GAAP also requires full adjustment for the effects of inflation in the bank's financial statements, including the revaluation of all fixed assets and the recognition of the inflation-related gain or loss derived from monetary positions.

Commencing in August 1998, increased volatility in world financial markets led Banco de Mexico to take steps to reinforce its monetary policy. On September 2, 1998 and March 31, 2002, Banco de Mexico required all commercial banks to make interest-bearing deposits at Banco de Mexico for an indefinite period. As of September 30, 2003, these deposits totaled Ps.180,000 million. Our deposits with Banco de Mexico have reached the required levels (Ps.16,791 million as of September 2003). Banco de Mexico attempts to offset system-wide liquidity loss under this mandatory deposit program by lending compensating amounts to banks in the system on a short-term basis. In addition, Banco de Mexico permits commercial banks to swap fixed-income securities for longer term, floating-rate notes in order to reduce their interest rate exposure.

Other measures to strengthen the financial sector include a significant enhancement of the CNBV's supervisory activities through closer and more frequent inspections and heightened reporting requirements.

Initiatives to Improve Creditors' Rights and Remedies

Mexico has enacted legislation to improve creditors' rights and remedies. These laws include collateral pledge mechanisms and a revised bankruptcy law.

Collateral Provisions

On May 23, 2000 and June 13, 2003, laws regarding the perfection and enforcement of security interests were changed significantly. The changes in law introduce a new device for pledging without transferring possession and a common security device known in Mexico as the guaranty trust. Provisions related to the enforcement and foreclosure of such security interests as well as criminal provisions were added to the existing law. The purpose of the amendments is to provide an improved legal framework for secured lending and, as a consequence, encourage banks to increase their lending activities. It is now possible to pledge all personal property being used in the main business activity of the debtor by making only a generic description of such property. The provisions regulating the guaranty trust are similar to those governing pledges of personal property except that they provide that title to the collateral is being held by the trustee.

Bankruptcy Law

A new bankruptcy law was enacted on May 12, 2000. The previous bankruptcy law, which remains in full force and effect with respect to any insolvency proceeding filed prior to May 13, 2000, contemplated two types of procedures: suspension of payments and bankruptcy. The new law provides for one sole insolvency proceeding encompassing two successive phases: (i) a conciliatory phase of mediation among creditors and debtor and (ii) bankruptcy. Insolvency procedures brought against us begin at the bankruptcy stage.

Upon presentation of the request for declaration of insolvency, we must close our operations to the public and cannot engage in further activity.

The bankruptcy law establishes precise rules that determine when a debtor is "generally in default." The principal indications are the failure by a debtor to comply with its payment obligations in respect of two or more creditors, and the existence of the following two conditions: (i) 35% or more of its liabilities outstanding are 30 days past-due; and (ii) the debtor fails to have liquid assets and receivables, which are specifically defined, to support at least 80% of its obligations which are due and payable. Only IPAB and CNBV can demand that we declare insolvency.

The law provides for the use and training of experts in the field of insolvency and the creation of an entity to coordinate their efforts. Such experts include the *interventor* ("intervenor"), *conciliador* ("conciliator") and *sindicados* ("receiver"). IPAB acts as the receiver and CONDUSEF may appoint up to three intervenors.

On the date the insolvency judgment is entered, all Peso-denominated obligations are converted into UDIs and foreign currency-denominated obligations are converted into Pesos at the rate of exchange for that date and then converted into UDIs. Only creditors with a perfected security interest (i.e., mortgage, pledge or guaranty trust) continue to accrue interest on their loans.

The bankruptcy law provides for a general rule as to the period when insolvency is presumed to have begun, which is 270 calendar days prior to the judgment declaring insolvency (the "retroactive period"). Nevertheless, upon the reasoned request of the conciliator, the intervenors, who may be appointed by the creditors to oversee the process, or any creditor, the judge may set a longer period.

A restructuring agreement must be subscribed to by the debtor and recognized creditors representing more than 50% of the sum of the total recognized amount corresponding to common creditors and the total recognized amount corresponding to secured or privileged creditors subscribing the agreement. The proposed agreement, once approved by the creditors, must be presented to IPAB for its approval. Any such agreement, with the confirmation of the court, becomes binding on all creditors and the insolvency proceeding will be considered final and concluded.

Reforms to Mexican Banking and Other Financial System Laws

In April 2001, the Mexican Congress enacted a number of reforms to the Mexican Banking Law, the Financial Groups Law, the National Savings and Public Bank Services Law, the Securities Market Law, the National Banking and Securities Commission Law, the Mutual Funds Law and the General Law on Ancillary Activities and Organizations of Credit.

Most of the reforms eliminate legal hurdles and inconsistencies and grant more power to the CNBV. The main objectives of the reforms include:

Establishing clearly that the primary responsibility for financial sector supervision lies with the Ministry of Finance and Public Credit. The Ministry of Finance and Public Credit bears the primary supervisory responsibility and is supported by three autonomous agencies functionally attached to it: the CNBV, the CNSF and CONSAR. Banco de Mexico, in addition to managing its normal central bank operations, also regulates foreign exchange and derivatives markets.

Two other decentralized public agencies involved with banking operations are IPAB, which is in charge of concluding the recovery processes of assets and institutions after the 1994-95 banking crisis and of managing a formal deposit insurance system and CONDUSEF, which was set up by grouping all the consumer protection functions in existing supervisory agencies (the CNBV, the CNSF and CONSAR).

Enhancing CNBV supervisory practices. In particular, the reforms lift bank secrecy provisions to allow cross-border supervision, increase financial supervisory responsibility on external auditors and allow the CNBV to establish regulations for financial conglomerates. The reforms also introduce a system of prompt corrective actions that will provide the authorities with adequate tools to deal with troubled banks transparently and efficiently.

Increasing the number of banking operations and expanding the banking sector. The reform includes factoring and financial derivatives as banking operations and lifts the ban on back-to-back operations. The reforms also ease direct bill payments in an effort to expand banking services in the economy. In addition, FOVI was subsumed into a development bank, SHF, which was created to promote the development of primary and secondary markets of housing loans. The *Patronato del Ahorro Nacional* (the National Savings Patronage), was also transformed into a development bank, the *Banco del Ahorro Nacional y Servicios Financieros* (the National Savings and Financial Services Bank), which was created to promote savings, financing, and investment among savings

and loan institutions for low-income savers.

Restricting related party lending. The reform simplifies the laws relating to loans to related parties and establishes clear limitations for the calculation of loans, define who is eligible for such loans, as well as the maximum aggregate amount of such loans to a related party. The reform would increase the efficiency of the bank's board control over these operations. Also, a board member's voting rights on related transactions will be suspended.

Covering gaps in corporate governance, which constitutes a major step in developing equity markets. The reform changes the structure of boards of directors, including the presence of independent board members, creating audit committees, introducing provisions to avoid conflicts of interest between board members and senior management, preventing the abuse of minority shareholders and introducing more transparency in the agenda for shareholders' meetings.

Providing an appropriate structure for the development of mutual funds. The reforms permit a wide variety of collective investment vehicles with different risk profiles for different classes of investors.

On December 30, 2002, the Mexican Congress enacted the *Ley de Transparencia y de Fomento a la Competencia en el Crédito Garantizado*, as amended on June 13, 2003 (Law on Transparency and Development of Competition for Secured Credit or the "Secured Credit Law"). In addition, certain general regulations relating to the Secured Credit Law were published in the Federal Gazette on June 30, 2003. The Secured Credit Law provides a legal framework for financial activities and certain other services performed by private credit institutions (as opposed to governmental entities) in connection with secured loans relating to real property in general and housing in particular (i.e., purchase, construction, restoration or refinancing). In particular, the Secured Credit Law established specific rules requiring the following: (i) the disclosure of certain information by credit institutions to their clients prior to the execution of the relevant loan agreement, including the disclosure of certain terms relating to interest rates and aggregate costs and expenses payable; (ii) the compliance by credit institutions and borrowers with certain requirements in the application process; (iii) that offers made by credit institutions granting secured loans shall have binding legal effect; (iv) the inclusion of mandatory provisions in loan agreements; and (v) the assumption of certain obligations by public officers (or notaries) before whom secured loans are granted.

In addition, the Secured Credit Law seeks to foster competition among credit institutions by permitting security interests underlying a secured loan to survive any refinancing thereof, even if such loans were granted by different credit institutions. This provision of the Secured Credit Law is designed to reduce expenditures made by borrowers in connection with refinancings.

SUPERVISION AND REGULATION

Introduction

Our operations are regulated and supervised by the Ministry of Finance and Public Credit, Banco de Mexico and the CNBV.

The Ministry of Finance and Public Credit, either directly or through the CNBV, possesses broad regulatory powers over the banking system. Banks are required to report regularly to the regulatory authorities. Reports to bank regulators are often supplemented by periodic meetings between senior management of the banks and senior officials of the Ministry of Finance and Public Credit. Banks must submit their unaudited monthly and audited annual financial statements to the CNBV for review, and must publish on their website and in a national newspaper their unaudited quarterly balance sheets and audited annual balance sheets. The CNBV may order a bank to modify and republish such balance sheets.

The CNBV has authority to impose fines for failing to comply with the provisions of the Mexican Banking Law, or regulations promulgated thereunder. In addition, Banco de Mexico has authority to impose certain fines and administrative sanctions for failure to comply with the provisions of the *Ley del Banco de México* (the Law of Banco de Mexico) and regulations that it promulgates. Violations of specified provisions of the Mexican Banking Law are subject to administrative sanctions and criminal penalties.

The CNBV may declare *intervención gerencial* ("managerial intervention") pursuant to Articles 138 through 143 of the Mexican Banking Law and in such case it will appoint an *interventor-gerente* ("intervenor-manager") (the "CNBV Intervention").

A CNBV Intervention pursuant to Articles 138 through 143 of the Mexican Banking Law, will only occur when the CNBV (i) after an inspection procedure, deems a bank to be engaging in transactions that are not in compliance with applicable law and regulations, or (ii) in its sole discretion, determines the existence of irregularities that affect the stability or solvency of the bank or the public interest or the bank's creditors.

The intervenor-manager appointed by the CNBV will assume the authority of the Board of Directors. The intervenor-manager will have the authority to represent and manage us with the broadest powers under Mexican law and will not be subject to our Board of Directors or our shareholders. The appointment of the intervenor-manager must be registered in the Public Registry of Commerce of the corresponding domicile.

In addition, the CNBV may implement any of the corrective measures set forth under Articles 134 Bis and 134 Bis 1 of the Mexican Banking Law. Article 134 Bis provides that the CNBV, in exercising its supervisory function through general regulations, may classify banks based on their compliance with the capitalization requirements issued by the Ministry of Finance and Public Credit, which may take into account capital ratios that reflect the degree of stability and solvency of each bank. These general regulations will set forth corrective measures that shall be adopted by a bank in accordance with its classification level and the terms for compliance, including, without limitation, the following: (i) suspension of dividend payments, stock purchases and any other activity that may result in a transfer of economic benefits to the shareholders of the bank; (ii) presentation of a capital recovery plan that shall be approved by the CNBV, subject to the opinion of the Ministry of Finance and Public Credit; (iii) review and implementation of adjustments to the additional and extraordinary compensation policies of the senior ranking officers of the relevant bank, as well as to their employee hiring policies; (iv) deferral of principal payments with respect to subordinated debentures or, as the case may be, acceleration of the conversion of such debentures into capital stock; and (v) abstention from transactions that may reduce the capitalization ratio of the bank.

Article 134 Bis 1 provides that banks that do not comply with the capitalization requirements set forth by the Mexican Banking Law and any regulations deriving therefrom, shall (i) suspend dividend payments, capital stock purchases by the same institution or by the holding company of the group to which such credit institution is affiliated, and any other activity that may result in economic benefits to the shareholders of the bank, (ii) defer or cancel interest payments, or defer payments of principal with respect to subordinated debentures or, as the case may be, acceleration of the conversion of such debentures into capital stock, (iii) present a capital recovery plan that shall be approved by the CNBV, subject to the opinion of the Ministry of Finance and Public Credit and (iv) abstain from carrying out additional transactions with related parties, as provided for in Article 73 of the Mexican Banking Law. The CNBV must verify the compliance of the provisions established in Article 134 Bis 1 of the Mexican Banking Law, as well as with the general regulations deriving therefrom.

IPAB may declare *administración cautelar* ("peremptory management") pursuant to Articles 49 through 54 of the Mexican Bank Savings Protection Law, and in such case it will appoint an *administrador* ("manager") (an "IPAB Intervention"). An IPAB Intervention pursuant to Articles 49 through 54 of the Mexican Bank Savings Protection Law, will only occur when IPAB has granted extraordinary financial support to a bank in accordance with Articles 28 through 48 of the Mexican Bank Savings Protection Law. The manager appointed by IPAB will assume the authority of the Board of Directors. The manager will have the authority to represent and

manage us with the broadest powers under Mexican law. IPAB will not be subject to approval or supervision of our Board of Directors or our shareholders. The IPAB Intervention must be registered in the Public Registry of Commerce of the corresponding domicile.

Banco de Mexico has the authority to regulate banking operations, transaction with precious metals and foreign currency, and liquidity requirements, to address monetary and credit policies.

Banco de Mexico, on its own initiative or as per request from CONDUSEF, banks or SOFOLES, may assess whether reasonable competition conditions exist in connection with fees charged by banks or SOFOLES in performing financial operations. Banco de Mexico must obtain the opinion from the Comisión Federal de Competencia (the Federal Competition Commission). Banco de Mexico may take temporary measures to address these issues.

Licensing of Commercial Banks

Authorization of the Mexican government is required to conduct banking activities. The Ministry of Finance and Public Credit, after consultation with Banco de Mexico and the CNBV, has the power to authorize the establishment of new banks, subject to minimum capital standards. The minimum equity capital requirement for commercial banks is 0.12% of the Mexican commercial banking institutions' aggregate total net capital as of December 31 of the year prior to the year of calculation. The minimum equity capital requirement for commercial banks in Mexico was Ps.189,858,479 based on the Mexican commercial banking institutions' aggregate total net capital as of December 31, 2002. Approval of the Ministry of Finance and Public Credit is required prior to the opening, closing or relocation of offices of any kind outside of Mexico or transfer of assets or liabilities between branches.

Risk-Based Capital and Capital Adequacy

On September 22, 1999, the Mexican financial authorities announced a two-step program to strengthen the solvency and the quality of capital of Mexican banks and to improve disclosure standards in the Mexican banking industry.

The first step included the issuance of the Mexican Capitalization Requirements. The Mexican Capitalization Requirements were amended on December 13, 1999, February 28, 2000, May 14, 2002 and June 9, 2003. The purpose of the Mexican Capitalization Requirements is to make the capitalization standards applicable to Mexican banks more similar to international capitalization standards, particularly to the recommendations of the Basle Committee on Banking Supervision, and to adopt stricter recognition rules relating to deferred taxes and an appraisal mechanism for the valuation of fixed assets.

The second step in the program was the amendment of the Loan Classification Rules. See "Selected Statistical Information—Grading of Loan Portfolio." The Loan Classification Rules are intended to provide a more accurate framework for determining loan loss reserves based on various loan risk levels. These regulations also amended certain accounting rules applicable to commercial banks.

Under the Mexican Capitalization Requirements, we are required to maintain a minimum level of net capital as a percentage of risk-weighted assets equal to 8%. Total capital consists of Tier 1 capital and Tier 2 capital. Under the Mexican Capitalization Requirements, certain deferred tax assets related to fiscal losses will no longer constitute Tier 1 capital (without taking into account debentures issued under Article 64 of the Mexican Banking Law) to the extent such assets exceed 20% of a bank's aggregate Tier 1 capital.

The Mexican Capitalization Requirements subtract from the determination of Tier 1 those capital investments in certain financial entities and in non-financial, non-publicly traded companies, certain investments in the equity of venture-capital funds and investments in related companies. In addition, the Mexican Capitalization Requirements authorized banks to issue capitalization instruments, including subordinated debentures similar to "bank capitalization notes" used extensively in other countries such as the United States. The proceeds from these securities may constitute Tier 1 or Tier 2 capital depending on their terms. However, such proceeds may qualify as Tier 1 capital up to an amount not higher than 15% of total Tier 1 capital (without taking into account debentures issued under Article 64 of the Mexican Banking Law).

At all times, Tier 1 capital is required to represent at least 50% of total capital. Failure to meet capital requirements may result in the imposition of certain preventive measures provided for in Articles 134 Bis and 134 Bis 1 of the Mexican Banking Law.

Banorte and its subsidiaries that operate in the financial sector are in compliance with all applicable capital adequacy regulations. For a discussion of our risk weighted assets and capital ratios, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Risk-Based Capital."

Every Mexican bank must create legal reserves, included as part of Tier 1 capital. Banks must allocate 10% of their net income

to such reserve each year until the legal reserve equals 100% of their paid-in capital. The balance of net income, to the extent not distributed to shareholders, is added to the retained earnings account. Under Mexican law, dividends may not be paid out of the legal reserve. As of September 30, 2003, we had set aside approximately Ps.1,523 million (nominal value) in legal reserves compared to paid-in capital of Ps.5,468 million (nominal value).

Reserve Requirements and Liquidity Coefficients

Peso- and UDI-Denominated Liabilities

Currently, there are no reserve or liquidity requirement coefficients imposed on Mexican banks in connection with their liabilities denominated in Pesos or UDIs.

Foreign Currency-Denominated Liabilities

Pursuant to the regulations of Banco de Mexico, our liabilities denominated in foreign currencies are subject to a liquidity coefficient equal to the amount obtained by multiplying all foreign currency-denominated indebtedness which will become due in 60 days or less by a percentage factor dependent on the remaining maturity of the liability, which amount must be invested in low-risk and highly liquid instruments and deposits, including, among others, (i) U.S. dollar-denominated cash or cash denominated in any other currency freely convertible, and with no transfer restrictions, to U.S. dollars; (ii) deposits with Banco de Mexico, (iii) Treasury Bills, Treasury Bonds and Treasury Notes issued by the United States government; (iv) one-day deposits or one to seven-day deposits in foreign financial institutions rated at least P-2 by Moody's or A-2 by Standard & Poor's ("S&P"); (v) investments in mutual funds or companies determined by Banco de Mexico upon request from the banks; (vi) unused lines of credit granted to us by foreign financial institutions rated at least P-2 by Moody's or A-2 by S&P, subject to certain requirements; and (vii) foreign currency-denominated deposits made with foreign financial institutions rated P-2 by Moody's or A-2 by S&P that may be drawn against on demand or on two days notice. Such liquid assets may not be granted as collateral, lent or subject to repurchase transactions or any other similar transactions that may limit their free transferability. In addition, the total maturity-adjusted average net liabilities that we or our branches, subsidiaries or foreign agencies may hold may be foreign currency-denominated or foreign currency-indexed (calculated daily) are limited to 1.83 times the amount of our Tier 1 capital.

FOBAPROA

The Mexican Banking Law provided for the establishment of FOBAPROA, a trust administered by Banco de Mexico. The purpose of FOBAPROA was to support troubled banking institutions and to protect bank savings and deposits.

FOBAPROA was replaced by IPAB pursuant to the IPAB Law effective January 20, 1999, as amended on June 1, 2001. Currently, FOBAPROA's sole purpose is to manage existing recapitalization programs. In January 1999, the Mexican Congress appointed an external consultant to conduct an audit of the loans transferred by us and other Mexican banks to FOBAPROA. As a result of such audit, no loans were returned to us or required to be substituted for other loans with IPAB as successor of FOBAPROA. A summary of the results of the audit was presented to the Mexican Congress on July 19, 1999.

IPAB

The IPAB Law, which became effective January 20, 1999, provides for the creation, organization and functions of the IPAB, the new bank savings protection agency. IPAB is a decentralized public entity that regulates the financial support granted to banks for the protection of bank deposits.

The IPAB Law provides that banks have the obligation to provide IPAB with the information it requires to assess their financial situation, as well as to notify the IPAB of any situation that may affect their financial stability. The IPAB Law expressly exempts the provision of such information from the banking secrecy provisions contained in the Mexican Banking Law. The IPAB Law establishes that IPAB and the CNBV may share documentation and databases of banks.

Only in exceptional cases may the IPAB grant financial support to banks. The granting of such extraordinary support is subject to special requirements, such as the preparation of a technical study by recognized experts, the favorable opinion of the CNBV, a plan to solve the financial situation of the bank receiving the support, a granting of a security interest on the capital stock of the bank receiving the support, and a favorable resolution of the governing board of IPAB. The duration of the extraordinary support in respect of liquidity may not exceed six months, which period may be extended only once. IPAB is entitled to a lien over the capital stock of the bank receiving any such support. The support can take the form of either subscription of shares or subordinated debentures issued by the relevant bank, assumption of obligations, or purchases of assets or granting of loans. The IPAB Law provides that in those cases

in which the IPAB grants financial support to a bank, IPAB's governing board may declare "precautionary management." In the event precautionary management is declared, IPAB shall act as the sole administrator of the bank and will replace the authority of the shareholders meeting and the board of directors of the bank. The board of IPAB shall appoint the person in charge of carrying out such precautionary management.

IPAB will manage and sell the loans, rights, shares and any other assets that it acquires to perform its activity according to the IPAB Law, in order to maximize their recovery value. IPAB must ensure that the sale of such assets is made public, and will promote objective and transparent procedures. The Mexican President is required to present annually a report to Congress prepared by IPAB with a detailed account of the transactions conducted by IPAB in the prior year.

IPAB has a governing board of seven members: (i) the Minister of Finance and Public Credit, (ii) the Governor of Banco de Mexico, (iii) the President of the CNBV, and (iv) four other members appointed by the President of Mexico, with the approval of two thirds of the Senate. Any person who served as Minister of Finance and Public Credit, as Governor of Banco de Mexico, or as President of the CNBV between 1995 and 1997, and in such capacity acted as member of the technical committee of FOBAPROA, may not serve on the governing board of IPAB nor act as its executive secretary. Currently, IPAB has four members on its governing board.

FOBAPROA will continue operations in the short-term, with the sole purpose of managing existing recapitalization programs. The Ministry of Finance and Public Credit and Banco de Mexico are required to take the necessary actions to terminate both FOBAPROA and the *Fondo de Apoyo al Mercado de Valores* (the "Securities Market Support Fund").

The deposit insurance to be provided by IPAB to a bank's depositors will be paid upon determination of the liquidation, or bankruptcy of a bank. IPAB will act as liquidator or receiver in the liquidation, or bankruptcy of banks, either directly or through designation of a representative. Beginning on January 1, 2005, IPAB will guarantee obligations of banks to certain depositors and creditors only up to the amount of 400,000 UDIs (or approximately U.S.\$119,000 as of September 30, 2003), per person per bank.

Prior to this date, there is a transition period between the enactment of the IPAB Law and December 31, 2004. On May 31, 1999, IPAB published the guidelines approved by its governing board for the gradual implementation of the new deposit insurance system during this transition period. These guidelines were amended on December 14, 2000. IPAB's guarantee of banks' liabilities is being gradually scaled down in seven stages as follows:

- First Stage: As of June 1, 1999, the bank liabilities no longer guaranteed by IPAB include subordinated debentures, certain interbank loans, liabilities in favor of financial institutions that form part of the same financial group, liabilities that are not in compliance with legal, regulatory or administrative regulations or sound banking practices (provided that the beneficiary did not act in good faith), liabilities and deposits in favor of shareholders of the bank, board members, principal executive officers, attorneys in-fact with managing powers and general managers, as well as liabilities arising from illicit activities related to money laundering.
- Second Stage: As of January 1, 2000, the bank liabilities no longer guaranteed by IPAB will be those included in the first stage plus liabilities related to derivatives based on shares and metal commodities.
- Third Stage: As of January 1, 2001, the bank liabilities no longer guaranteed by IPAB will be those specified in the first two stages as well as all derivatives transactions executed on a recognized stock exchange and obligations deriving from capitalization instruments.
- Fourth Stage: As of January 1, 2002, the bank liabilities no longer guaranteed by IPAB will be those specified in the prior three stages, as well as deposits in guaranty of tax payments, contributions in favor of the federal treasury and liquidating securities accounts.
- Fifth Stage: As of January 1, 2003, the bank liabilities no longer guaranteed by IPAB will be those specified under the prior four stages, in addition to any other liability in excess of ten million UDIs (or approximately U.S.\$3,000,000 as of September 30, 2003) per person.
- Sixth Stage: As of January 1, 2004, no bank liabilities are guaranteed by IPAB other than deposits and loans, in accordance with sections I and II of Article 46 of the Mexican Banking Law, up to five million UDIs per person per bank (or approximately U.S.\$1,496,000 as of September 30, 2003).
- Seventh Stage: Beginning on January 1, 2005, no bank liabilities will be guaranteed by IPAB other than deposits and loans up to 400,000 UDIs per person per bank (or approximately U.S.\$119,700 as of September 30, 2003), provided that

deposits and loans constituting negotiable instruments and bearer notes, liabilities in favor of financial institutions, or affiliates of the bank, liabilities not in the ordinary course or liabilities created in bad faith or relating to money laundering or any other illegal activity or any other liability specified under the prior six stages will not be guaranteed by IPAB.

Banks have the obligation to pay IPAB ordinary and extraordinary contributions as determined from time to time by the governing board of IPAB. On May 31, 1999, IPAB published the guidelines for ordinary contributions. The guidelines do not establish different ordinary contributions for each bank depending on its capital adequacy and other risk factors, as previously anticipated. Under such guidelines, all banks must pay monthly to IPAB an ordinary contribution equal to $\frac{1}{12}$ of 0.4% of its deposits and certain other liabilities. The basis for calculating the ordinary contributions is the total account of each bank's liabilities, less: (i) term debt instruments issued by other commercial banks; (ii) loans to other commercial banks; (iii) loans from IPAB; (iv) mandatorily convertible debentures issued by commercial banks; and (v) certain future operations. IPAB may also impose extraordinary contributions on banks, which may not exceed in any one year 0.3% of the deposits of the banks. Both ordinary and extraordinary contributions, taken together, cannot exceed 0.8% annually of each bank's liabilities during any one year.

The Mexican Congress allocates funds to IPAB on a yearly basis to manage and service the IPAB's liabilities, but these liabilities are not deemed public sector debt. In emergency situations, IPAB is authorized to incur additional financing every three years in an amount not to exceed 6% of the total liabilities of Mexican banks.

Lending Limits

In accordance with Mexican regulations published in the Federal Gazette on April 30, 2003 (entitled the General Rules for the Diversification of Risks in the Performance of Active and Passive Banking Transactions), restrictions relating to the diversification of a bank's financing transactions are determined in accordance with the bank's compliance with Mexican Capitalization Requirements. For a bank with:

- 8% < capitalization ratio = 9%, the maximum financing exposure to a person or a single group of persons representing common risk to the bank is limited to 12% of the bank's Tier 1 capital;
- 9% < capitalization ratio = 10%, the maximum financing exposure to a person or a single group of persons representing common risk to the bank is limited to 15% of the bank's Tier 1 capital;
- 10% < capitalization ratio = 12%, the maximum financing exposure to a person or a single group of persons representing common risk to the bank is limited to 25% of the bank's Tier 1 capital;
- 12% < capitalization ratio = 15%, the maximum financing exposure to a person or a single group of persons representing common risk to the bank is limited to 30% of the bank's Tier 1 capital; and
- capitalization ratio > 15%, the maximum financing exposure to a person or a single group of persons representing common risk to the bank is limited to 40% of the bank's Tier 1 capital.

Financings guaranteed by unconditional and irrevocable security interests granted by credit institutions or certain foreign financial institutions, securities issued by the Mexican government and cash are exempted from the aforementioned guidelines. However, such financings must not exceed 100% of a bank's Tier 1 capital. In addition, the aggregate amount of financings granted to the three largest borrowers of a bank, shall not exceed 100% of the bank's Tier 1 capital. Banks are not obligated to comply with any of the aforementioned guidelines with respect to certain financings made to the Mexican government, local governments (subject to certain requirements), Banco de Mexico, IPAB and certain developmental banks backed by the Mexican government. The aforementioned guidelines do not apply to financings to Mexican banks, but the financings to any one bank may not exceed 100% of such bank's Tier 1 capital. If such financing to any one bank were to exceed 100% of a bank's Tier 1 capital, the CNBV may impose certain sanctions.

Funding Limits

In accordance with the General Rules for the Diversification of Risks in the Performance of Active and Passive Banking Transactions, a bank is required to notify the CNBV in the event it receives funds from a person or a single group of persons that represents, in one or more transactions, more than 100% of a bank's Tier 1 capital.

Foreign Currency Transactions

Banco de Mexico Regulations govern transactions by banks in foreign currencies. Mexican banks may currently engage in spot, forward and option transactions related to all currencies subject to the approval of Banco de Mexico. We have received approval from Banco de Mexico to engage in forwards, options and futures related to the Peso and foreign currencies.

At the end of each trading day, banks are generally obligated to maintain a balanced foreign currency position (both in the aggregate and by currency). However, short and long positions are permitted in the aggregate, so long as such positions do not exceed 15% of a bank's Tier 1 capital.

Derivative Transactions

Banco de Mexico Regulations permits Mexican banks to enter into certain derivative transactions, if certain requirements are met. Under the Banco de Mexico Regulations, Mexican banks may enter into forward swap contracts and options with respect to (i) precious metals, (ii) Mexican and foreign currencies, (iii) government securities (including those issued by foreign governments), (iv) nominal or real interest rates, (v) stock exchange indexes, specific shares or groups of shares, (vi) UDIs and (vii) inflation indexes, but, in all cases, only if such banks have, after satisfying certain requirements, received an express general approval in writing from Banco de Mexico to engage in the aforementioned transactions. Forward, option and swap transactions must be entered into pursuant to master agreements. Mexican banks that have not received the relevant general approval would require a specific approval from Banco de Mexico to enter into such transactions.

In addition, in order for Mexican banks to engage in derivative transactions, their Tier 1 capital must be at least equal to 90% of the capital adequacy required to cover their market and credit risks in terms of the Mexican Capitalization Requirements.

The Mexican government has also created a Peso futures market in Mexico, authorized the trading of Peso futures on the Chicago Mercantile Exchange and other recognized exchanges and authorized banks to enter into over-the-counter forward foreign exchange contracts directly with their clients.

Limitations on Investments in Other Entities

Under the Financial Groups Law, subsidiaries of a financial services holding company may not acquire more than 1% of the capital stock of another Mexican financial institution, and under no circumstances may they own capital stock of their own financial services holding company, of other subsidiaries of their financial services holding company or of entities that are shareholders of their own financial services holding company or of other subsidiaries of their financial services holding company. In addition, members of a financial group may not extend credit in connection with the acquisition of their capital stock, the capital stock of their financial services holding company or the capital stock of other subsidiaries of their services holding company. Without the prior approval of the Ministry of Finance and Public Credit (which shall take into consideration the opinions of Banco de Mexico and the primary Mexican regulatory commission supervising the financial entity), members of a financial group may not accept as collateral shares of stock of Mexican financial institutions. Mexican banks may not acquire or receive as collateral, certain securities issued by other Mexican banks. A notice to the Ministry of Finance and Public Credit is required prior to acquisition of shares of capital stock of non-Mexican financial entities, or of entities engaged in activities related to those of a bank.

In addition, Mexican Banking Law imposes certain restrictions on investments by Mexican banks in equity securities of companies engaged in non-financial activities. Mexican banks may own equity capital in such companies in accordance with the following guidelines: (i) up to 5% of the capital of such companies at any time; (ii) more than 5% and up to 15% of the capital of such companies for a period not to exceed three years, upon prior authorization of a majority of the members of each class of the bank's board of directors; and (iii) for higher percentages and for longer periods, or in companies engaged in new long-term projects or carrying out development-related activities, with prior authorization of the Ministry of Finance and Public Credit, subject to the opinion of Banco de Mexico. All such investments are subject to the guidelines established by the Ministry of Finance and Public Credit and must comply with general regulations regarding asset and risk diversification and turnover rules in order to encourage support of a larger number of projects. The total of all such investments made by a bank may not exceed 5% of such bank's Mexican deposit base. In addition, under the Mexican Banking Law, the approval of the Ministry of Finance and Public Credit is required prior to the merger of a commercial bank with any other entity.

Restrictions on Liens and Guarantees

Under the Mexican Banking Law, banks are specifically prohibited from (i) giving their properties as collateral (except if Banco de Mexico or the CNBV so authorizes or as described above with respect to derivative transactions) and (ii) guaranteeing the obligations of third parties, except, generally, for letters of credit and bankers' acceptances.

Bank Secrecy Provisions; Credit Bureaus

Pursuant to the Mexican Banking Law, a Mexican bank may not provide any information relating to the identity of its customers or specific deposits, services or any other banking operations (including loans) to persons (including any purchaser, underwriter, or broker or holder of any of the bank's securities) other than (i) the depositor, debtor, accountholder or beneficiary and their legal representatives or attorneys-in-fact, (ii) judicial authorities in trial proceedings in which the accountholder is a party or defendant, (iii) the Mexican federal tax authorities, through the CNBV, for tax purposes, (iv) the CNBV, and (v) credit information agencies regulated by the Credit Bureaus Law. In addition, with the prior approval of the Ministry of Finance and Public Credit, a financial institution may disclose information regarding its portfolios or other assets in connection with a subscription for, or transfer of, a significant percentage of its capital stock or of the financial group holding company of such financial institution.

Amendments to the Mexican Banking Law published in the Federal Gazette on June 4, 2001, authorize the CNBV to furnish foreign financial authorities with certain protected information under the Mexican bank secrecy laws; provided, however, that an agreement must be in place between the CNBV and such authority for the reciprocal exchange of information. The CNBV must abstain from furnishing information to foreign financial authorities if, in its sole discretion, such information may be used for purposes other than financial supervision, or by reason of public order, national security or any other cause set forth in the relevant agreement.

Banks and other financial entities are allowed to provide credit-related information to duly authorized Mexican credit bureaus. Banorte, together with other Mexican banks and a Mexican affiliate of Transunion, a leading United States credit bureau, created SIC, a Mexican credit bureau.

Money Laundering Regulations

The rules applicable to financial institutions in connection with money laundering provide certain obligations, standards and reporting requirements which financial institutions must follow. Among the obligations imposed by these rules are "know your customer" policies and controls and reports of suspicious or unusual transactions. We have attempted to be progressive in implementing strict policies and procedures to avoid money laundering. These policies and procedures are aimed at prevention, detecting money laundering and reporting.

Prevention

As part of our efforts to prevent money laundering, we have implemented the "Manual of Procedures to Prevent, Detect, and Report Transactions made with Resources of Suspicious Procedures." In addition, we have offered several training courses through our e-learning system. We also utilize guidelines such as the "Immediate Actions to Comply with the Rules to Prevent Money Laundering," "Monitoring of Operations Through the Monitor System," "Know your Client" and others to assist employees in detecting possible money laundering.

Contraloría, our office of the comptroller, has established a program to fulfill the requirements of the regulatory rules of Article 115 of the Mexican Banking Law. As of December 31, 2003, we believe that 100% of our employees completed the e-training program in the prevention of money laundering.

According to the requirements to avoid money laundering, effective as of January 2, 2002, when opening new client accounts, we must obtain information including the client's business, sources of revenues, origin of resources, bank services used, the client's nationality and geographical origin, and the intended use of the accounts. We keep this information in the client's account file.

Detection

The requirements to prevent, detect and report banking operations with illicit resources that were published in the Federal Gazette on March 10, 1997 and November 30, 2000 imposed on banks the necessity to implement automated systems to monitor the operations of their clients. In response, we began utilizing a system we call "ASSIST," which allows our employees to monitor the type of operations our clients carry out and to identify those operations that could be considered unusual. In addition, we utilize a system we call "MSINT" to monitor foreign operations.

Reporting

Any employee of Banorte has the obligation to report to our *Dirección de Cumplimiento Normativo* (the Office of Normative

Compliance) any operation that appears to be irregular. In addition, we are required to submit reports regarding money laundering to certain Mexican authorities.

Rules on Interest Rates

Banco de Mexico Regulations limit the number of reference rates that may be used by Mexican banks as a basis for determining interest rates on new loans. For Peso-denominated loans, banks may choose either: a fixed rate, TIE, CETES, MEXIBOR (Mexican Interbank Overnight Rate), CCP, the rate determined by Banco de Mexico as applied to loans funded by or discounted with NAFIN or the rate agreed to with development banks in loans funded or discounted with them. For UDI-denominated loans, the reference rate is the UDIBONOS. For foreign currency-denominated loans, banks may choose either a fixed rate, LIBOR or the rate agreed with international or national development banks or funds, for loans funded by or discounted with such banks or funds. For dollar-denominated loans, banks may choose either a fixed rate, CCP-Dollars, LIBOR or the rate agreed with international or national development banks or funds, for loans funded by or discounted with such banks or funds.

The rules also provide that only one reference rate can be used for each transaction and that no alternative reference rate is permitted, unless the selected reference rate is discontinued, in which event a substitute reference rate may be established. Similarly, a bank's spread has also been restricted to a single formula of either a fixed percentage or a number of basis points to be added to the selected reference rate.

In addition, on December 18, 1995, Banco de Mexico published new rules that regulate a bank's yield on credit card debt and provide that certain information regarding interest charges be included on the credit card statements sent to card users.

Law for the Protection and Defense of Financial Service Users

A new Law for the Protection and Defense of Financial Service Users (*Ley de Protección y Defensa al Usuario de Servicios Financieros*) became effective in April 1999. The purpose of this law is to protect and defend the rights and interests of users of financial services. To this end, the law provides for the creation of CONDUSEF (as defined above), an autonomous entity that protects the interests of users of financial services. CONDUSEF acts as arbitrator in disputes submitted to its jurisdiction and seeks to promote better relationships among users of financial institutions and the financial institutions. As a banking institution, we must submit to the CONDUSEF's jurisdiction in all conciliation proceedings and may choose to submit to the CONDUSEF's jurisdiction in all arbitration proceedings that may be brought before it. We may be required to provide reserves against contingencies which could arise from proceedings pending before the CONDUSEF. We may also be subject to recommendations by the CONDUSEF regarding our standard agreements or information used to provide our services. We may be subject to coercive measures or sanctions imposed by the CONDUSEF.

Law for the Transparency and Ordering of Financial Services

A new law *Ley para la Transparencia y Ordenamiento de los Servicios Financieros* (the Transparency and Ordering of Financial Services) was published in the Federal Gazette on January 26, 2004 and shall become effective 180 days after such date. The purpose of this law is to regulate (i) the fees charged to client of financial institutions for the use and/or acceptance of means of payment, as are debit cards, credit cards, checks and orders for the transfer of funds, (ii) the fees that financial institutions charge to each other for the use of any payment system, and (iii) other aspects related to the financial services, in an effort to make financial services more transparent and protect the interests of the users of such services. This law grants Banco de Mexico the authority to regulate these fees and establish general guidelines and requirements that relating to payment devices and credit card account statements. We must inform Banco de Mexico of any changes in these fees before they become effective.

Financial Groups; Statutory Responsibility

The Financial Groups Law requires that each financial services holding company, such as GFNorte, enter into an agreement with each of its financial services subsidiaries. Pursuant to such agreements, the holding company is responsible secondarily and without limitation for performance of the obligations incurred by its subsidiaries as a result of the authorized activities of such subsidiaries, and is fully responsible for certain losses of its subsidiaries, up to the total amount of the holding company's assets. For such purposes, a subsidiary is deemed to have losses if (i) its stockholders' equity represents an amount that is less than the amount the subsidiary is required to have as minimum paid-in capital under applicable law, (ii) capital and reserves are less than the subsidiary is required to have under applicable law, or (iii) in the judgment of the regulatory commission supervising the subsidiary's activities, the subsidiary is insolvent and cannot fulfill its obligations. No subsidiary is responsible for the losses of the holding company or of the holding company's subsidiaries. GFNorte has entered into such an agreement with Banorte and its other financial services subsidiaries.

Ownership Restrictions; Foreign Financial Affiliates

Ownership of a financial services holding company's capital stock is no longer limited to specified persons and entities under the Financial Groups Law and the holding company's corporate charter. Recent amendments to the Financial Groups Law and Foreign Investment Law eliminated the restrictions on foreign ownership and control of Mexican banks and bank holding companies. Series O Shares can be subscribed to by both Mexicans and non-Mexicans.

Notwithstanding the above, under the Financial Groups Law, foreign entities with governmental authority cannot purchase a financial services holding company's capital stock. Mexican financial entities, including those that form part of a financial group, cannot purchase a financial services holding company's capital stock, unless such entities are qualified investors as defined in the Financial Groups Law.

On January 19, 1999, the Mexican Congress removed from the Mexican Banking Law all restrictions on foreign ownership of Mexican commercial banks and enacted legislation to change the composition of their boards of directors. In accordance with such legislation, (i) the outstanding Series A and Series B shares of Mexican banks are required to be exchanged into voting Series O shares, which may be owned both by Mexican and non-Mexican investors, (ii) any transfer of shares representing more than 2% of the outstanding capital stock of a Mexican bank is required to be reported to the Ministry of Finance and Public Credit, (iii) the Ministry of Finance and Public Credit has been granted broader discretion to authorize the acquisition of more than 5% of the outstanding shares of a Mexican bank and (iv) the composition of the boards of directors of Mexican banks has been limited to a total of 15 members and their alternates (as opposed to the former rule of 11 members or multiples thereof), 25% or more of which must qualify as independent. The exchange of Series A and Series B shares into voting Series O shares is made by operation of law, but the banks were required to effect the actual exchange of share certificates within a period of five years. We completed such exchange of shares on December 8, 1999.

The change in foreign ownership rules continued the liberalization of the Mexican banking system commenced under the North American Free Trade Agreement ("NAFTA"). Pursuant to NAFTA, the Free Trade Agreement entered into between Mexico and the European Union which became effective on October 1, 2000, and applicable Mexican laws and regulations, foreign financial entities incorporated in the United States, Canada, member states of the European Union and other countries with which Mexico has executed relevant international trade agreements, or financial group holding companies formed in Mexico by such foreign financial entities, will be treated the same as Mexican investors when investing in affiliate banks and other financial entities. However, such foreign financial institutions may be subject to certain restrictions and affiliate brokerage houses in Mexico will not be permitted to establish branches or subsidiaries outside of Mexican territory.

A holder that acquires shares in violation of the foregoing restrictions, or in violation of the percentage ownership restrictions, will have none of the rights of a stockholder with respect to such shares and will be required to forfeit such shares in accordance with procedures set forth in the Mexican Banking Law and Financial Groups Law.

Pension Fund Management

The Social Security Law in Mexico (the "Social Security Law") established the AFORE pension system. Among other economic benefits and other services to be provided to participants in the social security system, the Social Security Law provides that each worker may establish an independent retirement account, which is to be managed by an approved AFORE. Pursuant to the AFORE Law, the main functions of an AFORE include, among others (i) administering pension funds in accordance with the Social Security Law, (ii) creating and administering individual pension accounts for each worker, (iii) creating, administering and operating specialized pension funds or SIEFORES, (iv) distributing and purchasing SIEFORES' shares, (v) contracting pension insurance and (vi) distributing, in certain cases, the individual funds directly to the pensioned worker.

The AFOREs and SIEFORES are subject to the supervision of CONSAR, which is charged with the coordination, regulation and supervision of the pension system. Under the Social Security Law, no AFORE may have more than 20% of the total market, currently consisting of approximately 3.42 million workers.

Cayman Islands Banking Supervision and Regulation

In order to carry on banking business from the Cayman Islands, all banks are required to be licensed by the Monetary Authority pursuant to the CI Banking Law. We are the holder of a Category "B" Banking license pursuant to the CI Banking Law. A Category "A" Banking license permits the carrying on of local and overseas banking business. An unrestricted Category "B" Banking license permits the carrying on of banking business anywhere in the world but restricts activities in the Cayman Islands to banking activities only in furtherance of the licensee's offshore activities.

The Monetary Authority was established in 1996 with responsibility for, among other things, supervising the banking industry in the Cayman Islands. The Monetary Authority operates now under the auspices of the Monetary Authority Law (2003 Revision).

As a licensee not incorporated in the Cayman Islands, we are required to provide a copy of the audited annual accounts of our head office to the Monetary Authority within three months of the end of our financial year. The Monetary Authority has a duty to maintain a general review of banking practice in the Cayman Islands, to carry out investigations to determine that each licensee is in a sound financial position, to investigate any offenses against the laws of the Cayman Islands which it has reasonable grounds to believe has, or may have been, committed by a licensee or any of its directors or officers in their capacity as such, and to examine accounts and audited accounts forwarded to it and to provide reports thereon to the Governor of the Cayman Islands. Violations of certain provisions of the CI Banking Law are subject to administrative sanctions (including cancellation of licenses), fines and criminal penalties.

Confidentiality

We are subject to two confidentiality regimes applicable in the Cayman Islands: English common law, pursuant to which a bank is under a duty to keep its customers' affairs confidential, and statute, whereby the Confidential Relationships (Preservation) Law (1995 Revision) (the "CI Confidentiality Law") makes it a criminal offense, *inter alia*, to divulge information defined by the CI Confidentiality Law as confidential. Unless an exemption under the CI Confidentiality Law applies, any person in possession of confidential information who divulges it or attempts or threatens to divulge it is guilty of an offense and liable on conviction to a fine or a term of imprisonment.

Subject to certain exceptions, the CI Confidentiality Law is deemed to apply to all confidential information with respect to business of a professional nature which arises in, or is brought into, the Cayman Islands, and to all persons coming into possession of such information at any time thereafter whether they be within the jurisdiction or outside it. "Confidential information" is very broadly defined as including information concerning any property which the recipient thereof is not, other than in the normal course of business, authorized by the principal to divulge. The CI Confidentiality Law purports to have extra-territorial effect.

The CI Confidentiality Law has no application to the seeking, divulging, or obtaining of confidential information in the following circumstances: (i) in compliance with the direction of the Grand Court of the Cayman Islands, (ii) by or to (a) any professional person acting in the normal course of business or with the consent, express or implied, of the relevant principal; (b) a police officer of the rank of inspector or above investigating an offense committed or alleged to have been committed within the jurisdiction; (c) a police officer of the rank of inspector or above specifically authorized by the Governor in that behalf, investigating an offense committed or alleged to have been committed outside the Cayman Islands which offense, if committed in the Cayman Islands, would be an offense against such laws; (d) the Financial Secretary of the Cayman Islands (the "Financial Secretary"), the Monetary Authority or, in relation to particular information specified by the Governor, such other person as the Governor may authorize; (e) a bank in any proceedings, cause or matter when and to the extent it is reasonably necessary for the protection of the bank's interest either as against its customers or as against third parties in respect of transactions of the bank for, or with, its customer; (f) the relevant professional person with the approval of the Financial Secretary when necessary for the protection of himself or any other person against crime; or (iii) in accordance with the CI Confidentiality Law or any other law.

"Normal course of business" is defined as being the ordinary and necessary routine involved in the efficient carrying out of the instructions of a principal, including compliance with such law and legal process as arises out of and in connection therewith, and the routine exchange of information between licensees.

Under Section 12(3) of the CI Banking Law, the Monetary Authority is entitled, in the performance of its functions under the CI Banking Law (which include a duty of general supervision of banking practice in the Cayman Islands and the assisting in the investigation of any offense against the laws of the Cayman Islands which it has reasonable grounds to believe has or may have been committed by a bank or by any of its directors or officers in its capacity of such), at all reasonable times (a) to have access to such books, records, vouchers, documents, cash and securities of any bank; and (b) to request any information, matter, or thing from any person whom it has reasonable grounds to believe is carrying on banking or trust business in the Cayman Islands without a license, as it may reasonably require. Pursuant to certain recent legislative developments, the Monetary Authority has additional powers to compel disclosure of confidential information from licensees and persons reasonably believed to have information relevant to the inquiry by the Monetary Authority in connection with the exercise of its own regulatory functions and powers to direct the provision of information, documentation or assistance in connection with inquiries by overseas regulators. A bank will still remain under a duty not to disclose information other than in accordance with the CI Confidentiality Law.

Anti-Money Laundering

In order to comply with regulations aimed at the prevention of money laundering in any applicable jurisdictions, Banorte Cayman may require prospective investors to provide evidence to verify their identity. Accordingly, Banorte Cayman reserves the right to request such information as it considers necessary to verify the identity of a prospective investor. Banorte Cayman may refuse to accept any subscription application if a prospective investor delays in producing or fails to produce any information required by Banorte Cayman for the purpose of verification and, in that event, any funds received by Banorte Cayman will be returned without interest to the account from which the moneys were originally debited.

If any person resident in the Cayman Islands knows or suspects that another person is engaged in money laundering and the information for that knowledge or suspicion came to his attention in the course of his trade, profession, business or employment he is required to report such belief or suspicion to the relevant authorities pursuant to the Proceeds of Criminal Conduct Law (2001 Revision) of the Cayman Islands, and such report shall not be treated as a breach of confidence or of any restriction upon the disclosure of information imposed by any enactment or otherwise.

DESCRIPTION OF THE NOTES

The Notes are to be issued under an indenture between us and The Bank of New York, as trustee, as the same may be amended or supplemented from time to time. The following describes the general terms and provisions of the Notes. The description is not complete and is subject to, and is qualified in its entirety by reference to, all the provisions of the indenture and the Notes. We urge you to read each of the indenture and the form of Notes because they, and not this description, define your rights as a holder of the Notes. You can obtain a copy of the indenture and the form of Notes by following the directions under "General Listing Information" in this Luxembourg listing circular.

In this "Description of the Notes," unless otherwise indicated, "Banorte," "we," "us," and "our" refer only to Banco Mercantil del Norte, S.A., Institución de Banca Múltiple, Grupo Financiero Banorte, acting through its Grand Cayman branch, and not to any of its subsidiaries.

General

The Notes will be our unsecured subordinated obligations and will rank junior in right of payment to all of our "senior indebtedness," as defined below under "—Subordination of the Notes." The Notes rank at least *pari passu* with all our other present or future subordinated indebtedness. The Notes will also rank effectively junior to all of our subsidiaries' indebtedness and other liabilities. We expect to incur additional senior indebtedness from time to time, and the indenture does not prohibit or limit the incurrence of other indebtedness, including additional senior indebtedness. The Notes are not convertible into equity capital.

We may redeem the Notes in whole or in part on any interest payment date on or after February 17, 2009 as described below under "—Optional Redemption," as well as redeem the Notes in whole but not in part in the event of specified changes affecting taxation of the Notes as described below under "—Tax Redemption." Other than in accordance with the optional redemption and the tax redemption, the Notes will not be redeemable prior to maturity. Unless payment of principal or interest is deferred at the time of maturity, holders of outstanding Notes will be entitled to 100% of the outstanding principal amount of and any interest on such Notes.

Unless other arrangements are made, payments of principal and interest on the Notes will be made as described below under "—Book Entry System." The Note will be represented by one or more global notes in fully registered form, registered in the name of The Depository Trust Company, New York, New York, which we refer to as DTC. Except in the limited circumstances described in this Luxembourg listing circular, the Notes will not be exchangeable for certificated notes issued in registered form. The Notes will be issued in registered form without coupons, in denominations of \$100,000 and integral multiples of \$1,000 in excess thereof.

The Notes are subject to restrictions on the resale or other transfer thereof as described in this Luxembourg listing circular. In addition, the Notes may be transferred or exchanged only through DTC and its participants Euroclear and Clearstream. We will maintain an office in the Borough of Manhattan, The City of New York, where the certificated notes may be presented for exchange or transfer. The office initially will be located at the trustee's Corporate Trust Office, located at 101 Barclay Street, New York, New York 10286 (Attention: Corporate Trust Administration). You will not have to pay a service charge to register the transfer or exchange of any certificated note, but we may require that you pay any applicable tax or other governmental charge.

In the case of certificated notes, we will pay the principal due on the maturity date in immediately available funds upon presentation and surrender by the holder of the Notes at the office or agency maintained by us for this purpose at the trustee's Corporate Trust Office, located at 101 Barclay Street, New York, New York 10286 (Attention: Corporate Trust Administration) or at the office of The Bank of New York (Luxembourg) S.A., who Banorte has initially appointed as our listing agent, transfer agent and paying agent in Luxembourg located at Aerogolf Centre, 1A, Hoehenhof, L-1736 Senningerberg, Grand-Duchy of Luxembourg. We will pay interest due on the maturity date of a certificated note to the person to whom payment of the principal will be made. We will pay interest due on a certificated note on any interest payment date other than the maturity date by check mailed to the address of the holder entitled to the payment as the address shall appear in the note register. Certificated notes may be presented for exchange or transfer at the office of The Bank of New York (Luxembourg) S.A. Banorte will maintain a listing agent, a transfer agent and a paying agent in Luxembourg so long as the Notes remain outstanding and are listed on the LSE and the rules of such stock exchange shall so require.

With respect to the transfer of certificated notes, holders may obtain and surrender a notice of transfer or such opinions of counsel, certificates and/or other information reasonably required by and satisfactory to it at the office of the trustee's Corporate Trust Office, located at 101 Barclay Street, New York, New York 10286 (Attention: Corporate Trust Administration) or at the office of The Bank of New York (Luxembourg) S.A., and obtain new certificated notes. In the case of a transfer of only a part of a certificated note, a new certificated note in respect of the balance of the principal amount of the certificated note transferred will be delivered at the office of the trustee or at the office of The Bank of New York (Luxembourg) S.A. In the case of any lost, stolen, mutilated or destroyed note, a holder thereof may obtain a new certificated note from the office of the trustee or at the office of The Bank of New York (Luxembourg)

S.A. We expect that a new certificated note issued in the foregoing circumstances will be available within seven business days at the office of the trustee or at the office of The Bank of New York (Luxembourg) S.A.

The indenture and the Notes do not contain any provision that would protect the holders of the Notes against a sudden and dramatic decline in credit quality resulting from a takeover, recapitalization or other restructuring or other event involving us that may adversely affect our credit quality.

Principal and Interest

The Notes will bear interest from February 17, 2004, at the rate of 5.875% per year until February 17, 2009, and thereafter at the "U.S. Treasury Rate" as of the second business day preceding February 17, 2009, plus 431.25 basis points per year. Interest on the Notes will accrue from the most recent date to which interest has been paid or, if no interest has been paid, from February 17, 2004, to (but excluding) the applicable interest payment date.

The term "U.S. Treasury Rate" is defined in the indenture to mean the yield, under the heading which represents the average for the immediately preceding week, appearing in the most recent published statistical release designated "H.15(519)" or any successor publication which is published weekly by the Board of Governors of the Federal Reserve System and made available on the website at <http://www.federalreserve.org/release/h15/update> or any successor site, and which establishes a yield of United States Treasury Notes with a maturity closest to February 17, 2014.

We will pay interest on the Notes semi-annually on February 17 and August 17 of each year, beginning August 17, 2004 and ending on their maturity date, unless previously redeemed or payment of interest has been deferred, to the holders registered at the close of business on the February 1 or August 1 preceding the applicable interest payment date. Interest will be computed on the basis of a 360-day year of twelve 30-day months. The Notes will mature on February 17, 2014, unless previously redeemed or the maturity date is deferred.

Any amount of interest or principal in respect of the Notes not paid on an interest payment date, the maturity date or the redemption date shall bear interest (in the case of any interest amount, as if it constituted the principal of the Notes), to the extent permitted by applicable law, at the relevant interest rate plus 1.00%, from and including the date when such amount was due to (but excluding) the date of payment.

We will issue the Notes in an initial aggregate principal amount of \$250 million. We may at any time, without notice to or consent of the holders of the Notes offered by this Luxembourg listing circular, issue additional notes under the indenture having the same ranking, interest rate, maturity date and other terms as the Notes, other than the original issue date and interest accrual date. Any additional notes, together with the Notes offered by this Luxembourg listing circular, will constitute a single series of notes under the indenture.

Deferral of Interest and Principal

In the event that any of the following conditions occur, payments of interest or principal, as the case may be, will be deferred until the date that is five business days after the date on which the condition no longer exists if:

- our "Capital Ratio" has declined below the "Capital Adequacy Ratio" imposed under the Mexican Banking Law on any interest payment date or on the second business day prior to the maturity date of the Notes;
- a "Mexican Regulatory Event" has occurred and is continuing on any interest payment date or the second business day prior to the maturity date of the Notes; or
- payment of interest or principal on the Notes would cause us to no longer be in compliance with the Capital Adequacy Ratio.

The term "Capital Ratio" is defined in the indenture to mean the ratio of the net capital (*capital neto*) to risk-weighted assets calculated in accordance with the methodology established from time to time by the Ministry of Finance and Public Credit pursuant to Mexican capitalization requirements for commercial banks.

The term "Capital Adequacy Ratio" is defined in the indenture to mean the minimum applicable Capital Ratio, established from time to time by the Ministry of Finance and Public Credit pursuant to Mexican capitalization requirements for commercial banks, below which we must fall in order to defer the payment of interest or principal, as applicable, under the Notes or redeem the Notes. As of the

date of this Luxembourg listing circular, the Capital Adequacy Ratio is 8.00%.

The term "Mexican Regulatory Event" is defined in the indenture to mean the institution by a Mexican regulatory authority of a preventive or corrective measure against us pursuant to Article 134 Bis or Article 134 Bis 1 of the Mexican Banking Law which requires deferment of payment of interest or principal on the Notes.

Article 134 Bis of the Mexican Banking Law reads substantially as follows:

"In exercise of its oversight function, the CNBV, by means of rules of general application, will classify banking institutions in terms of levels, according to their satisfaction of the capitalization requirements issued by the Ministry of Finance and Public Credit, which rules may take into account criteria reflecting the level of stability and solvency of each such institution.

Such rules will set forth corrective measures to be adopted by banking institutions, in each case, according to the level at which such institution was classified and the terms for compliance, including, among others, the following: (i) to suspend the payment of dividends, repurchase of shares and any other mechanism involving a transfer of economic benefit to the shareholders; (ii) to present a plan for recapitalization, which is subject to approval by the CNBV, hearing the opinion of the Ministry of Finance and Public Credit; (iii) to review and implement corrections to policies concerning benefits that are additional and extraordinary to the salaries of the highest ranking officers of the credit institutions, as well as to the recruiting policies of the institution; (iv) to defer the payment of principal of the subordinated debentures it issued, or in its case, to accelerate their conversion into stock; and (v) to refrain from performing transactions involving a decrease in the capital ratio of the institution."

Article 134 Bis 1 of the Mexican Banking Law reads substantially as follows:

"The banking institution that does not comply with the capitalization requirements set forth in this Law and the provisions arising from it shall suspend the payment of dividends, the acquisition of its shares by the each institution or by the financial holding company of the group to which it is part, in each case, and any other act resulting in economic benefit to the shareholders, defer or cancel the payment of interest, or defer the payment of principal of the subordinated debentures it issued, or in each case, accelerate their conversion into stock, present a plan for the reintegration of capital, which is subject to approval by the CNBV, hearing the opinion of the Ministry of Finance and Public Credit, and refrain from performing additional transactions with the persons referred to in Article 73 of this Law.

The CNBV shall verify compliance under this Article and under the rules issued hereunder."

Subordination of the Notes

The Notes will, to the extent set forth in the indenture, be subordinated in right of payment to all of our "senior indebtedness." This means that we may not pay the principal of or interest on the Notes and may not repurchase, redeem or otherwise retire any Notes if (i) a payment default with respect to senior indebtedness occurs and is continuing beyond any applicable grace period or (ii) a default other than a payment default occurs and is continuing on senior indebtedness that permits holders of such senior indebtedness to accelerate its maturity and the trustee of the Notes receives a notice of the default (a "Payment Blockage Notice") from us or the holders of such senior indebtedness.

Payments of the Notes will resume:

- in the case of a payment default, on the date on which the default is cured or waived; or
- in the case of a Payment Blockage Notice relating to a default other than a payment default, the earlier of 179 days after the date on which the Payment Blockage Notice is received and the date on which the default is cured or waived, unless the maturity of the relevant senior indebtedness has been accelerated.

No new Payment Blockage Notice may be delivered unless and until:

- 360 days have elapsed since the effectiveness of the immediately prior Payment Blockage Notice; and
- all scheduled payments of principal and interest on the Notes that have come due have been paid in full in cash.

No default other than a payment default that existed or was continuing on the date of delivery of any Payment Blockage Notice to the trustee of the Notes will be the basis for a subsequent Payment Blockage Notice unless the default has been cured or waived for a period of not less than 90 consecutive days subsequent to the effectiveness of such initial Payment Blockage Notice.

Upon any payment or distribution of assets to creditors upon any insolvency, receivership, conservatorship, reorganization, readjustment of debt, marshalling of assets and liabilities or similar proceedings or any liquidation or winding-up of or relating to us as a whole, the holders of all senior indebtedness will be entitled to receive payment in full before the holders of the Notes will be entitled to receive any payment in respect of the Notes. Under those circumstances, if the holders of the Notes receive any payment and are aware at that time that all senior indebtedness has not been paid in full, then that payment must be held in trust for the benefit of the holders of senior indebtedness.

In addition, the Notes will be "structurally subordinated" to all indebtedness and other liabilities, including deposits, trade payables and lease obligations, of our subsidiaries. This occurs because our right to receive any assets of any of our subsidiaries upon its liquidation or reorganization, and thus the right of you as holder of Notes to participate in those assets, will be effectively subordinated to the claims of that subsidiary's creditors, including depositors and trade creditors.

As of September 30, 2003, we had an aggregate of approximately Ps.191,589 million of senior indebtedness outstanding, an aggregate of approximately Ps.1,469 million of indebtedness outstanding that would rank equal to the Notes, and an aggregate of approximately Ps.1,266 million of junior subordinated indebtedness outstanding that would rank junior to the Notes. As of September 30, 2003, the aggregate amount of debt and other liabilities of our subsidiaries was approximately Ps.453 million. The indenture does not prohibit or limit the incurrence of other indebtedness, including additional senior indebtedness. The indenture also does not contain financial or similar restrictive covenants.

The term "senior indebtedness" is defined in the indenture to mean the following, whether now outstanding or subsequently created, assumed or incurred by us:

- principal of, premium, if any, interest and rent payable on or in connection with, and all fees, costs, expenses and other amounts accrued or due in connection with all of our indebtedness for money borrowed, including any obligation of, or any obligation guaranteed by us, for the repayment of borrowed money, whether or not evidenced by bonds, debentures, securities, notes or other written instruments;
- any of our deferred obligations for the payment of the purchase price of property or assets acquired other than in the ordinary course of our business;
- all of our obligations, contingent or otherwise, in respect of any letters of credit, bankers acceptances, security purchase facilities and similar transactions;
- all of our capital lease obligations;
- all of our obligations in respect of interest rate swap, cap or other agreements, interest rate future or option contracts, currency swap agreements, currency future or option contracts, commodity contracts and other similar agreements;
- all obligations of the type referred to in the above bullet points of other persons for the payment of which we are responsible or liable as obligor, guarantor or otherwise; or
- renewals, extensions, refundings, refinancings, restructurings, amendments and modifications of any such indebtedness or guarantee;

but "senior indebtedness" does not include:

- the Notes or any additional notes issued under the indenture;
- any obligation ranking on a parity with the Notes; or
- any obligation ranking junior to the Notes.

The term "ranking junior to the Notes" is defined in the indenture to mean any obligation of ours that:

- ranks junior to and not equally with or prior to the Notes in right of payment upon our liquidation or dissolution, in a bankruptcy (including *concurso mercantil* or *quiebra*), reorganization, insolvency, receivership or similar proceeding relating to us or our property, an assignment by us for the benefit of our creditors or the marshaling of our assets and liabilities;
- is specifically designated as ranking junior to the Notes by express provisions in the instrument creating or evidencing such obligation; or
- is, by operation of law, payable after all of our other obligations (including obligations under the Notes) and prior only to our shareholders.

The term "ranking on a parity with the Notes" is defined in the indenture to mean any obligation of ours that:

- ranks equally with and not prior nor junior to the Notes in right of payment upon our liquidation or dissolution, in a bankruptcy (including *concurso mercantil* or *quiebra*), reorganization, insolvency, receivership or similar proceeding relating to us or our property, an assignment by us for the benefit of our creditors or the marshaling of our assets and liabilities; or
- is specifically designated as ranking on a parity with the Notes by express provision in the instrument creating or evidencing such obligation.

By reason of the subordination provisions described above, in the event of our insolvency, holders of the Notes may recover less, ratably, than holders of our senior indebtedness.

Optional Redemption

On any interest payment date on or after February 17, 2009, we may redeem the Notes at our option, subject to any regulatory requirements, in whole or in part, at 100% of their par value, together with all accrued and unpaid interest up to, but excluding, the date of redemption. Notes redeemed in part will be redeemed on a pro rata basis by lot or another fair and reasonable manner chosen by the trustee. In order to exercise our redemption option, we must provide an irrevocable notice to the holders of the Notes of not less than 30 days or more than 60 days prior to the date of redemption.

Notwithstanding the irrevocable notice we provide to the holders of the Notes in respect of the date of redemption, in the event that any of the following conditions exist, the date fixed for optional redemption will be extended to the date that is five business days after the date on which the condition no longer exists if:

- our Capital Ratio has declined below the Capital Adequacy Ratio, currently 8.00%, on the second business day prior to the redemption date;
- a Mexican Regulatory Event has occurred and is continuing on the second business day prior to the redemption date; or
- redemption would cause our Capital Ratio to decline below the Capital Adequacy Ratio.

Under current Mexican capitalization requirements, we do not need to obtain additional prior approval from Banco de Mexico to redeem the Notes as long as we meet the general approval requirement under the regulations of Banco de Mexico, including a Capital Ratio of greater than 10.00% as of the date of this Luxembourg listing circular.

Tax Redemption

In the event of specified changes affecting taxation of the Notes, we may redeem the Notes at our option, subject to any regulatory requirements, in whole but not in part, at any time at 100% of their principal amount, together with all accrued and unpaid interest up to, but excluding, the date fixed for redemption (subject to the right of holders of record on the relevant record date to receive interest due on the related interest payment date). In order to exercise our tax redemption, we are required to:

- give an irrevocable notice to the holders of the Notes of not less than 30 days from the date fixed for redemption or more than 60 days prior to the earliest date on which we would be obliged to pay additional amounts in respect of the Notes; and

- satisfy the trustee immediately before giving such notice that:
 - (1) as a result of any amendment to the laws or regulations of Mexico or the Cayman Islands, any change to the laws of a political subdivision or authority thereof having power to tax, or any change in the application of official interpretation of such laws or regulations, which amendment or change becomes effective on or after February 17, 2004, we have or will, on the next date for any payment on the Notes, become obliged to pay additional amounts (as described below under "—Payment of Additional Amounts"); and
 - (2) we cannot avoid such obligations by taking reasonable measures available to us (such measures not involving any material cost to us or the incurring by us of any other tax or penalty).

Prior to the issuance of any notice of tax redemption, we will deliver to the trustee:

- a certificate signed by two of our directors stating that the requirement to make such withholding or deduction cannot be avoided by taking reasonable measures available to us; and
- an opinion in form and substance satisfactory to the trustee of independent legal counsel of recognized standing to the effect that we have or will become required to make such withholding or deduction and which summarizes the applicable amendment or change.

The trustee shall be entitled to accept such certificate and opinion as a sufficient evidence of the circumstances set out in (1) and (2) above, in which event they shall be conclusive and binding on the holders of the Notes.

In the event that any of the following conditions occur, the date fixed for tax redemption will be extended to the date that is five business days after the date on which the condition no longer exists if:

- our Capital Ratio has declined below the Capital Adequacy Ratio, currently 8.00%, on the second business day prior to the date fixed for tax redemption;
- a Mexican Regulatory Event has occurred and is continuing on the second business day prior to the date fixed for tax redemption; or
- redemption would cause our Capital Ratio to decline below the Capital Adequacy Ratio.

Under current Mexican capitalization requirements, we do not need to obtain additional prior approval from Banco de Mexico to redeem the Notes as long as we meet the general approval requirement under the regulations of Banco de Mexico, including a Capital Ratio of greater than 10.00% as of the date of this Luxembourg listing circular.

Events of Default, Notice and Waiver

An event of default is defined in the indenture as:

- a default for 10 calendar days in the payment of interest on the Notes other than deferred payment;
- a default in the payment of the principal of the Notes other than deferred payment; or
- certain events involving our bankruptcy (including *concurso mercantil* or *quiebra*), liquidation or dissolution of us.

The payment of the principal of the Notes may be accelerated only upon the occurrence of an event of default described in the last bullet point above, which we refer to as a bankruptcy event of default. There is no right of acceleration of the payment of principal of the Notes upon a default in the payment of principal or interest. If payment of the Notes is accelerated, we or the trustee shall promptly notify holders of our senior indebtedness of the acceleration. If an event of default occurs and is continuing, the trustee may pursue any available remedy under the indenture to collect the payment of principal of and interest on the Notes or to enforce the performance of any provision of the Notes or the indenture.

If a bankruptcy event of default occurs and is continuing, the Notes will become immediately due and payable without any declaration or other act on the part of the trustee or any holder of the Notes. The Notes will become immediately due and payable at

their principal amount together with accrued interest up to, but excluding, the date of payment without further action by any person. For the avoidance of doubt, no Mexican Regulatory Event will constitute our bankruptcy (including *concurso mercantil* or *quiebra*), liquidation or dissolution, nor will a Mexican Regulatory Event or deferral in the payment of principal and interest entitle the holders of the Notes to accelerate the payment of principal of the Notes.

Holders may not enforce the indenture or the Notes except as provided in the indenture. The holder of any Note, however, will have the right to receive payment of the principal of and interest on that Note on or after the due dates, redemption dates or repurchase date expressed in the indenture or the Note and, subject to the deferral provisions set forth in the indenture and the Notes and certain other limitations and conditions, to institute suit for the enforcement of any such payment on or after such respective dates. The trustee may refuse to enforce the indenture or the Notes unless it receives indemnity or security satisfactory to it. Subject to certain limitations, holders of a majority in principal amount of the outstanding Notes may direct the trustee in its exercise of any trust or power. The trustee may withhold from holders notice of any continuing event of default (except a default in payment of principal or interest) if the trustee in good faith determines that withholding notice is in their interest.

Under the indenture, we must furnish the trustee annually a statement regarding performance of our obligations under the indenture and as to any default in such performance.

Modification of Indenture; Waiver of Covenants

We and the trustee may amend or supplement the indenture or the Notes without the consent of any holder in certain circumstances, including to cure any ambiguity, omission, defect or inconsistency, to conform the text of the indenture or the Notes to any provision in this "Description of Notes," and to make any change that does not, in the opinion of the trustee, adversely affect the rights of any holder in any material respect. In addition, we and the trustee may amend or supplement the indenture or the Notes with the written consent of the holders of at least a majority in aggregate principal amount of the outstanding Notes. However, without the consent of the holder of each Note affected, we may not, among other things:

- change the maturity date of the principal of or interest on any Note;
- reduce the principal amount of or interest on any Note;
- change the place or currency of payment of principal or interest on any Note;
- impair the right to sue for the enforcement of any payment on or with respect to any Note;
- reduce the percentage in principal amount of outstanding Notes that is required for the consent of the holders in order to modify or amend the indenture or to waive compliance with some provisions of the indenture or to waive some defaults; or
- modify the subordination provisions relating to the Notes in any manner adverse to the holders of the Notes.

The holders of a majority in aggregate principal amount of the outstanding Notes may waive any past default or event of default, except a default under a provision that cannot be modified without the consent of each holder of a Note that would be affected.

Consolidation, Merger, Sale or Transfer of Assets

We may not, without the consent of holders of at least 66²/₃% in aggregate principal amount of the outstanding, as defined in the indenture, Notes, consolidate with or merge into, or convey or transfer, in one transaction or a series of transactions, all or substantially all of our properties and assets to any person, unless:

- the resulting entity, if other than us, is a bank organized and existing under the law of Mexico and assumes all of our obligations to:
 - (1) pay the principal of, and interest on, the Notes; and
 - (2) perform and observe all of our other obligations under the indenture;
- we are not, or any successor entity, as the case may be, is not, immediately after any such transaction, in default under the indenture; and

- we, or any successor entity, as the case may be, agree to:
 - (1) indemnify each holder against any tax, assessment or governmental charges imposed on such holder as a consequence of such consolidation, merger, conveyance or transfer; and
 - (2) pay any additional amounts as provided in the indenture, in respect of withholding and similar taxes assessed in Mexico or the Cayman Islands.

Payment of Additional Amounts

All amounts payable in respect of the Notes will be made without withholding or deduction for or on account of any taxes, duties, assessments or charges imposed or levied by or on behalf of Mexico or the Cayman Islands, unless such withholding or deduction is required by law. In such an event, we will pay such additional amounts as will result in receipt by the holders of the Notes of the same amounts as would have been received by them had no such withholding or deduction been required, except that no additional amounts will be paid in respect of any Note:

- by or on behalf of a holder of the Notes who is liable for such taxes, duties, assessments or charges by reason of the holder having some connection with Mexico or the Cayman Islands other than the mere holding of such Notes;
- where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to any European Union Directive on the taxation of savings implementing the conclusions of the ECOFIN Council meeting of November 26-27, 2000 or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- where such withholding or deduction would not have been required but for the failure of a holder of the Notes to furnish a form or certificate that is a prerequisite for exemption from, or a reduction in the rate of, withholding.

If at any time any payments we make in respect of the Notes become subject to withholding tax in any jurisdiction or residence of Banorte other than or in addition to Mexico and the Cayman Islands, references herein to Mexico or the Cayman Islands shall be read and construed as references to Mexico or the Cayman Islands or to such other jurisdiction. Any reference herein to principal, redemption amount or interest in respect of the Notes shall be deemed also to refer to any additional amounts that may be payable under this "—Payment of Additional Amounts."

The Trustee

The Bank of New York will act as trustee under the indenture. Notices to the trustee should be directed to the trustee at its Corporate Trust Office, located at 101 Barclay Street, New York, New York 10286 (Attention: Corporate Trust Administration). The trustee also will act as registrar, paying agent and agent for service of demands and notices in connection with the Notes and the indenture. The trustee may resign or be removed under circumstances described in the indenture and we may appoint a successor trustee to act in connection with the Notes. Any action described in this Luxembourg listing circular to be taken by the trustee may then be taken by the successor trustee.

The trustee in its individual or any other capacity may become the owner or pledgee of Notes and may otherwise deal with us or our affiliates with the same rights it would have if it were not trustee. Any paying agent, registrar or co-registrar may do the same with like rights.

The indenture contains some limitations on the right of the trustee should it become a creditor of ours, to obtain payment of claims in some cases or to realize on some property received regarding any such claim, as security or otherwise. The trustee will be permitted to engage in transactions with us. The occurrence of a default under the indenture could create a conflicting interest for the trustee. In this case, if the default has not been cured or waived within 90 days after the trustee has or acquires a conflicting interest, the trustee generally is required to eliminate the conflicting interest or resign as trustee for the Notes. In the event of the trustee's resignation, we promptly will appoint a successor trustee for the Notes.

Notices and Provision of Additional Information

As long as Notes are listed on the Luxembourg Stock Exchange and the rules of that exchange so require, notices to the holders of the Notes will be published on the date of such mailing in a daily newspaper of general circulation in Luxembourg (which is

expected to be the *Luxembourger Wort*) or, if such publication is not practicable, in a leading English language daily newspaper having general circulation in Europe.

For so long as any of the Notes remain outstanding and are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act of 1933 (the "Securities Act"), we will, during any period in which we are not subject to Section 13 or 15(d) under the Securities Exchange Act of 1934 (the "Exchange Act") nor exempt from reporting pursuant to Rule 12g3-2(b) under the Exchange Act, furnish on request to any holder of such restricted securities, or to any prospective purchaser, information as is required to be provided pursuant to Rule 144A(d)(4) under the Securities Act in order to permit compliance with Rule 144A in connection with the resale of such restricted securities.

Governing Law

The indenture and the Notes will be governed by, and construed in accordance with, the laws of the State of New York.

Book Entry System

We will issue the Notes in the form of one or more global notes. The global notes will be deposited with, or on behalf of, DTC. DTC will act as depository. The Notes will be registered in the name of DTC or its nominee.

The Notes are being offered and sold in this initial offering in the United States solely to qualified institutional buyers under Rule 144A under the Securities Act and in offshore transactions to persons other than U.S. persons, as defined in Regulation S under the Securities Act, in reliance on Regulation S. Following this offering, the Notes may be sold to:

- qualified institutional buyers under Rule 144A;
- non-U.S. persons outside the United States in reliance on Regulation S; and
- under other exemptions from, or in transactions not subject to, the registration requirements of the Securities Act, as described under "Transfer Restrictions."

Rule 144A Global Note

Notes offered and sold to qualified institutional buyers under Rule 144A will be issued in the form of one or more registered notes in global form, without interest coupons (referred to collectively as the "Rule 144A Global Note"). The Rule 144A Global Note will be deposited on the date of the closing of the sale of the Notes with, or on behalf of, The Depository Trust Company and registered in the name of a nominee for DTC. Interests in the Rule 144A Global Note will be available for purchase only by qualified institutional buyers.

Regulation S Global Note

Notes offered and sold in offshore transactions to persons which are non-U.S. persons in reliance on Regulation S will initially be represented by one or more registered notes in global form, without interest coupons (each a "Regulation S Global Note") and will be deposited with, or on behalf of, a custodian for, and registered in the name of a nominee of, DTC for the respective accounts of Euroclear and Clearstream.

Prior to the 40th day after the date of issuance, any resale or transfer of beneficial interests in the Regulation S Global Notes to U.S. persons shall not be permitted unless such resale or transfer is made pursuant to Rule 144A or Regulation S.

Investors may hold their interests in the Regulation S Global Note through organizations that are participants in the DTC system.

Exchanges Among the Global Notes

Transfers by an owner of a beneficial interest in the Regulation S Global Note to a transferee who takes delivery of that interest through the Rule 144A Global Note will be made only in accordance with applicable procedures and upon receipt by the trustee of a written certification from the transferee of the beneficial interest in the form provided in the indenture to the effect that the transfer is being made to a qualified institutional buyer within the meaning of Rule 144A in a transaction meeting the requirements of Rule 144A.

Transfers by an owner of a beneficial interest in the Rule 144A Global Note to a transferee who takes delivery of the interest through the Regulation S Global Note will be made only upon receipt by the trustee of a certification from the transferor that the transfer is being made outside the United States to a non-U.S. person in accordance with Regulation S or, if available, Rule 144 under the Securities Act.

Any beneficial interest in one of the global notes that is transferred to a person who takes delivery in the form of an interest in another global note will, upon transfer, cease to be an interest in that global note and become an interest in the other global note and, accordingly, will then be subject to any transfer restrictions and other procedures applicable to beneficial interests in the other global note.

Book-Entry Procedures for the Global Notes

Ownership of beneficial interests in a global note will be limited to DTC and to persons that may hold interests through institutions that have accounts with DTC, which we refer to as the participants. Beneficial interests in a global note will be shown on, and transfers of those ownership interests will be effected only through, records maintained by DTC and its participants for that global note. The conveyance of notices and other communications by DTC to its participants and by its participants to owners of beneficial interests in the Notes will be governed by arrangements among them, subject to any statutory or regulatory requirements in effect.

DTC holds the securities of its participants and facilitates the clearance and settlement of securities transactions among its participants through electronic book-entry changes in accounts of its participants. The electronic book-entry system eliminates the need for physical certificates. DTC's participants include:

- securities brokers and dealers (including the initial purchasers);
- banks;
- trust companies;
- clearing corporations; and
- other organizations (some of which, and/or their representatives, own DTC).

Banks, brokers, dealers, trust companies and others that clear through or maintain a custodial relationship with a participant, either directly or indirectly, also have access to DTC's book-entry system.

Principal and interest payments on the Notes represented by a global note will be made to DTC or its nominee, as the case may be, as the sole registered owner and the sole holder of the Notes represented by the global note for all purposes under the indenture. Accordingly, we, the trustee and any paying agent will have no responsibility or liability for:

- any aspect of DTC's records relating to, or payments made on account of, beneficial ownership interests in a Note represented by a global note;
- any other aspect of the relationship between DTC and its participants or the relationship between those participants and the owners of beneficial interests in a global note held through those participants; or
- the maintenance, supervision or review of any of DTC's records relating to those beneficial ownership interests.

DTC has advised us that upon receipt of any payment of principal of or interest on a global note, DTC will immediately credit, on its book-entry registration and transfer system, the accounts of participants with payments in amounts proportionate to their respective beneficial interests in the principal amount of that global note as shown on DTC's records. The initial purchasers will initially designate the accounts to be credited. Payments by participants to owners of beneficial interests in a global note will be governed by standing instructions and customary practices, as is the case with securities held for customer accounts registered in "street names," and will be the sole responsibility of those participants.

A global note can only be transferred:

- as a whole by DTC to one of its nominees;

- as a whole by a nominee of DTC to DTC or another nominee of DTC; or
- as a whole by DTC or a nominee of DTC to a successor of DTC or a nominee of that successor.

Notes represented by a global note can be exchanged for certificated notes in registered form only if:

- DTC notifies us that it is unwilling or unable to continue as depositary for that global note;
- at any time DTC ceases to be a clearing agency registered under the Exchange Act;
- we in our sole discretion determine that the global note will be exchangeable for certificated notes in registered form and notify the trustee of our decision; or
- an event of default with respect to the Notes represented by that global note has occurred and is continuing.

A global note that can be exchanged under the preceding sentence will be exchanged for certificated notes that are issued in authorized denominations in registered form for the same aggregate amount. Those certificated notes will be registered in the names of the owners of the beneficial interests in the global note as directed by DTC and may bear the legend as set forth under "Transfer Restrictions."

Except as provided above, owners of beneficial interests in such global note will not be entitled to receive physical delivery of Notes in certificated form and will not be considered the holders of the Notes for any purpose under the indenture and no Notes represented by a global note will be exchangeable. Accordingly, each person owning a beneficial interest in a global note must rely on the procedures of DTC (and if that person is not a participant, on the procedures of the participant through which that person owns its interest) to exercise any rights of a holder under the indenture or that global note. The laws of some jurisdictions require that some purchasers of securities take physical delivery of the securities in certificated form. Those laws may impair the ability to transfer beneficial interests in a global note.

Beneficial interest in a global note will trade in DTC's same day settlement system until maturity or until issuance of certificated notes in registered form as provided for in the indenture.

We understand that under existing industry practices, if we request holders to take any action, or if an owner of a beneficial interest in a global note desires to take any action which a holder is entitled to take under the indenture, then DTC would authorize the participants holding the relevant beneficial interests to take that action and those participants would authorize the beneficial owners owning through those participants to take that action or would otherwise act on the instructions of beneficial owners owning through them.

DTC has provided the following information to us. DTC is:

- a limited-purpose trust company organized under the laws of the State of New York;
- a "banking organization" within the meaning of the New York Banking Law;
- a member of the Federal Reserve;
- a "clearing corporation" within the meaning of the New York Uniform Commercial Code; and
- "clearing agency" registered under the Exchange Act.

PLAN OF DISTRIBUTION

Subject to the terms and conditions of a purchase agreement dated February 10, 2004, as amended, the initial purchasers named below, through their representative Deutsche Bank Securities Inc., have jointly and severally agreed to purchase from us the following respective principal amounts of Notes listed opposite their name below at the initial offering price set forth on the cover page of this Luxembourg listing circular, less discounts and commissions:

Initial Purchasers	Principal Amount of Notes
Deutsche Bank Securities Inc.	\$287,500,000
Morgan Stanley & Co. Incorporated.....	\$12,500,000
Total	<u>\$300,000,000</u>

U.S.\$50,000,000 of Notes of the U.S.\$287,500,000 of Notes that will be acquired by Deutsche Bank Securities Inc. will be acquired by Deutsche Bank Securities Inc. for its own account and may be resold from time to time in one or more transactions, including negotiated transactions, at varying prices determined at the time of sale.

The purchase agreement provides that the obligation of the several initial purchasers to purchase the Notes is subject to certain conditions precedent and that the initial purchasers will purchase all of the Notes offered by this Luxembourg listing circular if any of the Notes are purchased. We have been advised by the initial purchasers that the initial purchasers propose to offer and sell the Notes to investors at the offering price set forth on the cover page of this Luxembourg listing circular.

We have agreed to indemnify the initial purchasers against some specified types of liabilities, including liabilities under the Securities Act, and to contribute to payments the initial purchasers may be required to make in respect of any of these liabilities.

The Notes have not been and will not be registered under the Securities Act. Each initial purchaser has agreed that it will not offer or sell the Notes (i) as part of its distribution at any time or (ii) otherwise until forty (40) days after the later of the commencement of this offering and the closing date, within the United States or to, or for the account or benefit of, U.S. persons, other than in accordance with Rule 144A under the Securities Act, and it will send to each distributor, dealer or other person receiving a selling concession or similar fee to which it sells Notes in accordance with Regulation S under the Securities Act during such 40-day period, a confirmation or other notice detailing the restrictions on offers and sales of Notes within the United States or to, or for the account or benefit of, U.S. persons. In addition, until the expiration of the 40-day period referred to above, an offer or sale of Notes within the United States by a dealer (whether or not it is participating in this offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than pursuant to Rule 144A or pursuant to another exemption from registration under the Securities Act. Terms used above have the meanings given to them by Regulation S and Rule 144A under the Securities Act.

Each initial purchaser has represented and agreed in the purchase agreement that:

1. It has not offered or sold and, prior to the date six months after the date of issuance of the Notes, will not offer or sell any Notes to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995.
2. It has complied and will comply with all applicable provisions of the U.K. Financial Services and Markets Act 2000 (the "FSMA") with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.
3. It has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of the Notes in circumstances in which section 21(1) of the U.K. Financial Services and Markets Act 2000 does not apply to Banorte.

Each initial purchaser has represented and agreed that it has not offered or sold, and will not offer or sell, any Notes in the Federative Republic of Brazil, except in circumstances which do not constitute a public offering or distribution under Brazilian laws and regulations. The Notes have not been and will not be registered with the CVM.

Each initial purchaser has represented and agreed that it has not offered or sold, and will not offer or sell, any Notes in Mexico, except in compliance with applicable Mexican laws. Persons wishing to offer or acquire the Notes within Mexico should consult with their own counsel as to the applicability of registration requirements or any exemption therefrom. The Notes have not been registered with the Securities Section of the Mexican National Registry of Securities and therefore, the Notes may not be offered or sold in a public offering nor be the subject of an intermediation in Mexico. The acquisition of the Notes by any investor of Mexican nationality will be made under its own responsibility.

The initial purchasers and the issuer have represented and agreed that no invitation to the public in the Cayman Islands to subscribe for the Notes is permitted to be made.

The initial purchasers and the issuer have also represented and agreed that no action has been or will be taken in any country or jurisdiction that would permit a public offering of the Notes, or possession or distribution of any offering material in relation thereto, in any country or jurisdiction where action for that purpose is required. The Notes offered hereby may not be offered or sold, directly or indirectly, nor may this Luxembourg listing circular or any other offering material or advertisements in connection with the offer and sale of the Notes be distributed or published in any jurisdiction, except in compliance with the laws of such jurisdiction. Persons into whose hands this Luxembourg listing circular comes are required by us and the initial purchasers to comply with all applicable laws and regulations in each country or jurisdiction in or from which they purchase, offer, sell or deliver Notes or have in their possession or distribute such offering material, in all cases at their own expense. This Luxembourg listing circular does not constitute an offer to purchase or a solicitation of an offer to sell any of the Notes offered hereby in any jurisdiction in which such an offer or solicitation is unlawful.

We have submitted an application to list the Notes on the LSE and use our reasonable efforts to list the Notes on the LSE. Changed circumstances, including changes in listing requirements, could cause us to conclude that continued listing of the Notes on the LSE is unduly burdensome. The Notes are a new issue of securities with no established trading market. In addition, in the event there are changes in the listing requirements, we may conclude that continued listing on the LSE is unduly burdensome. See “General Listing Information.” No assurance can be given as to the liquidity of any markets that may develop for the Notes or that an active public market for the Notes will develop, your ability to sell your Notes or the price at which you will be able to sell your Notes, as the case may be. If an active public trading market for the Notes does not develop, the market price and liquidity of the Notes may be adversely affected. The initial purchasers may make a market in the Notes after completion of the offering, but will not be obligated to do so and may discontinue any market-making activities at any time without notice.

In connection with the issue of the Notes, the initial purchasers may over-allot or effect transactions for a limited period with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there may be no obligation on the initial purchasers (or any agent of the initial purchasers) to do this. Such stabilizing, if commenced, may be discontinued at any time and must be brought to an end after a limited period. Such stabilizing shall be in compliance with all applicable laws, regulations and rules.

Purchasers of Notes sold by the initial purchasers may be required to pay stamp taxes and other charges in accordance with the laws and practices of the country of purchase in addition to the offering price and accrued interest, if any.

The initial purchasers have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with us. The initial purchasers have received customary fees and commissions for these transactions.

TRANSFER RESTRICTIONS

The Notes have not been registered under the Securities Act and may not be offered or sold, except: (i) in the United States to qualified institutional buyers in compliance with Rule 144A under the Securities Act (a "qualified institutional buyer") and (ii) outside the United States in compliance with Regulation S under the Securities Act.

Pursuant to Banco de Mexico Regulations, the Notes may not be acquired by (i) Mexican financial institutions of any kind, acting on their own behalf, with the exception of certain fixed-income investment companies (*sociedades de inversión en instrumentos de deuda*), variable income investment companies (*sociedades de inversión de renta variable*) and insurance and bonding companies (*instituciones y sociedades mutualistas de seguros e instituciones de fianzas*) when investing their technical reserves on securities fluctuation reserves; (ii) Mexican and non-Mexican entities in which we: (A) own voting stock representing at least 51% of paid-in capital; (B) have control of the meetings of shareholders; or (C) are in a position to appoint the majority of the members of the Board of Directors; (iii) Mexican pension and retirement funds managed by us or by any entity belonging to the financial group controlled by GFNorte; or (iv) us or any entity belonging to the financial group controlled by GFNorte, acting as trustee, representative, agent or attorney in fact if, by acting in such capacity, we have or such entity has discretionary investment power.

Mexican financial institutions or Mexican pension and retirement funds that are not prohibited from investing in the Notes may acquire up to 10% of the Notes. The 10% limit applies in the aggregate to all of the entities forming part of a financial group as well as to the affiliates that are not part of a financial group.

Except in connection with the redemption of the Notes, under Mexican Banking Law, we may not acquire the Notes. In addition, the Notes may not be pledged as collateral in favor of any Mexican bank.

Restricted Notes

Each purchaser of Notes within the United States pursuant to Rule 144A under the Securities Act (the "Restricted Notes"), by accepting delivery of this Luxembourg listing circular, will be deemed to have represented, agreed and acknowledged that:

1. It is (a) a qualified institutional buyer, (b) acquiring such Restricted Notes for its own account or for the account of a qualified institutional buyer and (c) aware, and each beneficial owner of such Restricted Notes has been advised, that the sale of such Restricted Notes to it is being made in reliance on Rule 144A.
2. It understands that such Restricted Notes have not been and will not be registered under the Securities Act and that (A) if in the future it decides to offer, sell, pledge or otherwise transfer such Restricted Notes, such Restricted Notes may be offered, sold, pledged or otherwise transferred only (a) to a person that it and any person acting on its behalf reasonably believe is a qualified institutional buyer, purchasing for its own account or for the account of a qualified institutional buyer, in a transaction meeting the requirements of Rule 144A, (b) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S under the Securities Act, (c) pursuant to an exemption from registration under the Securities Act provided by Rule 144 thereunder (if available), (d) pursuant to another exemption from the registration requirements under the Securities Act, accompanied by an opinion of counsel regarding the availability of such exemption or (e) to the issuer or an affiliate of the issuer, in each case in accordance with any applicable securities laws of any State of the United States and any other applicable jurisdiction, and (B) the purchaser will, and each subsequent holder is required to, notify any subsequent purchaser of the Restricted Notes from it of the resale restrictions referred to in (A) above.
3. It understands that such Restricted Notes, unless the issuer determines otherwise in compliance with applicable law, will bear a legend to the following effect:

THE NOTE REPRESENTED HEREBY HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY IN COMPLIANCE WITH THE SECURITIES ACT AND OTHER APPLICABLE LAWS AND ONLY (1) TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON THE HOLDER'S BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT, PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER, IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A AND WHOM THE HOLDER HAS INFORMED, IN EACH CASE, THAT SUCH OFFER, SALE, PLEDGE OR OTHER TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A,

(2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULES 903 OR 904 OF REGULATION S UNDER THE SECURITIES ACT, (3) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER (IF AVAILABLE), (4) PURSUANT TO ANOTHER EXEMPTION FROM THE REGISTRATION REQUIREMENTS UNDER THE SECURITIES ACT, ACCOMPANIED BY AN OPINION OF COUNSEL REGARDING THE AVAILABILITY OF SUCH EXEMPTION OR (5) TO THE ISSUER OR AN AFFILIATE OF THE ISSUER AND THE HOLDER WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY PURCHASER OF THIS NOTE FROM IT OF THE RESALE RESTRICTIONS REFERRED TO IN THIS LEGEND.

4. If it is acquiring any Restricted Notes for the account of one or more qualified institutional buyers, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing representations, agreements and acknowledgments on behalf of each such account. The issuer, the registrar, the initial purchasers and their affiliates, and others will rely upon the truth and accuracy of the foregoing representations, agreements and acknowledgments.
5. It understands that the Restricted Notes offered in reliance on Rule 144A will be represented by the Rule 144A Global Note. Before any interest in the Rule 144A Global Note may be offered, resold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in the Regulation S Global Note, it will be required to provide a transfer agent with a written certification as to compliance with applicable securities laws.

Prospective purchasers are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

Unrestricted Notes

Each purchaser of Notes outside the United States pursuant to Regulation S under the Securities Act (the "Unrestricted Notes") and each subsequent purchaser of such Unrestricted Notes in sales prior to the expiration of the distribution compliance period, by accepting delivery of this Luxembourg listing circular, will be deemed to have represented, agreed and acknowledged that:

1. It is purchasing such Unrestricted Notes for its own account and (a) it is not a U.S. person and it is located outside the United States (in each case within the meaning of Regulation S) and (b) it is not an affiliate of the issuer or a person acting on behalf of such an affiliate.
2. It understands that such Unrestricted Notes have not been and will not be registered under the Securities Act and that, prior to the expiration of the distribution compliance period, it will not offer, sell, pledge or otherwise transfer such Unrestricted Notes except (a) in accordance with Rule 144A under the Securities Act to a person that it and any person acting on its behalf reasonably believe is a qualified institutional buyer, purchasing for its own account or the account of a qualified institutional buyer, in a transaction meeting the requirements of Rule 144A, (b) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S or (c) to the issuer or an affiliate of the issuer, in each case in accordance with any applicable securities laws of any State of the United States and any other applicable jurisdiction.
3. It understands that such Unrestricted Notes, unless the issuer determines otherwise in accordance with applicable law, will bear a legend to the effect of the foregoing paragraph.
4. The issuer, the registrar, the initial purchasers and their affiliates, and others, will rely upon the truth and accuracy of the foregoing representations, agreements and acknowledgments.
5. It understands that the Unrestricted Notes offered in reliance on Regulation S will be represented by the Regulation S Global Note. Prior to the expiration of the distribution compliance period, before any interest in the Regulation S Global Note may be offered, resold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in the Rule 144A Global Note, it will be required to provide a transfer agent with a written certification as to compliance with applicable securities laws.

TAXATION

Certain United States Federal Income Tax Considerations

The following is a summary of certain United States federal income tax consequences of the purchase, ownership, and disposition of the Notes. This summary is based upon laws, regulations, rulings and decisions now in effect, all of which are subject to change (including retroactive changes) or possible differing interpretations. The discussion below deals only with Notes held as capital assets by a holder who purchases the Notes on original issue at the initial offering price and does not purport to deal with persons in special tax situations, such as banks, financial institutions, insurance companies, regulated investment companies, dealers in securities or currencies, traders in securities that elect to mark to market, tax-exempt entities, persons holding the Notes in a tax-deferred or tax-advantaged account, or persons holding the Notes as a hedge against currency risks, as a position in a "straddle" or as part of a "hedging" or "conversion" transaction for tax purposes.

This summary does not address all of the tax consequences that may be relevant to an investor in the Notes. In particular, this summary does not address:

- the United States federal income tax consequences to shareholders in, or partners or beneficiaries of, an entity that is a holder of the Notes;
- the United States federal estate, gift or alternative minimum tax consequences of the purchase, ownership or disposition of the Notes;
- U.S. holders (as defined below) who hold the Notes whose functional currency is not the United States dollar; or
- any state, local or foreign tax consequences of the purchase, ownership or disposition of the Notes.

Persons considering the purchase of the Notes should consult their own tax advisors concerning the application of the United States federal income tax laws to their particular situations as well as any consequences of the purchase, ownership and disposition of the Notes arising under the laws of any other taxing jurisdiction.

A U.S. holder is a beneficial owner of the Notes who or which is:

- a citizen or resident of the United States;
- a corporation or partnership, including any entity treated as a corporation or partnership for United States federal income tax purposes, created or organized in or under the laws of the United States, any state thereof or the District of Columbia;
- an estate if its income is subject to United States federal income taxation regardless of its source; or
- a trust if (1) a court within the United States is able to exercise primary supervision over the administration of the trust, and (2) one or more United States persons have the authority to control all substantial decisions of the trust.

Notwithstanding the preceding sentence, certain trusts in existence on August 20, 1996, and treated as United States persons prior to such date that elect to continue to be treated as a United States person, may also be treated as U.S. holders. As used herein, the term "non-U.S. holder" means a beneficial owner of a Note that is not a U.S. holder.

General

There are no statutory provisions, regulations, published rulings or judicial decisions addressing or involving the characterization, for United States federal income tax purposes, of the Notes or securities with terms substantially the same as the Notes, and no ruling is being requested from the Internal Revenue Service (the "IRS") with respect to the Notes. Banorte believes that the Notes should be treated as debt instruments of Banorte for United States federal income tax purposes and, in the absence of any change or clarification in the law, by regulation or otherwise, requiring a different characterization of the Notes, intends to so treat the Notes, including, where required, filing information returns with the IRS in accordance with this treatment. Prospective investors in the Notes should be aware, however, that the IRS is not bound by Banorte's characterization of the Notes as indebtedness, and the IRS could possibly take a different position as to the proper characterization of the Notes for United States federal income tax purposes which may affect the timing and character of income, gain or loss recognized in respect of a Note. The following discussion of the

principal United States federal income tax consequences of the purchase, ownership and disposition of the Notes is based upon the assumption that each Note will be treated as a debt instrument of Banorte for United States federal income tax purposes.

Interest Income and Original Issue Discount

As previously stated, Banorte intends to treat the Notes as debt for United States federal income tax purposes, and the following discussion is based on the assumption that such treatment will apply for United States federal income tax purposes.

Under applicable Treasury regulations, Banorte believes, and currently intends to take the position, that the Notes should not be treated as issued with original issue discount ("OID") within the meaning of Section 1273(a) of the Internal Revenue Code of 1986, as amended. Certain terms and conditions of the Notes provide for the deferral of principal or interest payments on the Notes if Banorte's Capital Ratio declines, or such payments would cause it to decline, below the Capital Adequacy Ratio established by the Ministry of Finance and Public Credit or if the CNBV has implemented any of the preventive or corrective measures set forth under Articles 134 Bis and 134 Bis 1 of the Mexican Banking Law. See "Description of the Notes—Deferral of Interest and Principal." Pursuant to applicable Treasury regulations, these contingencies should not cause the Notes to be treated as issued with OID provided that, as of the issue date of the Notes, there is a remote likelihood that such payments of principal or interest will be deferred. Banorte believes, and this discussion assumes, that, as of the issue date of the Notes, there is a remote likelihood that payments of principal or interest on the Notes will be deferred by reason of the aforementioned terms and conditions of the Notes. In addition to the foregoing, for purposes of determining the yield and maturity of the Notes, the applicable Treasury regulations provide that when a debt instrument provides the issuer of the debt instrument with an unconditional option or options, the issuer is deemed to exercise or not exercise the option or options in a manner that minimizes the yield on the debt instrument. Pursuant to the applicable Treasury regulations, Banorte believes, and currently intends to take the position, that it should be deemed to exercise its option to redeem the Notes on February 17, 2009. Based upon the foregoing, Banorte believes, and currently intends to take the position, that the Notes should not be treated as having been issued with OID for United States federal income tax purposes. Accordingly, except as set forth below, stated interest on the Notes (including the amount of any withholding taxes and any additional amounts paid with respect thereto) generally will be taxable to a U.S. holder as ordinary interest income at the time it is paid or accrued in accordance with such holder's regular method of accounting for United States federal income tax purposes.

If, however, payments of stated interest or, in some circumstances, principal on the Notes are deferred, the Notes would at that time be treated as having been retired and reissued with OID. In such event, a U.S. holder generally would be required, for the remaining term of the Notes, to accrue OID and include it in income on a constant yield basis regardless of the holder's regular method of accounting for United States federal income tax purposes, and future payments of interest would not be separately includable as taxable income. Holders of Notes should seek the advice of their tax advisors in the event that payments of principal or interest on the Notes are deferred. Furthermore, if the Notes are not, in fact, redeemed by Banorte on February 17, 2009, the Notes will be deemed for United States federal income tax purposes to be redeemed and reissued on February 17, 2009 at the adjusted issue price of the Notes (as determined for United States federal income tax purposes) on that date.

Applicable Treasury regulations provide that the possibility of additional amounts becoming payable under circumstances like those described under "Description of the Notes—Payment of Additional Amounts" will not affect the determination of interest accruing with respect to indebtedness if the likelihood of such payments, as of the date the indebtedness is issued, is remote. Banorte believes, and currently intends to take the position for United States federal income tax purposes, that the likelihood of additional amounts becoming payable on the Notes is remote as of the issue date, and that, as a result, the possibility of such payments should not be taken into account in determining the interest accruing on the Notes. Banorte's determination that the likelihood of such payments is remote is binding on a holder for United States federal income tax purposes unless the holder discloses to the IRS in the manner set forth in the applicable Treasury Regulations that it is taking a different position.

The Treasury regulations described above have not yet been addressed in any rulings or other interpretations by the IRS, and it is possible that the IRS could take a contrary position. If the IRS were to assert successfully that the stated interest on the Notes was OID regardless of whether payments of principal or interest on such Notes are deferred, all holders of Notes would be required to include such stated interest in income on a daily economic accrual basis as described above.

For purposes of the United States foreign tax credit limitations, interest on the Notes generally will be foreign source income and generally will be subject to separate limitations for "passive income" or "financial services income," or, if subject to a withholding tax of 5% or more, "high withholding tax income." Subject to complex limitations, a U.S. holder generally will be entitled to a foreign tax credit against its United States federal income tax liability or a deduction in computing its United States federal taxable income in respect of any Mexican withholding taxes. U.S. holders should consult their own tax advisors as to the consequences of Mexican withholding taxes and the availability of a foreign tax credit or deduction.

Corporate holders of Notes will not be entitled to a dividends-received deduction with respect to any income recognized by such holders with respect to the Notes.

Redemption and Sale of Notes

Under certain circumstances described herein (see "Description of the Notes—Optional Redemption" and "Description of the Notes—Tax Redemption"), the Notes may be redeemed for cash and the proceeds of such redemption distributed to the holders of such Notes. Under current law, such a redemption would, for United States federal income tax purposes, constitute a taxable disposition of the redeemed Notes, and a holder thereof would recognize gain or loss as if it had sold such redeemed Notes for cash as described below.

A holder that sells Notes will recognize gain or loss equal to the difference between the amount realized on the sale of the Notes (less an amount equal to any accrued but unpaid interest, which will be treated as such) and the holder's adjusted tax basis in such Notes. A U.S. holder's adjusted tax basis in a Note generally will equal the amount paid therefor. In the event that payments of interest or, in some cases, principal with respect to the Notes are deferred and the Notes are deemed to have been redeemed and reissued with OID for United States federal income tax purposes, a U.S. holder's adjusted tax basis in the Notes at the time of disposition will be increased by the amount of OID previously included in income by the U.S. holder and generally decreased by the amount of any payments on the Notes. Gain or loss recognized on the sale or other disposition of the Notes will be capital gain or loss and will be long-term capital gain or loss if the Notes have been held for more than one year at the time of sale.

Certain Non-U.S. Holders

Subject to the discussion of backup withholding below, interest on the Notes paid to a non-U.S. holder, and gain recognized by a non-U.S. holder on the sale, exchange or other disposition, including a redemption, of the Notes, will not be subject to United States federal income tax unless the interest or gain is "effectively connected" with the conduct by the non-U.S. holder of a trade or business within the United States (and, if required under an applicable income tax treaty, is attributable to a permanent establishment maintained in the United States by the non-U.S. holder), or, in the case of gain recognized by a non-U.S. holder who is an individual, the holder is present in the United States for a total of 183 days or more during the taxable year in which such gain is recognized and certain other conditions are met.

A corporate non-U.S. holder may, under certain circumstances, be subject to an additional "branch profits tax" at a 30% rate (or such lower rate as may be specified by an applicable income tax treaty) on any "effectively connected" interest paid or gain recognized on the Notes.

Information Reporting and Backup Withholding

A U.S. holder (other than an "exempt recipient," including a corporation and certain other persons that, when required, demonstrate their exempt status) may be subject to backup withholding at the applicable statutory rate on, and to information reporting requirements with respect to, payments of principal or interest on, and to proceeds from the sale, exchange or other disposition, including a redemption, of the Notes. In general, if a non-corporate U.S. holder subject to information reporting fails to furnish a correct taxpayer identification number or otherwise fails to comply with applicable backup withholding requirements, backup withholding may apply. The backup withholding tax is not an additional tax and may be credited against a U.S. holder's regular United States federal income tax liability or refunded by the IRS.

Non-U.S. holders are generally exempt from information reporting and backup withholding provided, if necessary, they demonstrate their exemption. Any backup withholding tax generally will be allowed as a credit or refund against the non-U.S. holder's United States federal income tax liability, provided that the required information is furnished to the IRS.

THE UNITED STATES FEDERAL INCOME TAX DISCUSSION SET FORTH ABOVE IS INCLUDED FOR GENERAL INFORMATION ONLY AND MAY NOT BE APPLICABLE DEPENDING UPON A HOLDER'S PARTICULAR SITUATION. HOLDERS SHOULD CONSULT THEIR TAX ADVISORS WITH RESPECT TO THE TAX CONSEQUENCES TO THEM OF THE PURCHASE, OWNERSHIP AND DISPOSITION OF THE NOTES, INCLUDING THE TAX CONSEQUENCES UNDER STATE, LOCAL, FOREIGN AND OTHER TAX LAWS AND THE POSSIBLE EFFECTS OF CHANGES IN UNITED STATES FEDERAL OR OTHER TAX LAWS.

Certain Mexican Income Tax Consequences

The following summary contains a description of the principal Mexican tax consequences of the purchase, ownership and

disposition of Notes by a Non-Mexican Holder (as defined below). It does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a decision to purchase the Notes. In addition, it does not describe any tax consequences (i) arising under the laws of any taxing jurisdiction other than Mexico or (ii) that are applicable to a resident of Mexico.

A "Non-Mexican Holder" is a holder who is not a resident of Mexico, as defined by the *Código Fiscal de la Federación* (the "Mexican Federal Fiscal Code"), or has a beneficial interest therein, in connection with a trade or business through a permanent establishment in Mexico. Under Mexico's tax laws, a natural person is a resident of Mexico for tax purposes if the individual has established his or her home in Mexico. In the event the individual also has a home in another country, the individual will be deemed a resident of Mexico for tax purposes when his or her "center of vital interests" is in Mexico. A "center of vital interests" is deemed to be in Mexico when, among other considerations: (i) more than 50% of an individual's total income in any calendar year qualifies as Mexican source income or (ii) when an individual's center of professional activities is located in Mexico. Mexican nationals are deemed Mexican residents for tax purposes, unless such nationals can demonstrate otherwise. A legal entity is a resident of Mexico if it is organized under the laws of Mexico, or if it has established its principal place of business in Mexico.

This summary is based upon Mexican Income Tax Law and Mexican Federal Fiscal Code in effect as of the date of this Luxembourg listing circular. Mexican tax laws are subject to change. Prospective purchasers of the Notes should consult their own tax advisers as to the Mexican or other tax consequences of the purchase, ownership and disposition of Notes, including, in particular, the effect of any foreign state or local tax laws.

Mexico has entered into, and is negotiating several, tax treaties that may affect the Mexican withholding tax liability of Non-Mexican Holders. Prospective purchasers of the Notes should consult their own tax advisers as to the tax consequences, if any, of such treaties.

Under Mexican Income Tax Law, and the regulations thereunder, principal and interest (which includes any amounts paid in excess of the issue price for the Notes) paid by us, through our Grand Cayman branch, to a Non-Mexican Holder will not be subject to Mexican withholding or other similar taxes. Capital gains realized from the sale or other disposition of the Notes by a Non-Mexican Holder will not be subject to any Mexican income or other taxes.

A Non-Mexican Holder will not be liable for Mexican estate, gift, inheritance or similar taxes with respect to the acquisition, ownership, or disposition of its holdings, nor will it be liable for any Mexican stamp, issue, registration or similar tax or duty.

Certain Cayman Islands Income Tax Consequences

The following is a discussion on certain Cayman Islands income tax consequences of an investment in the Notes. The discussion is a general summary of present law, which is subject to prospective and retroactive change. It is not intended as tax advice, does not consider any investor's particular circumstances, and does not consider tax consequences other than those arising under Cayman Islands law.

Under existing Cayman Islands laws:

- Payments of interest and principal on the Notes will not be subject to taxation in the Cayman Islands and no withholding will be required on the payment of interest and principal to any holder of the Notes, nor will gains derived from the disposal of the Notes be subject to Cayman Islands income or corporation tax. The Cayman Islands currently have no income, corporation or capital gains tax and no estate duty, inheritance tax or gift tax;
- No stamp duty is payable in respect of the issue or transfer of the Notes although duty may be payable if Notes are executed in or brought into the Cayman Islands; and
- Certificates evidencing the Notes in registered form, to which title is not transferable by delivery, should not attract Cayman Islands stamp duty. However, an instrument transferring title to a Note if brought to or executed in the Cayman Islands, would be subject to Cayman Islands stamp duty.

CERTAIN ERISA CONSIDERATIONS

The United States Employee Retirement Income Security Act of 1974, as amended, imposes certain requirements on "employee benefit plans" (as defined in Section 3(3) of ERISA) subject to ERISA, including entities such as collective investment funds and separate accounts whose underlying assets include the assets of such plans (collectively, "ERISA Plans") and on those persons who are fiduciaries with respect to ERISA Plans. Investments by ERISA Plans are subject to ERISA's general fiduciary requirements, including the requirement of investment prudence and diversification and the requirement that an ERISA Plan's investments be made in accordance with the documents governing the ERISA Plan.

Section 406 of ERISA and Section 4975 of the Code prohibit certain transactions involving the assets of an ERISA Plan (as well as those plans that are not subject to ERISA but which are subject to Section 4975 of the Code, such as individual retirement accounts (together with ERISA Plans, "Plans")) and certain persons (referred to as "parties in interest" or "disqualified persons") having certain relationships to such Plans, unless a statutory or administrative exemption is applicable to the transaction.

Prohibited transactions within the meaning of Section 406 of ERISA or Section 4975 of the Code may arise if any Notes are acquired by a Plan with respect to which the Issuer or any of its affiliates, or the Protection Provider or any of its affiliates is a party in interest or a disqualified person. Certain exemptions from the prohibited transaction provisions of Section 406 of ERISA and Section 4975 of the Code may be applicable, however, depending in part on the type of Plan fiduciary making the decision to acquire Notes and the circumstances under which such decision is made. There can be no assurance that any class exemption or other exemption will be available with respect to any particular transaction involving the Notes, or that, if an exemption is available, it will cover all aspects of any particular transaction. By its purchase of any Notes, the purchaser thereof will be deemed to have represented and agreed either that (i) it is not and for so long as it holds Notes will not be a Plan, an entity whose underlying assets include the assets of any such Plan, or a governmental plan which is subject to any federal, state, local or foreign law that is substantially similar to the provisions of Section 406 of ERISA or Section 4975 of the Code or (ii) its purchase and holding of the Notes will not result in a prohibited transaction under Section 406 of ERISA or Section 4975 of the Code (or, in the case of a governmental plan, any substantially similar to the provisions of Section 406 of ERISA or Section 4975 of the local law that is substantially similar federal, state, local or foreign law) for which an exemption or exception is not available. Similarly, each transferee of any Notes, by virtue of the transfer of such Notes to such transferee, will be deemed to have represented and agreed either that (i) it is not and for so long as it holds Notes will not be a Plan, an entity whose underlying assets include the assets of any such Plan or a governmental plan which is subject to any federal, state, local or foreign law that is substantially similar to the provisions of Section 406 of ERISA or Section 4975 of the Code or (ii) its purchase and holding of the Notes will not result in a prohibited transaction under Section 406 of ERISA or Section 4975 of the Code (or, in the case of a governmental plan, any substantially similar federal, state, local or foreign law) for which an exemption or exception is not available.

Governmental plans and certain other church plans, while not subject to the fiduciary responsibility provisions of ERISA or the provisions of Section 4975 of the Code, may nevertheless be subject to state, local, foreign or other federal laws that are substantially similar to the foregoing provisions of ERISA and the Code. Fiduciaries of any such plans should consult with their counsel before purchasing any Notes.

The foregoing discussion is general in nature and not intended to be all encompassing. Any Plan fiduciary who proposes to cause a Plan to purchase any Notes should consult with its counsel regarding the applicability of the fiduciary responsibility and prohibited transaction provisions of ERISA and Section 4975 of the Code to such an investment, and to confirm that such investment will not constitute or result in a prohibited transaction or any other violation of an applicable requirement of ERISA.

The sale of Notes to a Plan in no respect a representation by the Issuer that such an investment meets all relevant requirements with respect to investments by Plans generally or any particular Plan, or that such an investment is appropriate for Plans generally or any particular Plan.

LEGAL MATTERS

Certain matters relating to the validity of the Notes will be passed upon for us by Martinez, Algaba, Estrella, De Haro & Galvan-Duque, S.C., Mexico, Sidley Austin Brown & Wood LLP, New York, New York and Maples and Calder, Attorneys at law, Grand Cayman, Cayman Islands. Certain legal matters will be passed upon for the initial purchasers by White & Case S.C., Mexico and Cleary, Gottlieb, Steen & Hamilton, New York, New York. Cleary, Gottlieb, Steen & Hamilton, New York, New York, will rely upon White & Case S.C., Mexico with respect to matters governed by Mexican law. Sidley Austin Brown & Wood LLP will rely upon Martinez, Algaba, Estrella, De Haro & Galvan-Duque, S.C., Mexico with respect to matters governed by Mexican law and upon Maples and Calder, Attorneys at law, with respect to matters governed by Cayman Islands law.

INDEPENDENT AUDITORS

Our audited consolidated financial statements as of December 31, 2001 and 2002 and for the years ended December 31, 2000, 2001 and 2002 included in this Luxembourg listing circular have been audited by PricewaterhouseCoopers S.C., independent auditors, as stated in their report.

GENERAL LISTING INFORMATION

Listing

We have submitted an application to list the Notes on the LSE and use our reasonable efforts to list the Notes on the LSE. Changed circumstances, including changes in listing requirements, could cause us to conclude that continued listing of the Notes on the LSE is unduly burdensome. For example, in March 2003 the European Commission released a proposal for the Transparency Obligations Directive (the "Directive"), which relates to information about issuers whose securities are admitted to trading on a regulated market in the European Union ("EU"). The Directive is expected to be finalized in 2004 and to be implemented in 2006. The current draft proposal approved by EU finance ministers contains an exemption which would be applicable in respect of the Notes by reason of their denomination from provisions which, if applied with respect to the Notes, would otherwise have the effect of requiring us to prepare our financial statements in accordance with the International Financial Reporting Standards ("IFRS") in order for the Notes to remain listed on the LSE. We intend to exercise our right to delist the Notes from the LSE if we become subject to any requirement to prepare our financial statements in accordance with IFRS, or the creation of other obligations by the EU Financial Services Action Plan that that we deem to be unduly burdensome. If for the above or other reasons we delist the Notes from the LSE, we may, but will not be required to, seek a replacement listing of the Notes on a securities exchange outside the EU. Delisting the Notes from the LSE may adversely affect your ability to resell the Notes in the secondary market.

The Notes will be considered debt securities for the purposes of the LSE rules and regulations. The legal notice relating to the issue of the Notes and copies of our Articles of Incorporation and By-laws (and any amendments or modifications thereto) in English will be deposited prior to the listing with the *Registre de Commerce et des Sociétés* (the Trade and Companies Register in Luxembourg), where such documents are available for inspection and where copies can be obtained upon request. As long as the Notes are listed on the LSE, an agent for making payments and effecting transfers on the Notes will be maintained in Luxembourg.

Subject to the restrictions on transfer under "Transfer Restrictions" and the selling restrictions described in "Plan of Distribution" required in order to comply with applicable law, according to Chapter VI, Article 3, point A/II/2 of the rules and regulations of the LSE, the Notes shall be freely transferable and therefore no transaction made on the LSE shall be cancelled.

Consents

We have obtained all necessary consents, approvals and authorizations in connection with the issue of the Notes. The issuance of the Notes was authorized by a resolution of the shareholders of Banorte at a meeting held on January 27, 2004.

No Material Change

Except as otherwise disclosed in this Luxembourg listing circular, there has been no material adverse change in our financial position since September 30, 2003.

Litigation

We are not or have not been involved in any legal or arbitration proceedings, nor, to our knowledge, are there any legal or arbitration proceedings pending or threatened involving Banorte, which may have or have had during the 12 months prior to the date of this Luxembourg listing circular a material adverse effect on our financial position on a consolidated basis.

Available Documents

So long as the Notes are outstanding, our annual reports in English and the future annual audited consolidated financial statements and quarterly unaudited consolidated financial statements in English will be available and can be obtained free of charge at our specified offices and the office of The Bank of New York (Luxembourg) S.A. (the "Luxembourg Paying Agent") (for so long as the Notes are listed on the LSE). We do not prepare non-consolidated financial statements.

For so long as the Notes are outstanding, copies of our Articles of Incorporation and By-laws (and any amendments or modifications thereto) may be obtained free of charge at our specified offices and the Luxembourg Paying Agent (for so long as the Notes are listed on the LSE).

Clearing Systems and Settlement

The Notes have been accepted for clearance through the facilities of DTC, Euroclear and Clearstream Luxembourg.

The ISIN number, the CUSIP number and the common code for the Notes sold pursuant to Rule 144A are US05961YAA91, 05961YAA9 and 018642719, respectively. The ISIN number, the CUSIP number and the common code for the Notes sold pursuant to Regulation S are USP1392BAX03, P1392BAX0 and 018642727, respectively.

Notices

All notices to holders of Notes shall be made in accordance with the procedures described in the Indenture. The Indenture provides that notices to holders of Notes will be delivered, telecopied or mailed by first class mail at the address set forth on the books and records of the Indenture Trustee. In addition, so long as the Notes are listed on the Luxembourg Stock Exchange and it is required by the rules of the Luxembourg Stock Exchange, publication of such notice to holders of Notes shall be made in English in a leading newspaper having general circulation in Luxembourg (which is expected to be the Luxemburger Wort) or, if such publication is not practicable, in one other leading English language newspaper with general circulation in Europe, such newspaper being published on each business day in morning editions, whether or not it shall be published in Saturday, Sunday or holiday editions provided that, so long as securities are held in registered global form and if the rules of the Luxembourg Stock Exchange would so permit, notifications may be made through DTC, Euroclear and Clearstream Luxembourg in place of publication in a newspaper as described above.

SIGNIFICANT DIFFERENCES BETWEEN MEXICAN BANKING GAAP AND U.S. GAAP

Mexican banks prepare their financial statements in accordance with Mexican Banking GAAP as prescribed by the CNBV. Mexican Banking GAAP consists of the specific circulars issued by the CNBV as well as Mexican GAAP as prescribed by the Mexican Institute of Public Accountants ("MIPA"). Mexican Banking GAAP differs in certain significant respects from U.S. GAAP. Such differences might be material to the financial information contained in this Luxembourg listing circular. A summary of the significant differences is presented below. We have made no attempt to identify or quantify the impact of those differences. In making an investment decision, investors must rely upon their own examination of Banorte, the terms of this Offering and the financial information contained herein. Potential investors should consult their own professional advisors for an understanding of the differences between Mexican Banking GAAP and U.S. GAAP, and how those differences might affect the financial information contained herein.

This summary should not be taken as exhaustive of all differences between Mexican Banking GAAP and U.S. GAAP. No attempt has been made to identify all disclosure, presentation or classification differences that would affect the manner in which transactions or events are presented in our financial statements, including the notes thereto.

Set forth below is a description of significant differences between Mexican Banking GAAP and U.S. GAAP.

FOBAPROA Loans

Pursuant to certain programs relating to recapitalization and the purchase of loan portfolios in exchange for a commitment on the part of certain banks to increase their capital within a certain time frame, we transferred loans, net of allowances for loan losses, to FOBAPROA. The loans are held in trust and are generally managed by us in accordance with our collection policy. We received from FOBAPROA interest-bearing notes issued by FOBAPROA, in exchange for such loans. The collection of the principal amount of the notes and the accrued interest is subject to loss sharing. In the event that the cash flows from the loans and related interest is not sufficient to repay the interest bearing notes plus accrued interest, we are liable for 25% to 29% of the insufficiency. We may be liable for additional losses under certain circumstances. Under Mexican Banking GAAP, the loans, net of applicable allowances for loan losses, transferred to FOBAPROA were derecognized and the interest bearing notes from FOBAPROA were recorded. Interest on the notes issued by FOBAPROA is recognized on an accrual basis, net of provisions for loss sharing.

Under U.S. GAAP, transfers of financial receivables with recourse that occurred before December 31, 1996, were treated as sales for accounting purposes if all of the following criteria were met:

- The transferor surrendered control of the future economic benefits embodied in the receivables;
- The transferor could reasonably estimate its obligation under the recourse provisions; and
- The transferee could not return the receivables to the transferor except pursuant to the recourse provisions.

If any of the above conditions was not met, then the amount of the proceeds from the transfer would be reported as a liability and the loans would have to be recorded in the balance sheet and evaluated under SFAS No. 114, "Accounting by Creditors for Impairment of a Loan."

For transfers of receivables that occurred after December 31, 1996, Statement of Financial Accounting Standards ("SFAS") No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" which was later superseded in September 2000 by SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" establishes conditions that must be met in order to apply sale accounting treatment rather than secured borrowing treatment:

- The transferred assets must be isolated from the transferor;
- The transferee's right to pledge or exchange the transferred assets must not be restricted; and
- The transferor must not maintain effective control over the transferred assets through an agreement that both entitles and obligates the transferor to repurchase or redeem the transferred assets before their maturity or through an agreement that entitles the transferor to repurchase or redeem transferred assets that are not readily obtainable.

If the transfer qualifies as a sale then the transferor should:

- Derecognize all assets sold;

- Recognize at fair value all assets obtained and liabilities incurred in consideration as proceeds of the sale, including cash, guarantees given and servicing assets or liabilities; and
- Recognize in earnings any gain or loss on the above sale.

Government Sponsored and Other Loan Restructurings

Mexican banks have participated in a number of debtor relief programs and individual loan restructurings that began in 1995, which caused the Mexican banks to reduce their claims to the outstanding balances of loans (including mortgage loans) meeting certain criteria in accordance with program or restructuring guidelines. In connection with government sponsored restructurings, Mexican banks had the option of accounting for the full amounts of the loss on the date of the restructuring or deferring the loss and amortizing this loss on the statement of income in subsequent periods. For individual loan restructurings, we generally charge off any difference in the carrying amount of the original loan and the restructured loan.

Under U.S. GAAP, as provided in SFAS No. 114, "Accounting by Creditors for Impairment of a Loan" a restructuring deemed to be a "trouble debt restructuring" would be measured for impairment based on the present value of the expected cash flows specified by the new terms of the loan discounted at the original effective interest rate implicit in the loan, except that, as a practical expedient, the Bank may measure the impairment based on the loan's observable market price or the fair value of the collateral if the loan is collateral dependent. If the restructuring was not deemed to be a "troubled debt restructuring" any forgiveness of the principle balance of the loans would be charged off at the time of restructuring.

Provision and Allowance for Loan Losses

Through December 31, 2000 (for commercial loan portfolios) and June 30, 2000 (for mortgage loan portfolios), under Mexican Banking GAAP, Mexican banks calculate minimum loan loss allowances in accordance with the following criteria:

The total loan portfolio of the previous quarter must be segregated between commercial and mortgage loans. Each portfolio must be classified from A to E in accordance with established procedures for risk classification. Each risk class from A to E is allocated a prescribed amount of loan loss reserve. The total loan loss reserve calculated using this classification procedure must be equal to at least 45% of the non-performing commercial loans for the commercial portfolio and at least 35% of the non-performing mortgage loans for the mortgage portfolio. The risk of the portfolio calculated under the above method must be applied to the loan balances of the month prior to the reporting period. In addition, Mexican banks can make additional loan loss allowances in excess of those required by the CNBV. For loans that have been transferred to the UDI Trusts, a loan loss allowance should be established that is equal to any amount of net income that is recorded in the trust.

Effective January 1, 2001, (for commercial loan portfolios) and July 1, 2000 (for mortgage loan portfolios), the methodology for the calculation of the allowance changed in certain respects. The portfolio is still classified by risk class; nevertheless, each loan's rating may be subsequently adjusted according to an evaluation of the value of personal or actual guarantees related to the loan. In addition, the risk of the portfolio is now applied to the period-end reporting balances in the case of commercial loans and prior month balances in the case of mortgage loans.

Mexican banks can continue to make additional loan loss allowances in excess of those required by the CNBV.

Mexican Banks may apply alternative methodologies to that described above with the authorization of the CNBV. In our case we have been granted the use of an internal rating model for our commercial portfolio for the years ended December 31, 2001, 2002 and 2003. The CNBV may, at any time, suspend the use of alternative methodologies if they consider them to be obsolete or inadequate.

U.S. GAAP for recognition of loan losses is provided by SFAS No. 5, "Accounting for Contingencies" ("SFAS No. 5") and SFAS No. 114, "Accounting by Creditors for Impairment of a Loan" ("SFAS No. 114"). An estimated loss should be accrued when, based on information available prior to the issuance of the financial statements, it is probable that a loan has been impaired at the date of the financial statements and the amount of the loss can be reasonably estimated

For larger non-homogeneous loans, specific provisions are required to be calculated when it is determined that it is probable that the bank will not realize the full contractual principal and interest on a loan (impaired loan), in accordance with the original contractual terms.

Estimated losses on impaired loans, which are assessed on an individual loan basis, are required to be measured as the

difference between the carrying amount of the loan and one of the following under U.S. GAAP:

- The present value of the expected future cash flows, discounted at the loan's effective interest rate; or
- The loan's observable market price; or
- The fair value of the collateral if the loan is collateral dependent.

For groups of smaller-balance homogeneous loans that are collectively evaluated for impairment, specific provisions are calculated based on historical loss ratios adjusted for qualitative factors.

Changes in the values of the allowances for loan losses calculated above are reflected in the statement of income through the provision for loan losses.

Under Mexican Banking GAAP, loans may be charged-off when collection efforts have been exhausted or when they have been fully provisioned.

Under U.S. GAAP, loans (or portions of particular loans) should be written-off in the period that they are deemed uncollectible. For banks located in the U.S., loans classified (or partially classified) as "loss" are considered uncollectible and therefore, are written-off.

Recognition of Interest Income

Under Mexican Banking GAAP, the recognition of interest income is suspended when the following loans become past due for the following periods:

When it is known that the creditor has declared bankruptcy in accordance with the Mexican Bankruptcy Law	30 days
Promissory notes	30 days
Contractual with scheduled payments	90 days
Mortgage loans:	
Through December 31, 2001	180 days
From January 1 through December 31, 2002	150 days
From January 1, 2003	90 days
Consumer credit	60 days

Under U.S. GAAP, the accrual of interest is generally discontinued when, in the opinion of management, there is an indication that the borrower may be unable to meet payments as they become due. As a general practice, this occurs when loans are 90 days or more overdue. Any accrued but uncollected interest is reversed against interest income at that time.

Loan Portfolios Purchased

Mexican Banking GAAP has no specific rules covering the accounting treatment of loan portfolios purchases. As collections on the purchased loan portfolios are received, we recognize the amounts recovered as an investment income. In addition, based on the percentage of amounts recovered to the face value of the portfolios, we amortize the cost of the investment. Unamortized amounts, if any, are written off when the collection process has ceased.

These loan portfolios (generally consisting of troubled loans), purchased at a discount, would represent a purchase of a loan portfolio where it is not probable that the undiscounted future cash collections will be sufficient to recover the face amount of the loan and contractual interest. Consequently, under U.S. GAAP, at the time of acquisition, the sum of the acquisition amount of the loan and the discount to be amortized should not exceed the undiscounted future cash collections that are both reasonably estimable and probable. The discount on an acquired loan should be amortized over the period in which the payments are probable of collection only if the amounts and timing of collections, whether characterized as interest or principal, are reasonably estimable and the ultimate collectibility of the acquisition amount of the loan and the discount is probable. If these criteria are not satisfied, the loan should be accounted for using the cost-recovery method. Application of the cost-recovery method requires that any amounts received be applied first against the recorded amount of the loan; when that amount has been reduced to zero, any additional amounts received are recognized as income.

If the acquirer's assessment of factors affecting collectibility indicate that collection of the acquisition amount and the discount is probable and the amounts and timing of collections are reasonably estimable, then in accordance with SFAS No.91, "Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases" discounts should be amortized using the interest method.

Extraordinary Items

Under Mexican Banking GAAP, certain non-recurring transactions or results of transactions or events, are treated as extraordinary items upon special authorizations from the CNBV.

Under U.S. GAAP extraordinary items are limited to items that are unusual in nature and infrequent in occurrence, such as losses arising from natural disasters and expropriation of assets if such occurrences are truly unusual and infrequent given the geographic and other factors to which the company is normally subject.

Deferred Loan Origination Fees and Costs

Under Mexican Banking GAAP, loan origination fees are recognized on a cash basis and loan origination costs are expensed as incurred to the extent that they do not represent a fee that is in excess of a standard market fee. Any excess over a standard market fee would be deferred and amortized over the life of the loan.

Under U.S. GAAP, direct loan origination fees and costs are deferred and subsequently amortized over the life of the loan as an adjustment of yield using the effective interest method.

Assets Repossessed or Assets Received as Payment in Kind

Under Mexican Banking GAAP, assets repossessed or received as payment in kind are recorded at the value at which they were judicially repossessed by order of the courts. If the book value of the loan to be foreclosed on the date of foreclosure is lower than the value of the repossessed asset as judicially determined, the value of the asset is adjusted to the book value of the loan. Foreclosed assets are subsequently reviewed for impairment and adjusted to their market value if market value is less than their carrying amount. The impairment adjustment represents a net loss and therefore, is only recorded when losses are greater than gains. Assets received as payment in kind are recorded at the lower of either the appraised value or the book value of the loan on which payment in kind is made.

Under U.S. GAAP, assets repossessed or received as payment in kind are reported at the time of foreclosure or physical possession at their fair value less estimated costs to sell. Subsequent impairment adjustments should be recognized in the fair value of the assets decreases below the book value, determined on an asset by asset basis.

Investments

Under Mexican Banking GAAP, investments are divided into the categories below:

- Trading securities are defined as those in which management invests to obtain gains from short-term price fluctuations. The unrealized gains or losses resulting from the mark-to-market of these investments are recognized in the statement of income for the period.
- For-sale securities are those in which management invests to obtain medium-term earnings. The unrealized gains or losses resulting from the mark-to-market of these investments, net of deferred taxes and inflation, is recognized in stockholders' equity.
- Held-to-maturity investments are those instruments in which management invests with the intention of holding them until maturity and are recorded at amortized cost.

Certain reclassification of investments from one line item to another requires the CNBV's approval.

Under Mexican Banking GAAP, the fair value amounts are determined by independent third party price vendors. The fair value adjustment for available-sale-securities is reflected in equity and includes the related deferred income tax effects and loss from monetary position. All amounts are reversed into earnings upon sale or maturity of the securities.

Under Mexican Banking GAAP, provisions must be made for permanent impairment of for-sale securities or held-to-maturity securities. If the conditions that led to the provision being established improve sufficiently, then the provision can be reversed.

Under Mexican Banking GAAP and with special authorization from the CNBV, in March 2001 we reclassified our portfolio of Eurobonds from the category "held-to-maturity" to "for-sale." Following a decline in the fair value of these securities, in December 2001 we established a loss reserve in shareholders' equity. In 2002 and upon observing a sustained decrease in the fair value of these securities, the loss reserve was reclassified to retained earnings.

Under U.S. GAAP SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities":

- Debt securities must be classified, according to management's intent and ability to hold the security, within one of the following categories: held-to-maturity, trading, or available-for-sale. Marketable equity securities must be classified as either trading securities or available-for-sale securities.
- Trading securities are those actively bought and sold. Such securities are recorded at fair value, with resulting unrealized gains and losses recognized in the statement of income. Exchange traded securities should be valued using the last quoted price at the year-end.
- Securities which management has the intent and ability to hold to maturity are classified as held-to-maturity, a classification allowed only for debt securities, except for preferred stock with required redemption dates. Held-to-maturity securities are carried at amortized cost.
- All other debt securities and marketable equity securities that are not classified as debt securities or held-to-maturity securities are classified as available-for-sale securities. Available-for-sale securities are recorded at fair value with the resulting unrealized gains and losses recorded net of related deferred taxes as other comprehensive income, a separate component of shareholders' equity until realized, at which time the gain or loss is recorded as income.

Non-marketable equity securities are valued at cost, adjusted for other than temporary diminution in value.

U.S. GAAP has specific criteria limiting reclassifications of securities within the held-to-maturity classification. If any sales are made from the held-to-maturity portfolio other than in certain specific circumstances, then all held-to-maturity securities are deemed to be tainted and are consequently classified as available-for-sale.

U.S. GAAP does not contemplate the monetary position effect which is presently recognized under Mexican GAAP. Nevertheless, under U.S. GAAP, if a decline in fair value of an available-for-sale or held-to-maturity security is judged to be other than temporary, the cost basis of the individual security is written down to fair value and the amount of the write-down is charged to income. The new written down value of the security forms the new cost basis of the security and the impairment loss cannot be reversed if conditions improve.

Repurchase and Reverse Repurchase Agreements

Repurchase and resale agreements represent the temporary purchase or sale of certain financial instruments in exchange for a specified premium to be paid or received and with the obligation to resell or repurchase the underlying securities.

Under Mexican Banking GAAP, repurchase and reverse repurchase agreements are recorded as sales and purchases of securities, respectively. A net asset or liability is recorded at the fair value of the forward commitment to repurchase or resell the securities, respectively.

Under Mexican Banking GAAP, the use of a held-to-maturity security as collateral in a repurchase agreement could taint its held-to-maturity classification. The use of the repurchase agreement to increase liquidity could cause the regulatory authorities to call into question the ability of the bank to hold the instrument to maturity.

Under U.S. GAAP, repurchase and reverse repurchase agreements are transfer transactions subject to specific provisions and conditions that must be met in order for a transaction to qualify as a sale rather than a secured borrowing. In most cases, banks in the United States enter into repurchase and reverse repurchase transactions that qualify as secured borrowings. Accordingly, the bank's assets subject to a repurchase agreement would not be derecognized. Collateral for a reverse repurchase agreement should only be recognized on the balance sheet of the secured party where such party has control over the collateral, based on the rights and obligations of the collateral agreement. In addition, under U.S. GAAP, the use of held-to-maturity securities as collateral in a repurchase

agreement would not call into question the bank's ability to hold the investment to maturity.

Mortgage Loans Securitization

In September 2003, our unconsolidated subsidiary, Sólida, sold troubled mortgage loans to a special purpose securitization company in exchange for cash and subordinated notes due from the securitization company. The special purpose securitization company issued securities which were backed by the mortgage loan portfolio to third party investors for cash.

Under Mexican Banking GAAP, Sólida recognized this transaction as a sale and accordingly recognized in income the difference between book value of the loans sold and the proceeds from the sale.

Under U.S. GAAP, pursuant to SFAS No. 140, a transfer of financial assets in which the transferor surrenders control over those financial assets is accounted for as a sale to the extent that consideration other than beneficial interests in the transferred assets is received in exchange. SFAS No. 140 sets forth the conditions that must be met for control over transferred assets to be considered to have been surrendered (failure to meet any one of the conditions would prevent the transferor from derecognizing the transferred financial assets and the transaction would be accounted for as a secured borrowing):

- The transferred assets must be isolated from the transferor;
- The transferee's right to pledge or exchange the transferred assets must not be restricted; and
- The transferor must not maintain effective control over the transferred assets through an agreement that both entitles and obligates the transferor to repurchase or redeem the transferred assets before their maturity or through an agreement that entitles the transferor to repurchase or redeem transferred assets that are not readily obtainable.

If the transfer qualifies as a sale then the transferor (seller) should:

- Derecognize all assets sold;
- Recognize at fair value all assets obtained and liabilities incurred in consideration as proceeds of the sale, including cash, guarantees given and servicing assets or liabilities; and
- Recognize in earnings any gain or loss on the above sale.

Range Operations

Under Mexican Banking GAAP, range operations involving the short-term purchase or sale of securities are accounted for as follows: The buyer records at fair value its asset position reflecting the securities receivable (with changes in the fair value of the securities accounted for in the income statement), whereas the liability position is maintained at its agreed value. The seller records and values the contract in the opposite manner, by maintaining the asset position at the agreed value and the liability position is valued at fair value. Those asset and liabilities positions are shown net on the balance sheet. At settlement, a loss or gain in the transaction is recognized in the statement of income.

Under U.S. GAAP, Interpretation No. 39, "Offsetting of Amounts Related to Certain Contracts" ("FIN 39"), requires that exchange contracts be carried at their fair value and not offset, unless the following four provisions are satisfied:

- Each of two parties owes the other determinable amounts;
- The reporting party has the right to set off the amount owed with the amount owed by the other party;
- The reporting party intends to set off; and
- The right of set off is enforceable at law.

A debtor meeting the above conditions may offset the related asset and liability and report the net amount. However, FIN 39 provides for an exception to the intent condition for certain contracts reported at fair value if they are executed with the same counterparty under a master netting arrangement.

Derivatives

Under Mexican Banking GAAP, we record option contracts, whether held for trading or hedging purposes and other derivatives that are held for trading purposes at fair value, with unrealized gains and losses accounted for in the statements of income.

Changes in the fair value of forward and future contracts that qualify as hedges are recorded if the underlying item being hedged is carried at market value. The initial discount or premium on forward and future contracts is included in net income over the life of the contract, on a straight-line basis. For swap contracts that qualify as hedges, we recognize an asset (cash flow receivable) and a liability (cash flow payable) which are carried on the same basis of valuation as the underlying item being hedged, and which are shown as a net figure on the balance sheet.

Under Mexican Banking GAAP, the designation of a derivative instrument as a hedge of a net position ("macro hedging") is allowed.

Under U.S. GAAP, prior to the issuance of SFAS No. 133, "Accounting for Derivative Financial Instruments" (applicable for all fiscal years beginning after June 15, 2000), there was no single authoritative source of accounting guidance for derivative financial instruments. The accounting for derivatives was influenced by the company's motivation, the risks being managed, the products being used and the type of market for the product. Generally, derivatives were required to be marked-to-market unless they qualified for hedge accounting or synthetic instrument accounting. SFAS No. 133, as amended by SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities—an Amendment of FASB Statement No. 133" and SFAS No. 149, "Amendment of Statement No. 133 on Derivative Instruments and Hedging Activities" (collectively, "SFAS No. 133") expands the definition of derivative financial instruments, significantly increases the documentation and measurement requirements for a derivative instrument to qualify as a hedging transaction and requires that all derivatives be recorded as assets and liabilities on the balance sheet at fair value. Specifically SFAS No. 133 provides that:

- For all derivative instruments that do not qualify as hedges, the change in fair value should be recorded in earnings;
- For all derivative instruments that qualify as hedges of the fair value of existing assets or liabilities or firm commitments, the change in fair value of the derivative should be accounted for in the statement of income, however this should be fully or partially offset in the statement of income by the change in fair value of the underlying hedged item; and
- For all derivative contracts that qualify as hedges of future cash flows, the change in the fair value of the derivative should be initially recorded in Other Comprehensive Income ("OCI") in stockholders' equity. Once the underlying hedged transaction produces an effect in the statement of income, the amounts from OCI are transferred to the statement of income to partially offset the statement of income effect of the hedged transaction.

All derivative instruments that qualify as hedges are subject to period testing for effectiveness. Effectiveness is the derivative instrument's ability to generate offsetting changes in the fair value or cash flows of the underlying hedged item. Any ineffectiveness in the derivative instrument's ability to generate offsetting changes in the fair value or cash flows of the underlying hedged item is recognized in earnings immediately.

Macro hedging is not permitted under U.S. GAAP.

In addition, current Mexican accounting rules do not consider the existence of derivative instruments embedded in other contracts and therefore, they are not reflected in our financial statements.

Under U.S. GAAP, certain implicit or explicit terms included in host contracts that affect some or all of the cash flows or the value of other exchanges required by the contract in a manner similar to a derivative instrument, must be separated from the host contract and accounted for at fair value.

Acquisition Accounting (Banpaís and Bancrecer)

Under Mexican Banking GAAP, the excess of the purchase price over the adjusted book value of net assets acquired is recorded as goodwill (negative goodwill if book value exceeds the purchase price).

Under U.S. GAAP, for acquisitions prior to June 30, 2001, the excess of purchase price over the book value of assets and liabilities acquired must be ascribed to the fair value of separately identifiable assets and liabilities acquired. Retail depositor

relationships associated with an acquisition of a financial institution by a bank, termed the core deposit intangible, is generally identified and valued separately. In July 2001, the FASB issued FASB Statement No. 141 ("SFAS 141"), "Business Combinations," effective for fiscal years beginning after December 15, 2001. SFAS 141 does not change the methodology for measuring goodwill in a business combination. However, it differs from the previous provisions in the following ways, among others: (1) the purchase method of accounting must be used for all business combinations initiated after June 30, 2001 (i.e., the pooling-of-interests method is no longer permitted); (2) more specific guidance is provided on how to determine the accounting acquirer; (3) specific criteria are provided for recognizing intangible assets apart from goodwill; and (4) any negative goodwill is first allocated to reduce long-lived assets acquired and if any negative goodwill remains, then that amount must be written off immediately as an extraordinary gain (instead of being deferred and amortized).

In addition, under Mexican Banking GAAP, pursuant to CNBV's authorization, we temporarily recorded our investment in Bancrecre's capital stock as an investment security within the held-to-maturity portfolio during the period between December 4, 2001 and December 31, 2001.

Under U.S. GAAP, the equity method of accounting for investments would apply until we gained control of Bancrecre. Under this method, after the date of acquisition the carrying amount of the investment would be adjusted to recognize our share of the equity in earnings or losses of its investee.

Amortization of Goodwill and Other Intangible Assets

Under Mexican GAAP, goodwill is amortized over a period not to exceed twenty years and, in the case of negative goodwill, not to exceed five years. Moreover, prior to the adoption of Bulletin C-8 "Intangible Assets" (effective as of January 1, 2003) the Mexican accounting rules were silent as to a separate recognition of identifiable intangible assets acquired in a business combination.

Under U.S. GAAP, FASB Statement No. 142 ("SFAS 142"), "Goodwill and Other Intangible Assets" (which supersedes APB 17 "Intangible Assets" and which was effective January 1, 2002), addresses the accounting that must be applied to goodwill and other intangible assets subsequent to their initial recognition. Under SFAS 142: (1) goodwill (including the goodwill included in the carrying value of investments accounted for using the equity method of accounting) and indefinite-lived intangible assets are not amortized; (2) goodwill is tested for impairment at the reporting unit level (which is an operating segment as defined by FASB Statement No. 131 or one reporting level below an operating segment) at least annually; (3) intangible assets deemed to have an indefinite life are tested for impairment at least annually; and (4) amortizable intangible assets are tested for impairment when events and circumstances warrant such review

Pension Plan

Under Mexican GAAP, pension plan costs and seniority premiums are determined in accordance with Bulletin D-3 "Labor Obligations."

Under U.S. GAAP, pension plan costs are accounted for in accordance with SFAS No. 87 "Employers' Accounting for Pensions," whereby the liability is measured, similar to Mexican GAAP, by projecting the future expected payments using an assumed salary progression rate net of inflation adjustments, mortality and turnover assumptions, and discontinuing the resulting amounts to their present value using real interest rates.

SFAS No. 87 became effective on January 1, 1989 whereas Bulletin D-3 became effective on January 1, 1993. Therefore, a difference between Mexican GAAP and U.S. GAAP exists due to the accounting for the transition adjustments at different implementation dates.

Post-retirement Benefits

Under U.S. GAAP, post-retirement benefits are accounted for in accordance with SFAS No. 106 ("SFAS 106"), "Employers' Accounting for Post-retirement Benefits Other Than Pension." SFAS 106 applies to all post-retirement benefits relating to life insurance provided outside a pension plan or to other post-retirement health care and welfare benefits expected to be provided by an employer to current and former employees. The cost of post-retirement benefits plan should be recognized over the employees' service periods and actuarial assumptions are used to project the cost of health care benefits and the present value of those benefits.

Under Mexican Banking GAAP, we account for such benefits in a manner similar to U.S. GAAP, with the exception that a difference between Mexican GAAP and U.S. GAAP exists due to the determination of the transition adjustments at different implementation dates and the different amortization periods that result.

Employee Stock Option Plan

Under Mexican Banking GAAP, we recognize no compensation expense for the employee stock option plan.

U.S. GAAP has two primary standards on accounting for stock-based compensation: Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"), which is an intrinsic-value-based model, and SFAS No. 123, "Accounting for Stock-Based Compensation," which is a fair-value-based model. When measuring compensation cost for stock compensation plans, companies preparing their financial statements in accordance with U.S. GAAP may choose between the measurement principles included in these standards. Under APB 25, a compensation charge is recognized for the difference between the price of the security on the date of purchase and the price the employee is required to pay. Under SFAS No. 123 a compensation charge is recognized based on a fair value model which is based on various assumptions. The timing and measurement of compensation charges vary depending on the terms of specific awards.

Restructuring Reserves

Under Mexican Banking GAAP, the establishment of reserves for costs to be incurred in connection with future events (such as restructurings, integrations, etc.) is permitted. In 2001, the Mexican Institute of Public Accountants issued Bulletin C-9, "Liabilities, Provisions, Contingent Assets and Liabilities and Commitments," which was effective January 1, 2003 with earlier adoption permitted. Bulletin C-9, among other things, establishes the guidelines for the valuation, presentation and disclosure of liabilities and provisions. It establishes certain requirements as to when reserves can be established.

Under U.S. GAAP, very stringent requirements must be met in order to be able to recognize these types of reserves prior to the incurrence of the cost. The costs of a plan to (1) exit an activity of an acquired company, (2) involuntarily terminate employees of an acquired company, or (3) relocate employees of an acquired company should be recognized as liabilities assumed in a purchase business combination and included in the allocation of the acquisition cost if specified conditions are met.

A cost resulting from a plan to exit an activity of an acquired company should be recognized as a liability assumed as of the consummation date of the acquisition only if the cost is not associated with or is not incurred to generate revenues of the combined entity after the consummation date and it meets either of the following criteria:

- The cost has no future economic benefit to the combined company, is incremental to other costs incurred and will be incurred as a direct result of the plan to exit an activity of the acquired company
- The cost represents an amount to be incurred by the combined company under a contractual obligation of the acquired company that existed prior to the consummation date and will either continue after the plan is completed with no economic benefit to the combined company or be a penalty incurred by the combined company to cancel that contractual obligation.

A cost resulting from a plan to involuntarily terminate or relocate employees of an acquired company should be recognized as a liability assumed as of the consummation date of the purchase business combination and included in the allocation of the acquisition cost if all of the following criteria are met:

- As of the consummation date of the acquisition, management having the appropriate level of authority begins to assess and formulate a plan to involuntarily terminate (relocate) employees of the acquired company.
- As soon as possible after the consummation date, management having the appropriate level of authority completes the assessment of which employees of the acquired company will be involuntarily terminated (relocated), approves and commits the combined company to the plan of termination (relocation), and communicates the termination (relocation) arrangement to the employees of the acquired company. The communication of the termination (relocation) arrangement should include sufficient detail to enable employees of the acquired company to determine the type and amount of benefits they will receive if they are terminated (relocated). Although the time required will vary with the circumstances, the finalization of the plan of termination (relocation) and the communication of the termination (relocation) arrangement cannot occur beyond one year from the consummation date of the acquisition.
- The plan of termination (relocation) specifically identifies the number of employees of the acquired company to be terminated (relocated), their job classifications or functions and their locations.

- Actions required by the plan of termination (relocation) will begin as soon as possible after the plan is finalized, and the period of time to complete the plan indicates that significant changes to the plan are not likely.

Research Costs and Pre-operating Expenses

Under Mexican Banking GAAP, prior to Bulletin C-8, "Intangible Assets," all expenses incurred while a company or a project is in the pre-operating or development stages are capitalized. Upon adoption of Bulletin C-8, research costs and pre-operating costs should be expensed as a period cost, unless they can be classified as development costs to be amortized on a straight-line basis after operations commence for a period not exceeding 20 years.

Under U.S. GAAP, such research costs and pre-operating expenses are expensed as incurred.

Retained Earnings Adjustments

Where specific approval is given by the CNBV, certain adjustments and provisions which are created during the year may be charged to retained earnings and not to the statement of income for the period.

Under U.S. GAAP, when adjustments which relate to correction of errors in the prior year occur, the prior period financial statements are required to be restated. Under U.S. GAAP, provisions recognized are charged to earnings rather than directly against retained earnings.

Deferred Income Taxes

Under Mexican Banking GAAP, deferred taxes are calculated using the balance sheet approach and include a deferred tax provision for accumulated timing differences arising from fixed assets. Under Mexican Banking GAAP, deferred tax assets are recognized only when it is highly probable that sufficient future taxable income will be generated to recover such deferred tax assets.

Under U.S. GAAP, the method of calculating deferred taxes is similar to the method that is prescribed under Mexican Banking GAAP, except that a valuation allowance on deferred tax assets should be established when it is more likely than not that the deferred tax asset will not be realized. U.S. GAAP differences in other areas that affect tax accounts impact U.S. GAAP deferred tax balances.

As a result of the amendments to the Income Tax Law which were passed on January 1, 2002, the income tax rate for fiscal year 2003 was reduced from 35% on taxable income outstanding in 2002 to 34%. Under Mexican Banking GAAP, at December 31, 2002 the Bank determined the deferred taxes by applying a 35% rate.

Under U.S. GAAP, deferred tax assets and liabilities should be adjusted for the effects of a change in tax law or rates in the period that includes the enactment date, which would be 2002.

Statutory Profit Sharing

Prior to issuance of Bulletin D-4, "Accounting for Income Tax, Assets Tax, and Employee's Profit Sharing," in Mexico effective January 1, 2000, two methodologies for accounting for deferred profit sharing were in use in Mexico, an accrual methodology and a balance sheet methodology. Under the accrual methodology, a liability is recognized for deferred employee profit sharing purposes based on timing differences between income for financial reporting purposes and income for purposes of computing the current amount of the employee profit sharing payment. The balance sheet methodology determines the liability based on the difference between assets and liabilities in the financial statements and assets and liabilities determined in accordance with the law relating to the employee's profit sharing. This methodology is conceptually consistent with U.S. GAAP (SFAS No. 109, "Accounting for Income Taxes"). Bulletin D-4 (effective January 1, 2000) requires the accrual methodology. In addition, under Mexican GAAP, the cost of employee profit sharing is included with income taxes.

For U.S. GAAP purposes, the SEC issued an interpretation that beginning January 1, 1997, all registrants should calculate deferred employee profit sharing plan obligations using the balance sheet methodology. Additionally, the profit sharing expense should be classified as an operating expense.

Consolidation

Under Mexican Banking GAAP, our consolidated financial statements include all the subsidiaries within the financial sector,

as well as those providing complementary services, and exclude those that are not contained in the financial sector. The determination of which companies are deemed to be within the financial sector is not based solely on the application of a conceptual framework. The Mexican Ministry of Finance and Public Credit has the right to determine if a company is or is not within the financial sector, and therefore is required to be consolidated. Companies that may seem to fall within the financial sector based on their operations may not be consolidated due to decisions of the Mexican Ministry of Finance and Public Credit.

Under U.S. GAAP, the basic rule is that when a company has a controlling interest (either through a majority voting interest or through the existence of other control factors) in an entity, such entity's financial statements should be consolidated, irrespective of whether the activities of the subsidiary are dissimilar to those of the parent.

Effects of Inflation

Under Mexican Banking GAAP and in accordance with CNBV rules, which are substantially the same as those provisions set forth in Bulletin B-10, the effects of inflation have been recognized in the financial information. Fixed assets, stockholders' equity and other non-monetary assets are restated to constant purchasing power by applying the change in the UDI Index published as of the end of each reporting period. Depreciation is calculated using the straight-line method, based on the remaining useful lives of the assets.

The gain or loss from monetary position, which represents the erosion of the purchasing power of monetary items caused by inflation, is determined by applying at each month-end through the end of the year an inflation factor derived from the NCPI to the monthly average variation in net monetary assets or liabilities. This effect is recorded on the statement of income.

Under U.S. GAAP, historical costs must be maintained in the basic financial statements. Business enterprises are encouraged to disclose certain supplemental information concerning changing prices on selected statement of income and balance sheets items. Typically, however, no gain or loss on monetary position is recognized in the financial statements.

The recording of appraisals of fixed assets is prohibited, with the objective of maintaining historical cost in the balance sheet, except in the event of a business combination accounted for under the purchase method and under certain other circumstances.

Although the effects of inflation are not recognized in the financial statements under U.S. GAAP, the SEC recognizes that presentation indicating the effects of inflation is more meaningful than historical cost-based financial reporting for Mexican entities, because it represents a comprehensive measure of the effects of price level changes in the inflationary Mexican economy. For this reason, the effects of inflation accounting are generally not eliminated from the financial statements of Mexican companies making offerings in the United States securities markets in situations when Mexican GAAP is reconciled to U.S. GAAP.

Statement of Cash Flows

Under Mexican GAAP, Bulletin B-12, "Statement of Changes in Financial Position," addresses the presentation of statement of changes in financial position where the financial statements have been restated to constant pesos. The changes in financial position reflected in the statement of changes in financial position are based on the differences between the beginning and ending balances in the financial statement components, except for certain non-monetary assets which are adjusted by the applicable result from holding non-monetary assets recorded directly to stockholders' equity. Monetary gains or losses and foreign exchange gains and losses are classified as operating activities through their inclusion in net income and the reduction in current and long-term debt due to the restatement in constant Mexican Pesos is presented as a financing activity.

Under U.S. GAAP, SFAS No. 95, "Statement of Cash Flows," establishes the standards for providing a statement of cash flows in general purpose financial statements. Under U.S. GAAP, presentation of a statement of cash flows describing the cash flows provided by or used in operating, investing and financing activities is required. SFAS No. 95 does not provide guidance with respect to financial statements adjusted for inflation. However, the AICPA International Practices Task Force has issued guidance for Mexican companies for the preparation of price-level adjusted cash flow statements. Under such guidance, a fourth caption in addition to operating, financing and investing activities named "Effects of inflation on cash and cash equivalents" is presented, which is similar to the concept of the effects of exchange rate changes on cash and cash equivalents as prescribed by SFAS No. 95.

Recent Mexican Banking GAAP Accounting Standards

In March 2003, MIPA issued Bulletin C-15, "Impairment on the Valuation of Long Lived Assets and their Disposal," which is effective January 1, 2004, with early adoption recommended. This bulletin provides criteria for the evaluation of possible impairments for the carrying value of long-lived assets, both tangible and intangible. It also prescribes the rules for the calculation and recognition of impairment losses and their subsequent reversal as well as rules for disclosure of those assets for which value has been affected or

impairment has been reversed. Finally, it establishes disclosure rules applicable to the discontinuing operations.

Recent U.S. Accounting Standards

Accounting for Costs Associated with Exit or Disposal Activities

In July 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." It addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force ("EITF") Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized and measured at fair value only when incurred. This approach to recognition differs from the previous guidance in EITF Issue No. 94-3 and will result in certain costs no longer qualifying as liabilities. Unlike previous guidance, the commitment to an exit plan is an insufficient basis for the recognition of a liability. A liability associated with an exit or disposal activity must be the result of a past event that creates an obligation to others for costs to be incurred under the plan. In addition, one-time-termination benefits should be recognized over the period employees will render service, if the service period required is beyond a minimum retention period. SFAS No. 146 is effective for exit or disposal activities that are initiated after December 31, 2002.

Accounting for Guarantees

In November 2002, the FASB issued FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" ("FIN 45"). FIN 45 requires that a liability be recorded in the guarantor's balance sheet upon issuance of a guarantee at its fair value. In addition, FIN 45 requires disclosures about the guarantees that an entity has issued, including a reconciliation of changes in the entity's product warranty liabilities. The initial recognition and initial measurement provisions of FIN 45 are applicable on a prospective basis to guarantees issued or modified after December 31, 2002.

Consolidation of Variable Interest Entities

In January 2003, the FASB issued FASB Interpretation No. 46, "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51" ("FIN 46"). FIN 46 requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or the entity does not have sufficient equity at risk to finance its activities without additional subordinated financial support from other parties. In December 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities (revised)" ("FIN 46-R"). FIN 46-R introduces various amendments to FIN 46 and is effective no later than the end of the first reporting period ending after March 15, 2004.

Derivative Financial Instruments

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." SFAS No. 149 amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS No. 133. The statement requires that contracts with comparable characteristics be accounted for similarly and clarifies when a derivative contains a financing component that warrants special reporting in the statement of cash flows. SFAS No. 149 is effective for contracts entered into or modified after June 30, 2003, except in certain circumstances, and for hedging relationships designated after June 30, 2003.

Accounting for Financial Instruments with Characteristics of both Liabilities and Equity

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." This Statement establishes standards for how an issuer classifies and measures in its statement of financial position, certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability when that financial instrument embodies an obligation for the issuer. This Statement is effective for financial instruments entered into or modified after May 31, 2003.

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GRUPO FINANCIERO BANORTE

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Independent Auditor's Report

To the Stockholders of

Banco Mercantil del Norte, S.A., Institución de Banca Múltiple,
Grupo Financiero Banorte

We have audited the accompanying consolidated balance sheets of Banco Mercantil del Norte, S.A., Institución de Banca Múltiple, Grupo Financiero Banorte and its consolidated subsidiaries (the "Bank") as of December 31, 2001 and 2002, and the related consolidated statements of income, changes in financial position and changes in stockholders' equity for each of the three years in the period ended December 31, 2002, all expressed in thousands of constant Mexican pesos. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

The Bank is required to prepare and present its consolidated financial statements based on the accounting rules applicable to banks, issued by the Mexican National Banking and Securities Commission (Comisión Nacional Bancaria y de Valores (the "CNBV")), which differ from accounting principles generally accepted in Mexico as described in Note 4.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Banco Mercantil del Norte, S.A., Institución de Banca Múltiple, Grupo Financiero Banorte and its consolidated subsidiaries as of December 31, 2001 and 2002, and the results of their operations, the changes in their financial position and the changes in their stockholders' equity for each of the three years in the period ended December 31, 2002, in conformity with the rules of the CNBV.

As discussed in Note 2a, in the last quarter of 2001, the Bank acquired 100% of the capital stock of Bancrecre, S.A. ("Bancrecre") for Ps.1,780 million (Ps.1,650 million nominal value) equivalent to 0.66 times its book value. As of December 31, 2001, pursuant to CNBV's authorization, the Bank recorded the purchase of Bancrecre's capital stock as an investment security within the held-to-maturity portfolio. Inasmuch as the Bank did not take control of Bancrecre until January 2002, as authorized by the CNBV, the financial statements of Bancrecre at December 31, 2001 were not consolidated with those of the Bank. Consequently, the consolidated financial statements of the Bank at December 31, 2002 are not comparable with those of December 31, 2001.

PricewaterhouseCoopers

José Antonio Quesada Palacios, C.P.

Monterrey, N.L., Mexico

February 14, 2003 (except for the updating
to September 30, 2003 currency, as
to which the date is November 28, 2003)

**BANCO MERCANTIL DEL NORTE, S. A., INSTITUCION DE BANCA MULTIPLE,
GRUPO FINANCIERO BANORTE
AND CONSOLIDATED SUBSIDIARIES**

CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2001 AND 2002

(Amounts stated in thousands of Mexican Pesos of September 2003 purchasing power
and thousands of U.S. dollars)

	<u>2001</u>	<u>2002</u>	<u>2002</u> <u>Note 3y.</u>
ASSETS			
CASH AND CASH EQUIVALENTS (Note 6)	Ps8,772,759	Ps23,442,853	US\$2,128,595
INVESTMENT SECURITIES (Note 7):			
Trading securities	2,319,817	3,428,942	311,346
Available-for-sale securities	1,013,182	1,337,589	121,452
Held-to-maturity securities	2,950,920	7,539,738	684,603
TOTAL INVESTMENT SECURITIES	6,283,919	12,306,269	1,117,401
SECURITIES AND DERIVATIVES TRADING (Note 8):			
Debit balances on repo transactions	80,361	37,392	3,395
Derivatives trading	16,481	9,411	855
	<u>96,842</u>	<u>46,803</u>	<u>4,250</u>
CURRENT LOAN PORTFOLIO (Notes 9 and 11):			
Commercial portfolio	21,779,810	32,598,456	2,959,917
Loans to financial intermediaries	1,536,987	8,028,244	728,959
Consumer loans	2,474,763	5,092,755	462,419
Mortgage loans	4,730,479	12,129,879	1,101,385
Loans to IPAB	38,170,650	80,896,166	7,345,316
Loans to government entities	3,915,285	5,936,913	539,067
Loans to FOBAPROA (Note 10)	10,897,278	6,668,848	605,527
TOTAL CURRENT LOAN PORTFOLIO	83,505,252	151,351,261	13,742,590
PAST-DUE LOAN PORTFOLIO (Notes 9 and 11):			
Commercial portfolio	2,434,544	2,371,467	215,328
Consumer loans	340,808	333,640	30,294
Mortgage loans	1,702,398	1,822,529	165,484
TOTAL PAST-DUE LOAN PORTFOLIO	4,477,750	4,527,636	411,106
TOTAL LOAN PORTFOLIO	87,983,002	155,878,897	14,153,696
ALLOWANCE FOR LOAN LOSSES	4,384,436	5,265,140	478,071
NET LOAN PORTFOLIO	83,598,566	150,613,757	13,675,625
OTHER RECEIVABLES, NET	1,111,547	2,224,374	201,972
FORECLOSED ASSETS (Note 12)	1,440,633	1,216,055	110,417
PROPERTY, FURNITURE AND EQUIPMENT, NET (Note 13)	3,634,427	5,471,455	496,804
PERMANENT STOCK INVESTMENTS (Note 14)	417,282	458,407	41,623
DEFERRED TAXES, NET (Note 15)	1,036,894	1,024,155	92,993
OTHER ASSETS, NET (Note 16):			
Other assets, deferred charges and intangibles	691,992	755,787	68,625
TOTAL ASSETS	<u>Ps107,084,861</u>	<u>Ps197,559,915</u>	<u>US\$17,938,305</u>

The accompanying notes are an integral part of these consolidated financial statements

	As of December 31,		
	2001	2002	2002 Note 3y.
LIABILITIES			
DEPOSITS:			
Demand deposits (Note 17)	Ps31,904,872	Ps53,929,292	US\$4,896,742
Time deposits (Note 18)			
General public	18,593,549	30,035,044	2,727,161
Money market	29,841,134	61,248,693	5,561,339
Bank bonds (Note 19)	1,404,161	1,322,713	120,101
TOTAL DEPOSITS	81,743,716	146,535,742	13,305,343
BANK AND OTHER ENTITY LOANS (Note 20):			
Demand loans	2,710,286	13,759,591	1,249,361
Short-term	3,160,965	12,210,336	1,108,690
Long-term	8,795,406	10,279,569	933,378
	14,666,657	36,249,496	3,291,429
SECURITIES AND DERIVATIVES TRADING (Note 8):			
Credit balances on repo transactions	55,924	15,404	1,399
Derivatives trading	10,499	835,110	75,827
	66,423	850,514	77,226
OTHER PAYABLES:			
Income tax and employees' statutory profit sharing	5,360	169,479	15,392
Sundry creditors and other payables	2,175,544	2,742,782	249,043
	2,180,904	2,912,261	264,435
OUTSTANDING SUBORDINATED DEBENTURES (Note 22)	1,440,551	2,642,316	239,920
DEFERRED CREDITS	73,686	37,403	3,396
TOTAL LIABILITIES	100,171,937	189,227,732	17,181,749
STOCKHOLDERS' EQUITY (Notes 25, 26, 27 and 28):			
PAID-IN CAPITAL:			
Capital stock	4,501,863	4,501,863	408,766
Share premiums	966,381	966,381	87,747
TOTAL PAID-IN CAPITAL	5,468,244	5,468,244	496,513
EARNED SURPLUS:			
Capital reserves	2,335,858	2,335,858	212,094
Retained earnings	1,843,188	1,527,720	138,716
Available-for-sale securities—valuation gain (loss)	(577,071)	182,045	16,529
Surplus or deficit from restatement of stockholders' equity	(2,331,877)	(2,331,877)	(211,733)
Loss from holding nonmonetary assets:			
from valuation of permanent stock investments	(65,348)	(90,878)	(8,252)
from valuation of fixed assets	—	11,265	1,023
Initial effect of deferred taxes	(272,349)	(272,349)	(24,729)
Net income	512,004	1,501,826	136,365
TOTAL EARNED SURPLUS	1,444,405	2,863,610	260,013
MINORITY INTEREST IN STOCKHOLDERS' EQUITY	275	329	30
TOTAL STOCKHOLDERS' EQUITY	6,912,924	8,332,183	756,556
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	Ps107,084,861	Ps197,559,915	US\$17,938,305

The accompanying notes are an integral part of these consolidated financial statements

**BANCO MERCANTIL DEL NORTE, S. A., INSTITUCION DE BANCA MULTIPLE,
GRUPO FINANCIERO BANORTE**

**AND CONSOLIDATED SUBSIDIARIES CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2000, 2001 AND 2002**

(Amounts stated in thousands of Mexican Pesos of September 2003 purchasing power
and thousands of U.S. dollars)

	For the years ended December 31,			
	2000	2001	2002	2002
				Note 3y.
Interest income	Ps21,522,939	Ps20,179,550	Ps21,666,547	US\$1,967,307
Interest expense	(16,240,312)	(13,951,233)	(13,607,687)	(1,235,569)
Monetary gain, ...	77,293	102,042	101,614	9,227
NET INTEREST INCOME	5,359,920	6,330,359	8,160,474	740,965
Allowance for loan losses	(583,080)	(1,172,871)	(800,657)	(72,699)
NET INTEREST INCOME ADJUSTED FOR CREDIT RISKS	4,776,840	5,157,488	7,359,817	668,266
Fee and commission income	1,510,049	1,458,103	2,732,395	248,100
Fee and commission expense	(340,255)	(319,666)	(449,226)	(40,789)
Brokerage income	424,490	353,146	456,829	41,480
	1,594,284	1,491,583	2,739,998	248,791
TOTAL OPERATING INCOME	6,371,124	6,649,071	10,099,815	917,057
Administrative and promotion expenses	(5,642,117)	(6,580,887)	(8,913,281)	(809,320)
OPERATING INCOME	729,007	68,184	1,186,534	107,737
Other income	692,755	887,749	739,344	67,132
Other expense	(652,378)	(283,537)	(712,352)	(64,681)
	40,377	604,212	26,992	2,451
INCOME BEFORE INCOME TAX AND EMPLOYEES' STATUTORY PROFIT SHARING	769,384	672,396	1,213,526	110,188
Current income tax and employees' statutory profit sharing (Note 29)	(28,289)	(15,349)	(211,127)	(19,170)
Deferred income tax and employees' statutory profit sharing (Note 15)	(314)	(142,518)	20,507	1,862
	(28,603)	(157,867)	(190,620)	(17,308)
INCOME BEFORE EQUITY IN EARNINGS OF ASSOCIATE AND AFFILIATED COMPANIES, AND MINORITY INTEREST AND OTHER	740,781	514,529	1,022,906	92,880
Equity in earnings (losses) of associate and affiliated companies, Net	78,664	(2,646)	59,166	5,372
INCOME FROM CONTINUING OPERATIONS BEFORE MINORITY INTEREST AND OTHER	819,445	511,883	1,082,072	98,252
Discontinued operations, extraordinary item and changes in accounting standards (Note 2c)	—	—	419,774	38,115
	819,445	511,883	1,501,846	136,367
Minority interest	—	121	(20)	(2)
NET INCOME (Notes 27 and 28)	Ps819,445	Ps512,004	Ps1,501,826	US\$136,365

The accompanying notes are an integral part of these consolidated financial statements

**BANCO MERCANTIL DEL NORTE, S. A., INSTITUCION DE BANCA MULTIPLE,
GRUPO FINANCIERO BANORTE
AND CONSOLIDATED SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION
FOR THE YEARS ENDED DECEMBER 31, 2000, 2001 AND 2002**

(Amounts stated in thousands of Mexican Pesos of September 2003 purchasing power
and thousands of U.S. dollars)

	For the years ended December 31,			
	2000	2001	2002	2002 Note 3y.
OPERATING ACTIVITIES:				
Net income for the year	Ps819,445	Ps512,004	Ps1,501,826	US\$136,365
Items charged (credited) to income that did not affect resources:				
Allowance for loan losses	583,080	1,172,871	800,657	72,699
Depreciation and amortization	286,249	374,908	604,744	54,911
Equity in earnings of associated and affiliated companies, net	(78,664)	2,646	(59,166)	(5,372)
Minority interest	—	(121)	20	2
Provision for other obligations	679,525	(602,266)	701,893	63,731
Unrealized investment income (loss)	(22,942)	(21,189)	31,909	2,897
Deferred taxes	314	142,518	(20,507)	(1,862)
	2,267,007	1,581,371	3,561,376	323,371
Items related to operating activities:				
Increase in deposits	24,426,633	4,965,878	64,792,025	5,883,071
Decrease (increase) in investment securities	14,464,966	2,149,679	(5,914,454)	(537,028)
(Increase) decrease in loan portfolio	(55,655,725)	1,221,225	(67,815,848)	(6,157,632)
Increase (decrease) in bank and other entity loans	12,028,275	(11,460,371)	21,582,843	1,959,707
(Decrease) increase in deferred taxes	(136,782)	(143,741)	33,243	3,018
Decrease (increase) in other accounts receivable and payable	2,124,690	(40,299)	(1,083,364)	(98,369)
Decrease (increase) in derivatives trading	28,827	(39,118)	834,130	75,738
Resources (used in) provided by operating activities	(452,109)	(1,765,376)	15,989,951	1,451,876
FINANCING ACTIVITIES:				
(Payment) issuance of subordinated debentures	(991,998)	1,440,551	1,201,765	109,120
Administradora de Activos Cebtroban, S.A. De C.V.	1,421,801	—	—	—
Increase in paid-in capital through merger with Banpais, S.A.	401,321	—	—	—
Increase in capital stock and reserves through merger with Transnorte, S.A. De C.V.	338,705	—	—	—
Repayment of obligatory convertible subordinated debentures	(49,573)	—	—	—
Decrease in capital reserves	(2,265,519)	—	—	—
Increase in capital stock	—	540,545	—	—
Dividends declared	—	—	(208,164)	(18,901)
Resources (used in) provided by financing activities	(1,145,263)	1,981,096	993,601	90,219
INVESTMENT ACTIVITIES:				
Decrease (increase) in permanent stock investments	1,292,130	(39,744)	(7,454)	(677)
Net purchases of property, furniture and equipment	(1,881,636)	(339,227)	(2,186,404)	(198,524)
(Increase) decrease in foreclosed assets	(822,339)	(148,567)	224,579	20,392
Decrease (increase) in deferred charges and credits	1,035,487	(326,934)	(344,179)	(31,251)
Resources used in investment activities	(376,358)	(854,472)	(2,313,458)	(210,060)
Increase (decrease) in cash and cash equivalents	(1,973,730)	(638,752)	14,670,094	1,332,035
Cash and cash equivalents at beginning of period	11,385,241	9,411,511	8,772,759	796,560
Cash and cash equivalents at end of period	Ps9,411,511	Ps8,772,759	Ps23,442,853	US\$2,128,595

The accompanying notes are an integral part of these consolidated financial statements

**BANCO MERCANTIL DEL NORTE, S.A., INSTITUCION DE BANCA MULTIPLE,
GRUPO FINANCIERO BANORTE
AND CONSOLIDATED SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2000, 2001 AND 2002**

(Amounts stated in thousands of Mexican Pesos of September 2003 purchasing power and thousands

	PAID-IN CAPITAL			EARNED CAPITAL						LOSS FROM HOLDING NONMONETARY ASSETS
	CAPITAL STOCK	SHARE PREMIUMS	OBLIGATORIL Y CONVERTIBLE OUTSTANDING DEBENTURES	CAPITAL RESERVES	RETAINED EARNINGS	VALUATION GAIN (LOSS) ON AVAILABLE FOR-SALE SECURITIES	RETIREMENT LABOR OBLIGATIONS	DEFICIT IN RESTATEMENT OF CAPITAL ACCOUNTS	PERMANENT STOCK INVESTMENTS	FIXED ASSETS
Balance at January 1, 2000.....	Ps3,507,620	Ps36,169	Ps531,082	Ps2,544,321	Ps1,249,948	Ps(525,078)	Ps(114,705)	Ps(2,331,877)	Ps—	Ps—
CHANGES RESULTING FROM RESOLUTIONS ADOPTED BY STOCKHOLDERS:										
Appropriation of income.....	—	—	—	87,301	817,962	—	—	—	—	—
Merger Banpais, S.A.	107,720	293,601	—	—	—	—	—	—	—	—
Merger of Administradora de Activos Centroban, S. A. de C. V.	404,692	—	—	1,017,109	—	—	—	—	—	—
Merger Transnorte, S. A. de C. V.	96,389	—	—	242,316	—	—	—	—	—	—
Conversion of outstanding debentures.....	198,855	282,655	(531,082)	—	—	—	—	—	—	—
CHANGES RELATED TO THE RECOGNITION OF COMPREHENSIVE INCOME:										
Net income for the year.....	—	—	—	—	—	—	—	—	—	—
Valuation of available-for-sale securities.....	—	—	—	—	—	(54,790)	—	—	—	—
Application of benefits from support programs.....	—	—	—	—	(36,755)	—	—	—	—	—
Valuation of fixed assets.....	—	—	—	—	(161,311)	—	—	—	—	—
Accumulated effect of deferred taxes.....	—	—	—	—	312,148	246,958	—	—	—	—
Appropriation of reserves authorized by the COMMISSION.....	—	—	—	(2,265,519)	—	—	—	—	—	—
Prior year back taxes paid.....	—	—	—	—	(242,329)	—	—	—	—	—
Cancellation of deficit on labor obligations.....	—	—	—	—	—	—	114,705	—	—	—
Gain (loss) from holding nonmonetary assets.....	—	—	—	—	—	—	—	—	(73,707)	—
Total Comprehensive Income (Note 27).....	—	—	—	(2,265,519)	(128,247)	192,168	114,705	—	(73,707)	—
MINORITY INTEREST.....	—	—	—	—	—	—	—	—	—	—
					Ps 1,939,66					
Balance at December 31, 2000.....	Ps 4,315,276	Ps 612,425	Ps —	Ps 1,625,528	3	Ps (332,910)	Ps —	Ps (2,331,877)	Ps (73,707)	Ps —
CHANGES RESULTING FROM RESOLUTIONS ADOPTED BY STOCKHOLDERS:										
Appropriation of income.....	—	—	—	80,230	739,215	—	—	—	—	—
Reclassification of effect of deferred taxes.....	—	—	—	630,100	(630,100)	—	—	—	—	—
Increase in capital stock in accordance with general extraordinary stockholders' meeting at October 30, 2001.....	225,005	426,730	—	—	—	—	—	—	—	—
Unpaid capital.....	(38,418)	(72,774)	—	—	—	—	—	—	—	—
CHANGES RELATED TO THE RECOGNITION OF COMPREHENSIVE INCOME:										
Net income for the year.....	—	—	—	—	—	—	—	—	—	—
Valuation of available-for-sale securities.....	—	—	—	—	—	(244,161)	—	—	—	—
Effect of review of Bancen Segment trust.....	—	—	—	—	(205,590)	—	—	—	—	—
Gain (loss) from holding nonmonetary assets.....	—	—	—	—	—	—	—	—	8,359	—
Total comprehensive income (Note 27).....	—	—	—	—	(205,590)	(244,161)	—	—	8,359	—
MINORITY INTEREST.....	—	—	—	—	—	—	—	—	—	—
					Ps 1,843,18					
Balance at December 31, 2001.....	Ps 4,501,863	Ps 966,381	Ps —	Ps 2,335,858	8	Ps (577,071)	Ps —	Ps (2,331,877)	Ps (65,348)	Ps —

The accompanying notes are an integral part of these consolidated financial statements

**BANCO MERCANTIL DEL NORTE, S.A., INSTITUCION DE BANCA MULTIPLE,
GRUPO FINANCIERO BANORTE
AND CONSOLIDATED SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2000, 2001 AND 2002**

(Amounts stated in thousands of Mexican Pesos of September 2003 purchasing power and thousands of U.S. Dollars)

	PAID-IN CAPITAL			EARNED CAPITAL							LOSS FROM HOLDING NONMONETARY ASSETS		IN EFF DEF T
	CAPITAL STOCK	SHARE PREMIUMS	OBLIGATORILY CONVERTIBLE OUTSTANDING DEBENTURES	CAPITAL RESERVES	RETAINED EARNINGS	VALUATION GAIN (LOSS) ON AVAILABLE FOR-SALE SECURITIES	RETIREMENT LABOR OBLIGATIONS	DEFICIT IN RESTATEMEN T OF CAPITAL ACCOUNTS	PERMANENT STOCK INVESTMENT S	FIXED ASSETS			
Balance at January 1, 2002.....	Ps 4,501,863	Ps 966,381	Ps —	Ps 2,335,858	Ps 1,843,188	Ps (577,071)	Ps —	Ps (2,331,877)	Ps (65,348)	Ps —	Ps (—)		
CHANGES RESULTING FROM RESOLUTIONS ADOPTED BY STOCKHOLDERS:													
Appropriation of income.....	—	—	—	—	Ps512,004	—	—	—	—	—	—		
Dividend declared in Ordinary General assembly of stockholders at September 30, 2002.....	—	—	—	—	(208,164)	—	—	—	—	—	—		
CHANGES RELATED TO THE RECOGNITION OF COMPREHENSIVE INCOME:													
Net income for the year.....	—	—	—	—	—	—	—	—	—	—	—		
Valuation of available-for-sale securities.....	—	—	—	—	—	139,808	—	—	—	—	—		
Loss from holding nonmonetary assets.....	—	—	—	—	—	—	—	—	(25,530)	11,265	—		
AHMSA and CYDSA Eurobonds of decline of value (Nota 7 b.).....	—	—	—	—	(619,308)	619,308	—	—	—	—	—		
Total comprehensive income (Note 27).....	—	—	—	—	(619,308)	759,116	—	—	(25,530)	11,265	—		
MINORITY INTEREST.....	—	—	—	—	—	—	—	—	—	—	—		
				Ps 2,335,858	Ps 1,527,720								
Balance at December 31, 2002.....	Ps 4,501,863	Ps 966,381	Ps —	8	0	Ps 182,045	Ps —	Ps (2,331,877)	Ps (90,878)	Ps 11,265	Ps (—)		
Balance at January 1, 2002 (Note 3y).....	US\$408,766	US\$87,747	US\$—	US\$212,094	US\$167,360	US\$(52,398)	US\$—	US\$(211,733)	US\$(5,934)	US\$—	US\$—		
CHANGES RESULTING FROM RESOLUTIONS ADOPTED BY STOCKHOLDERS:													
Appropriation of income.....	—	—	—	—	46,490	—	—	—	—	—	—		
Dividend declared in Ordinary General assembly of stockholders at September 30, 2002.....	—	—	—	—	(18,901)	—	—	—	—	—	—		
CHANGES RELATED TO THE RECOGNITION OF COMPREHENSIVE INCOME:													
Net income for the year.....	—	—	—	—	—	—	—	—	—	—	—		
Valuation of available-for-sale securities.....	—	—	—	—	—	12,694	—	—	—	—	—		
Loss from holding nonmonetary assets.....	—	—	—	—	—	—	—	—	(2,318)	1,023	—		
AHMSA and CYDSA Eurobonds of decline of value (Nota 7 b.).....	—	—	—	—	(56,233)	56,233	—	—	—	—	—		
Total comprehensive income (Note 27).....	—	—	—	—	(56,233)	68,927	—	—	(2,318)	1,023	—		
MINORITY INTEREST.....	—	—	—	—	—	—	—	—	—	—	—		
				US\$212,094									
Balance at December 31, 2002 (Note 3y).....	US\$408,766	US\$87,747	US\$—	4	US\$138,716	US\$16,529	US\$—	US\$(211,733)	US\$(8,252)	US\$1,023	US\$—		

The accompanying notes are an integral part of these consolidated financial statements

**BANCO MERCANTIL DEL NORTE, S.A., INSTITUCION DE BANCA MULTIPLE,
GRUPO FINANCIERO BANORTE
AND CONSOLIDATED SUBSIDIARIES**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**(Amounts stated in thousands of Mexican pesos of September 2003 purchasing power and
thousands of U.S. dollars, except as otherwise indicated, number of shares and per share
amounts, debentures and exchange rates)**

NOTE 1—DESCRIPTION OF BUSINESS:

Banco Mercantil del Norte, S. A. (the "Bank") is a multiple purpose bank whose main banking operations are regulated by the Ley de Instituciones de Crédito (Credit Institution Law or "LIC") and the Banco de México ("Central Bank of Mexico") and overseen by the Comisión Nacional Bancaria y de Valores (Mexican National Banking and Securities Commission or "the Commission"). The Bank's operations mainly involve receiving deposits, receiving and granting loans, investing in securities, repurchase and resale transactions, derivative instrument transactions (futures, swaps, options and forward contracts) and other multiple banking operations in accordance with the LIC.

The Bank is subject to regulations that impose certain limitations on its operations, including the permitted level of leverage and minimum capitalization requirements.

The Bank is part of Grupo Financiero Banorte, S. A. de C. V. ("Grupo") and is authorized by the Mexican tax authorities to operate in Grand Cayman.

NOTE 2—HIGHLIGHTS:

In 2000, the Grupo began efforts to strengthen the capital of the Bank and improve its market position. These efforts required structural changes in the Bank, which were implemented through the consolidation of Grupo's banking business subsidiaries with the Bank. As a result, Grupo merged the Bank with Banpais, S.A. ("Banpais") and the banking segment of Banco del Centro, S.A. ("Bancen"). In addition, the Bank sold its interest in Banorte Generali, S.A. de C.V. AFORE to Bancen.

In addition, in accordance with the business strategy established by Grupo, for the years ended December 31, 2001 and 2002, the following significant operations were carried out:

a. Acquisition of the stock of Bancrecer, S.A. ("Bancrecer")

On September 24, 2001, the Instituto para la Protección del Ahorro Bancario (Bank Savings Protection Institute or "IPAB") announced that the Bank had won the right to purchase 100% of the capital stock of Bancrecer. The Bank paid Ps1,779,983 (Ps1,650,000 nominal value), equivalent to 0.66 times the historical book value of Bancrecer stockholders' equity.

In accordance with the contract for the purchase of Bancrecer stock, the Bank paid 25% of the purchase price, Ps444,995 (Ps412,500 nominal value), on October 5, 2001 (the date on which the contract was entered into) and the remaining Ps1,334,987 (Ps1,237,500 nominal value) on December 4, 2001.

During the period between the initial payment and the final payment of the purchase price, interest accrued on the outstanding balance of the purchase price at the average 28-day CETES rate. Total interest accrued and payable to IPAB with respect to the outstanding balance of the purchase price was Ps17,248 (Ps15,989 nominal value). Additional expenses directly related to the acquisition amounting to Ps6,326 (Ps5,864 nominal value) brought the total cost of the acquisition to Ps1,803,557 (Ps1,671,853 nominal value).

The acquisition of Bancrecer was funded by Grupo, including resources in cash and dividends obtained from Grupo's subsidiaries, as well as the use of a portion of the proceeds from the issuance of debentures by the Bank and the use of additional financing obtained before the date of the purchase of the Bancrecer.

By official letter 60-II-105587 dated December 11, 2001, the Commission authorized the Bank to temporarily record this investment in investment securities. Because the Bank did not take control of Bancrecer until January 2, 2002, the financial statements

of Bancrecer at December 31, 2001 were not consolidated into the Bank, nor were Bancrecer's results of operations for December or any other period recognized by the Bank in 2001. The financial results of Bancrecer are reflected in the consolidated financial statements of the Bank beginning on January 2, 2002.

With regard to the stockholders' equity of Bancrecer, the Commission's aforementioned official letter authorized Bancrecer to charge stockholders' equity by an allowance for known integration expenses. As a result, Bancrecer established reserves during December 2001 totaling Ps731,518 (Ps678,100 nominal value). These reserves, recorded in other payables, comprised the following:

1. *Reorganization*

1.1. Restructuring costs

This refers to the amounts required to cover dismissals of Bancrecer personnel, which occurred due to the organizational restructuring resulting from the integration.

1.2. Out-of work programs

This refers to the fees to be paid to external advisors assisting dismissed personnel.

1.3. Reduction of debt owed by dismissed personnel

In accordance with its internal policies, Bancrecer would grant a reduction of debt owed by dismissed personnel as follows: a 30% reduction on commercial loans and a 20% reduction on mortgage loans outstanding.

2. *Integration*

2.1. Operating integration

This relates to the expenses necessary to integrate all banking branches under a single operating model.

2.2. Change of signage

This relates to the expenses to be incurred as a result of changing the signage of Bancrecer branches.

2.3. Write-off of fixed expenses due to the closing of branches

This relates to the write-off of fixed expenses recorded in Bancrecer with respect to its branches that will cease operations in accordance with the Bank's strategic plan.

3. *Post-retirement benefits*

These liabilities relate to the partial recognition of benefits for medical services as determined by an actuarial calculation performed in January 2000. Actuarially determined accrued liabilities for retirement benefits were calculated in the amount of Ps132,300 (nominal value) for Bancrecer's employees.

The Bank had not prepared its actuarial calculation for 2002 at the time of the establishment of the above reserve and, therefore, estimated its post-retirement benefit obligations in the amount of Ps82,456. At December 31, 2002, the Bank recorded an additional charge of Ps50,883 based on the final actuarial calculation.

The following is an analysis of the amounts of the above-mentioned items:

Reserve	Beginning balance	Reductions during 2002	Balance at December 31, 2002
Reorganization	Ps376,108	Ps348,930	Ps27,179
Integration	234,289	125,676	108,613
Post-retirement benefits	82,456	82,456	—
TOTAL	Ps692,853	Ps557,062	Ps135,791

After the accrual of the aforementioned integration expenses, Bancrer's adjusted stockholders' equity amounted to Ps1,838,638 (Ps1,704,372 nominal value) at December 31, 2001. The purchase of Bancrer's stock generated an adjusted negative goodwill totaling Ps35,081 (Ps32,519 nominal value), which was recorded in the Bank's books on January 31, 2002.

During the first quarter of 2002, the Bank sold a property at No.116 Paseo de la Reforma Street, in Mexico City, which was previously used by Bancrer. The sale of this property resulted in a loss of Ps49,430 (Ps45,820 nominal value), which was applied as an adjustment to the negative goodwill, resulting in an adjusted net positive goodwill of Ps14,349 (Ps13,301 nominal value).

By official letter 601-DGSIF"A"-112901 dated August 23, 2002, the Commission requested the filing of a proforma balance sheet as of December 31, 2001 giving retroactive effect to the acquisition of the assets and liabilities of Bancrer. Had the financial statements of the Bank and those of Bancrer been consolidated at December 31, 2001, the condensed consolidated balance sheets of the Bank as of December 31, 2001 would have been as follows (2002 included only for comparative purposes and reflects the audited consolidated amounts):

	As of December 31,	
	2001	2002
	(unaudited)	
Assets		
Cash, investment securities and securities and derivatives trading	Ps28,902,352	Ps35,795,925
Loan portfolio, net.....	143,471,295	150,613,757
Foreclosed assets	1,440,624	1,216,055
Property, furniture and equipment, net.....	5,840,660	5,471,455
Permanent stock investments	483,333	458,407
Other assets, net.....	3,144,581	4,004,316
Total assets	Ps183,282,845	Ps197,559,915
Liabilities and stockholders' equity		
Interbank and other entity deposits and loans.....	Ps168,153,948	Ps182,785,237
Other payables, securities and derivatives trading and deferred credits	4,936,846	3,800,177
Outstanding subordinated debentures	1,440,542	2,642,316
Stockholders' equity	8,751,508	8,332,185
Total liabilities and stockholders' equity	Ps183,282,845	Ps197,559,915

A proforma statement of income was not prepared since such a disclosure would have produced a misleading result given that Bancrer's operations prior to the acquisition were subject to preventive intervention and a clean-up process by governmental authorities. Therefore, the presentation of this statement would not reflect the results that would have been obtained had Bancrer been operating normally.

At a General Ordinary Shareholders' Meeting held on January 4, 2002, the shareholders of Bancrer appointed a new Board of Directors, as well as a new General Director.

At General Extraordinary Shareholders' Meeting held on March 11, 2002, the Bank's and Bancrecer's shareholders approved a merger of the Bank and Bancrecer. Bancrecer was the legal surviving company, and subsequently changed its name to Banco Mercantil del Norte, S.A., Institución de Banca Múltiple. At April 24, 2002, the Mexican Secretaría de Hacienda y Crédito Público (the "Finance Ministry" or "SHCP") authorized the merger, effective as of March 31, 2002.

This merger was accounted for as a reorganization or merger between companies under common control similar to methods prescribed by generally accepted accounting principles in the United States of America (US-GAAP). Moreover, Commission's Circular 1448, provides that the substance of a transaction prevails over its form and that, for accounting purposes, the surviving entity is the Bank, though for legal purposes the surviving entity is Bancrecer. The historical stockholders' equity presented herein is that of the Bank.

The following is a summary chart of the relative size of the respective banks at the merger date (March 31, 2002), eliminating intercompany transactions:

Millions of nominal pesos	Banorte (excluding Bancrecer)	Bancrecer	Combined	Intercompany balances	Post- merger balances
Assets	Ps108,846	Ps71,197	Ps180,043	Ps(12,370)	Ps167,673
Liabilities	102,011	69,314	171,325	10,487	160,838
Stockholders' equity	6,835	1,883	8,718	1,883	6,835

b. Growth strategies:

During the year 2002, the Bank carried out corporate readjustments and business strategies that were intended to allow it to continue to maintain a sound financial structure and to offer more competitive products in the market. Some of these strategies include:

1. Organizational structure changes.

Grupo implemented a new organizational structure consistent with the new growth, competition and integration challenges that faced it. The organization model was adjusted to make operations more efficient, improve the ability to generate business, and accelerate the decision processes, in order to respond more efficiently and promptly to the needs of the market and customers. Among the changes that were implemented, the top management of Grupo, the Bank and Bancen were consolidated into a single global decision-making unit. The office of Director General of Banking was created to undertake the management of commercial, business, corporate and government banking; the Territorial Directors' Offices were created to comprise the sales force of the banking sector; the office of Director General of Administration and Finance was created and the office of Director General of Planning and Operating Control was reorganized.

2. Promotion of business and commercial loans.

In April 2002, the Bank entered into a credit agreement with Nacional Financiera S.C. in an amount of up to Ps1,226,108 for financing small and medium-sized business loans. Under this agreement, Nacional Financiera S.C. will either provide funding and/or guarantee loans granted under the program, in percentages that fluctuate between 50% and 80%.

3. Support to the rural sector.

In April 2002, the Bank, New Holland de México, S.A. and FIRA entered into an alliance supporting the modernization of Mexico's rural sector. During 2002, this alliance resulted in the granting of 1,495 loans in the amount of Ps275,874 to 3,208 farmers.

4. Joint venture with MoneyGram Payment Systems, Inc. ("Money Gram").

In April 2002, the Bank signed a joint venture with MoneyGram to send remittances from the United States of America to Mexico. MoneyGram is a subsidiary of Travelers Express Company, a leading company in money transfer

services.

c. Assicuriazoni Generali

At June 27, 2002, Assicuriazoni Generali ("Generali") agreed to remit to the Bank, Ps458,782 (US\$45,000), for its technological efforts, brand ownership and use of Bancrecre's branch network for the sale of the products and services in the following businesses: Seguros Banorte Generali, Afore Banorte Generali and Pensiones Banorte Generali each of which is 49% owned by Generali. This operation was recorded in income as an extraordinary item, net of related expenses and inflation effects.

d. Purchases of loan portfolio packages

1. Negotiated by Sólida Administradora de Portafolios SA de CV ("Sólida"):

In March 2001, Grupo, through Sólida, which is one of the non-consolidated subsidiaries of the Bank, won three of the six portfolio loan packages auctioned by IPAB. The gross loans included in these packages were Ps2,223,360 (Ps2,061,000 nominal value) of the mortgage portfolio of Bancrecre, and Sólida paid Ps603,036 (Ps559,000 nominal value) for these portfolios.

In addition, during the third quarter of 2001, Sólida purchased a commercial and a mortgage loan portfolio package were from IPAB. The gross amount of commercial loans in the first package totaled Ps2,969,875 (Ps2,753,000 nominal value), for which Ps863,022 (Ps800,000 nominal value) was paid. The gross amount of the mortgage loan package totaled Ps227,622 (Ps211,000 nominal value), for which Ps40,994 (Ps38,000 nominal value) was paid.

In October 2001, Sólida purchased from Goldman Sachs a mortgage loan package in the gross amount of Ps3,442,594 (Ps3,191,200 nominal value) for Ps699,695 (Ps648,600 nominal value).

In October 2002, Sólida purchased Ps370,898 gross amount of mortgage loans from the IPAB at a price of Ps95,512.

2. Negotiated by the Bank:

On December 20, 2002, the Bank purchased from Banca Quadrum, Institución de Banca Múltiple a commercial and consumer loan package the gross amount of which was Ps351,174, at a price of Ps287,963. As of December 31, 2002, this loan package was recorded in "other accounts receivable" because the purchase had not closed at that time.

At February 14, 2003, the date of issuance of the financial statements, the Bank recorded in "sundry creditors and other accounts payable" an amount of Ps75,907 corresponding to recoveries related to the aforementioned loan portfolio (principal and interest corresponding to December 2002 and January 2003).

In February 2003, after obtaining the necessary supporting documentation in accordance with its credit management and rating process, the Bank incorporated the purchase of the aforementioned loan portfolio into "Current Loan Portfolio", thus incorporating the loans into its own portfolio.

e. Correction of overstatement of foreclosed assets

By official letter 60-II-105587, dated December 11, 2001, the Commission authorized the Bank to reverse at the end of 2001 an overstatement of the carrying amount of foreclosed assets in the amount of Ps319,662 (Ps296,318 nominal value), and to charge retained earnings and the deferred tax asset accounts for Ps205,591 (Ps192,606 nominal value) and Ps111,882 (Ps103,712 nominal value), respectively. These assets arose were previously in the trust and returned to the Bank's books upon the extinguishment of certain FOBAPROA notes in 1999.

f. Goodwill

In June 2002, the Bank recorded further goodwill adjustments totaling Ps71,114 arising from the Bancrecre acquisition for the following items:

- Interest recorded on assets derived from the Support Programs for the Farming and Fishing Sectors, which were not recognized by the Mexican federal government, in the amount of Ps40,462, and;

- Expenses resulting from the merger, which were not be covered by the Integration Reserve, which was estimated to be insufficient by Ps20,333.

At December 31, 2002, goodwill amounted to Ps62,629 (see Note 16).

g. New regulatory method for rating the commercial portfolio

On January 1, 2001, the Commission issued Circular 1480 "Methodology for the Rating and Constitution of the Allowance for Loan Losses of the Commercial Portfolio", which superseded Circular 1128.

The implementation of this new methodology for rating the commercial portfolio did not require any additional charge to income, since the allowances for loan losses recognized previously under the prior methodology were sufficient.

h. Modification of by-laws in conformity with the new regulation requirements

Several amendments to the banking laws were published between June 1, 2001 and June 4, 2001 in the Mexican Official Gazette. Among the laws amended were the Ley del Mercado de Valores ("Securities Market Law" or "LMV") and the LIC.

The LMV applies to all Mexican public companies. Amendments to the LIC required the implementation of independent directors in the Board of Directors, the establishment of an Audit Committee and stricter regulation of the handling of transactions with related parties.

A General Extraordinary Shareholders' Meeting of Grupo was held on June 20, 2001, in order to approve the amendment of the by-laws and to further adapt these by-laws to the requirements of LMV and Circular 1133 of the Commission. The Bank had previously incorporated independent directors in the Board of Directors and established an Audit Committee and a Risk Policies Committee.

i. Amendments to the rules for the calculation of capital requirements of banking institutions

On May 14, 2002, the Mexican Official Gazette published several regulations that amend, abolish or add rules with respect to the capital requirements of banking institutions. These changes are focused on: transactions with related parties, mortgage loans, net capital integration (non-authorized reserves and operations) and information disclosure. The Bank's management has implemented the above-mentioned amendments during 2002.

j. New Pronouncements

In November 2001, the Mexican Institute of Public Accountants ("MIPA") issued Statement C-9, "Liabilities, Provisions, Contingent Assets and Liabilities, and Commitments", which replaces Statement C-9 "Liabilities", and Statement C-12, "Contingencies and Commitments". Statement C-9 is effective as of January 1, 2003, but its earlier application was recommended. This statement establishes guidelines for the valuation, recording and disclosure of liabilities, provisions, contingent assets and liabilities and the disclosure of commitments. Furthermore, Statement C-9 includes a detailed discussion of provisions, and the use of present values, consideration of future events in estimating the amount of provisions, the accounting treatment of possible excess provisions and changes in the estimated amount of provisions, among other things. It also establishes the accounting treatment in connection with the redemption of certain debentures, prior to maturity or in connection with a new issue. The Bank's management is evaluating the effects on its financial statements of the application of this statement.

In December 2001, the MIPA issued Statement C-8 "Intangible Assets", which are defined as the incurred costs of rights or privileges acquired that generate future economic benefits. Statement C-8 establishes the rules for deferring research and development costs and preoperating expenses, as well as the rules for the amortization of intangible assets. This statement is effective as of January 1, 2003, but its earlier application was recommended. The Bank's management is evaluating the effects on its financial statements of the application of this statement.

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

The accompanying financial statements have been prepared in accordance with the accounting rules established by the Commission. For this purpose, the Commission issued several Circulars, which were updated in October 2000 by Circular 1488, effective January 1, 2001. These Circulars modify various accounting rules in order to add disclosure rules related to interim financial information. They also incorporate the concept of comprehensive income, change the recording and valuation rules for past due mortgage loans and establish 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, as issued by the International Accounting Standards Committee ("IASC") and United States Generally Accepted Accounting Principles ("US GAAP"), as issued by the Financial Accounting Standards Board ("FASB").

The financial statements of the Bank at December 31, 2002 are subject to the approval of the Commission, which is empowered to require the Bank to make changes it may deem necessary.

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

a. Consolidated financial statements

The consolidated financial statements include subsidiary companies pertaining to the financial system and complementary service companies in which at least 51% ownership is maintained, and excludes investment companies. Balances and transactions between consolidated companies are eliminated. As mentioned in note 2a., Bancracer's financial results are not consolidated with the Bank prior to January 1, 2002.

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

The Bank'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 (September 30, 2003) 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 established:

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 Bank's monetary gain. Subordinated debentures and permanent investments in entities that do not recognize the effect of inflations are considered monetary items.

Permanent investments are valued using the equity method and restated using the 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 non-monetary assets.

Capital stock and retained earnings are restated based on the UDI factor, in order to maintain stockholders' equity in pesos of constant purchasing power.

The deficit on 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.

Statements of income:

The consolidated statements of income for the years ended December 31, 2000, 2001 and 2002 are presented in purchaser power as of September 30, 2003. The historical amounts of transactions are restated by a factor obtained by dividing the UDI reference value at September 30, 2003 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.

Statements of changes in financial position:

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 its 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 Central Bank of Mexico at the end of the year.

d. Range operations

By official letter 601-II-DGDEE-189001, dated December 19, 2001, the Commission established the accounting treatment for range operations involving the short-term purchase or sale of securities. This treatment became obligatory on January 1, 2002. During 2002, the Bank's management applied the aforementioned accounting treatment to its financial statements.

e. 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 accrued interest. These classifications are determined according to the intention of the Bank's management as of the date of purchase. A reclassification 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.

f. Repurchase (Repo) transactions

Repo transactions represent the purchase and the sale of financial instruments with the obligation by the Bank to resell or repurchase those financial instruments at an agreed price.

These transactions include a premium on the agreed price that is recorded as income or expense as accrued. It is realized in accordance with the maturity of the agreement.

The items denominated "Debit balances in repo transactions" and "Credit balances in 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 Bank acts as seller or buyer, respectively.

The debit and credit portions representing securities receivable or payable in the transactions are valued in conformity with the provisions of Criterion B-2 "Investments in Securities" of Circular 1448 issued by the Commission, with reference to trading securities.

g. Derivative financial instruments

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

1. The price is determined in accordance with one or more underlying assets.
2. They involve one or more nominal amounts or provisions of payments or both are incorporated.
3. The underlying face amounts or payment provisions, together 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 the same condition as a cash settlement.

Derivative financial instruments are valued in accordance with their intended use, whether for hedging or trading purposes, as follows:

Option contracts whether held for trading or hedging purposes and other derivative financial instruments that are held for trading purposes are recorded at their fair value and the unrealized gains and losses are accounted for in the income statement.

Forward and future contracts that qualify as hedges are recorded at fair value with changes in the value on these instruments recognized in the income statement on the same basis as the underlying item being hedged. The initial discount or premium on forward and future contracts is included in net income over the life of the contract, on a straight-line basis.

For swap contracts that qualify as hedges the Bank recognizes an asset (cash flow receivable) and a liability (cash flow payable) which are valued using the same basis of valuation as the underlying item being hedged, and which are shown as a net amount on the balance sheet.

The Bank's swap agreements outstanding at the end of each year were designated as a hedge of asset and liability positions.

h. Loan portfolio

Loans and negotiable instruments in effect or renewed are stated at their nominal value in accordance with the LIC. Loans are granted based on an analysis of the financial position of the borrower, the economic viability of the investment projects and the other general characteristics referred to by the LIC, as well as the manuals and internal policies of the Bank.

The loan portfolio balances represent the 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 when the Bank has not received payments of interest or principal during the following periods of time:

- Loans payable in a single installment of principal and interest, when 30 days or more days past due.
- Loans payable in a single installment 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 150 days or more past due (180 days or more past due through December 31, 2001).

The unpaid balances of the loans are also considered past due and are transferred to the past due portfolio when it is known that the debtor has been declared bankrupt in accordance with the Mexican Bankruptcy Law.

Interest is recognized as income when earned. However, interest ceases to be recognized when the loans in question are transferred to the past due loan portfolio. An allowance is established equivalent to the total uncollected, accrued, ordinary interest considered past due, 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. That interest is recognized as income when collected.

Commissions received on loan grants are recognized as income when they are charged.

Restructured loans are considered as past due until the Bank receives 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 at maturity are rolled over 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.

i. Allowance for loan losses

Allowance for loan losses is calculated based on the "Rules for Rating the Loan Portfolio of Credit Institutions" issued by the Secretaría de Hacienda y Crédito Público (Ministry of Finance and Public Credit or "SHCP") and the methodology established by the Commission for each type of loan. Such rules establish that the commercial portfolio must be rated every three months.

In the months when the commercial portfolio is not rated, the most recently determined risk degree is used for the applicable months. The amounts recovered from the previously reserved loan portfolio are credited to the allowance for loan losses.

Beginning in 2001, the rating of the commercial portfolio has been performed in conformity with Circular 1480, "Methodology for the Rating and Constitution of the Allowance for Loan Losses of the Commercial Portfolio", issued by the Commission on September 29, 2000, which superseded Circular 1128.

Circular 1480 proposed a methodology that assigns a rating to each borrower and rate each loan in relation to the value of the guarantees in order to estimate a probable loss and define the percentage of necessary preventive reserves. However, this Circular allows the Bank to use its own methodology to assign the risk rating to each debtor, subject to the evaluation and certification process of the Commission.

The Commission issued official letter No. 601-II-105524, dated June 15, 2001, granting the Bank the temporary and limited use of an internal rating model for its commercial portfolio for the years ended December 31, 2001 and 2002.

The Banorte Internal Risk Rating, or CIR Banorte, has been implemented by the Bank with the objective of evaluating the quality of loan assets and identifying the risk level represented by each borrower by assigning individual risk levels. CIR Banorte also evaluates the financial, operating and credit capacity of borrowers and evaluates the collateral supporting the loans. It also serves as a basis for analyzing changes in the quality of the loan portfolio, estimates the probability of non-compliance and expected losses, unifies credit selection and authorization criteria determined by the Bank, taking into account differences between industries and business segments, and determines the allowances for loan losses necessary to cover the loan portfolio risk.

Allowances for loan losses relative to mortgage, credit card and consumer loans are calculated by applying certain percentages in accordance with the risk of these portfolios, determined based on the number of past due payments. Beginning in June 2000, the mortgage portfolio contemplated additional allowance percentages based on the probability of unpaid balances from the debtor. The ratings for these types of loans are performed on a monthly basis.

Under the rules established by the Commission, the Bank must fully reserve all new loans that were granted without previously consulting with a credit information organization (Credit Bureau) or that were granted to debtors who already maintained past due obligations with the financial system. The Bank's management may create additional allowances if it concludes that the credit risk measurement process requires it. For example, among the additional elements that serve as estimators in the establishment of allowances is the use of migration analyses segmented by various factors, that determine the migration of borrowers between the different levels of risk rating. If information obtained from this process, in management's judgment, indicates that a particular allowance calculation is inadequate, an adjustment may be made.

The losses, cancellations or discounts on the portfolio are recorded by a charge to the allowance for loan losses. Also, when there is evidence of a non-recoverable loan, such loan is charged directly against the loan loss allowance.

j. Loss sharing with FOBAPROA

As discussed in Note 10, in accordance with the rules established by the Commission, the Bank recognizes the shared loss generated by its participation in FOBAPROA loan portfolio flows ("Loss sharing").

The Bank recognized provisions as income in the amount of Ps182,991 and Ps36,684 in 2001 and 2002, respectively, relating to the loss sharing and incentives agreement based upon the FOBAPROA loan portfolio cash collections.

k. Other accounts receivable and payable

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

l. Property, furniture and equipment

Property, furniture and equipment and installation expenses are initially recorded at acquisition cost. They are subsequently restated for inflation by applying UDI-derived factors.

Depreciation—The acquisition cost restated for inflation is depreciated on a straight-line basis, effective the month following the purchase of the assets.

The amount of the depreciation and amortization charged to income was Ps374,908 and Ps604,787 in 2001 and 2002, respectively.

m. Foreclosed assets

Foreclosed assets are recorded at the value at which they are adjudicated 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 will be 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 realized is lower than its carrying value.

n. Leases

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

o. Permanent stock investments

Permanent stock investments represent (i) the investments in subsidiaries not belonging to the financial sector that are valued by using the equity method and (ii) other types of investments in which the Bank's percentage interest is insignificant and that are therefore, valued at restated cost.

Income (loss) resulting from investments in affiliates and associated companies was Ps2,646 and Ps77,101 in 2001 and 2002, respectively.

p. Income tax and employees' profit sharing

Income tax and employee profit sharing charged to income are determined based on the taxable income.

The Bank 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, 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".

q. 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 numbers of days elapsed, is recorded as accrued.

r. Labor liabilities

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

The Bank records seniority premiums, pension plan and retirement payments as they accrue, as determined with actuarial calculations utilizing the projected unit credit method, and in accordance with guidelines established in Statement D-3 Labor Obligations, issued by the MIPA.

s. Stockholders' equity

Capital stock, retained earnings and net income of the year represent the historical amounts restated by UDI factors.

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.

t. Earnings per share

Basic earnings per share is determined by dividing the net income of the year by the weighted-average shares outstanding. Diluted earnings per share, is determined by dividing the net income, and by the weighted-average number of shares outstanding increased by the number of potentially dilutive shares.

u. Foreign currency position and investment units

Foreign currency denominated transactions 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 Central Bank of Mexico as of the balance sheet date. Differences are recorded as income in accordance with the exchange rate fluctuations between the transaction date and their liquidation or valuation at year-end.

v. 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 nonperformance by the debtor, at which time the liability payable by the Bank is recognized.

w. Custody and administration of assets

The Bank 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 Bank accepts responsibility for safeguarding assets.

x. Trusts

Trust assets are recognized in memorandum accounts, based on the implied responsibility of the Bank to fulfill the purpose of the trusts.

y. Convenience translation

U.S. dollar amounts (U.S.\$) shown in the consolidated financial statements have been included solely for the convenience of the reader and were translated from Mexican pesos, as a matter of arithmetic computation only, at the exchange rate of Ps 11.0446 to U.S.\$1.00, which was the rate published by Banco de México in the Official Gazette on September 30, 2003. Such translation should not be construed as a representation that the Mexican Peso amounts have been or could be converted into U.S. dollars at this rate as of the applicable date, or any other date, if at all.

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

I. The financial statements have been prepared in conformity with the accounting rules established by the Commission. Some of the differences with regard to the provisions of MEX GAAP, 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, but not other subsidiaries, which are not consolidated. MEX GAAP requires consolidation of all the subsidiaries that belong to the reporting entity and for which it controls.

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 buy and sell transactions or as the temporary transfer of the securities that guarantee the transaction. MEX GAAP would require that they be accounted for as financing transactions. Under Banking GAAP, they are valued considering the present value of the price of the security at the maturity of the transaction, while MEX GAAP would recognize the accrued premium on a straight-line basis.

d. *Foreclosed assets*

Foreclosed assets are considered monetary assets; consequently, they are not restated for inflation but rather, they form part of the calculation basis of the gain or loss on monetary position. MEX GAAP considers foreclosed assets to be non-monetary assets.

II. Since financial institutions perform specialized transactions, the Commission issues specific accounting rules with respect to these institutions. The Commission has issued several official letters affecting the financial statements of the Bank, which reflect differences between MEX GAAP and, in some cases, the general accounting practices established by the Commission. The following are some of differences:

a. *Investment in shares of Bancrecer*

In December 2001, the Bank acquired 100% of the capital stock of Bancrecer. Since control of this institution was not transferred until the first quarter of 2002, the Bank recorded this investment, in the amount of Ps1,822,763 (Ps1,689,656 nominal value), within the held-to-maturity investment portfolio. Consequently, the financial statements of the Bank at December 31, 2001 were not consolidated with those of Bancrecer, nor was such investment valued using the equity method. MEX GAAP establishes that the investment should have been recorded in permanent investment in shares and valued by the equity method until the acquisition of Bancrecer was completed and control obtained, at which time it would begin to be consolidated (2002).

b. *Correction of overstatement of foreclosed assets*

As discussed in Note 2e, at December, 2001 the Bank adjusted the foreclosed asset-carrying amount downward by Ps319,662 (Ps296,318 nominal value), charging retained earnings and deferred taxes in the amount of Ps205,591 (Ps192,606 nominal value) and Ps111,882 (Ps103,712 nominal value), respectively.

Taking into account the origin of this operation, MEX GAAP would have required the overstatement of foreclosed assets to have been recognized in the income statement in the year in which the cancellation of the FOBAPROA note and dissolution of the trust occurred.

NOTE 5—CONSOLIDATION OF FINANCIAL STATEMENTS:

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

At December 31, 2001 and 2002, the subsidiary entities which were consolidated in the Bank's financial statements were:

Subsidiaries	Equity percentage	
	2001	2002
Inmobiliaria Banorte, S. A. de C. V.(1).....	99.99%	99.99%
Constructora Primero, S. A. de C. V.....	99.99%	99.99%
Derivados Banorte, S. A. de C. V.(2).....	51.00%	51.00%
Inmobiliaria Bancrecer, S.A. de C. V.(3).....	—	99.99%
Inmobiliaria Innova, S.A. de C. V.(3).....	—	99.99%
Inmobiliaria Banormex, S.A. de C. V.(3).....	—	99.99%
Inmuebles de Occidente, S.A. de C. V.(3).....	—	99.99%
Inmobiliaria Finsa, S.A. de C. V.(3).....	—	99.99%
Inmobiliaria Bra, S.A. de C. V.(3).....	—	99.89%
Inmuebles de Tijuana, S.A. de C. V.(3).....	—	99.86%
Corporación Arrendadora Bancrecer, S.A. de C. V.(3).....	—	99.99%
Poliservicio Profesional y Técnico, S.A. de C. V.(3).....	—	99.99%

- (1) On January, 2001, Inmobiliaria Banpais, S.A. de C.V. changed its name to Inmobiliaria Banorte, S.A. de C.V.
- (2) On January 29, 2001, the Bank acquired 51% of the shares of Derivados Banorte, S.A. de C.V. from Casa de Bolsa Banorte, S.A. de C.V for Ps1,100 (Ps1,020 nominal value), represented by 1,020,000 shares with a par value of Ps1 each.
- (3) As a result of the merger of the Bank with Bancrecer in the first quarter of 2002, these subsidiaries of Bancrecer were consolidated into Bank's financial statements beginning in April 2002.

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

	As of December 31,	
	2001	2002
	STOCKHOLDERS' EQUITY	STOCKHOLDERS' EQUITY
SUBSIDIARES		
Inmobiliaria Banorte, S. A. de C. V.....	Ps697,516	Ps688,347
Constructora Primero, S. A. de C. V.....	245,467	237,763
Derivados Banorte, S.A. de C.V.	557	473
Inmobiliaria Bancrecer, S.A. de C. V.	—	308,717
Inmobiliaria Innova, S.A. de C. V.	—	143,224
Inmobiliaria Banormex, S.A. de C. V.	—	26,724
Inmuebles de Occidente, S.A. de C. V.	—	47,300
Inmobiliaria Finsa, S.A. de C. V.	—	81,672
Inmobiliaria Bra, S.A. de C. V.	—	75,082
Inmuebles de Tijuana, S.A. de C. V.	—	4,751
Corporación Arrendadora Bancrecer, S.A. de C. V.	—	11,699
Poliservicio Profesional y Técnico, S.A. de C. V.	—	1,083
TOTAL	Ps943,540	Ps1,626,835

NOTE 6—CASH AND CASH EQUIVALENTS:

As of December 31, 2001 and 2002, cash and cash equivalents were as follows:

Concept	As of December 31,	
	2001	2002
Cash.....	Ps2,221,098	Ps4,533,683
Deposits in BANXICO	2,836,593	13,939,935
Domestic and foreign banks	1,324,834	4,513,701
Call money	2,292,402	287,114
Other deposits and cash equivalents	97,832	168,420
Total	Ps8,772,759	Ps23,442,853

The balances of cash and cash equivalents as of December, 31, 2001 and 2002 were US\$91,002 and US\$471,847, respectively and Ps7,920,161 and Ps18,409,935, respectively.

NOTE 7—INVESTMENT SECURITIES:

The investment securities positions are summarized as follows:

a. Trading securities

Instrument	As of December 31,	
	2001	2002
	Market value	Market value
Commercial paper	Ps1,480,010	Ps548,954
Federal Treasury	38,576	821,555
Bank securities	702,318	1,991,481
Nafin	—	568
BPAS	—	511
GEO	—	65,730
Brems	—	143
Private Pmp	98,913	—
TOTAL	Ps2,319,817	Ps3,428,942

b. Available-for-sale securities

Instrument	As of December 31,	
	2001	2002
	Market value	Market value
Eurobonds	Ps1,013,182	Ps597,882
United Mexican States (UMS)	—	739,707
Total	Ps1,013,182	Ps1,337,589

In March 2001, the Bank 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, the Bank held an aggregate US\$68,500 (nominal value) of EUROBONDS issued by two Mexican companies, AHMSA and CYDSA, which mature in 2002, 2004, and 2009. An estimated loss reserve was established as of December 2001 in the amount of US\$60,100, of which US\$6,000 related to CYDSA. The effect of the valuation is recognized in stockholders' equity under "Valuation gain (loss) on available-for-sale securities". The Bank charged this amount in 2002 to retained earnings upon observing a sustained decrease in the fair value of these securities.

In addition, by authorization of the Commission, effective May 1999, interest ceased accruing on AHMSA's EUROBONDS, which totaled US\$2,900 at that date.

At December 31, 2002, AHMSA and CYDSA's EUROBONDS suffered a decline in value of US\$2,500 (including US\$1,800 from AHMSA), which was charged to income. Consequently, market value of the Eurobonds declined to US\$6,700 at December 31, 2002.

c. Held-to-maturity securities

Instrument	As of December 31,	
	2001	2002
	Net value	Net value
Cetes Especiales (Note 11).....	Ps3,694,101	Ps6,501,613
Long-term deposits of the "UDI Program" (Note 11)	(2,670,186)	(3,342,633)
Shares of Bancrecer(1).....	—	1,803,556
Remittances in transit	93,579	110,826
Government Bonds: Azteca Strip Bonds	—	269,288
Bonds issued by governmental agencies: Myra Bonds	—	9,370
Mexican Corporate Eurobonds: Nemark	—	160,012
Trust rights	29,870	25,140
United Mexican States (UMS).....	—	3,806,122
Total	Ps2,950,920	Ps7,539,738

- (1) As mentioned in Note 2a, the Bank was authorized by the Commission to record its investment in Bancrecer shares within the "Held to maturity" portfolio at December 31, 2001.

NOTE 8—SECURITIES AND DERIVATIVES TRADING:

a. Repo transactions

The repo transactions in process as of December 31, are summarized:

The Bank as seller

Instrument	As of December 31, 2001		
	Securities Receivable	Payables under repo agreements	Difference
Federal Treasury	Ps4,483,499	Ps4,471,348	Ps12,151
Bondes	29,801	29,788	13
Brems	9,260,450	9,279,471	(19,021)
Tribondes	643,657	646,798	(3,141)
IPAB bonds	17,972,737	17,952,369	20,368
Bank bonds	4,238,284	4,238,401	(117)
Cedes	4,922,696	4,922,625	71
Bondes 91	2,089,703	2,083,131	6,572
Pagarés	458,422	458,431	(9)
Bond	2,145,693	2,125,807	19,886
BPAS	2,208,857	2,165,269	43,588
Total	Ps48,453,799	Ps48,373,438	Ps80,361

Instrument	As of December 31, 2002		
	Securities Receivable	Payables under repo agreements	Difference
Federal Treasury	Ps5,730,833	Ps5,724,756	Ps6,077
Brems	11,493,098	11,492,151	947
Tribondes	4,713,155	4,714,586	(1,431)
IPAB bonds	38,234,126	38,212,868	21,258
Bank bonds	831,357	828,608	2,749
Cedes	7,340,944	7,343,803	(2,859)
Bondes 91	61,194	61,157	37
Pagarés	84,837	84,847	(10)
Bond	64,153	64,117	36
Bondes 182	3,474,750	3,466,933	7,817
Tribondes IPAB	1,215,686	1,212,915	2,771
Total	Ps73,244,133	Ps73,206,741	Ps37,392

The Bank, as the seller, recorded accrued premiums recognized as income of Ps5,469,818 in 2001 and Ps4,799,656 in 2002.

The Bank as purchaser

Instrument	As of December 31, 2001		
	Receivables under repo agreements	Securities Payable	Difference
Federal Treasury	Ps4,462,733	Ps4,473,338	Ps(10,605)
Bondes	29,775	29,801	(26)
Brems	9,282,456	9,260,450	22,006
Tribonds	647,396	643,657	3,739
Cedes	4,922,605	4,922,697	(92)
Bank bonds	4,239,735	4,238,284	1,451
Bondes 91	2,073,803	2,078,859	(5,056)
Pagarés	427,519	427,510	9
IPAB Bonds	17,959,786	17,972,737	(12,951)
Bond	1,098,553	1,111,930	(13,377)
UdiBond	2,167,835	2,208,857	(41,022)
TOTAL	Ps47,312,196	Ps47,368,120	Ps(55,924)

Instrument	As of December 31, 2002		
	Receivables under repo agreements	Securities Payable	Difference
Federal Treasury	Ps5,726,216	Ps5,730,655	Ps(4,439)
Brems	11,493,863	11,493,241	622
Tribonds	4,716,949	4,713,155	3,794
Cedes	7,343,618	7,340,948	2,670
Bank bonds	829,850	831,357	(1,507)
Bondes 91	61,198	61,194	4
Pagarés	84,847	84,839	8
IPAB Bonds	38,227,137	38,234,636	(7,499)
Bond	64,132	64,153	(21)
Bondes 182	3,467,658	3,474,750	(7,092)
Tribonds IPAB	1,213,742	1,215,686	(1,944)
TOTAL	Ps73,229,210	Ps73,244,614	Ps(15,404)

With the Bank as the buyer of repos, the accrued premiums recognized as income amounted to Ps4,205,814 in 2001 and Ps5,142,529 in 2002, respectively.

b. Derivative financial instruments

The Bank enters into derivative transactions as part of its asset and liability management (which includes contracts for hedging purposes), trading activities and in acting as a dealer to satisfy its customers' needs.

As of December 31, 2001 and 2002, the Bank's derivative financial instrument positions are summarized as follows:

Instrument	As of December 31, 2001		
	Receivable	Payable	Net flows
Swaps:			
Cross currency	Ps1,267,810	Ps(1,238,296)	Ps29,514
Interest rate	27,554	(40,586)	(13,032)
Net asset position	<u>Ps1,295,364</u>	<u>Ps(1,278,882)</u>	<u>Ps16,482</u>
	Buy	Sell	Net
Foreign currency forwards:			
Value at year end	Ps1,017,841	Ps(612,245)	Ps405,596
Agreed price	(1,030,647)	614,619	(416,028)
	<u>Ps (12,806)</u>	<u>Ps2,374</u>	<u>Ps(10,432)</u>
	Opening premium	Valued premium	Valuation
Foreign currency options:			
Premium collected	<u>Ps(374)</u>	<u>Ps307</u>	<u>Ps(67)</u>
Net liability position			<u>Ps(10,499)</u>

Instrument	As of December 31, 2002		
	Buy	Sell	Net
Foreign currency forwards:			
Value at year end	Ps379,952	Ps(29,760)	Ps350,192
Agreed price	(369,946)	29,165	(340,781)
Net asset position	Ps10,006	Ps(595)	Ps9,411
	Receivable	Payable	Net flows
Swaps:			
Cross currency	Ps5,315,555	Ps(6,141,100)	Ps(825,545)
Interest rate	19,620	(28,432)	(8,812)
	Ps5,335,175	Ps(6,169,532)	Ps(834,357)
	Opening premium	Valued premium	Valuation
Foreign currency options:			
Premium collected	Ps(677)	Ps(76)	Ps(753)
Net liability position			Ps(835,110)

The Bank's hedging operations include foreign currency and interest rate swaps. Foreign currency swaps expire between 2003 and 2011. Interest rate swaps expire between 2003 and 2017 and offset the financial risk of the Bank's fixed rate long-term loans. The notional amounts of these contracts were Ps4,161,545 Ps3,761,313 and Ps9,668,840 for 2000, 2001 and 2002, respectively.

The book value of the collateral required in the interest rate swap contracts at December 31, 2001 and 2002 amounted to Ps22,377 and Ps9,863, respectively, and consists of debt instruments (special federal treasury certificates). In the case of foreign currency swaps, the value of collateral at December 31, 2002, was US\$356,832 represented by debt instruments (UMS). See Note 7 c.

NOTE 9—LOAN PORTFOLIO:

As of December 31, 2001 and 2002, the current loan portfolio of the Bank was summarized as shown below:

Type of loan	As of December 31,	
	2001	2002
	Total current portfolio	Total current portfolio
Commercial portfolio	Ps21,779,810	Ps32,598,456
Loans to financial intermediaries	1,536,987	8,028,244
Consumer loans	2,474,763	5,092,755
Mortgage loans	4,730,479	12,129,879
Loans to IPAB	38,170,650	80,896,166
Loans to government entities	3,915,285	5,936,913
Loans to FOBAPROA	10,897,278	6,668,848
Total current loan portfolio	Ps83,505,252	Ps151,351,261

Loans to IPAB include a loan granted to IPAB in November 2000 for an amount of Ps40,285,278 (Ps35,248,700 nominal value). This loan, comprised of four promissory notes, matures in November 2010 and is repayable in six-monthly installments commencing in month No. 58. Interest on the loan is payable monthly at the TIIE rate plus 0.85%. This transaction was carried out simultaneously with the settlement of the promissory notes signed by IPAB in favor of Bancen and Banpais.

Loans to government entities include a Ps47,289,759 (principal of Ps49,939,900 and accrued interest of 349,869) IPAB loan with interest payable at the arithmetical average of the TIIE published during each interest period, plus 2.5% during January 2001, 2.0% during February 2001, 1.5% during March 2001, 1% during April 2001, and 0.40% from May 1, 2001 onward, payable monthly.

The loans to government entities include benefits granted to debtors in the amount of Ps531,970 in 2001 and Ps188,430 in 2002, respectively. The Federal Government granted these benefits through the implementation of various debtor support programs.

In 2001 and 2002, the Bank recognized in the statement of income extraordinary income in the amount of Ps228,701 and Ps179,539, respectively, corresponding to interest received from the Mexican Federal Government for conditional support of the farming and corporate programs, respectively.

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

Type of loan	As of December 31,	
	2001	2002
	Total past due portfolio	Total past due portfolio
Commercial portfolio	Ps2,434,544	Ps2,371,467
Consumer loans	340,808	333,640
Mortgage loans	1,702,398	1,822,529
Total past due loan portfolio	Ps4,477,750	Ps4,527,636

c. The rating of the portfolio and the allowances created by the Bank as of December 31 of the relevant year are summarized below:

Risk	As of December 31, 2001		
	Rated loan portfolio		Allowance for loan losses
	%	Amount	Amount
A	76.47%	Ps27,277,310	Ps201,867
B	8.92%	3,182,457	342,702
C	4.55%	1,623,219	570,314
D	4.41%	1,573,678	1,105,927
E	5.65%	2,015,392	1,992,349
	100%	35,672,056	4,213,159

Portfolio:

Unrated	662,824
Exempt	52,211,505
Total	Ps88,546,385

Allowance for loan losses recorded 4,384,436

Allowance for loan losses created in excess of minimum requirement Ps171,277

Risk	As of December 31, 2002		
	Rated loan portfolio		Allowance for loan losses
	%	Amount	Amount
A	80.06%	Ps45,432,836	Ps325,895
B	10.10%	5,731,203	435,670
C	3.48%	1,976,916	617,912
D	2.84%	1,614,132	1,136,201
E	3.51%	1,990,147	1,971,675
	100%	56,745,234	4,487,353

Portfolio:	
Unrated	346,595
Exempt	99,646,480
Total	Ps156,738,309

Allowance for loan losses recorded	5,265,140
Allowance for loan losses created in excess of minimum requirement	Ps777,787

The rated portfolio by type of loan is analyzed as follows:

Risk degree	As of December 31,	December 31, 2002			
	2001	Commercial	Consumer	Mortgage	Total
A	Ps27,277,310	Ps33,391,426	Ps4,390,468	Ps7,650,942	Ps45,432,836
B	3,182,457	1,347,562	618,375	3,765,266	5,731,203
C	1,623,219	1,087,630	122,136	767,150	1,976,916
D	1,573,678	61,541	148,307	1,404,283	1,614,131
E	2,015,392	1,793,115	197,033	—	1,990,148
Rated portfolio	35,672,056	37,681,274	5,476,319	13,587,641	56,745,234
Unrated	662,824	31,752	(49,923)	364,766	346,595
Exempt	52,211,505	99,646,480	—	—	99,646,480
Total	Ps88,546,385	Ps137,359,506	Ps5,426,396	Ps13,952,407	Ps156,738,309

The allowance for loan losses established as of December 31, 2001 and 2002, includes allocations to cover all accrued interest on past due loans as of year end (Ps86,164 and 76,430 in 2001 and 2002, respectively).

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

	As of December 31,	
	2001	2002
Balance at beginning of year.....	Ps4,286,813	Ps4,384,436
Increase in the allowance charged to income(1).....	989,880	763,973
Bancreer reserves existing at January 1, 2002.....	—	803,984
Increase in allowance charged to stockholders'equity.....		
Losses and write-offs	(696,107)	(627,605)
Change in allowance due to sale/purchase of loan portfolios	179,037	—
Inflation restatement effects	(222,412)	(212,638)
Appreciation of foreign currency items and UDIs	16,745	236,633
Reductions and benefits granted to mortgage debtors.....	(161,008)	(125,184)
Benefits granted as part of FOPYME and FINAPE government programs	(11,949)	(12,932)
Others	3,437	54,473
Balance at end of year.....	<u>Ps4,384,436</u>	<u>Ps5,265,140</u>

- (1) The allowance for loan losses charged to income amounted to Ps1,172,871 in 2001 and Ps800,657 in 2002, respectively. These amounts were comprised of Ps989,880 in 2001 and Ps763,973 in 2002, respectively credited directly to the loan loss reserve while Ps182,991 in 2001 and Ps36,684 in 2002, was charged to the loss sharing reserve, derived from the IPAB financial rescue program.

NOTE 10—FOBAPROA and other Government Assistance:

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 "Instituto para la Protección al Ahorro Bancario" (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 loan portfolio sold to FOBAPROA, the Bank received promissory notes payable by FOBAPROA, which mature in 8 to 10 years, beginning on the date of the transaction. The Bank retained the obligation to share in 29% or 25% of the aggregate loss suffered by FOBAPROA on the transferred portfolio.

Monthly fees paid to IPAB (as prescribed by the Mexican Law to support the IPAB's operations) amounted to Ps377,469 and Ps657,474, in 2001 and 2002, respectively.

The caption denominated "Loans to FOBAPROA or IPAB" in the balance sheet as of December 31, 2001 and 2002, is comprised of the following promissory notes:

Trust	As of December 31,			
	2001	2002		
	Total	Capital	Interest	Total
477 Tranche I	Ps1,598,649	Ps164,606	Ps1,445,263	Ps1,609,869
477 Tranche II	1,416,113	439,914	985,970	1,425,884
477 Tranche III	1,266,261	344,214	930,933	1,275,147
490	6,413,892	2,085,171	4,388,634	6,473,805
508	1,325,967	477,235	875,969	1,353,204
19001	1,706,541	—	11,484	11,484
19000	3,558,522	—	23,946	23,946
Loss sharing with FOBAPROA	(2,556,709)	—	—	(2,405,058)
FOBAPROA current account(1)	(3,831,963)	—	—	(3,099,433)
FOBAPROA Notes (Net)	Ps10,897,278	Ps3,511,140	Ps8,662,199	Ps6,668,848

(1) Consists of net funds collected on the trust portfolios. These amounts are available to FOBAPROA /IPAB at its discretion.

The adverse economic conditions in Mexico that began in late 1994 and continued during the mid-nineties significantly impacted the Company's business, financial condition and results of operations. The Company participates in various government support programs, in addition to the FOBAPROA program above, that originated as a result of the effects of the aforementioned adverse economic conditions.

Punto Final

In December 1998, the Mexican Federal Government and the banking system launched a new and final debtor support program known as the "Punto Final" program, which, beginning in 1999, replaced the methods to calculate the government benefits granted through previously issued programs. Although the program was granted for mortgage, commercial and agricultural borrowers, a great majority of the current benefits related to mortgage borrowers.

Mortgage Borrowers

The benefits of the Punto Final program to mortgage borrowers were offered to those borrowers whose loans in pesos and UDIs were granted prior to April 30, 1996. This program offered borrowers a 50% discount on all payments on such loans, including principal, for the first 165,000 UDIs of the loan's outstanding balance, and a 45% discount for the remaining balance up to 500,000 UDIs. If a borrower fails to meet its payment obligations under this program, it would lose all rights to benefits from any discounts.

Loans subject to the Punto Final program amounted to Ps3,193,000 and Ps6,099,000 as of December 31, 2001 and 2002, respectively, of which, Ps 1,240,000 and Ps 3,267,000 correspond to low income mortgage loans funded by the "Fondo de Fomento de la Vivienda" ("FOVI"), an agency of the Mexican Federal Government for the promotion of mortgage loans to low income borrowers.

Rentas

During 1996, the Company in connection with the Mexican Government offered mortgage loan borrowers a chance to remain in their homes in lieu of foreclosure. UDI denominated mortgage loans that were transferred to a trust, net of any previously established allowance were eligible for this program.. This program was enacted in lieu of repossessing the mortgage properties and allowed the borrowers to stay in their homes and pay a reduced installment or "rental" in lieu of interest and principal payments on their loan. The rent paid was determined as follows.

Maximum monthly rent was 0.9% of the value of the property.

Minimum monthly rent was 0.5% of the value of the property.

If the amount of the rent were greater than 0.7% of the value of the property then the rent would be indexed in accordance with the UDI on a monthly basis. If the rent were less than 0.7% of the value of the property then the rent would be indexed in accordance with the UDI on a semi-annual basis.

The "rentals" collected are accounted for as a deposit on a future mortgage loan. After the 6-year rental period the mortgage borrower has the right to "repurchase" the property at current market value. The tenant also had the alternative to delay the option to reacquire and continue to rent for another 2 years.

The conditions for receiving a new mortgage generally follow the normal underwriting procedures and include such items as being current on the rent payments, being current on municipal taxes and have a demonstrated ability to service the new loan.

Loans subject to the Rentas program amounted to Ps413,000 and Ps385,000 as of December 31, 2001 and 2002, respectively.

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 where 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.

UDIs are an indexed linked unit of account created by the Mexican Government that expresses in pesos, at any given time, the principal amount of financial transactions as adjusted for inflation. UDIs are indexed to the NCPI and, therefore, the principal amount in peso terms will increase with inflation. The UDI program covered four types of loans, namely commercial loans, mortgage loans, loans to states and municipalities and agricultural loans

The principal balance and accrued interest on nearly all such peso-denominated loans was converted to an UDI principal balance and the interest rate was set at the UDIs rate (inflation) plus a fixed interest rate. The restructured loans were transferred net of any applicable loan loss allowance to a trust. The trust issued long-term UDI-denominated deposits or entered into borrowing arrangement with the Mexican Government for an equivalent value bearing interest at UDIs plus a fixed interest rate (such fixed rate is less than the fixed interest rate applicable to the UDIs loans). The Company received from the Mexican Government, federal bonds, known as "Cetes Especiales" that have an interest rate based on the Cetes rate, (a Peso variable denominated rate). The maturity of these bonds match the maturities of the deposits issued by the trust to the government. Payments received from the loans in the trust are used to pay interest at UDIs plus a fixed interest rate and reduce principal on the deposits or borrowings from the Mexican government. Similarly, the Mexican government remits the same amount received on the deposits or borrowings for interest and principal on the Cetes Especiales. 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 Cetes Especiales equivalent to the principal amount of such defaulted loans will bear interest at a rate equivalent to UDIs. This feature was added in October 2000 to reflect the fact that the UDI program was intended to provide support to performing loans. The Company continues to service the loans and remains at risk for any credit losses.

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

	As of December 31,	
	2001	2002
Assets		
Banks	Ps22,544	Ps140,231
Government securities	6,651	7,521
Loan portfolio	2,680,934	3,342,627
Past due portfolio	744,589	781,234
Interest accrued on loans	8,020	8,481
Past due interest	42,570	42,186
Allowance for loan losses	(792,050)	(910,060)
Total assets	Ps2,713,258	Ps3,412,220
Liabilities and income		
Trust bonds	Ps2,670,187	Ps3,342,634
Other accounts payable	—	8,405
Deferred taxes	37,050	56,275
Income of the year	6,021	4,906
Total liabilities	Ps2,713,258	Ps3,412,220

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

Recorded by the trusts debit (credit)	As of December 31,	
	2000	2002
Banks	Ps22,544	Ps140,231
Cetes Especiales (held-to-maturity securities)	2,670,187	3,342,634
Administrative expenses recovered	(87,721)	(101,867)
Interest paid	(137,534)	(153,279)

**Recorded by the Bank
debit (credit)**

	2001	2002
Miscellaneous creditors	Ps(22,544)	Ps(140,231)
Held-to-maturity securities	(2,670,187)	(3,342,634)
Fees collected	87,721	101,867
Interest earned	137,534	153,279

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

Item	As of December 31,				
	2001	2002			
	Total	States and municipalities	Mortgage	Industrial sector	Total
Current portfolio	Ps2,680,934	Ps1,174,524	Ps2,031,020	Ps137,083	Ps3,342,627
Current interest	8,020	653	6,883	945	8,481
Past due portfolio	744,589	—	481,692	299,542	781,234
Past due interest	42,570	—	20,519	21,667	42,186
Total	<u>Ps3,476,113</u>	<u>Ps1,175,177</u>	<u>Ps2,540,114</u>	<u>Ps459,237</u>	<u>Ps4,174,528</u>

During 2001 and 2002, an additional allowance for loan losses was created from the net profits of the trusts in the amounts of Ps39,189 and Ps34,105, respectively.

NOTE 12—FORECLOSED ASSETS:

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

Item	As of December 31,	
	2001	2002
Personal property	Ps362,162	Ps370,765
Real property	914,957	792,602
Promised-for-sale assets	269,693	280,375
	1,546,812	1,443,742
Allowance for asset write-down	(106,179)	(227,687)
Total foreclosed assets	<u>Ps1,440,633</u>	<u>Ps1,216,055</u>

NOTE 13—PROPERTY, FURNITURE AND EQUIPMENT:

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

ITEM	As of December 31,	
	2001	2002
Buildings and constructions	Ps2,120,670	Ps3,825,329
Electronic computer equipment.....	785,300	963,698
Furniture and office equipment	511,194	748,396
Transportation equipment	45,084	40,023
Installations and improvements	1,023,871	1,373,153
	4,486,119	6,950,599
Accumulated depreciation	(851,692)	(1,479,144)
Total property, furniture and equipment, net.....	Ps3,634,427	Ps5,471,455

NOTE 14—PERMANENT STOCK INVESTMENTS:

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

Investee	As of December 31,	
	2001	2002
	Total	Total
Servicio Panamericano de Protección, S.A. de C.V.	Ps213,234	Ps225,430
Sólida Administradora de Portafolios, S.A. de C.V.(1)	75,443	73,032
Controladora Prosa, S.A. de C.V.	40,415	44,861
Corporativo Edibur, S.A. de C.V.	15,805	14,129
S.D. Indeval, S.A. de C.V.	10,531	17,624
Afinad, S.A. de C. V. Norte (MD-A).....	9,592	9,580
Procesar, S.A. de C.V.	3,820	7,190
Others	48,442	66,561
Total	Ps417,282	Ps458,407

- (1) In June 2002, Fitch Ratings assigned the rating of High Average (MEX) with respect to Sólida. Since its foundation, Sólida has participated in the loan asset auctions carried out by IPAB and has obtained approximately 50% of the loan portfolios auctioned through December 31, 2002.

NOTE 15—DEFERRED TAXES:

The income tax currently payable by the Bank reflects the taxable income of the year, as determined in accordance with currently enacted tax legislation. Due to the temporary differences corresponding to differences in book and tax balance sheet accounts, including net operating loss carryforwards, the Bank has recognized a net deferred tax asset, which includes deferred employee profit sharing, amounting to Ps1,036,894 and Ps1,024,155 in 2001 and 2002, respectively. Such amount has been calculated using the 35% rate for the income tax purposes and a 10% rate for profit sharing purposes as detailed below:

As of December 31, 2001			
	Temporary differences	Deferred	
		Income tax	Profit sharing
Loss sharing with FOBAPROA	Ps2,190,675	Ps766,736	Ps—
Tax loss carryforwards	3,977,452	1,392,108	—
Mark to market of securities	626,457	219,260	62,646
Excess of tax over book basis of foreclosed assets	133,481	46,719	—
Allowance for loan losses (Non deductible).....	644,748	225,662	—
Others	361	126	—
TOTAL DEFERRED TAX ASSETS	Ps7,573,174	Ps2,650,611	Ps62,646

	Temporary differences	Deferred	
		Income tax	Profit sharing
Accrued interest and inflationary component of transactions with FOBAPROA	Ps3,074,092	Ps1,075,932	Ps—
Excess of book over tax basis of fixed assets and prepaid expenses	1,479,221	517,727	45,654
Income tax payable on UDI trusts	—	37,050	—
TOTAL DEFERRED TAX LIABILITIES	Ps4,553,313	Ps1,630,709	Ps45,654
NET DEFERRED TAX BALANCES	Ps3,019,861	Ps1,019,902	Ps16,992
NET DEFERRED TAX ASSET			Ps1,036,894

As of December 31, 2002			
	Temporary differences	Deferred	
		Income tax	Profit sharing
Loss sharing with FOBAPROA	Ps2,104,933	Ps736,727	Ps—
Tax loss carryforwards(1).....	958,665	335,533	—
Mark-to-market of securities.....	594,426	208,049	59,443
Excess of tax over book basis of foreclosed assets	813,379	284,683	—
Others	136,061	47,620	13,605
TOTAL DEFERRED TAX ASSETS	Ps4,607,464	Ps1,612,612	Ps73,048

	Temporary differences	Deferred	
		Income tax	Profit sharing
Excess of book over tax basis of fixed assets and prepaid expenses	1,599,822	559,938	45,292
Income tax payable on UDI trusts	—	56,275	—
TOTAL DEFERRED TAX LIABILITIES	Ps1,599,822	Ps616,213	Ps45,292
NET DEFERRED TAX BALANCES	Ps3,007,642	Ps996,399	Ps27,756
NET DEFERRED TAX ASSET			Ps1,024,155

(1) Based on management's analysis performed at the end of 2002, Ps958,665 of a total of Ps4,050,715 tax loss carryforwards are expected to be realized in future years (see Note 29 c.)

The change in the deferred tax balance sheet accounts for the year was a decrease in the deferred tax asset in the amount of Ps12,739, mainly derived from the Bank's recognition of the incorporation of Bancrecer subsidiaries of Ps64,390, an increase in stockholders' equity within the line item "effect from valuation of available-for-sale securities" in the amount of Ps80,704 and a net charge to income for the year of Ps29,053.

The net charge to income for the year in the amount of Ps29,053 was composed of a credit in the amount of Ps20,507 reflected within "Deferred income tax" and a charge in the amount of Ps49,559 reflected within the monetary gain line item.

As a result of the amendments to the Income Tax Law which were published on January 1, 2002, the income tax rate (35%) will be reduced annually commencing in 2003, until it reaches 32% in 2005. At December 31, 2002, the Bank determined the deferred tax by applying a 35% rate instead of the effective 34% rate. As a result, the decrease in the income tax rate will in 2003 reduce the deferred tax asset by approximately Ps51,294, of which income for the year and stockholders' equity will be decreased by Ps43,990 and Ps7,305, respectively.

NOTE 16—OTHER ASSETS:

The other assets as of December 31, are as follows:

Asset	As of December 31,	
	2001	2002
Investments in pension plans (see Note 21)	Ps465,400	Ps1,099,869
Provision for labor obligations (see Note 21)	(465,400)	(1,099,869)
Other deferred expenses—gross	807,262	876,266
Other deferred expenses—accumulated amortization	(115,642)	(183,460)
Goodwill (see Note 2f.)	—	62,629
Guarantee deposits	372	352
Total	Ps691,992	Ps755,787

NOTE 17—DEMAND DEPOSITS:

The balances as of December 31, consist of the following:

	As of December 31,	
	2001	2002
Non-interest-bearing checking accounts	Ps12,229,255	Ps18,208,076
Checking accounts with interest-bearing	13,031,420	19,030,265
US dollar denominated checking accounts	2,651,090	3,614,248
US dollar denominated checking accounts in the border	749,656	1,784,587
Deposits in savings accounts	38,913	32,128
Demand deposits in peso current accounts	3,204,435	8,834,782
IPAB checking account	—	2,424,508
Demand deposits in US-dollar-denominated current accounts	95	103
Accrued interest payable	8	595
Total	Ps31,904,872	Ps53,929,292

These liabilities accrue interest at an annual interest rate that fluctuates between 0.95% and 8.76% in 2001 and 0.55% and 3.26% in 2002, depending on the type of instrument and the average balance maintained in the accounts.

NOTE 18—TERM DEPOSITS:

Balances as of December 31, are as follows:

	As of December 31,	
	2001	2002
Promissory notes with yield at maturity	Ps13,015,001	Ps24,150,442
Money desk promissory notes	29,787,261	57,446,804
Peso-denominated fixed-term deposits	299,959	3,121,202
US-dollar-denominated fixed-term deposits	4,767,482	5,783,519
Deposits withdrawable on preestablished days	298,114	299,508
Others deposits in US dollars	40	—
Accrued interest payable	266,826	482,262
Total	Ps48,434,683	Ps91,283,737

These deposits accrue interest at annual rates ranging from 1.00% to 15.54% in 2001 and 3.09% to 12.31% in 2002, depending on the balances and yields.

NOTE 19—OUTSTANDING BANK BONDS:

As of December 31, the Bank had the following bonds outstanding:

	As of December 31,	
	2001	2002
BANORTE 1-00 issue of 10,000,000 bonds with a face value of one hundred pesos each, due on May 1, 2003, with interest payable every 189 days at a 15.59% annual fixed rate.	Ps1,078,777	Ps1,021,756
BANORTE 2-00 issue of 2,500,000 bonds with a face value of one hundred pesos each, due on September 4, 2003, with interest payable every 189 days at a 16.00% annual fixed rate.	269,695	255,439
	Ps1,348,472	Ps1,277,195
Accrued interest payable	55,689	45,518
Total	Ps1,404,161	Ps1,322,713

The total interest expense on these bonds was Ps214,267 in 2001 and Ps202,942 in 2002, respectively.

NOTE 20—INTERBANK AND OTHER ENTITY LOANS:

The balances as of December 31, are as follows:

	As of December 31,	
	2001	2002
Deposits and bank loans.....	Ps4,778,880	Ps24,973,215
Deposits and loans from foreign banks	808,302	42,831
Loans on rediscounted portfolio	4,453,937	5,685,072
CPO's issued (see Note 31).....	2,580,907	556,606
Call money	323,633	47,001
FOVI rediscounts	1,697,846	4,878,519
Accrued interest payable	23,152	66,252
Total	<u>Ps14,666,657</u>	<u>Ps36,249,496</u>

The loan balances denominated in US dollars and Mexican pesos, as of December 31, 2001 and 2002, are summarized below:

	As of December 31,		As of December 31,	
	2001	2002	2001	2002
Thousands of U.S. dollars	US\$576,828	US\$208,717	Ps5,289,226	Ps2,178,857
Mexican pesos	<u>Ps9,262,357</u>	<u>Ps34,023,235</u>	<u>9,377,431</u>	<u>34,070,639</u>
Total			<u>Ps14,666,657</u>	<u>Ps36,249,496</u>

NOTE 21—LABOR LIABILITIES:

The Bank 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.

The actuarial present value of benefit obligations and projected benefits as of December 31, 2002, corresponding to the "Defined Benefit Pension and Seniority Premium Plan", determined by independent actuarial experts, is summarized below:

	As of December 31,			
	2001		2002	
	Personnel pensions	Seniority premiums	Personnel pensions	Seniority premiums
Projected benefit obligation (PBO).....	Ps229,356	Ps51,140	Ps553,720	Ps75,963
Plan assets at market value	173,072	77,172	644,946	70,372
Plan financial situation	56,284	(26,032)	(91,225)	5,591
Unamortized transition liability (asset)	(109,008)	41,655	(79,493)	22,495
Prior service and amendments of plans, Unamortized	106,876	6,919	—	5,107
Assumption changes and adjustments for experience, unamortized.....	(54,152)	(22,542)	—	—
Unrecognized actuarial loss	—	—	—	(19,137)
Projected net (asset) liability(1).....	Ps—	Ps—	Ps(170,719)	Ps14,056
Accumulated benefit obligation (ABO).....	Ps84,383	Ps35,733	Ps505,124	Ps57,730

Item	As of December 31, 2002
	Medical services for retired personnel
Projected benefit obligation (PBO).....	Ps747,220
Plan assets at market value	139,541
Financial situation	607,679
Unamortized transition (liability) asset	(451,015)
Prior service and amendments of plans, Unamortized	—
Assumption changes and adjustment for experience, Unamortized	—
Unrecognized (gain) loss	—
Projected net liability(1).....	Ps156,664
Accumulated benefit obligation (ABO).....	—

- (1) Post retirement medical expenses for retired personnel in the amount of Ps156,664 are not included above and should be added to the projected net liability. The Bank has assets (in an external fund) amounting to Ps854,860 (including the corresponding medical expense for retirees) to cover these obligations. The latter amount is recorded in "Other Assets" (see Note 16).

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) in place prior to 2001, covering the personnel which elected to remain in this plan.

At the beginning of 2001, the Bank implemented an optional defined contribution pension plan, which replaces the defined benefit pension plan. Through this plan the Bank contributes pre-established cash amounts to a specific investment fund. The benefits to employees consist of the sum of such contributions plus or minus the gains or losses in the administration of such funds. The responsibility of the Bank in relation to such plan is limited to the payment of the specified contributions. Employees participating in this new plan register voluntarily. The amount of the defined contribution pension plan was Ps245,009 at December 31, 2002. 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 (50% of the benefit immediately and the remaining 50% over a 10-year period) The initial assignment of the benefit on prior services was financed by transferring from the defined benefit plan assets representing the reduction in liability due to the freezing of benefits, recognized under the guidelines of Statement D-3 of the MIPA.

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.

NOTE 22—OUTSTANDING SUBORDINATED DEBENTURES:

On November 28, 2002, the Bank issued, non-convertible, non-preferential, non-cumulative subordinated debentures, indexed to the U.S. dollar / Mexican peso exchange rate in the amount of Ps1,532,634 (Ps1,193,387 (Ps1,160,715 at nominal value) were placed with external parties). The terms of the debentures, include maturity in full in November 2012, with interest payable semiannually. Interest is at 8% for the first 6 years, adjusted within a range off 8 to 10% thereafter.

On June 21, 2001, the Bank issued, non-convertible subordinated debentures in the amount of 436,000 UDIs and equal to Ps1,437,038 (Ps1,329,305 nominal value) and are due June 2009. These debentures accrue interest at an 8% fixed annual real interest rate, with semi-annual interest payments and repayment of principal at the end of the 8-year term.

These issuances are summarized as follows:

	As of December 31,	
	2001	2002
Debentures maturing November 2012 with interest at 8.00% per annual for the first 10 semi-annual periods, after which it will be adjusted for the remaining 10 semi-annual periods. The adjusted rate will not be less than 8.00% per annual or more than 10.00%	Ps —	Ps1,193,387
Debentures maturing June 2009 with interest at per annual 8.00% net real rate, which will be fixed during the term of the debentures.....	1,437,038	1,437,038
Accrued interest payable	3,513	11,891
	<u>Ps1,440,551</u>	<u>Ps2,642,316</u>

For the years ended December 31, 2001 and 2002, interest expense related to these debentures totaled Ps61,224 and Ps122,454, respectively.

NOTE 23—CONTINGENCIES AND COMMITMENTS:

As of December 31, 2001 and 2002, the Bank had the following contingent obligations and commitments:

- a. The Bank has commitments due to the opening of irrevocable letters of credit, and other contingent obligations in the amount of and Ps9,796,933 at December 31, 2001 and Ps13,700,097 at December 31, 2002, respectively, which are recorded in memorandum accounts.
- b. Severance payments to personnel deemed to have been without cause or death, under certain circumstances provided for in the Labor Law.
- c. Prior period tax returns for differences that could result from an audit of the tax returns filed by the Bank as a result differing interpretations of legal provisions between the Bank and the tax authorities.
- d. There are lawsuits filed against the Bank in Mexican courts and for which Ps26,974 in reserves have been provided in the financial statements. In addition, lawsuits totaling to Ps5,620 have been filed against the Bank in its capacity as trustee.
- e. At December 31, 2002, the Bank recorded an account receivable from Sólida amounting to Ps28,773 under the caption "Other Accounts Receivable", for cash that the Bank transferred to it in regard to interest collected on loan packages that would eventually be sold to Sólida but with which no formal agreement on the sale had been reached by that date.

NOTE 24—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.

The regulations of Central Bank of Mexico 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 Bank's net capital.
- b. Permitted foreign currency denominated liabilities should not exceed 183% of the basic capital of the Bank.
- c. The rules governing foreign currency transactions require maintaining a minimum level of liquid assets, in accordance with a calculation mechanism established by the Central Bank of Mexico, based on the maturity date of the foreign currency transactions.

As of December 31, the Bank had a foreign currency position denominated in US dollars, as summarized below:

	As of December 31,	
	2001	2002
Assets	US\$1,310,496	US\$1,877,967
Liabilities	1,394,322	1,787,701
Long (short) position.....	US\$(83,826)	US\$90,266

As of December, 31, 2001 and 2002, the exchange rates set by the Central Bank of Mexico for the valuation of liabilities was Ps9.1695 and Ps10.4393 per US dollar, respectively.

Transactions denominated in UDIs

As of December, 31, 2001 and 2002, the value of the UDI determined by the Central Bank of Mexico and used by the Bank to value its assets and liabilities denominated in UDIs was Ps3.055273 and Ps3.225778, respectively. At those same dates, the Bank had assets and liabilities in UDIs as shown below:

	As of December 31,	
	2001	2002
	Thousands of UDIs	
Assets	460,113	1,972,148
Liabilities	570,822	647,534
Long (short) position.....	(110,709)	1,324,614

NOTE 25—STOCKHOLDERS' EQUITY:

1. As of December 31, 2002, the fixed and variable capital stock of the Bank was represented by 23,080,347,212 common Series "O" shares, with a par value of ten Mexican cents each, fully subscribed and paid. The capital stock is summarized below:

Description	As of December 31,			
	Number of shares		2001	2002
	2001	2002		
Series O shares	23,080,347,212	23,080,347,212	Ps2,308,035	Ps2,308,035
Restatement increase			2,228,380	2,228,380
Capital stock not subscribed			(34,552)	(34,552)
Total capital stock			Ps4,501,863	Ps4,501,863

The Bank is required to create a legal reserve fund by appropriating 10% of its earnings each fiscal year until that fund is equivalent to its paid-in capital.

Dividends paid by the Bank will be tax-free if they are paid out of the Cuenta de Utilidad Fiscal Neta (Net Taxable Income Account or "CUFIN"). Dividends paid in excess of the balance of the CUFIN are subject to 35% income tax on the product of the dividend paid multiplied by a factor of 1.5385. During 2002, the Bank paid dividends to Grupo the amount Ps208,164 (Ps200,000 nominal value) out of the CUFIN.

In addition to the foregoing, dividends paid to individuals or foreign residents are subject to a 5% withholding tax payable by the stockholder on the product of those dividends multiplied by factor of 1.5385 (1.515 if the dividends are paid to individuals resident in Mexico and those dividends are paid out of the CUFIN at December 31, 1998).

When dividends are paid to residents in countries with which treaties have been entered into to avoid double taxation, they will be made in accordance with the terms of the applicable treaty.

2. The Bank adopted a stock option plan (the "Plan") whereby a specific number of awards to purchase CPOs (ordinary certificates participation) from Grupo were granted to eligible executives in October 2000, February 2002 and April 2003. Pursuant to this Plan, through December 31, 2002, the Bank had assigned approximately 1.9% of the CPOs issued by Grupo, at market prices, subject to certain conditions, including vesting periods within three years from the date of grant of the awards and expiration dates six years thereafter. In accordance with the terms of this Plan, all awards are granted at an exercise price ranging from Ps12.26 to Ps23.72 per CPO. Under the terms of this Plan, the benefit for those eligible executives will be the difference between the market price of the stock at the beginning of the Plan and the price at the moment the option is exercised. As of December 31, 2002, 1,414,586 shares of Grupo's capital stock had been transferred to the Plan participants. The Bank does not recognize any compensation effect for this Plan.

NOTE 26—CAPITALIZATION:

The new standards issued by the Central Bank of Mexico for calculating the capitalization index take into account the credit and market risk of the various assets. Under the new standard, the basic capital minimum percentage is 8%. By considering only the credit risk, the capitalization index determined by the Bank at December 31, 2001 and 2002 reached 12.57% and 16.11, respectively, with a basic capital of 8.24% and 12.77%, respectively. By including market risks in the determination of assets weighted by risk, the total capitalization index of the Bank at December 31, 2001 and 2002 reached 10.97% and 14.21%, respectively, with a basic capital of 7.20% and 11.26%, respectively.

Relevant events discussed in Note 2, including the merger with Bancrecre, affected the determination of net capital of the Bank as follows:

	As of December 31,			
	2001		2002	
	Credit risk	Credit and market risk	Credit risk	Credit and market risk
Basic capital	8.24%	7.20%	12.77%	11.26%
Supplementary capital	4.33%	3.77%	3.34%	2.95%
Net capital.....	12.57%	10.97%	16.11%	14.21%
Assets subject to credit risk.....		Ps44,920,724		Ps68,117,583
Assets subject to market risk		6,531,553		9,143,252
Total assets subject to risk.....		Ps51,452,277		Ps77,260,834

NOTE 27—COMPREHENSIVE INCOME (LOSS):

Comprehensive income (loss) for the years ended December 31, 2001 and 2002, is summarized below:

	As of December 31,	
	2001	2002
Net income, as shown in statement of income	Ps512,005	Ps1,501,826
Valuation of available-for-sale securities	(244,161)	139,808
Gain (loss) from Bank non-monetary assets (permanent stock investments).....	8,359	(25,530)
Gain (loss) from Bank non-monetary assets (fixed assets).....	—	11,265
Effect of reversal of Bancen Segment I trust.....	(205,590)	—
Cancellation of labor obligations on retirement.....	—	—
Effect on retained earnings	—	—
Adjustments to capital reserves	—	—
Accumulated effect of deferred taxes	—	—
Comprehensive (loss) income	<u>Ps70,613</u>	<u>Ps1,627,369</u>

NOTE 28—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 Bank.
- 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 convertible debentures. Earnings adjusted as aforementioned are then divided by the weighted average shares outstanding, including those applicable to future capitalizations of outstanding debentures.

The earnings per share determined on the above basis were:

	As of December 31,	
	2001	2002
Basic earnings per share	Ps512,004	Ps1,501,826
Diluted earnings per share	512,004	1,501,826
Weighted-average shares outstanding:		
For basic earnings per share	21,296,560,156	22,734,829,632
For diluted earnings per share	21,296,560,156	22,734,829,632
Basic earnings per share	Ps0.024	Ps0.0661
Diluted earnings per share	Ps0.024	Ps0.0661

NOTE 29—INCOME TAX, EMPLOYEES' PROFIT SHARING AND ASSET TAX:

- a. During 2001 and 2002, the income tax rate in effect was 35% on taxable income.
- b. At December 31, 2002, the income statement caption "income tax and employees statutory profit sharing" in the amount of Ps211,127 represented asset tax and profit sharing payable by the Bank and the income tax payable by the consolidated subsidiaries the latter of which totaled Ps46,928. In 2001, the caption represented income tax payable by the consolidated subsidiaries totaling Ps15,349.
- c. The total tax loss carryforwards at December 31, 2002 were Ps4,050,715, and may be applied against taxable income in the following ten years in which they originated.
- d. At December 31, 2002, the Bank had a profit sharing liability of Ps144,600, of which Ps97,300 is included in the income statement in the caption "current income tax and employees' profit sharing", and Ps47,300 is included as an extraordinary item.
- e. The Bank is subject to an asset tax calculated at the rate of 1.8 percent on the average of the assets not subject to financial intermediation, less the average liabilities related to acquisition of these assets. Asset tax is payable only when it exceeds the income tax for the year. Asset tax paid in the last ten years may be credited in future years to the extent that income tax exceeds the asset tax in those future periods. As of December 31, 2002, the Bank incurred asset tax of Ps50,268.

NOTE 30—MEMORANDUM ACCOUNTS:

The balance of this item is summarized as shown below:

Item	As of December 31,	
	2001	2002
Guarantees given	Ps3,214	Ps—
Other contingent liabilities	9,233,548	12,840,685
Opening of irrevocable credits	560,170	859,411
Assets in trust or mandate	20,167,940	60,447,491
Investment of the funds of the retirement savings system	2,484,988	1,583,365
Assets in custody or administration	80,164,465	123,773,777
Investment banking transactions for account of third parties, net	111,334,219	75,131,695
Amounts committed in transactions with FOBAPROA	3,829,853	5,468,574
Amounts contracted in derivative instruments	3,543,884	4,876,880
	<u>Ps231,322,281</u>	<u>Ps284,981,878</u>
Securities receivable under repo agreements	Ps48,453,808	Ps73,244,134
Payables under repo agreements	(48,373,447)	(73,206,741)
	<u>Ps80,361</u>	<u>Ps37,393</u>
Receivables under repo agreements	Ps47,312,206	Ps73,229,210
Securities payable under repo agreements	(47,368,130)	(73,244,614)
	<u>Ps(55,924)</u>	<u>Ps(15,404)</u>
Other memorandum accounts	<u>Ps135,205,632</u>	<u>Ps366,523,445</u>

NOTE 31—SECURITIZATION:

The Bank 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.

Certificates of the Bank have been placed in the international capital markets. At year-end, the balances thereof amounted to Ps2,580,907 in 2001 and Ps556,606 in 2002, respectively, equivalent to US\$261 million in 2001 and US\$52 million in 2002, respectively. These securitizations allow the Bank 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 therefore belong to a trust established in New York in favor of the foreign investors. The terms of 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:

	As of December 31,	
	2001	2002
CPOs—Series 1999-2A covering 300 certificates with a face value of US\$250,000 each (US\$75 million) payable in a 5-year term at a fixed interest rate of 8.94%	Ps508,771	Ps351,073
CPOs—Series 1999-2B covering 100 certificates with a face value of US\$250,000 each (US\$25 million) payable in a 7-year term at a fixed interest rate of 9.49%	230,854	203,420
CPOs—Series 1999-1 covering 800 certificates with a face value of US\$250,000 each (US\$200 million) payable in a 7-year term at a variable interest rate equivalent to LIBOR plus 1.15%	1,836,299	—
Accrued interest payable	<u>4,983</u>	<u>2,113</u>

Ps2,580,907 Ps556,606

The Bank recognized interest expense in connection with these securitizations in the amount of Ps195,893 in 2001 and Ps92,578 in 2002, respectively.

NOTE 32—RELATED PARTIES:

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

- a. Granting loans
- b. Money market operations
- c. Rendering administrative services

The principal operations and balances with related parties are summarized below:

Institution	Income		Accounts Receivable	
	As of December 31,		As of December 31,	
	2001	2002	2001	2002
Arrendadora Banorte, S. A. de C. V.....	Ps30,601	Ps42,354	Ps194,030	Ps462,688
Casa de Bolsa Banorte, S. A. de C. V.	302,729	56,387		
Banco del Centro, S. A.	3,837,895	4,975,193	2,984,956	909,603
Banorte Generali, S. A. de C. V. AFORE	1,886	43		
Almacenadora Banorte, S. A. de C. V.....	15,058	14,010	143,030	285,056
Sólida Administradora de Portafolios, S.A. de C. V.....	—	—	947,628	—
Factor Banorte, S. A. de C. V.	64,968	39,772	279,415	612,587
Inmobiliaria Bancrecer, S. A. de C. V.	—	—	—	234,063
Inmobiliaria Innova, S. A. de C. V.	—	—	—	80,788
Total	<u>Ps4,253,137</u>	<u>Ps5,127,759</u>	<u>Ps4,549,059</u>	<u>Ps2,584,785</u>

Institution	Expenditures		Accounts payable	
	2001	2002	2001	2002
Grupo Financiero Banorte, S. A. de C. V.....	Ps24,745	Ps9,364	Ps156,676	Ps17,554
Arrendadora Banorte, S. A. de C. V.....	25,642	36,303	18,822	10,145
Casa de Bolsa Banorte, S. A. de C. V.	73,499	16,348	2,597	384
Banco del Centro, S. A.	130,586	134,133	50,019	105,059
Banorte Generali, S. A. de C. V. AFORE	16	8	2,133	4,574
Almacenadora Banorte, S. A. de C. V.....	2,494	56	5,754	3,824
Factor Banorte, S. A. de C. V.	130	200	33,810	17,646
Inmobiliaria Banorte, S. A. de C. V.....	20,818	18,913	103,434	21,968
Constructora Primero, S. A. de C. V.....	26,142	22,406	33,965	30,171
Inmobiliaria Bancreer, S.A. de C. V.	—	41,882	—	10,772
Inmobiliaria Innova, S.A. de C. V.	—	14,564	—	9,748
Inmobiliaria Banormex, S.A. de C. V.	—	797	—	5,804
Inmobiliaria Finsa, S.A. de C. V.	—	2,540	—	19,153
Inmobiliaria Bra, S.A. de C. V.....	—	3,606	—	45,763
Inmuebles de Occidente, S.A. de C. V.....	—	1,560	—	10,275
Inmuebles de Tijuana, S.A. de C. V.	—	44	—	629
Corporación Arrendadora Bancreer, S.A. de C. V.....	—	571	—	8,621
Poliservicio Profesional y Técnico, S.A. de C. V.....	—	—	—	29
Derivados Banorte, S. A. de C. V.....	—	—	59	190
Total	Ps304,072	Ps303,295	Ps407,269	Ps322,309

In accordance with the Article 73 of the LIC, loans granted by the Bank to related parties may not exceed 75% of the basic part of its net capital. At December 31, 2001 and 2002, loans to related parties amounted to Ps4,663,736 and Ps4,025,051, respectively.

NOTE 33—SEGMENT INFORMATION:

- a. *The amounts by service sector of the Bank are summarized below:*

At December 31, 2002, 83% of the Bank's income is concentrated in the following areas:

	Amount
Interest on loans to government entities	Ps7,733,806
Premiums on securities, repurchase and derivative operations	5,013,589
Interest on commercial loans	2,531,934
Interest on investments in securities	1,277,135
Interest on mortgage loans	1,061,668
Interest on promissory notes receivable from FOBAPROA	920,061
Interest on cash and cash equivalents	850,123
	Ps19,388,316

At December 31, 2002, 55% of the Bank's costs are concentrated in the following areas:

	Amount
Interest on time deposits	Ps4,797,642
Premiums on repurchase operations	4,678,156
Interest on interbank loans and loans from other entities	2,407,127
Interest on demand deposits	933,888
Interest on bank bonds	202,942
	Ps13,019,755

b. *Interest income and expenses generated in Mexico and abroad are summarized below:*

	As of December 31,	
	2001	2002
Interest income		
México.....	Ps19,816,052	Ps21,285,038
Outside of Mexico	363,498	381,509
Total interest income	Ps20,179,550	Ps21,666,547
Interest expense		
México.....	Ps13,449,578	Ps13,324,515
Outside of Mexico	501,655	283,172
Total interest expense.....	Ps13,951,233	Ps13,607,687

c. *The balances of commercial portfolio and deposits generated in Mexico and abroad are summarized below:*

	As of December 31,	
	2001	2002
Commercial portfolio		
México.....	Ps86,480,350	Ps153,313,925
Outside of Mexico	1,502,652	2,564,972
Total commercial portfolio	<u>Ps87,983,002</u>	<u>Ps155,878,897</u>
Deposits		
México.....	Ps76,940,554	Ps140,786,996
Outside of Mexico	4,803,162	5,748,746
Total deposits	<u>Ps81,743,716</u>	<u>Ps146,535,742</u>

d. *As of December 31, 2002, the current loan portfolio grouped by economic sector and geographical area is as follows:*

Economic sector	Monterrey	Mexico City	West	North-east	North-west	South-east	Total
Farming.....	Ps270,658	Ps3,510	Ps248,688	Ps197,082	Ps246,918	Ps6,436	Ps973,292
Mining.....	142,873	29,384	11,368	47,891	2,318	15,141	248,975
Manufacturing.....	5,286,085	2,110,691	1,104,223	835,378	322,438	109,984	9,768,799
Construction.....	597,034	648,319	217,366	155,079	382,647	56,551	2,056,996
Electricity, gas and water.....	611	5,627	1,024	2,496	1,839	1,557	13,154
Commerce, restaurants and hotels	2,050,410	1,929,390	1,417,860	1,084,687	1,084,388	679,075	8,245,810
Transport and communications ..	985,848	1,163,191	51,843	74,605	47,567	48,732	2,371,786
Financial services	3,100,042	4,011,023	186,026	44,647	151,625	41,462	7,534,825
Community, social and personal services	831,257	1,155,858	317,896	476,762	241,305	266,484	3,289,562
Trade, professional and civic groupings.....	9,708	25,287	3,149	3,487	1,336	2,127	45,094
Public administration services	2,035,266	10,472,973	252,691	920,051	544,308	1,082,623	15,307,912
Internal organization services	1,940	327	30	64	173	133	2,667
Credit cards	—	—	—	—	—	—	1,612,526
Loans to FOBAPROA or IPAB, ADE, FOPYME and FINAPE ..	—	—	—	—	—	—	87,749,986
Mortgage loans.....	—	—	—	—	—	—	12,129,877
Current loan portfolio							<u>Ps151,351,261</u>

e. *As of December 31, 2002, the past-due loan portfolio grouped by economic sector and geographical area is as follows:*

Economic sector	Monterrey	Mexico City	West	North-east	North-west	South-east	Total
Farming.....	Ps12,952	Ps4,903	Ps3,790	Ps127,146	Ps13,714	Ps1,196	Ps163,701
Mining.....	271,484	14,527	171	187			286,369
Manufacturing.....	813,335	154,437	109,200	21,607	17,719	3,422	1,119,720
Construction.....	31,891	1,493	2,840	14,889	5,174	1,186	57,474
Electricity, gas and water.....	66	43	79	1,522	182	1	1,893
Commerce, restaurants and hotels...	108,004	90,840	87,245	213,773	40,237	101,255	641,354
Transport and communications.....	22,253	10,019	1,926	16,849	3,411	3,843	58,301
Financial services.....	7,196	2,248	3,890	8,873	2,156	1,932	26,295
Community, social and personal services.....	123,614	30,616	26,400	45,485	15,973	13,166	255,254
Trade, professional and civic groupings.....	143	40	96	239	99	137	754
Public administration services.....	1	—	—	—	7,897	—	7,898
Internal organization services.....	—	79	—	—	88	—	167
Credit cards.....	—	—	—	—	—	—	85,927
Mortgage loans.....	—	—	—	—	—	—	1,822,529
Past-due loan portfolio.....							<u>Ps4,527,636</u>

f. *As of December 31, 2002, the loan portfolio assigned on the basis of responsibility was as follows:*

	Commercial	Corporate	Total
Commercial loan.....	Ps26,945,433	Ps13,681,267	Ps40,626,700
Consumer loan.....	5,092,755	—	5,092,755
Mortgage loan.....	12,129,879	—	12,129,879
Loans to FOBAPROA or to IPAB and ADE.....	93,501,927	—	93,501,927
Total current portfolio.....	<u>137,669,994</u>	<u>13,681,267</u>	<u>151,351,261</u>
Commercial loans.....	1,462,149	909,318	2,371,467
Consumer loans.....	333,640	—	333,640
Mortgage loans.....	<u>1,822,529</u>	<u>—</u>	<u>1,822,529</u>
Total past due loan portfolio.....	<u>3,618,318</u>	<u>909,318</u>	<u>4,527,636</u>
Total loan portfolio.....	<u>141,288,312</u>	<u>14,590,585</u>	<u>155,878,897</u>
Allowance for estimated loan losses.....			<u>(5,265,140)</u>
Loan portfolio (net).....			<u>Ps150,613,757</u>

g. As of December 31, 2002, deposits grouped by economic sector and geographical area in Mexico are as follows:

	2002							
	Geographical area							
Product	Monterrey	Noreste	México	Occidente	Noroeste	Sureste	Treasury and Others	Total
Non-interest-bearing checking accounts	\$4,907,911	\$2,940,047	\$3,451,976	\$2,669,783	\$2,068,580	\$1,893,732	\$389,430	\$18,321,459
Interest-bearing checking accounts	4,343,678	3,205,536	4,497,196	2,823,066	2,106,052	2,086,723	(31,986)	19,030,265
Deposits in savings accounts	9,098	12,733	1,918	2,872	1,133	4,371	3	32,128
Demand deposits in peso denominated current account and preestablished withdrawal days	1,701,728	1,495,832	1,328,333	1,051,593	1,723,475	1,407,152	14,720	8,722,833
Demand deposits in dollars	1,418,334	1,081,095	752,776	608,454	1,951,673	142,391	(27,115)	5,927,608
Cedes	—	307	—	—	18,842	—	—	19,149
Promissory notes with yield at maturity	4,618,614	4,533,483	5,229,122	3,509,892	3,009,329	3,159,525	2,018	24,061,983
US dollar denominated fixed term deposits	885,317	1,224,751	649,036	1,220,621	799,367	460,559	15,161	5,254,812
Customer money market	5,414,386	2,646,929	2,857,878	2,450,145	1,733,325	1,809,785	418,728	17,331,176
Financial entities							43,604,255	43,604,255
Bank bonds							1,277,195	1,277,195
Checking accounts of FOBAPROA and accrued interest payable							2,952,879	2,952,879
	\$23,299,06	\$17,140,71	\$18,768,23	\$14,336,42	\$13,411,77	\$10,964,23		\$146,535,74
Total Deposits	6	3	5	6	6	8	\$48,615,288	2

**BANCO MERCANTIL DEL NORTE, S.A., INSTITUCION DE BANCA MULTIPLE,
GRUPO FINANCIERO BANORTE
AND CONSOLIDATED SUBSIDIARIES**

UNAUDITED CONSOLIDATED BALANCE SHEETS

AS OF SEPTEMBER 30, 2002 AND 2003

**(Amounts stated in thousands of Mexican Pesos of September 2003 purchasing power
and thousands of U.S. dollars)**

	As of September 30, 2002 (Unaudited)	As of September 30, 2003 (Unaudited)	As of September 30, 2003 (Unaudited) Note 2
ASSETS			
CASH AND CASH EQUIVALENTS	Ps19,625,531	Ps29,492,418	US\$2,677,891
INVESTMENT SECURITIES (Note 5):			
Trading securities	3,042,078	3,984,073	361,751
Available-for-sale securities	875,529	186,530	16,937
Held-to-maturity securities	6,266,764	10,290,710	934,389
TOTAL INVESTMENT SECURITIES	10,184,371	14,461,313	1,313,077
SECURITIES AND DERIVATIVES TRADING (Note 6):			
Debit balances on repo transactions	119,642	55,924	5,078
Derivatives trading		10,698	971
	119,642	66,622	6,049
CURRENT LOAN PORTFOLIO (Note 7):			
Commercial portfolio	27,694,201	31,179,504	2,831,077
Loans to financial intermediaries	1,557,357	3,324,310	301,845
Consumer loans	4,508,797	7,733,534	702,200
Mortgage loans	11,773,899	13,401,866	1,216,880
Loans to IPAB	82,380,108	76,019,457	6,902,514
Loans to government entities	3,981,926	8,796,055	798,676
Loans to FOBAPROA (Note 8)	10,634,126	6,652,182	604,014
TOTAL CURRENT LOAN PORTFOLIO	142,530,414	147,106,908	13,357,206
PAST-DUE LOAN PORTFOLIO:			
Commercial portfolio	2,468,607	1,700,728	154,425
Consumer loans	334,407	376,531	34,189
Mortgage loans	1,787,586	1,018,196	92,451
Loans to government entities	—	7,977	724
TOTAL PAST-DUE LOAN PORTFOLIO	4,590,600	3,103,432	281,789
TOTAL LOAN PORTFOLIO	147,121,014	150,210,340	13,638,995
ALLOWANCE FOR LOAN LOSSES	5,380,259	3,911,687	355,178
NET LOAN PORTFOLIO	141,740,755	146,298,653	13,283,817
OTHER RECEIVABLES, NET	1,588,580	4,040,931	366,914
FORECLOSED ASSETS (Note 10)	1,287,497	1,142,796	103,765
PROPERTY, FURNITURE AND EQUIPMENT, NET	5,556,510	5,190,281	471,274
PERMANENT STOCK INVESTMENTS (Note 11)	443,661	830,428	75,402
DEFERRED TAXES, NET	896,946	1,050,574	95,391
OTHER ASSETS, NET (Note 12):			
Other assets, deferred charges and intangibles	587,427	700,475	63,603
TOTAL ASSETS	Ps182,030,920	Ps203,274,491	US\$18,457,183

The accompanying notes are an integral part of these consolidated financial statements

	As of September 30, 2002 (Unaudited)	As of September 30, 2003 (Unaudited)	As of September 30, 2003 (Unaudited) Note 2
LIABILITIES			
DEPOSITS:			
Demand deposits (Note 13)	Ps49,709,455	Ps57,504,313	US\$5,221,352
Time deposits (Note 14)			
General public	39,314,862	78,960,265	7,169,537
Money market.....	44,792,618	24,074,107	2,185,912
Bank bonds	1,380,468	—	—
TOTAL DEPOSITS	135,197,403	160,538,685	14,576,801
BANK AND OTHER ENTITY LOANS (Note 15):			
Demand loans	650,690	3,987,596	362,071
Short term	22,552,929	10,261,437	931,731
Long term.....	10,541,664	10,652,828	967,269
	33,745,283	24,901,861	2,261,071
SECURITIES AND DERIVATIVES TRADING (Note 6):			
Credit balances on repo transactions.....	90,387	42,516	3,860
Derivatives trading.....	535,973	1,421,083	129,033
	626,360	1,463,599	132,893
OTHER PAYABLES:			
Income tax and employees' statutory profit sharing.....	121,539	91,061	8,268
Sundry creditors and other payables	2,916,497	4,484,321	407,173
	3,038,036	4,575,382	415,441
OUTSTANDING SUBORDINATED DEBENTURES (Note 16).....	1,469,612	2,735,397	248,372
DEFERRED CREDITS	15,893	109,762	9,969
TOTAL LIABILITIES	174,092,587	194,324,686	17,644,547
STOCKHOLDERS' EQUITY (Notes 19):			
PAID-IN CAPITAL:			
Capital stock.....	4,501,863	4,501,863	408,766
Share premiums	966,381	966,381	87,747
TOTAL PAID-IN CAPITAL.....	5,468,244	5,468,244	496,513
EARNED SURPLUS:			
Capital reserves	2,335,860	2,435,052	221,101
Retained earnings.....	1,527,720	2,881,476	261,636
Available-for-sale securities - valuation gain (loss)	73,106	154,635	14,041
Surplus or deficit from restatement of stockholders' equity	(2,331,969)	(2,331,877)	(211,733)
Loss from holding nonmonetary assets			
from valuation of permanent stock investments	(38,578)	(124,765)	(11,329)
from valuation of fixed assets	11,265	11,265	1,023
Initial effect of deferred taxes	(272,349)	(272,349)	(24,729)
Net income	1,164,671	727,574	66,063
TOTAL EARNED SURPLUS	2,469,726	3,481,011	316,073
MINORITY INTEREST IN STOCKHOLDERS' EQUITY	363	550	50
TOTAL STOCKHOLDERS' EQUITY.....	7,938,333	8,949,805	812,636
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	Ps182,030,920	Ps203,274,491	US\$18,457,183

The accompanying notes are an integral part of these consolidated financial statements

**BANCO MERCANTIL DEL NORTE, S.A., INSTITUCION DE BANCA MULTIPLE,
GRUPO FINANCIERO BANORTE
AND CONSOLIDATED SUBSIDIARIES**

UNAUDITED CONSOLIDATED STATEMENTS OF INCOME
FOR THE NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2002 AND 2003
**(Amounts stated in thousands of Mexican Pesos of September 2003 purchasing power
and thousands of U.S. dollars)**

	Nine months ended September 30,		
	2002	2003	2003
	(Unaudited)	(Unaudited)	(Unaudited) Note 2
Interest income	Ps15,775,678	Ps15,042,357	US\$1,365,836
Interest expense.....	(9,739,959)	(9,019,631)	(818,976)
Monetary gain, relative to net interest income	56,836	52,748	4,789
NET INTEREST INCOME.....	6,092,555	6,075,474	551,649
Allowance for loan losses	(552,288)	(760,332)	(69,038)
NET INTEREST INCOME ADJUSTED FOR CREDIT RISKS	5,540,267	5,315,142	482,611
Fee and commission income	2,051,125	2,096,750	190,383
Fee and commission expense	(334,184)	(324,879)	(29,499)
Brokerage income	358,160	365,202	33,160
	2,075,101	2,137,073	194,044
TOTAL OPERATING INCOME.....	7,615,368	7,452,215	676,655
Administrative and promotion expenses	(6,708,076)	(6,717,434)	(609,938)
OPERATING INCOME.....	907,292	734,781	66,717
Other income	551,261	388,742	35,298
Other expense	(475,919)	(340,264)	(30,896)
	75,342	48,478	4,402
INCOME BEFORE INCOME TAX AND EMPLOYEES' STATUTORY PROFIT SHARING.....	982,634	783,259	71,119
Current income tax and employees' statutory profit sharing	(142,120)	(131,701)	(11,958)
Deferred income tax and employees' statutory profit sharing	(90,273)	66,083	6,000
	(232,393)	(65,618)	(5,958)
INCOME BEFORE EQUITY IN EARNINGS OF ASSOCIATE AND AFFILIATED COMPANIES, AND MINORITY INTEREST	750,241	717,641	65,161
Equity in earnings (losses) of associate and affiliated companies, Net.....	(7,751)	9,479	861
INCOME FROM CONTINUING OPERATIONS BEFORE MINORITY INTEREST	742,490	727,120	66,022
Discontinued operations, extraordinary item and changes in accounting standards.....	422,233	682	62
	1,164,723	727,802	66,084
Minority interest.....	(52)	(228)	(21)
NET INCOME (Note 20).....	Ps1,164,671	Ps727,574	US\$66,063

The accompanying notes are part of these consolidated financial statements

**BANCO MERCANTIL DEL NORTE, S.A., INSTITUCION DE BANCA MULTIPLE,
GRUPO FINANCIERO BANORTE
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**UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION
FOR THE NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2002 AND 2003**

**(Amounts stated in thousands of Mexican Pesos of September 2003 purchasing power
and thousands of U.S. dollars)**

	Nine months ended September 30,		
	2002	2003	2003
	(Unaudited)	(Unaudited)	(Unaudited) Note 2
OPERATING ACTIVITIES:			
Net income for the year	Ps1,164,671	Ps727,574	US\$66,063
Items charged (credited) to income that did not affect resources:			
Allowance for loan losses	552,288	760,332	69,038
Depreciation and amortization.....	472,062	531,597	48,269
Equity in earnings of associated and affiliated companies, net.....	—	9,479	861
Minority interest.....	52	228	21
Provision for other obligations	1,064,424	87,407	7,936
Unrealized investment income (loss).....	36,575	(4,753)	(432)
Deferred taxes	90,273	(66,083)	(6,000)
	<u>3,380,345</u>	<u>2,045,781</u>	<u>185,756</u>
Items related to operations:			
Increase in deposits	53,453,705	14,002,944	1,271,458
Increase in investment securities.....	(3,906,161)	(2,160,350)	(196,158)
(Increase) decrease in loan portfolio	(58,694,494)	3,554,771	322,771
Increase (decrease) in bank and other entity loans	19,078,631	(11,347,636)	(1,030,357)
Decrease in deferred taxes	—	(26,563)	(2,412)
Increase in other accounts receivable and payable	—	(240,843)	(21,868)
Decrease in derivatives trading.....	537,137	593,267	53,868
Resources provided by operating activities	<u>13,849,163</u>	<u>6,421,371</u>	<u>583,058</u>
FINANCING ACTIVITIES:			
Issuance of subordinated debentures	87,180	93,081	8,452
Payment of subordinated debentures	(58,120)	—	—
Resources provided by financing activities	<u>29,060</u>	<u>93,081</u>	<u>8,452</u>
INVESTMENT ACTIVITIES:			
Decrease (increase) in permanent stock investments	337	(415,394)	(37,717)
Net purchases of property, furniture and equipment	(2,185,898)	(3,921)	(356)
Increase in deferred taxes.....	49,676	—	—
Decrease in accounts receivable and payable	(892,492)	—	—
Decrease (increase) in foreclosed assets	153,136	(118,831)	(10,790)
(Increase) decrease in deferred charges and credits	(150,210)	73,259	6,649
Resources used in investment activities	<u>(3,025,451)</u>	<u>(464,887)</u>	<u>(42,214)</u>
Increase in cash and cash equivalents	10,852,772	6,049,565	549,296
Cash and cash equivalents at beginning of period.....	<u>8,772,759</u>	<u>23,442,853</u>	<u>2,128,595</u>
Cash and cash equivalents at end of period.....	<u><u>Ps19,625,531</u></u>	<u><u>Ps29,492,418</u></u>	<u><u>US\$2,677,891</u></u>

The accompanying notes are an integral part of these consolidated financial statements

**BANCO MERCANTIL DEL NORTE, S.A., INSTITUCION DE BANCA MULTIPLE,
GRUPO FINANCIERO BANORTE
AND CONSOLIDATED SUBSIDIARIES**

**UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2002 AND 2003**

**(Amounts stated in thousands of Mexican Pesos of
September 2003 purchasing power and thousands of U.S. dollars)**

	EARNED SURPLUS								
	PAID-IN CAPITAL		CAPITAL RESERVES	RETAINED EARNINGS	VALUATION GAIN (LOSS) ON AVAILABLE FOR-SALE SECURITIES	DEFICIT IN RESTATEMEN T OF CAPITAL ACCOUNTS	LOSS FROM HOLDING NONMONETARY ASSETS		INITIAL EFFECT OF DEFERRED TAXES
	CAPITAL STOCK	SHARE PREMIUMS					PERMANENT STOCK INVESTMENTS	FIXED ASSETS	
Balance at December 31, 2001.....	Ps4,501,863	Ps966,381	Ps2,335,860	Ps1,843,188	Ps(577,071)	Ps(2,331,969)	Ps(65,348)	Ps—	Ps(272,165)
CHANGES RESULTING FROM RESOLUTIONS ADOPTED BY STOCKHOLDERS:									
Appropriation of income	—	—	—	512,004	—	—	—	—	—
Dividend declared in Ordinary General assembly of stockholders at September 30, 2002.....	—	—	—	(208,164)	—	—	—	—	—
CHANGES RELATED TO THE RECOGNITION OF COMPREHENSIVE INCOME:									
Net income for the year.....	—	—	—	—	—	—	—	—	—
Valuation of available-for-sale securities	—	—	—	—	30,869	—	—	—	—
Loss from holding nonmonetary assets	—	—	—	—	—	—	26,770	11,265	—
AHMSA and CYDSA Eurobonds of decline of value.....	—	—	—	(619,308)	619,308	—	—	—	—
Total comprehensive income (Note 20).....	—	—	—	(619,308)	650,177	—	26,770	11,265	—
MINORITY INTEREST.....	—	—	—	—	—	—	—	—	—
Balance at September 30, 2002 (Unaudited).....	Ps4,501,863	Ps966,381	Ps2,335,860	Ps1,527,720	Ps73,106	Ps(2,331,969)	Ps(38,578)	Ps11,265	Ps(272,165)
Balance at December 31, 2002.....	Ps4,501,863	Ps966,381	Ps2,335,860	Ps1,527,720	Ps182,045	Ps(2,331,877)	Ps(38,578)	Ps11,265	Ps(272,165)
CHANGES RESULTING FROM RESOLUTIONS ADOPTED BY STOCKHOLDERS:									
Appropriation of income	—	—	—	1,501,826	—	—	—	—	—
Increase in capital stock in accordance with general stockholders' meeting of	—	—	—	—	—	—	—	—	—
April 30, 2003	—	—	148,070	(148,070)	—	—	—	—	—
Net income for the year.....	—	—	—	—	—	—	—	—	—
Valuation of available-for-sale securities	—	—	—	—	(10,060)	—	—	—	—
Loss from holding nonmonetary assets	—	—	—	—	—	—	(86,187)	—	—
Deferred income tax and employees' statutory profit sharing.....	—	—	(48,878)	—	(17,350)	—	—	—	—
Total comprehensive income (Note 20).....	—	—	(48,878)	—	(27,410)	—	(86,187)	—	—
MINORITY INTEREST.....	—	—	—	—	—	—	—	—	—
Balance at September 30, 2003 (Unaudited).....	Ps4,501,863	Ps966,381	Ps2,435,052	Ps2,881,476	Ps154,635	Ps(2,331,877)	Ps(124,765)	Ps11,265	Ps(272,165)

The accompanying notes are an integral part of these consolidated financial statements

**BANCO MERCANTIL DEL NORTE, S.A., INSTITUCION DE BANCA MULTIPLE,
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**UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2002 AND 2003**

**(Amounts stated in thousands of Mexican Pesos of
September 2003 purchasing power and thousands of U.S. dollars)**

	EARNED SURPLUS								
	PAID-IN CAPITAL			RETAINED EARNINGS	VALUATION GAIN (LOSS) ON AVAILABLE FOR-SALE SECURITIES	DEFICIT IN RESTATEMENT OF CAPITAL ACCOUNTS	LOSS FROM HOLDING NONMONETARY ASSETS		INITIAL EFFECT OF DEFERRED TAXES
	CAPITAL STOCK	SHARE PREMIUMS	CAPITAL RESERVES				PERMANENT STOCK INVESTMENTS	FIXED ASSETS	
Balance at December 31, 2002 (Note 2).....	US\$408,76								
CHANGES RESULTING FROM RESOLUTIONS ADOPTED BY STOCKHOLDERS:									
Appropriation of income.....	—	—	—	136,365	—	—	—	—	—
Increase in capital stock in accordance with general stockholders' meeting of April 30, 2003.....	—	—	13,445	(13,445)	—	—	—	—	—
Net income for the year.....	—	—	—	—	—	—	—	—	—
Valuation of available-for-sale securities.....	—	—	—	—	(913)	—	—	—	—
Loss from holding nonmonetary assets.....	—	—	—	—	—	—	(7,826)	—	—
Deferred income tax and employees' statutory profit sharing.....	—	—	(4,438)	—	(1,576)	—	—	—	—
Total comprehensive income (Note 20)	—	—	(4,438)	—	(2,489)	—	(7,826)	—	—
MINORITY INTEREST.....	—	—	—	—	—	—	—	—	—
	US\$408,76								
Balance at September 30, 2003 (Unaudited) (Note 2).....	6	US\$87,747	US\$221,101	US\$261,636	US\$14,041	US\$(211,733)	US\$(11,329)	US\$1,023	US\$(24,729)

The accompanying notes are an integral part of these consolidated financial statements

**BANCO MERCANTIL DEL NORTE, S.A., INSTITUCION DE BANCA MULTIPLE,
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NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

**(Amounts stated in thousands of Mexican pesos of September 2003 purchasing power and
thousands of U.S. dollars, except as otherwise indicated, number of shares and per share
amounts, debentures and exchange rates)**

NOTE 1—DESCRIPTION OF BUSINESS:

Banco Mercantil del Norte, S. A. (the "Bank") is a multiple purpose bank, whose main banking operations are regulated by the Ley de Instituciones de Crédito (Credit Institution Law or "LIC") and the Banco de México ("Central Bank of Mexico"), and overseen by the Comisión Nacional Bancaria y de Valores (Mexican Banking and Securities Commission or "the Commission"). The Bank's operations mainly involve receiving deposits, receiving and granting loans, investing in securities, repurchase and resale transactions, derivative instrument transactions (futures, swaps, options and forward contracts) and other multiple banking operations in accordance with the LIC.

The Bank is subject to regulations that impose certain limitations on its operations, including the permitted level of leverage and minimum capitalization requirements.

The Bank is part of Grupo Financiero Banorte, S. A. de C. V. ("Grupo") and is authorized by the Mexican tax authorities to operate in Grand Cayman.

NOTE 2—BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS:

The interim condensed financial statements of the Bank and its consolidated subsidiaries, as of September 30, 2003, and for the nine-months ended September 30, 2002 and 2003, are unaudited. In the opinion of the management, all adjustments (consisting principally of normal recurring adjustments) necessary for a fair presentation of the consolidated financial statements have been included therein. The results of interim periods are not necessarily indicative of results for the entire year.

For purposes of these interim unaudited condensed consolidated financial statements, certain information and disclosures, normally included in financial statements prepared in accordance with the rules of the Commission and generally accepted accounting principles in Mexico, have been condensed or omitted. These unaudited condensed consolidated financial statements should be read in conjunction with the Bank's consolidated and audited financial statements and notes thereto for the years ended December 31, 2000, 2001 and 2002 included elsewhere in this prospectus.

The interim unaudited condensed consolidated financial statements of the Bank have been prepared in accordance with Statement B-10 issued by the Mexican Institute of Public Accountants (MIPA), as described in the audited annual financial statements. The unaudited condensed consolidated income statement and statement of changes in financial position for the nine-months ended September 30, 2002 have been restated to Mexican pesos with purchasing power as of September 30, 2003, by using a restatement factor derived from the change in the value of the inflation-indexed units ("UDIs"), which was 1.040817 for the consolidated statements of income and changes in financial position for the nine-months ended September 30, 2002.

U.S. dollar amounts (U.S.\$) shown in the consolidated financial statements have been included solely for the convenience of the reader and were translated from Mexican pesos, as a matter of arithmetic computation only, at the exchange rate of Ps.11.0133 to U.S.\$1.00, which was the rate published by Banco de México in the Official Gazette on September 30, 2003. Such translation should not be construed as a representation that the Mexican Peso amounts have been or could be converted into U.S. dollars at this rate as of the applicable date, or any other rate, if at all.

NOTE 3—HIGHLIGHTS:

During 2003, Grupo carried out diverse business strategies in order to continue developing a solid structure and to offer more competitive banking products. The most significant changes for the period January 1 through September 30, 2003 were the following:

a. Sale of loan portfolio to its unconsolidated subsidiary Sólida

In February of 2003, the Bank sold Ps1,925,000 of its own past due loan portfolio, including accrued interest to Sólida Administradora de Portafolios S.A. de C.V. (Sólida) for Ps378,000. The related loan loss allowance of Ps1,577,000 was also transferred.

Management believes that the transfer of this portfolio achieves two benefits: 1) the quality of assets of Banorte are improved and; 2) troubled loans portfolios are concentrated with Sólida as a specialized workout and loan recovery entity.

b. Mortgage loans securitization

On September 4, 2003, Grupo announced the completion of the first securitization of mortgage loans in Mexico, accomplished by Sólida through a public offering on the Mexican Stock Exchange. Pursuant to this transaction, Sólida sold trouble mortgage loans acquired from IPAB and amounting to Ps1,543,000 to a special purpose securitization company in exchange for cash and subordinated notes due from the securitization company. The special purpose securitization company issued securities totaling Ps340,000, which were backed by the mortgage loan portfolio sold to third party investors for cash.

c. Resources for financing to Sofoles

On June 18, 2003, the Bank and the Sociedad Hipotecaria Federal S.N.C. ("SHF"), a federal governmental agency, entered into an agreement whereby the Bank can grant loans to housing financing entities (better known as Sociedades Financieras de Objeto Limitado or "Sofoles").

The Bank has operated eight lines of credit—already authorized by the Board of Directors—for an equal number of Sofoles that in total amount to Ps4,750,000. Payments are guaranteed by the SHF.

d. Nacional Financiera (Nafin) loan of Ps240 million

In May 6, 2003, the Bank entered into a credit program sponsored by Nafin for the promotion of loans to small and medium size companies. Under this program, the Bank will receive from Nafin up to Ps 240,000 in two tranches: the first tranche up to Ps 160,000 and the second of up to Ps 80,000. The resources from both tranches will be applied to finance the working capital of Servicios Financieros Navistar, S.A. de C.V. Sociedad Financiera de Objeto Limitado and/or Arrendadora Financiera Navistar, S.A. de C.V., which in turn will finance small and medium sized companies. The financing provided by the Bank to these entities under the second tranche of the loan agreement is fully guaranteed by Nafin.

e. New Pronouncements

In November 2001, the Mexican Institute of Public Accountants ("MIPA") issued Statement C-9, "Liabilities, Provisions, Contingent Assets and Liabilities, and Commitments", which replaces Statement C-9 "Liabilities", and Statement C-12, "Contingencies and Commitments". Statement C-9 is effective as of January 1, 2003, but its earlier application was recommended. This statement establishes guidelines for the valuation, recording and disclosure of liabilities, provisions, contingent assets and liabilities and the disclosure of commitments. Furthermore, Statement C-9 includes a detailed discussion of provisions, and the use of present values, consideration of future events in estimating the amount of provisions, the accounting treatment of possible excess provisions and changes in the estimated amount of provisions, among other things. It also establishes the accounting treatment in connection with the redemption of certain debentures, prior to maturity or in connection with a new issue. The adoption of Statement C-9 in 2003 did not have a significant impact on the Bank's financial position or results of operations.

In December 2001, the MIPA issued Statement C-8 "Intangible Assets", which are defined as the incurred costs of rights or privileges acquired that generate future economic benefits. Statement C-8 establishes the rules for deferring research and development costs and preoperating expenses, as well as the rules for the amortization of intangible assets. This statement is effective as of January 1, 2003, but its earlier application was recommended. The adoption of Statement C-8 in 2003 did not have a significant impact on the Bank's financial position or results of operations..

In March of 2003, MIPA issued Statement C-15 "Impairment on the Valuation of Long Lived Assets and their Disposal" which is effective January 1, 2004, with early adoption recommended. This statement provides criteria for the evaluation of possible impairments for the carrying value of long-lived assets, both tangible and intangible. It also prescribes the rules for the calculation and recognition of impairment losses their subsequent reversal as well as rules for disclosure of those assets of which the value has been affected or its impairment has been reversed. Finally, it establishes disclosure rules applicable to the discontinuing operations. The Bank's management is evaluating the effect of this new statement on its financial position and results of operations.

On March 20, 2003, the Commission issued the "General Rules for the Diversification of Risks" governing operations involving assets and liabilities of credit institutions. Under the rules, assets and liabilities are required to be analyzed by "Common Risk" and the impact on capital under these grouping needs to be evaluated. Management is currently implementing these rules.

In addition, in 2003, the Commission has issued other circulars for the banking industry, which the Bank has implemented without any significant impact.

NOTE 4—BASIS OF PRESENTATION

The accompanying financial statements have been prepared in accordance with the accounting practices established by the Commission. For this purpose, the Commission issued several Circulars, which were updated in October 2000 by Circular 1488, effective January 1, 2001. These Circulars modify various accounting rules in order to add disclosure rules related to interim financial information. They also incorporate the concept of comprehensive income, change the recording and valuation rules for past due mortgage loans and establish 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 MIPA, International Financial Reporting Standards, as issued by the International Accounting Standards Committee ("IASC") and United States Generally Accepted Accounting Principles ("US GAAP"), as issued by the Financial Accounting Standards Board ("FASB"). See the accompanying annual audited financial statements for the years ended December 31, 2000, 2001 and 2002 for a description of the differences as they relate to the Bank.

The financial statements of the Bank at September 30, 2003 are subject to the approval of the Commission, which is empowered to require the Bank to make changes it may deem necessary.

NOTE 5—INVESTMENT SECURITIES:

The investment securities positions are summarized as follows:

a. Trading securities

Instrument	As of September 30, 2002			As of September 30, 2003		
	Book Value	Market Value	Unrealized gain (loss)	Book Value	Market Value	Unrealized gain (loss)
		(Unaudited)			(Unaudited)	
Commercial paper	Ps532,137	Ps532,110	Ps(27)	Ps1,054,732	Ps1,054,688	Ps(44)
Federal Treasury	695,126	689,444	(5,682)	1,525,594	1,536,623	11,029
Bank securities	1,732,105	1,755,280	23,175	1,329,220	1,329,398	178
Private medium-term notes	64,853	65,244	391	61,486	63,364	1,878
Total	Ps3,024,221	Ps3,042,078	Ps17,857	Ps3,971,032	Ps3,984,073	Ps13,041

b. Available-for-sale securities

Instrument	As of September 30, 2002			As of September 30, 2003		
	Book Value	Market Value	Unrealized gain (loss)	Book Value	Market Value	Unrealized gain (loss)
		(Unaudited)			(Unaudited)	
Eurobonds	Ps1,269,077	607,066	Ps(662,011)	Ps789,933	Ps96,499	Ps(693,434)
United Mexican States (UMS).....	—	—	—	86,369	90,026	3,657
Pemex Bond	—	—	—	5	5	—
Stocks	265,327	268,463	3,137	—	—	—
Total	Ps1,534,404	Ps875,529	Ps(658,874)	Ps876,307	Ps186,530	Ps(689,777)

c. Held-to-maturity securities

Instrument	As of September 30, 2002			As of September 30, 2003		
	Book Value	Market Value	Unrealized gain (loss)	Book Value	Market Value	Unrealized gain (loss)
		(Unaudited)			(Unaudited)	
Cetes Especiales	Ps3,253,162	Ps3,253,162	Ps—	Ps3,210,760	Ps3,210,760	Ps—
Remittances in transit	74,558	74,558	—	169,739	169,739	—
Government bonds: Azteca Strip and bonds issued by governmental agencies:						
Myra Bonds	278,855	278,855	—	233,861	233,861	—
Nemak	160,217	160,217	—	144,579	144,579	—
Trust rights	25,095	25,095	—	34,497	25,957	(8,541)
United Mexican States (UMS).....	2,442,980	2,442,980	—	5,950,394	5,950,394	—
Pemex Bond	—	—	—	555,420	555,420	—
Other debt securities	31,897	31,897	—	—	—	—
Total	Ps6,266,764	Ps6,266,764	Ps	Ps10,299,250	Ps10,290,710	Ps(8,541)

NOTE 6—SECURITIES AND DERIVATIVES TRADING:*a. Repo transactions*

The repo transactions in process as of September 30, are summarized: The Bank as seller (unaudited) With the Bank as the seller of reports, earned premiums recognized in income amounted to Ps3,614,630 and Ps2,653,991 for the nine-months ended September 30, 2002 and 2003, respectively.

Instrument	Receivable under repo agreements					
	September 2002			September 2003		
	Book Value	Market Value	Unrealized gain (loss)	Book Value	Market Value	Unrealized gain (loss)
Government securities	Ps62,157,097	Ps62,139,502	Ps(17,595)	Ps46,586,974	Ps46,585,945	Ps(1,029)
Bank bonds	13,804,177	13,800,251	(3,926)	6,562,432	6,561,738	(694)
Total	Ps75,961,274	Ps75,939,753	Ps(21,521)	Ps53,149,406	Ps53,147,683	Ps(1,723)

Instrument	Securities Payables					
	September 2002			September 2003		
	Book Value	Market Value	Unrealized gain (loss)	Book Value	Market Value	Unrealized gain (loss)
Government securities	Ps62,030,760	Ps62,016,426	Ps(14,334)	Ps46,644,716	Ps46,638,393	Ps(6,323)
Bank bonds	13,807,331	13,803,685	(3,646)	6,062,499	6,061,800	(699)
Total	Ps75,838,091	Ps75,820,111	Ps(17,980)	Ps52,707,215	Ps52,700,193	Ps(7,022)

Instrument	Net Balance	
	September 2002	September 2003
Government securities	Ps(91,530)	Ps54,992
Bank bonds	4,688	932
Total	Ps(86,842)	Ps55,924

The Bank as purchaser (unaudited)

Payable under repo agreements						
Instrument	September 2002			September 2003		
	Book Value	Market Value	Unrealized gain (loss)	Book Value	Market Value	Unrealized gain (loss)
Government securities	Ps62,153,989	Ps62,124,059	Ps(29,930)	Ps46,634,269	Ps46,627,751	Ps(6,518)
Bank bonds	13,803,274	13,798,521	(4,753)	6,562,520	6,562,448	(72)
Total	Ps75,957,263	Ps75,922,580	Ps(34,683)	Ps53,196,789	Ps53,190,199	Ps(6,590)

Securities receivable						
Instrument	September 2002			September 2003		
	Book Value	Market Value	Unrealized gain (loss)	Book Value	Market Value	Unrealized gain (loss)
Government securities	Ps62,043,131	Ps62,028,793	Ps(14,338)	Ps46,699,912	Ps46,693,385	Ps(6,527)
Bank bonds	13,807,046	13,803,400	(3,646)	6,062,739	6,062,732	(7)
Total	Ps75,850,177	Ps75,832,193	Ps(17,984)	Ps52,762,651	Ps52,756,117	Ps(6,534)

Net Balance		
	September 2002	September 2003
Government securities	Ps118,249	Ps41,806
Bank bonds	(3,299)	710
Total	Ps114,950	Ps42,516

With the Bank as the buyer of reports, the accrued premiums recognized in income amounted to Ps3,377,221 and Ps2,468,192 for the nine months ended September 30, 2002 and 2003, respectively.

b. Derivative financial instrument trading

The Bank enters into derivative transactions as part of its asset liability management (which includes contracts for hedging purposes), trading activities and in acting as a dealer to satisfy its customers' needs.

As of September 30, 2002 and 2003, the Bank's derivative financial instrument positions are summarized as follows:

Foreign currency forwards

	2002			2003		
	Buy	Sell	Net	Buy	Sell	Net
		(Unaudited)			(Unaudited)	
Value at year end	Ps957,032	Ps(1,070,080)	Ps(113,047)	Ps808,195	Ps(52,983)	Ps755,212
Agreed price	(950,335)	1,061,180	110,845	(804,380)	52,249	(752,131)
Net asset position	Ps6,697	Ps(8,900)	Ps(2,202)	Ps3,815	Ps(734)	Ps3,081

Swap with hedging purpose

Instrument	2002			2003		
	Flow receivable	Flow payable	Net flows	Flow receivable	Flow payable	Net flows
		(Unaudited)			(Unaudited)	
Cross Currency	Ps4,234,464	Ps(4,764,317)	Ps(529,853)	Ps(7,424,687)	Ps6,011,883	Ps(1,412,804)
Interest rate	6,913	(10,629)	(3,716)	22,023	(35,185)	(13,162)
	Ps4,241,377	Ps(4,774,946)	Ps(533,569)	Ps(7,402,664)	Ps5,976,698	Ps(1,425,966)

Swap with trading purpose

	2003			
	Flow receivable	Flow payable	Market value	Net flows
		(Unaudited)		
Interest rate	Ps257	Ps(711)	Ps2,811	Ps2,357
	Ps257	Ps(711)	Ps2,811	Ps2,357

Foreign currency options

	2002			2003		
	Opening premium	Valued premium	Valuation	Opening premium	Valued premium	Valuation
		(Unaudited)			(Unaudited)	
Premium collected	Ps(163)	Ps(39)	Ps(202)	Ps(512)	Ps(43)	Ps(555)

NOTE 7—LOAN PORTFOLIO:

a. As of September 30, 2003, the current loan portfolio of the Bank was summarized as shown below:

Type of loan	2002			2003		
	Principal	Accrued interest (Unaudited)	Total current portfolio	Principal	Accrued interest (Unaudited)	Total current portfolio
Commercial portfolio	Ps27,529,699	Ps164,502	Ps27,694,201	Ps31,028,138	Ps151,366	Ps31,179,504
Loans to financial intermediaries	1,554,996	2,361	1,557,357	3,323,084	1,226	3,324,310
Consumer loans	4,541,449	(32,652)	4,508,797	7,733,524	10	7,733,534
Mortgage loans	11,770,861	3,038	11,773,899	13,390,358	11,508	13,401,866
Loans to government entities and IPAB	85,877,104	484,930	86,362,034	84,510,506	305,006	84,815,512
Loans to FOBAPROA	10,634,126	—	10,634,126	6,652,182	—	6,652,182
Total current loan portfolio	Ps141,908,235	Ps622,179	Ps142,530,414	Ps146,637,792	Ps469,116	Ps147,106,908

b. The rating of the portfolio and the allowances created by the Bank as of September 30, 2002 and 2003, are summarized below:

In conformity with the rules for rating the loan portfolio issued by the SHCP and the Commission, the Bank determined the allowance for loan losses by taking into account the ability of debtors to pay. The commercial loans were rated at September 30, 2003.

The mortgage portfolio and consumer portfolio, based on the rule of the Commission, are rated monthly based on the number of past due installments.

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

	As of September 30,	
	2002	2003
	(Unaudited)	(Unaudited)
Balance at beginning of year.....	Ps5,049,056	Ps5,265,140
Increase in the allowance charged to income	562,693	697,977
Losses and write-offs	(380,152)	(2,104,657)
Appreciation of foreign currency items and UDIs	191,308	104,563
Reductions and benefits granted to mortgage debtors	(96,024)	(82,348)
Benefits granted as part of FOPYME and FINAPE government programs	(10,158)	(6,443)
Others	63,536	37,455
Balance at end of year	<u>Ps5,380,259</u>	<u>Ps3,911,687</u>

On July 8, 2003, the Bank granted loans of Ps185,000 to two companies. The proceeds will be used for the construction of a new hotel of the chain Quinta Real and for the remodeling of the well-known commercial center "Centro Comercial Galerías".

In April 3, 2003, AXTEL, S.A. of C.V. signed an agreement to obtain a three year loan totaling US\$75,000 that will allow the telecommunications company to continue with its expansion projects.

NOTE 8—FOBAPROA and other Government Assistance:

The caption denominated "Loans to FOBAPROA" in the balance sheet as of September 30, 2002 and 2003, is comprised of the following promissory notes:

Trust	As of	As of September 30, 2003		
	September 30,			
	2002			
	Total	Capital	Interest	Total
	(Unaudited)		(Unaudited)	
477 Tranche I.....	Ps1,613,342	Ps161,101	Ps1,480,854	Ps1,641,955
477 Tranche II.....	1,428,893	430,547	1,023,891	1,454,438
477 Tranche III.....	1,277,898	336,885	963,677	1,300,562
490.....	6,486,272	2,040,771	4,566,726	6,607,497
508.....	1,351,473	467,073	927,214	1,394,287
19001.....	1,820,707	—	—	—
19000.....	3,796,570	—	—	—
Loss shared with FOBAPROA.....	(2,488,189)	—	—	(2,450,902)
FOBAPROA current account.....	(4,652,840)	—	—	(3,295,655)
FOBAPROA Notes (Net).....	Ps10,634,126	Ps3,436,377	Ps8,962,362	Ps6,652,182

Punto Final

Loans subject to the Punto Final program amounted to Ps3,857,000 and Ps6,705,000 as of September 30, 2002 and 2003, respectively.

Rentas

Loans subject to the Rentas program amounted to Ps405,000 and Ps228,000 as of September 30, 2002 and 2003, respectively.

NOTE 9—CONSOLIDATION OF TRUSTS FOR RESTRUCTURED LOANS DENOMINATED IN UDIs:

- a. The balances of the items corresponding to trust assets and liabilities as of September 30, 2002 and 2003, are summarized as shown below:

	As of September 30, 2002 (Unaudited)	As of September 30, 2003 (Unaudited)
Assets		
Banks	Ps90,194	Ps27,064
Government securities	8,057	5,855
Loan portfolio	3,659,413	2,700,870
Past due portfolio	789,234	462,066
Interest accrued on loans	12,738	5,813
Past due interest	42,889	17,215
Allowance for loan losses	(909,735)	(584,723)
Total assets	<u>Ps3,692,790</u>	<u>Ps2,634,160</u>
Liabilities and income		
Trust bonds	Ps3,631,366	Ps2,621,171
Other accounts payable	8,405	—
Deferred taxes	48,964	10,181
Income of the year	4,055	2,808
Total liabilities	<u>Ps3,692,790</u>	<u>Ps2,634,160</u>

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

Recorded by the trusts debit (credit)	As of September 30, 2002 (Unaudited)	As of September 30, 2003 (Unaudited)
Banks	Ps90,194	Ps—
Payable accounts	—	27,064
Trust bonds	3,631,366	2,621,171
Administrative expenses recovered	(78,075)	(53,585)
Interest paid	(118,541)	(87,231)
Recorded by the Bank debit (credit)	As of September 30, 2002 (Unaudited)	As of September 30, 2003 (Unaudited)
Bank	Ps—	Ps(27,064)
Miscellaneous creditors	(90,194)	—
Held-to-maturity securities	(3,631,366)	(2,621,171)
Fees collected	78,075	53,585
Interest earned	118,541	87,231

c. The amount of the total program of loans in UDIs as of September 30, 2002 and 2003 is summarized below:

Item	As of September 30, 2002	As of September 30, 2003			
	Total	States and municipalities	Mortgage	Industrial sector	Total
	(Unaudited)		(Unaudited)		
Current portfolio	Ps3,659,413	Ps1,076,608	Ps1,604,859	Ps19,404	Ps2,700,871
Current interest	12,738	628	5,184	1	5,813
Past due portfolio	789,234	—	451,657	10,409	462,066
Past due interest	42,889	—	16,956	259	17,215
Total	Ps4,504,274	Ps1,077,236	Ps2,078,656	Ps30,073	Ps3,185,965

NOTE 10—FORECLOSED ASSETS:

The amount of foreclosed assets as of September 30, 2002, and 2003 is summarized below:

Item	As of September 30, 2002	As of September 30, 2003
	(Unaudited)	(Unaudited)
Personal property	Ps369,818	Ps355,632
Real property	847,607	661,801
Promised-for-sale assets	256,272	309,967
	1,473,697	1,327,400
Allowance for asset write-down	(186,200)	(184,604)
Total foreclosed assets	Ps1,287,497	Ps1,142,796

In 2002 and 2003, the amount generated from the recovery of personal and real property was Ps20,814 and Ps19,468, respectively.

NOTE 11—PERMANENT STOCK INVESTMENTS:

The Bank maintains permanent stock investments in affiliated and subsidiary companies that are not consolidated. These were valued using the equity method at September 30, 2002 and 2003, as follows:

Investee	2002	2003		
	Total (Unaudited)	Acquisition cost	Surplus or (deficit) (Unaudited)	Total
Servicio Panamericano de Protección, S.A. de C.V.	Ps236,279	Ps50,958	Ps164,194	Ps215,152
Sólida Administradora de Portafolios, S.A. de C.V.	49,803	445,050	7,802	452,852
Controladora Prosa, S.A. de C.V.	43,934	47,486	(2,369)	45,117
Corporativo Edinbur, S.A. de C.V.	14,129	—	—	—
S.D. Indeval, S.A. de C.V.	16,678	—	—	—
Afinad, S.A. de C. V. Norte (MD-A).....	9,611	—	—	—
Procesar, S.A. de C.V.	6,757	—	—	—
Fund trusts	—	38,294	24,263	62,557
Others	66,470	32,084	22,666	54,750
Total	Ps443,661	Ps613,872	Ps216,556	Ps830,428

NOTE 12—OTHER ASSETS:

Other assets as of September 30, 2002 and 2003, are as follows:

Asset	As of September 30, 2002 (Unaudited)	As of September 30, 2003 (Unaudited)
Investments of provisions for personnel pensions (see Note 21).....	Ps1,068,637	Ps1,206,820
Provision for labor obligations (see Note 21)	(1,067,896)	(1,206,820)
Other deferred expenses	680,594	962,065
Accumulated amortization of other expenses	(161,609)	(313,014)
Goodwill.....	67,341	51,079
Guarantee deposits	360	345
Total	Ps587,427	Ps700,475

NOTE 13—DEMAND DEPOSITS:

The balance of this item as of September 30, 2002 and 2003 is summarized below:

	As of September 30, 2002 (Unaudited)	As of September 30, 2003 (Unaudited)
Non-interest-bearing checking accounts	Ps15,536,555	Ps19,711,260
Interest-bearing checking accounts	24,601,015	24,013,292
US dollar denominated checking accounts	3,931,994	3,523,209
US dollar denominated checking accounts in the border	1,844,371	1,971,456
Deposits in savings accounts	33,782	22,433
Demand deposits in peso current accounts	2,892,507	8,262,245
IPAB checking account.....	868,390	—
Demand deposits in US-dollar-denominated current accounts	103	108
Accrued interest payable	738	310
Total	Ps49,709,455	Ps57,504,313

These liabilities accrue interest at an annual interest rate that fluctuates between 0.40% and 1.65% (0.55% and 3.26% in 2002) depending on the type of instrument and the average balance maintained in the accounts.

NOTE 14—TIME DEPOSITS:

The balance of this item as of September 30, 2002 and 2003, is summarized below:

These deposits accrue interest at annual rates ranging from 2.69% to 4.92% in 2003 (3.09% to 12.31% in 2002), depending on the balances and yields.

	As of September 30, 2002 (Unaudited)	As of September 30, 2003 (Unaudited)
Promissory notes with yield at maturity	Ps33,217,833	Ps73,393,659
Money desk promissory notes	40,525,237	23,120,651
Peso-denominated fixed-term deposits	3,700,095	147,531
US-dollar-denominated fixed-term deposits	5,986,920	5,439,314
Deposits withdrawable on preestablished days	299,536	299,471
Others deposits in US dollars	—	—
Accrued interest payable	377,895	633,746
Total	<u>Ps84,107,516</u>	<u>Ps103,034,372</u>

NOTE 15—INTERBANK AND OTHER ENTITY LOANS:

The balance of this item as of September 30, 2002 and 2003, is summarized below:

	As of September 30, 2002 (Unaudited)	As of September 30, 2003 (Unaudited)
Deposits and bank loans	Ps20,426,563	Ps12,315,836
Deposits and loans from foreign banks	1,599,604	339,479
Loans on rediscounted portfolio	5,400,973	6,269,740
CPO's issued (see Note 31)	616,226	368,906
Call money	538,102	1,373,328
FOVI rediscounts	5,078,578	4,194,532
Accrued interest payable	85,237	40,040
Total	<u>Ps33,745,283</u>	<u>Ps24,901,861</u>

NOTE 16—OUTSTANDING SUBORDINATED DEBENTURES:

For the nine months ended September 30, 2002 and 2003, interest expense related to these debentures totaled Ps85,840 and Ps158,659, respectively.

	<u>September 30, 2002</u> (Unaudited)	<u>September 30, 2003</u> (Unaudited)
Debentures maturing November 2012 with interest at 8.00% per year for the first 10 semi-annual periods, after which it will be adjusted for the remaining 10 semi-annual periods. The adjusted rate will not be less than 8.00% per year or more than 10.00%	Ps—	Ps1,232,197
Debentures maturing June 2009 with interest at per year 8.00% net real rate, which will be fixed during the term of the debentures	1,438,316	1,437,038
Accrued interest payable	31,296	66,162
	<u>Ps1,469,612</u>	<u>Ps2,735,397</u>

NOTE 17—CONTINGENCIES AND COMMITMENTS:

As of September 30, 2003, the Bank had the following contingent obligations and commitments:

- a. The Bank has commitments due to the opening of irrevocable letters of credit and other contingent obligations in the amount of and Ps13,546,261 at September 30, 2002 and Ps15,806,841 at September 30, 2003, respectively, which are recorded in memorandum accounts.
- b. Severance payments to personnel deemed to have been terminated without cause or death, under certain circumstances provided for in the Labor Law.
- c. Prior period tax returns for differences that could result from an audit of the tax returns filed by the Bank as a result of differing interpretations of legal provisions between the Bank and the tax authorities.
- d. There are lawsuits filed against the Bank in Mexican courts and for which Ps26,974 in reserves have been provided in the financial statements as of September 30, 2003. In addition, lawsuits totaling Ps5,620 have been filed against the Bank in its capacity as trustee.
- e. At September 30, 2002 and 2003, the Bank recorded interest received of Ps4,276 and Ps32,723, respectively in Other Accounts Receivable, corresponding to past due loan packages that it intended to sell to Sólida, and with which no formal agreement with Sólida had been reached regarding their transfer at the respective dates.

NOTE 18—ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCY AND UDIs:*Foreign currency transactions*

As of September 30, 2002 and 2003, the Bank had a foreign currency position denominated in US dollars, as summarized below:

	As of September 30, 2002	As of September 30, 2003
	(Unaudited)	(Unaudited)
Assets	US\$1,937,991	US\$1,954,727
Liabilities	1,956,240	1,941,429
Long (short) position	<u>US\$(18,249)</u>	<u>US\$13,298</u>

As of September 30, 2002 and 2003, the exchange rate set by the Central Bank of Mexico for the valuation of assets and liabilities was Ps10.2299 and Ps11.0133 per US dollar, respectively.

Transactions denominated in UDIs

As of September 30, 2003 the value of the UDI determined by the Central Bank of Mexico and used by the Bank to value its assets and liabilities denominated in UDIs was Ps3.295959. At those same dates, the Bank had assets and liabilities in UDIs as shown below:

	As of September 30, 2002	As of September 30, 2003
	Thousands of UDIs (Unaudited)	(Unaudited)
Assets	281,794	171,073
Liabilities	673,414	580,617
Long (short) position	<u>(391,620)</u>	<u>(409,544)</u>

NOTE 19—CAPITALIZATION:

The new standards issued by the Central Bank of Mexico for calculating the capitalization index take into account the credit and market risk of the various assets. By considering only the credit risk, the capitalization index determined by the Bank in September 2003 reached 15.24% (15.91% in 2002), with a basic capital of 12.06% (11.93% in 2002). By including market risks in the determination of assets weighted by risk, the total capitalization index of the Bank reached 13.12% (13.78% in 2002), with a basic capital of 10.38% (10.67% in 2002).

Relevant events discussed in Note 3, affected the determination of net capital of the Bank as follows:

% of assets subject to risk	As of September 30, 2002		As of September 30, 2003	
	Credit risk	Credit and market risk	Credit risk	Credit and market risk
	(Unaudited)		(Unaudited)	
Basic capital	11.93%	10.69%	12.06%	10.38%
Supplementary capital	3.48%	3.11%	3.18%	2.74%
Net capital	15.41%	13.80%	15.24%	13.12%
Assets subject to credit risk		Ps58,785,393		Ps74,316,287
Assets subject to market risk		6,848,321		12,036,567
Total assets subject to risk		Ps65,633,714		Ps86,352,854

NOTE 20—COMPREHENSIVE INCOME (LOSS):

Comprehensive income for the nine-month periods ended September 30, 2002 and 2003, is summarized below:

	As of September 30, 2002	As of September 30, 2003
	(Unaudited)	(Unaudited)
Net income, as shown in statement of income	Ps1,164,671	Ps727,574
Valuation of available-for-sale securities	30,868	(10,060)
Gain (loss) from Bank non-monetary assets (permanent stock investments)	26,770	(86,187)
Gain (loss) from Bank non-monetary assets (fixed assets)	11,265	—
Change in deferred tax percent from 35% to 32%	—	(66,228)
Comprehensive income	Ps1,233,574	Ps565,099

NOTE 21—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 Bank.
- 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 convertible debentures. Earnings adjusted as aforementioned are then divided by the weighted-average shares outstanding, including those applicable to future capitalizations of outstanding debentures.

The earnings per share determined on the above basis were:

	As of September,	
	2002	2003
Basic earnings per share	Ps512,004	Ps1,501,826
Diluted earnings per share	512,004	1,501,826
Weighted-average shares outstanding:		
For basic earnings per share	21,296,560,156	22,734,829,632
For diluted earnings per share	21,296,560,156	22,734,829,632
Basic earnings per share	Ps0.024	Ps0.0661
Diluted earnings per share	Ps0.024	Ps0.0661

NOTE 22—INCOME TAX, EMPLOYEES' PROFIT SHARING AND ASSET TAX:

- a. During 2003, the income tax rate in effect was 34% on taxable income. In 2002 the income tax rate in effect was 35%.
- b. At September 30, 2003 the caption of "income tax and employees statutory, profit sharing", shown in the statement of income of the Bank, in the amount of Ps105,011, represented asset tax and profit sharing payable by the Bank and the income tax of the consolidated subsidiaries which amounted to Ps26,690.
- c. The total tax loss carryforwards at September 30, 2003 were Ps4,033,657. They may be applied against taxable income in the following ten years in which they originated.
- d. At September 30, 2003 the Bank had a profit sharing liability, of Ps76,978.
- e. At September 30, 2003, the Bank incurred asset tax of Ps27,186, which was recorded as income for the year in accordance with the tax projections of the Bank it is not likely to be recovered in future years.

NOTE 23—MEMORANDUM ACCOUNTS:

The principal balances of this item are summarized as shown below:

Item	As of September 30, 2002 (Unaudited)	As of September 30, 2003 (Unaudited)
Other contingent liabilities	Ps12,593,717	Ps14,797,661
Opening of irrevocable credits	952,539	1,008,820
Assets in trust or mandate	60,287,133	55,546,975
Investment of the funds of the retirement savings system	2,476,485	243,571
Assets in custody or administration	123,150,860	114,170,057
Investment banking transactions for account of third parties, net	157,326,334	48,745,398
Amounts committed in transactions with FOBAPROA	5,514,966	6,462,615
Amounts contracted in derivative instruments	2,653,148	7,519,613
	<u>Ps364,955,182</u>	<u>Ps248,494,710</u>
Securities receivable under repo agreements	Ps75,832,161	Ps52,756,117
Payables under repo agreements	(75,922,548)	(52,700,193)
	<u>Ps(90,387)</u>	<u>Ps55,924</u>
Receivables under repo agreements	Ps75,939,721	Ps53,147,682
Securities payable under repo agreements	(75,820,079)	(53,190,198)
	<u>Ps119,642</u>	<u>Ps(42,516)</u>
Other memorandum accounts	<u>Ps277,716,054</u>	<u>Ps221,744,037</u>

NOTE 24—SECURITIZATION:

The main balances from securitizations are summarized below:

	As of September 30, 2002 (Unaudited)	As of September 30, 2003 (Unaudited)
CPOs—Series 1999-2A covering 300 certificates with a face value of US\$250,000 each (US\$75 million) payable in a 5-year term at a fixed interest rate of 8.94%	Ps401,404	Ps197,147
CPOs—Series 1999-2B covering 100 certificates with a face value of US\$250,000 each (US\$25 million) payable in a 7-year term at a fixed interest rate of 9.49%	214,821	171,760
Accrued interest payable	2,346	1,413
	<u>Ps618,571</u>	<u>Ps370,320</u>

NOTE 25—RELATED PARTIES:

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

- a. Granting loans
- b. Money market operations
- c. Rendering administrative services

The operations and balances with related parties are summarized below:

Company	Income		Accounts Receivable	
	September		September	
	2002	2003	2002	2003
Arrendadora Banorte, S. A. de C. V.....	Ps28,871	Ps34,470	Ps478,395	Ps439,928
Casa de Bolsa Banorte, S. A. de C. V.	53,538	43,121	—	—
Banco del Centro, S. A.	3,475,916	2,702,122	1,177,131	760,402
Banorte Generali, S. A. de C. V. AFORE	29	100	—	—
Almacenadora Banorte, S. A. de C. V.....	10,352	15,552	226,822	106,411
Factor Banorte, S. A. de C. V.	28,775	30,052	832,739	871,809
Inmobiliaria Banorte, S. A. de C. V.....	2	2	—	7,943
Constructora Primero, S. A. de C. V.....	1	2	30,407	—
Inmobiliaria Bancrecre, S.A. de C. V.....	5	5	—	229,080
Inmobiliaria Innova, S.A. de C. V.....	2	3	—	79,068
Inmobiliaria Finsa, S.A. de C. V.....	1	—	—	—
Inmobiliaria Bra, S.A. de C. V.....	1	1	—	—
Inmuebles de Occidente, S.A. de C. V.....	1	1	—	—
TOTAL	Ps3,597,494	Ps2,825,431	Ps2,745,494	Ps2,494,641

Company	Expenditures		Accounts payable	
	September		September	
	2002	2002	2003	2003
Grupo Financiero Banorte, S. A. de C. V.....	Ps8,385	Ps1,626	Ps138,927	Ps158,267
Arrendadora Banorte, S. A. de C. V.....	34,974	9,055	12,555	42,031
Casa de Bolsa Banorte, S. A. de C. V.....	16,099	9,621	240	257
Banco del Centro, S. A.	72,687	70,010	299,343	225,598
Banorte Generali, S. A. de C. V. AFORE	6	6	1,444	1,675
Almacenadora Banorte, S. A. de C. V.....	36	847	6,018	3,700
Factor Banorte, S. A. de C. V.....	167	106	15,893	6,112
Inmobiliaria Banorte, S. A. de C. V.....	14,719	24,192	73,052	8,352
Constructora Primero, S. A. de C. V.....	16,851	13,162	10,239	8,649
Inmobiliaria Bancrecre, S.A. de C. V.....	33,089	23,820	112,544	18,217
Inmobiliaria Innova, S.A. de C. V.....	11,693	5,478	109,750	14,745
Inmobiliaria Banormex, S.A. de C. V.	601	548	6,014	6,726
Inmobiliaria Finsa, S.A. de C. V.....	1,899	1,743	19,355	17,984
Inmobiliaria Bra, S.A. de C. V.....	2,652	2,358	45,993	38,180
Inmuebles de Occidente, S.A. de C. V.....	1,166	1,076	10,432	9,527
Inmuebles de Tijuana, S.A. de C. V.	34	22	686	513
Corporacion Arrendadora	425	—	8,679	—
Poliservicio Profesional y Tecnico, S.A. de C. V.....	—	—	29	—
Derivados Banorte, S. A. de C. V.....	—	—	194	184
TOTAL.....	Ps215,483	Ps163,670	Ps871,387	Ps560,717

NOTE 26—SEGMENT INFORMATION:

The following presents segment information for the Bank as of September 30, 2003.

a. *The amounts by service sector of the Bank are summarized below:*

At September 30, 2003, 73% of the Bank's income is concentrated in the following areas:

	Amount
Interest on loans to government entities	Ps5,085,502
Premiums on securities, repurchase and derivative operations	2,653,991
Interest on commercial loans	2,133,693
Interest on investments in securities	963,262
Interest on mortgage loans	954,030
Interest on promissory notes receivable from FOBAPROA	852,184
Interest on cash and cash equivalents	512,395
	<u>Ps13,155,057</u>

At September 30, 2003, 51% of the Bank's expenses are concentrated in the following areas:

	Amount
Interest on time deposits	Ps4,249,110
Premiums on repurchase operations	2,468,192
Interest on interbank loans and loans from other entities	1,173,093
Interest on demand deposits	703,812
Interest on bank bonds	158,659
	<u>Ps8,752,866</u>

b. *Interest income and expenses generated in Mexico and abroad are summarized below:*

	As of September	
	2002	2003
	(Unaudited)	(Unaudited)
Interest income Mexico	Ps15,582,855	Ps14,404,853
Outside of Mexico	192,825	637,504
Total interest income	<u>Ps15,775,680</u>	<u>Ps15,042,357</u>
Interest expense Mexico	Ps9,558,606	Ps8,680,726
Outside of Mexico	181,353	338,905
Total interest expense	<u>Ps9,739,959</u>	<u>Ps9,019,631</u>

c. *The balances of commercial portfolio and deposits generated in Mexico and abroad are summarized below:*

	As of September 30,	
	2002	2003
Commercial portfolio		
Mexico.....	Ps140,085,170	Ps143,538,969
Outside of Mexico	1,655,584	2,759,684
Total commercial portfolio	<u>Ps141,740,754</u>	<u>Ps146,298,653</u>
Deposits		
Mexico.....	Ps129,419,850	Ps155,200,405
Outside of Mexico	5,968,992	5,459,538
Total deposits	<u>Ps135,388,842</u>	<u>Ps160,659,943</u>

d. *Loan balances grouped by economic sector and geographical area in Mexico are as follows:*

	As of September 30,					
	2002			2003		
	Commercial	Corporate	Total	Commercial	Corporate	Total
Commercial loan.....	Ps21,932,189	Ps11,153,851	Ps33,086,040	Ps31,176,843	Ps11,995,553	Ps43,172,396
Consumer loan	4,508,797	—	4,508,797	7,733,506	—	7,733,506
Mortgage loan	11,773,898	—	11,773,898	13,401,892	—	13,401,892
Loans to FOBAPROA or to IPAB and ADE	93,161,679	—	93,161,679	82,799,114	—	82,799,114
Total current portfolio	<u>131,376,563</u>	<u>11,153,851</u>	<u>142,530,414</u>	<u>135,111,355</u>	<u>11,995,553</u>	<u>147,106,908</u>
Commercial loan.....	1,536,151	932,456	2,468,607	1,056,299	652,405	1,708,704
Consumer loan	334,407	—	334,407	376,532	—	376,532
Mortgage loan	1,787,586	—	1,787,586	1,018,196	—	1,018,196
Total past due loan portfolio ...	<u>3,658,144</u>	<u>932,456</u>	<u>4,590,600</u>	<u>2,451,027</u>	<u>652,405</u>	<u>3,103,432</u>
Total loan portfolio	<u>Ps135,034,707</u>	<u>Ps12,086,307</u>	<u>147,121,014</u>	<u>Ps137,562,382</u>	<u>Ps12,647,958</u>	<u>150,210,340</u>
Allowance for estimated loan losses			<u>(5,380,259)</u>			<u>(3,911,687)</u>
Loan portfolio (net).....			<u>Ps141,740,755</u>			<u>Ps146,298,653</u>

APPENDIX A

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REPORT OF INDEPENDENT AUDITORS

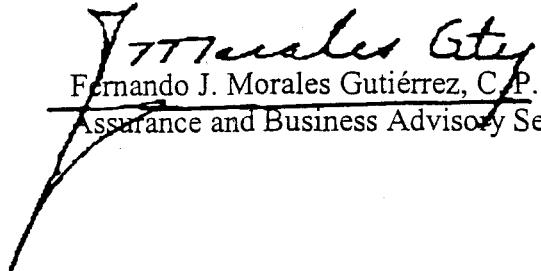
To the Stockholders of
Banco Mercantil del Norte, S.A.,
Institución de Banca Múltiple,
Grupo Financiero Banorte

Monterrey, N. L., February 14, 2003

1. We have audited the consolidated balance sheets of Banco Mercantil del Norte, S.A., Institución de Banca Múltiple, Grupo Financiero Banorte (the Bank) and subsidiaries, as of December 31, 2002 and 2001, and the related consolidated statements of income, of changes in stockholders' equity and of changes in financial position for the years then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.
2. We conducted our audits in accordance with auditing standards generally accepted in Mexico. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and that they were prepared in accordance with the accounting practices prescribed for banks. An audit includes of examining, on a test basis, evidence supporting the amounts and disclosures of the financial statements. An audit also includes assessing the accounting practices used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audits provide a reasonable basis for our opinion.
3. As discussed in Note 4, the Bank 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 banks. Those rules differ from Mexican generally accepted accounting principles to the exits discussed in Note 5. The consolidated financial statements of the Bank as of December 31, 2002 are subject to review by the COMMISSION.
4. As discussed in Note 2a, on September 24, 2001, the Bank Savings Protection Institute (IPAB) announced that the Bank had won the purchase process for 100% of the capital stock of Bancrecer, S.A. (BANCRECER). The price paid amounted to Ps1,742 million (Ps1,650 million nominal value), which equaled 0.66 times the book value of the stockholders' equity of the acquired entity at the date of the transaction. Inasmuch as the Bank did not take control of BANCRECER's management until January 2, 2002, as authorized by the COMMISSION, the financial statements of Bancrecer at December 31, 2001 were not consolidated with those of the Bank nor was this investment valued by the equity method.

5. Derived from the aforementioned, the figures of the consolidated financial statements of the HOLDING at December 31, 2002 are not comparative with those of December 31, 2001. Had the financial statements of the HOLDING been consolidated with those of BANCRECER at December 31, 2001, the comparative figures of the principal captions comprising the consolidated balance sheets of the HOLDING and its subsidiaries at December 31, 2002 would have appeared as shown in the condensed form in Note 2 a.
6. Through a General Extraordinary Meeting held on March 11, 2002, the stockholders of BANORTE and BANCRECER approved the agreement for the merger of such institutions, the latter surviving as the merging entity and subsequently changing its name to Banco Mercantil del Norte, S.A., Institución de Banca Múltiple. On April 24, 2002, the Ministry of Finance and Public Credit authorized the merger operation with the corresponding effects between the parties as from the last working day of March 2002. This merger was handled like a reorganization or transaction between companies under a common control, in accordance with accounting principles generally accepted in the United States of America, which were applied in a supplemental way in conformity with accounting criteria for credit institutions referred to in circulars 1448 and 1488, issued by the COMMISSION. In accordance with this criteria, the surviving entity for accounting purposes is the HOLDING, even though for statutory purposes the merging entity is BANCRECER, since the surviving stockholders' equity is that of the HOLDING inasmuch as it is the owner of the stock of BANCRECER (see Note 2 a.).
7. In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Banco Mercantil del Norte, S. A. Institución de Banca Múltiple, Grupo Financiero Banorte with its Subsidiaries and Trust as of December 31, 2002 and 2001, 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 Mexican Banking and Securities Commission.

PricewaterhouseCoopers


Fernando J. Morales Gutiérrez, C.P.

Assurance and Business Advisory Services Partner

BANCO MERCANTIL DEL NORTE, S. A.
INSTITUCION DE BANCA MULTIPLE
GRUPO FINANCIERO BANORTE AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2002 AND 2001

(Amounts stated in thousands of Mexican Pesos of December 2002, purchasing power)
(Notes 1, 2, 3, 4, 5, 6, 22, 23, 30, 32, 33, 34, and 35)

ASSETS	2002	2001	LIABILITIES	2002	2001
CASH AND CASH EQUIVALENTS (Note 7)	Ps 22,943,683	Ps 8,585,960	DEPOSITS:	Ps 52,780,973	Ps 31,225,520
			Demand deposits (Note 18)		
INVESTMENT SECURITIES (Note 8):			Time deposits (Note 19)	29,395,506	18,197,636
Trading securities	3,355,929	2,270,421	General public	59,944,522	29,205,725
A available-for-sale securities	1,309,108	991,608	Money market	1,294,548	1,374,262
Held-to-maturity securities	7,379,194	2,888,086	Bank bonds (Note 20)	143,415,549	80,003,143
TOTAL INVESTMENT SECURITIES	12,044,231	6,150,115	TOTAL DEPOSITS		
				13,466,607	2,652,576
				11,950,341	3,093,658
SECURITIES AND DERIVATIVES TRADING (Note 9):			Short term	10,060,686	8,608,125
Debit balances on repo transactions	36,596	78,650	Long term	35,477,634	14,354,359
Derivatives trading	9,211	16,130			
	45,807	94,780	BANK AND OTHER ENTITY LOANS (Note 21)		
			Demand loans	15,076	54,733
CURRENT LOAN PORTFOLIO (Notes 10 and 12):			Credit balances on repo transactions	817,328	10,275
Commercial portfolio	31,904,336	21,316,052	Derivatives trading	832,404	65,008
Loans to financial intermediaries	7,857,298	1,504,260			
Consumer loans	4,984,315	2,422,068	OTHER PAYABLES:		
Mortgage loans	11,871,597	4,629,753	Income tax and employees' statutory profit sharing	165,870	5,246
Loans to government entities	84,984,138	41,189,797	Sundry creditors and other payables	2,684,380	2,129,220
Loans to FOBAPROA or IPAB (Note 11)	6,326,848	10,665,242		2,850,250	2,134,466
TOTAL CURRENT LOAN PORTFOLIO	148,128,532	81,727,172	OUTSTANDING SUBORDINATED DEBENTURES (Note 23)	2,586,053	1,409,877
				36,606	72,116
PAST-DUE LOAN PORTFOLIO (Notes 10 and 12):			DEFERRED CREDITS		
Commercial portfolio	2,320,971	2,382,705		185,198,496	98,038,969
Consumer loans	326,536	333,551	CONTINGENCIES (Note 24)		
Mortgage loans	1,783,722	1,666,149	TOTAL LIABILITIES		
TOTAL PAST-DUE LOAN PORTFOLIO	4,104,699	4,382,405		4,406,005	4,406,005
TOTAL LOAN PORTFOLIO	152,233,231	86,109,577	Share premiums	945,804	945,804
ALLOWANCE FOR LOAN LOSSES	5,153,029	4,291,078	TOTAL PAID-IN CAPITAL	5,351,809	5,351,809
NET LOAN PORTFOLIO	147,079,202	81,818,499	EARNED SURPLUS:		
			Capital reserves	2,286,121	2,286,121
OTHER RECEIVABLES, NET	2,177,010	1,087,877	Retained earnings	1,495,190	1,803,941
FORECLOSED ASSETS (Note 13)	1,190,161	1,409,958	A available-for-sale securities- valuation gain (loss)	178,169	(564,783)
PROPERTY, FURNITURE AND EQUIPMENT, NET (Note 14)	5,354,951	3,557,039	Surplus or deficit from restatement of stockholders' equity	(2,282,224)	(2,282,224)
PERMANENT STOCK INVESTMENTS (Note 15)	448,646	408,397	Loss from holding nonmonetary assets	(88,943)	(63,957)
DEFERRED TAXES, NET (Note 16)	1,002,348	1,014,815	from valuation of permanent stock investments	(11,025)	(11,025)
OTHER ASSETS (Note 17):			from valuation of fixed assets	(266,550)	(266,550)
Other assets, deferred charges and intangibles	739,694	677,257	Initial effect of deferred taxes	1,469,848	501,102
			Net income	2,802,636	1,413,650
TOTAL ASSETS	Ps 193,351,263	Ps 104,804,692	TOTAL EARNED SURPLUS	322	269
			MINORITY INTEREST IN STOCKHOLDERS' EQUITY	8,154,767	6,765,728
			TOTAL STOCKHOLDERS' EQUITY	Ps 193,351,263	Ps 104,804,692
			TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY		

MEMORANDUM ACCOUNTS (Note 31)

The accompanying thirty-five notes are an integral part of these consolidated financial statements

C. P. Oñón Ruiz Montemayor
General Director

C. P. Federico A. Valenzuela Ochoa
Planning and Control General Director

C. P. Isaias Velázquez González
Audit Executive Director

C. P. Nora Elia Cantú Suárez
Accounting Director

BANCO MERCANTIL DEL NORTE, S. A.
INSTITUCION DE BANCA MULTIPLE,
GRUPO FINANCIERO BANORTE AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

(Amounts stated in thousands of Mexican Pesos of December 2002 purchasing power)
(Notes 1, 2, 3, 4, 5, 6, 11, 34 and 35)

	<u>2002</u>	<u>2001</u>
Interest income	Ps 21,205,200	Ps 19,749,866
Interest expense	(13,317,938)	(13,654,169)
Monetary gain, relative to net interest income	<u>99,450</u>	<u>99,869</u>
NET INTEREST INCOME	7,986,712	6,195,566
Allowance for loan losses	(783,609)	(1,147,897)
NET INTEREST INCOME ADJUSTED FOR CREDIT RISKS	7,203,103	5,047,669
Fee and commission income	2,674,215	1,427,057
Fee and commission expense	(439,661)	(312,859)
Brokerage income	<u>447,102</u>	<u>345,626</u>
	<u>2,681,656</u>	<u>1,459,824</u>
TOTAL OPERATING INCOME	9,884,759	6,507,493
Administrative and promotion expenses	(8,723,490)	(6,440,760)
OPERATING INCOME	1,161,269	66,733
Other income	723,601	868,846
Other expenses	(697,184)	(277,500)
	<u>26,417</u>	<u>591,346</u>
INCOME BEFORE INCOME TAX AND EMPLOYEES' STATUTORY PROFIT SHARING	<u>1,187,686</u>	<u>658,079</u>
Current income tax and employees' statutory profit sharing (Note 30)	(206,631)	(15,022)
Deferred income tax and employees' statutory profit sharing (Note 16)	<u>20,070</u>	<u>(139,483)</u>
	(186,561)	(154,505)
INCOME BEFORE EQUITY IN EARNINGS OF ASSOCIATE AND AFFILIATED COMPANIES, AND MINORITY INTEREST	1,001,125	503,574
Equity in earnings of associate and affiliated companies, Net	<u>57,906</u>	<u>(2,590)</u>
INCOME FROM CONTINUING OPERATIONS BEFORE MINORITY INTEREST	1,059,031	500,984
Discontinues operation, extraordinary departure and changes in accounting standards (Nota 2c)	<u>410,837</u>	<u>-</u>
	<u>1,469,868</u>	<u>500,984</u>
Minority interest	(20)	<u>118</u>
NET INCOME (Notes 28 and 29)	<u>Ps 1,469,848</u>	<u>Ps 501,102</u>

The accompanying notes are part of these consolidated financial statements

C.P. Othón Ruiz Montemayor
General Director

C.P. Federico A. Valenzuela Ochoa
Planning and Control General Director

C.P. Isaías Velázquez González
Audit Executive Director

C.P. Nora Elia Cantú Suárez
Accounting Director

BANCO MERCANTIL DEL NORTE, S. A.
INSTITUCION DE BANCA MULTIPLE,
GRUPO FINANCIERO BANORTE AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

(Amounts stated in thousands of Mexican Pesos of December 2002 purchasing power)

	<u>2002</u>	<u>2001</u>
OPERATING ACTIVITIES:		
Net income for the year	Ps 1,469,848	Ps 501,102
Items charged (credited) to income that did not affect resources:		
Allowance for loan losses	783,609	1,147,896
Depreciation and amortization	591,909	366,925
Equity in earnings of associated and affiliated companies, net	(57,906)	2,590
Minority interest	(20)	118
Provision for other obligations	686,948	(589,442)
Unrealized investment income	31,230	(20,738)
Deferred taxes	(20,070)	139,483
	<u>3,485,548</u>	<u>1,547,934</u>
Items related to operations:		
Increase in deposits	63,412,406	4,860,139
(Increase) decrease in investment securities	(5,788,517)	2,103,906
(Increase) decrease in loan portfolio	(66,371,842)	1,195,221
Increase (decrease) in bank and other entity loans	21,123,279	(11,216,345)
Increase (decrease) in deferred taxes	32,535	(140,680)
(Increase) in other accounts receivable and payable	(1,060,296)	(39,441)
Decrease (increase) in derivatives trading	816,369	(38,285)
Resources provided by (used in) operating activities	<u>15,649,482</u>	<u>(1,727,551)</u>
FINANCING ACTIVITIES:		
Issuance of subordinated debentures	1,176,176	1,409,877
Increase in capital stock	-	529,035
Dividends declared	(203,732)	-
Resources provided by financing activities	<u>972,444</u>	<u>1,938,912</u>
INVESTMENT ACTIVITIES:		
Decrease in permanent stock investments	(7,256)	(39,135)
Net purchases of property, furniture and equipment	(2,139,849)	(332,004)
Decrease (increase) in foreclosed assets	219,797	(145,404)
Increase in deferred charges and credits	(336,850)	(319,973)
Resources used in investment activities	<u>(2,264,203)</u>	<u>(836,516)</u>
Increase (decrease) in cash and cash equivalents	14,357,723	(625,155)
Cash and cash equivalents at beginning of year	<u>8,585,960</u>	<u>9,211,115</u>
Cash and cash equivalents at end of year	<u>Ps 22,943,683</u>	<u>Ps 8,585,960</u>

The accompanying thirty-five notes are an integral part of these consolidated financial statements

C.P. Othón Ruíz Montemayor
General Director

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BANCO MERCANTIL DEL NORTE, S. A. AND SUBSIDIARIES,
INSTITUCION DE BANCA MULTIPLE,
GRUPO FINANCIERO BANORTE

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2002 AND 2001

(Amounts stated in thousands of Mexican pesos of December 2002 purchasing power,
except number of shares and debentures and exchange rates)

NOTE 1 - DESCRIPTION OF BUSINESS:

Banco Mercantil del Norte, S. A. (the Bank) is a Multiple Banking Institution, whose multiple banking operations are regulated by the Credit Institution Law (LIC) and the Banco de México (Central Bank of Mexico), and overseen by the Comisión Nacional Bancaria y de Valores (Mexican Banking and Securities Commission or "the COMMISSION"). Its operations mainly involve receiving deposits, receiving loans, making discounts and granting loans, investing in securities, repo transactions, derivative instrument transactions (futures, swaps, options and forward contracts) and other multiple banking operations in accordance with the LIC.

The related regulations include certain limitations, for example, the permitted level of leverage and minimum the capitalization requirements, that limit the Bank's operations.

The Bank, is part of Grupo Financiero Banorte, S. A. de C. V. (GRUPO) and is authorized by the tax authorities to operate in Grand Cayman.

The Bank has entered into a liability agreement, as required by law, under which GRUPO is fully liable for the obligations and losses of each of its subsidiary companies.

NOTE 2 - HIGHLIGHTS:

In fiscal 2000, a comprehensive business strategy was established by GRUPO with the fundamental purpose of strengthening the capital of the Bank and improving its position in the market. This strategy required structural changes in the Bank; which were initiated in 2000 with the concentration of the bank business of the subsidiaries of GRUPO in the Bank, through merging it with Banpais, S.A. (BANPAIS) and the Bank segment of Banco del Centro, S.A. (BANCEN). In addition the Bank sold its interest in Banorte Generali, S.A. de C.V. AFORE to BANCEN.

Also, in accordance with the business strategy established by GRUPO, in the year ended December 31, 2002 and 2001, the following significant operation were carried out:

a. Acquisition of the stock of Bancrecer, S.A. (BANCRECER)

On September 24, 2001, the Instituto para la Proteccion del Ahorro Bancario (Bank Savings Protection Institute or "IPAB") announced that Bank had won the purchase process for 100% of the capital stock of BANCRECER. The Bank paid Ps1,742,082 (Ps1,650,000 nominal value), which equaled 0.66 times the book value of the stockholders' equity of the acquired entity at the date of the transaction.

In accordance with the sales contract for the stock of BANCRECER, the Bank proceeded to pay for the stock in the following manner: 25% of the offered price, that is Ps435,520 (Ps412,500 nominal value), on October 5, 2001 (date on which the contract was entered into) and the total settlement of the remaining Ps1,306,561 (Ps1,237,500 nominal value) on December 4 of that same year.

In the period between the first payment and the final payment, interest was accrued in favor of the IPAB on the outstanding balance of the offered price at the average 28-day CETES ("Treasury Certificates") rate, in the amount of Ps16,881 (Ps15,989 nominal value). Furthermore, other expenses directly related to the acquisition of Ps6,191 (Ps5,864 nominal value) brought the total cost to Ps1,765,154 (Ps1,671,853 nominal value).

The acquisition of BANCRECER was funded with resources of GRUPO, including resources in cash and dividends obtained from its subsidiaries, as well as the use of the surplus from the recent issuance of debentures by the Bank and the use of additional financing obtained before the date of the purchase of the stock.

By official letter 601-II-105587, dated December 11, 2001, the COMMISSION authorized the Bank to temporarily record this investment in investment securities. Inasmuch as the Bank did not take control of BANCRECER's management until January 2, 2002, the financial statements of the Bank at December 31, 2001 were not consolidated with those of BANCRECER, nor was BANCRECER's profit for December recognized in 2001 by applying the equity method.

With regard to the stockholders' equity of BANCRECER, the aforementioned official letter stated that at the end of 2001 BANCRECER should reduce the book value of its stockholders' equity by an allowance for the known integration expenses. In this connection, and taking advantage of the negative goodwill of approximately Ps897 million (Ps850 million nominal value) in the Bank as a result of the purchase of BANCRECER at a price lower than its stockholders' equity, BANCRECER proceeded to constitute reserves, in December 2001, in the amount of Ps715,942 (Ps678,100 nominal value) to cover these integration expenses during 2002. This provision, recorded in other payables, comprised the following concepts:

1. Reorganization

1.1. Restructuring cost

This corresponded to the amount required to cover indemnities for personnel dismissals in BANCRECER, which would take place due to the organizational restructuring resulting from the integration.

1.2. Out-placement program

This corresponded to the fees to be paid to external advisors specializing in helping personnel dismissed due to the restructuring to undertake productive activities on their own or get new jobs.

1.3. Reduction of debt due by dismissed personnel

In accordance with its internal policies, BANCRECER would grant a reduction of debt due by dismissed personnel as follows: 30% on commercial loans and 20% on mortgage loans.

2. Integration

2.1. Operating integration

This corresponded to the expenses required to integrate all the branches under a single operating model.

2.2. Change of image

This corresponded to the expenses relative to the need to change the image of BANCRECER's branches.

2.3. Amortization of installation expenses due to the closing of branches

This refers to installation expenses recorded in BANCRECER and corresponding to branches that will cease operations in accordance with the Bank's strategic plan.

3. Post-retirement benefits

These liabilities corresponded to the partial recognition of benefits for medical services derived from the actuarial calculation made in January 2000, in which accrued liabilities for retirement benefits were calculated in the amount of Ps132,300 (nominal value) for BANCRECER's employees. In this respect, the Bank did not have its actuarial calculation updated for 2002 at the time of the creation of the reserve; therefore a conservative estimate was established in the amount of Ps80,700.

At December 31, 2002, the Bank obtained a definitive actuarial calculation, which required an additional charge of Ps49,800.

Following is an analysis of the amounts (nominal value) of the above-mentioned concepts:

<u>Item</u>	<u>Beginning balance</u>	<u>2002 movements</u>	<u>Balance at December 31, 2002</u>
Reorganization	Ps 368,100	(Ps 341,500)	Ps 26,600
Integration	229,300	(123,000)	106,300
Post- retirement benefits	<u>80,700</u>	<u>(80,700)</u>	<u>-</u>
Total	<u>Ps 678,100</u>	<u>(Ps 545,200)</u>	<u>Ps 132,900</u>

The Bank's management estimates that the reorganization expense will be fully applied by the end of the first quarter of 2003. The integration expense will also be applied during 2003.

Once the book adjustments in BANCRECER were made for the aforementioned integration expenses, its stockholders' equity amounted to Ps1,799,488 (Ps1,704,372 nominal value) at December 31, 2001.

Therefore, the purchase of BANCRECER's stock generated a negative goodwill in the amount of Ps34,334 (Ps32,519 nominal value), representing the excess of stockholders' equity of the acquired entity over the acquisition cost of the stock, which was recorded in the Bank on January 31, 2002.

During the first quarter of 2002, the Bank sold a property at No.116 Paseo de la Reforma Street, in Mexico. City, which was used by BANCRECER as part of its offices. The sale of this property resulted in a loss of Ps48,377 (Ps45,820 nominal value), which was applied against the negative goodwill of Ps34,334 (Ps32,519 nominal value). Consequently, this operation resulted in the recording of a positive goodwill of Ps14,043 (Ps13,301 nominal value), which is included in "Other Assets".

By official letter 601-DGSIF"A"-112901, dated August 23, 2002, the COMMISSION requested the filing of proforma balance sheet giving retroactive effect to the acquisition of the assets and liabilities of BANCRECER, for comparative purposes. Had the financial statements of the Bank and those of BANCRECER been consolidated at December 31, 2001, the amounts of the principal items comprising the consolidated balance sheets of the Bank at December 31, 2002 and 2001, would have been as follows:

<u>Assets</u>	<u>2002</u>	<u>2001</u>
Cash, investment securities and securities and derivatives trading	Ps 35,033,721	Ps 28,286,933
Loan portfolio, net	147,406,732	140,416,354
Foreclosed assets	1,190,161	1,409,949
Property, furniture and equipment, net	5,354,951	5,716,295
Permanent stock investments	448,646	473,041
Other assets, net	3,919,052	3,077,623
Total assets	<u>Ps 193,353,263</u>	<u>Ps 179,380,195</u>
<u>Liabilities and stockholders' equity</u>		
Interbank and other entity deposits and loans	Ps 178,893,183	Ps 164,573,439
Other payables, securities and derivatives trading and deferred credits	3,719,260	4,831,726
Outstanding subordinated debentures	2,586,053	1,409,868
Stockholders' equity	8,154,767	8,565,162
Total liabilities and stockholders' equity	<u>Ps 193,353,263</u>	<u>Ps 179,380,195</u>

This same methodology was not followed for the statements of income, since their combination would have produced distorted results since BANCRECER's operations had been subject to preventive management and a clean-up process by the authorities, especially during 2001. Therefore, the presentation of this statement would not show the bank results that would have been obtained had BANCRECER been operating normally. It was not practical to determine the effect on BANCRECER's results of the aforementioned clean-up process and preventive management in order to reflect what would have been its results on a normal operating basis.

At a General Ordinary Shareholders' Meeting held on January 4, 2002, the shareholders of BANCRECER appointed a new Board of Directors, as well as a new General Director.

At General Extraordinary Shareholders' Meetings held on March 11, 2002, the Bank and BANCRECER's shareholders approved a merger of the two banks, with figures as of February 28, 2002. BANCRECER was surviving company, and subsequently changed its name to Banco Mercantil del Norte, S.A., Institucion de Banca Multiple. At April 24, 2002 the Finance Ministry (SHCP) authorized the merger, with the effect from the end of March 2002.

This merger was accounted for as a reorganization or merger between companies under common control, in accordance with US-GAAP, which were applied in conformity with accounting criteria for credit institutions referred to in Circular 1448, issued by the COMMISSION, under which the substance of a transaction prevails over its form, so that for accounting purposes the surviving entity is the Bank, even if for legal purposes the surviving entity is BANCRECER. This reflects the fact that the stockholders' equity that survives is that of the Bank, since it was the owner of BANCRECER's shares.

Following is a summary chart of the merging process of March 2002 showing eliminated intercompany transactions and their effect on the financial statements:

Millions of <u>nominal pesos</u>	BANORTE (excluding <u>Bancrecer</u>)	<u>BANCRECER</u>	<u>Combined</u>	<u>Intercompany balances</u>	<u>Post- merger balances</u>
Assets	Ps 106,528	Ps 69,681	Ps 176,209	(Ps 12,107)	Ps 164,102
Liabilities	99,839	67,838	167,677	10,264	157,413
Stockholders' equity	6,689	1,843	8,532	1,843	6,689

b. Growth strategies:

During the year 2002, the Bank carried out some corporate readjustments and business strategies in order to maintain a sound financial structure and to offer more competitive products in the market. The most important strategies are mentioned below:

1. Organizational structure changes.

GRUPO presented a new organizational structure in line with the new growth, competition and integration challenges. Its organization model was adjusted to make operations more efficient, improve its ability to generate business, and speed up its decision processes, in order to respond more efficiently and promptly to the needs of the market and particularly those of its customers. Among the main changes, the top management GRUPO, the Bank and BANCEN were merged into a single global decision-making unit. The office of Director General of Banking was created, to undertake the responsibility of managing commercial, business, corporate and government banking, as well as Territorial Directors' Offices, which comprise the sales force of the banking sector; the office of Director General of Administration and Finance was created and the office of Director General of Planning and Operating Control was strengthened.

2. Promotion of business and commercial loans.

As part of the Bank's strategy to promote commercial and business loans, in April 2002 it entered into a credit risk participation agreement for up to Ps1,200,000 with Nacional Financiera, S.C., that will allow for the assignment of Ps2,400,000 in loans to small and medium-sized business. As a result, the Bank will strengthen its CrediActivo product and launch the new Business CrediActivo product, under a parametric scheme of credit evaluation, granting loans of up to Ps10,000.

3. Support to the rural sector.

In April 2002 the Bank, New Holland de México, S.A. and FIRA ratified their participation in Mexico's rural sector, supporting rural modernization. During 2002 this alliance resulted in the granting of 1,495 loans, equivalent to Ps270,000, that benefited 3,208 farmers.

4. Joint venture with MoneyGram Payment Systems, Inc. (Money Gram).

In April 2002 the Bank signed a joint venture with MoneyGram to send remittances from the United States of America to Mexico. This important market currently represents US\$10,000 million a year. MoneyGram is a subsidiary of Travelers Express Company, a leading company in money transfer services, with more than 50,000 branches in more than 150 countries around the world.

c. Assicuriazioni Generali

At June 27, 2002, Assicuriazioni Generali (Generali) signed an agreement with the Bank under which it paid Ps449,013 (US\$45 million), in order to compensate the Bank for technological efforts, brand ownership and use of BANCRECER's branch network for the sale of the products and services of the following businesses: Seguros Banorte Generali, Afore Banorte Generali and Pensiones Banorte Generali, which are 49% owned by Generali. This operation was recorded in the income of the Bank as extraordinary income.

This item is shown in the caption corresponding to "Discontinued operations, extraordinary items and changes in accounting policies" amounting to Ps410,837, including related expenses and restatement for inflation, in the 2002 income statement.

d. Purchases of portfolio packages

1. Negotiated by Sólida Administradora de Portafolios SA de CV (Sólida):

Through one of the subsidiaries of the Bank, "Sólida Administradora de Portafolios, S.A de C.V.", in March 2001 GRUPO won three of the six portfolio loan packages auctioned by the IPAB. The gross amount of these packages was Ps2,176,018 (Ps2,061,000 nominal value) of the mortgage portfolio of BANCRECER, and Sólida paid a price of Ps590,196 (Ps559,000 nominal value).

Furthermore, during the third quarter of 2001 two further loan portfolio packages were purchased from the IPAB, one amounting to Ps2,906,637 (Ps2,753,000 nominal value) for which Ps844,646 (Ps800,000 nominal value) was paid, mainly consisting of commercial loans, and another amounting to Ps222,775 (Ps211,000 nominal value), for which Ps40,121 (Ps38,000 nominal value) was paid, comprising mortgage loans.

In October 2001, the Bank purchased an additional mortgage loan package in the amount of Ps3,369,291 (Ps3,191,200 nominal value) from Goldman Sachs, for a price of Ps684,796 (Ps648,600 nominal value).

At October 2002, Sólida purchased Ps363,000 in mortgage loans from the IPAB at a price of Ps93,478.

2. Negotiated by the Bank:

On December 20, 2002, the Bank purchased a commercial and consumer loan package for Ps343,696 from Banca Quadrum, S.A., Institución de Banca Múltiple, at a price of Ps281,831, which was recorded in "other accounts receivable". The Bank will incorporate the abovementioned acquisitions in its loan portfolio applicative system, in order to handle it in accordance with its credit management and credit rating process, once it has all the necessary supporting documentation for each individual acquisition.

At February 14, 2003, date of issuance of the financial statements, the Bank recorded in "sundry creditors and other accounts payable" an amount of Ps74,291 corresponding to recoveries of the aforementioned loan portfolio (principal and interest corresponding to December 2002 and January 2003).

In February 2003, the Bank incorporated the purchase of the aforementioned loan portfolio in "Current Loan Portfolio", applying the abovementioned treatment.

e. Correction of overstatement of foreclosed assets

By official 601-II-105587, dated December 11, 2001, the COMMISSION authorized the Bank to cancel at the end of the year an overstatement of foreclosed assets in the amount of Ps312,855 (Ps296,318 nominal value), and to charge retained earnings the deferred tax asset for Ps201,213 (Ps192,606 nominal value) and Ps109,500 (Ps103,712 nominal value) respectively.

The origin of this operation corresponds to the accounting effect recognized in December 1999 on the cancellation of the promissory note payable by FOBAPROA and the reversal of the assets comprising BANCEN Segment I trust, which expired at that time.

f. Goodwill

In June 2002 the Bank recorded goodwill from the acquisition of the shares of BANCRECER mentioned in paragraph a. above, in the amount of Ps69,600, mainly comprising:

- Interest recorded on assets derived from the Support Programs for the Farming and Fishing Sectors, which were not recognized by the Federal Government, in the amount of Ps39,600, and
- Expenses resulting from the merger, which will not be covered by the Integration Reserve, since this is estimated to be insufficient by an amount of Ps19,900.

At December 31, 2002, goodwill amounted to Ps61,295 (see Note 17).

g. New methodology for rating the commercial portfolio

On January 1, 2001, the COMMISSION issued Circular 1480 "Methodology for the rating and constitution of the allowance for loan losses of the commercial portfolio", which superseded Circular 1128.

The implementation of this new methodology for rating the commercial portfolio did not require any additional charge to income, since the allowances for loan losses constituted by the Bank while the prior methodology was effective was sufficient.

h. Adaptation of by-laws in conformity with the new regulation requirements

Several amendments to the banking laws were published from June 1 to June 4, 2001 in the Official Gazette. Among these laws are: the Ley del Mercado de Valores (Securities Market Law or LMV) and the Ley de Instituciones de Credito (Credit Institutions Law or LIC).

Among the most important are the changes in the LMV affecting issuers, which affect all public companies due to the incorporation of measures established in the "Code of Best Corporate Practices". Furthermore, the changes to the LIC basically refer to the incorporation of independent directors in the Board of Directors of the institutions, the constitution of an Audit Committee and stricter regulation of the handling of transactions with related parties.

In this respect, a General Extraordinary Shareholders' Meeting of GRUPO was held on June 20, 2001, with the sole purpose of amending the by-laws, for the consideration and approval of the shareholders; and to further adapt these by-laws as required by the LMV and Circular 1133 of the COMMISSION. The Bank has already incorporated independent directors in the Board of Directors. It also has an Audit Committee and a Risk Policies Committee.

i. Amendments in the rules for the calculation of capital requirements of banking institutions

On May 14, 2002, the Official Gazette published several regulations that amend, abolish or add rules for the calculation of capital requirements of banking institutions. Relevant changes are focused on the classification and treatment of the following elements: transactions with related parties, mortgage loans, net capital integration (non-authorized reserves and operations) and information disclosure. The Bank's management has applied the above-mentioned amendments during 2002.

j. New Pronouncements

In November 2001, the Mexican Institute of Public Accountants (IMCP) issued Statement C-9 "Liabilities, Provisions, Contingent Assets and Liabilities, and Commitments", which replaces Statement C-9 "Liabilities" and Statement C-12 "Contingencies and Commitments". This statement is effective as from January 1, 2003, but its earlier application is recommended. This statement establishes guidelines for the valuation, recording and disclosure of liabilities, provisions, contingent assets and liabilities and the disclosure of commitments. Furthermore, it includes a detailed discussion of provisions, and the use of present values, consideration of future events in estimating the amount of provisions, the accounting treatment of possible excess provisions and changes in the estimated amount of provisions, among other things. It also establishes the rules for the accounting treatment of the redemption of debentures, when they are redeemed in advance or in connection with a new issue. The Bank's management is evaluating the effects on the financial statements of the application of this statement.

In December 2001, the IMCP issued Statement C-8 "Intangible Assets", which are defined as the incurred costs of rights or privileges acquired that generate future economic benefits. This statement establishes the rules for deferring research and development costs and preoperating expenses, as well as the rules for the amortization of intangible assets. This statement is effective as from January 1, 2003, but its earlier application is recommended. The Bank's management is evaluating the effects on the financial statements of the application of this statement.

NOTE 3 - ECONOMIC ENVIRONMENT:

The economic environment has been characterized by a restrictive monetary policy imposed by BANXICO, as well as depreciation in the exchange rate and a moderate variation in inflation rates. The relevant economic indicators are the following:

	<u>2002</u>	<u>2001</u>
National Consumer Price Index (INPC), inflation for the year	5.70%	4.40%
Average cost of deposit funds (CPP)		
- Annual average	5.76%	10.58%
- Year-end average	5.36%	5.81%
28-day Federal Treasury Certificates:		
- Annual average interest rate	7.08%	11.37%
- Year-end interest rate	6.98%	6.75%
Reference value of Investment Units (UDIs)	3.225778	3.055273
Exchange rate against the US dollar:		
- Annual average (pesos)	Ps9.6689	Ps9.3408
- Year-end average (pesos)	Ps10.4393	Ps9.1695
(Decrease) increase in Price Index of the Mexican Stock Exchange	(3.85%)	14.70%

NOTE 4 - BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accompanying financial statements have been prepared in accordance with the accounting practices established by the COMMISSION. For this purpose, the COMMISSION issued several Circulars, which were updated in October 2000 by Circular 1488, effective January 1, 2001. These Circulars modify various accounting rules in order to add disclosure rules relative to interim financial information. They also incorporate the concept of comprehensive income, change the recording and valuation rules for considering a mortgage loan as past due, as well as establish 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 must be applied in the given order: Generally Accepted Accounting Principles ("MEX GAAP"), issued by the Mexican Institute of Public Accountants; International Accounting Standards, issued by the International Accounting Standards Committee (IASC) and Generally Accepted Accounting Principles in U.S.A. ("US GAAP"), issued by the Financial Accounting Standards Board (FASB).

The financial statements of the Bank at December 31, 2002 are subject to the approval of the COMMISSION, which is empowered to require it to make changes therein.

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

a. Financial statement consolidation

The consolidation of the financial statements includes only subsidiary companies pertaining to the financial system and complementary service companies, except for investment companies. All-important balances and transactions between consolidated companies are eliminated. As mentioned in note 2a., the Bank's financial statements at December 31, 2001, did not include BANCRECER's financial statements.

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

The Bank's financial statements have been restated in terms of purchasing power at the end of the most recent fiscal year, thus recognizing the effects of inflation. The financial statements of the prior year have been restated in terms of purchasing power at the end of the latest year and the figures differ from those originally stated in the corresponding year's purchasing power. Consequently, the financial statements are comparable with each other and with those of the prior year, since they are all stated in currency of the same purchasing power.

To recognize the effects of inflation in terms of the purchasing power at the end of the year, the following procedure was followed:

In the balance sheet:

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

Foreclosed assets are considered as monetary assets; hence, their value is not restated. They further form part of the base for calculating the Bank's monetary gain. Moreover, subordinated debentures and permanent investments in entities that do not recognize the effect of inflation are considered monetary items.

Permanent investments are valued treating on 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 presenting as gain (loss) from Bank non-monetary assets.

Capital stock and retained earnings are restated based on the UDI factor, to maintain stockholders' equity in pesos of constant purchasing power.

The deficit on 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.

In the statement of income:

The consolidated statement of income for the period from January 1 to December 31, 2002 and 2001, is presented in pesos of December 31, 2002 purchasing power. For that purpose, the historical amounts of transactions are restated by using the factor resulting from dividing the UDI reference value at December 31 by the UDI value at the date of those transactions.

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

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

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 year.

c. Cash and cash equivalents

This item is recorded at its nominal value, except for minted (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.

d. Range operations

By 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 operations (assigned pending payment) carried out by credit institutions, which became obligatory on January 1, 2002. During 2002, the Bank's management applied the aforementioned accounting treatment to its financial statements.

e. 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 yields generated by those securities calculated in accordance with the imputed interest or straight-line method, as the case may be, which are recognized as realized in the statement of income as earned. These classifications are determined according to the intention of the Bank's management at the date of purchase; also there is a possibility of transferring between categories.

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 independent parties willing to carry out transactions. The fair value is determined based on prices provided by a price supplier authorized by the COMMISSION (price supplier). The difference between the fair value and the historical cost plus accrued interest is recorded in income of the year 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.

f. Repo transactions

Repo transactions represent the purchase and the sale of financial instruments with the obligation by the Bank to resell or repurchase those financial instruments at the agreed price. Those transactions include a premium on the agreed price that is recorded in income as accrued. It is realized in accordance with the maturity date of the agreement.

The items denominated "Debit balances in repo transactions" and "Credit balances in repo transactions" represent the excess of the valuation at market of the securities covered by repo transactions over the present value of the price at maturity when the Bank acts as seller or buyer, respectively.

The debit and credit portions representing securities receivable or payable in the transactions are valued in conformity with the provisions of Criterion B-2 "Investments in Securities" of Circular 1448 issued by the COMMISSION, with reference to trading securities.

In addition, debit and credit positions are recorded in memorandum accounts when the Bank acts as seller and buyer.

g. Derivative financial instrument trading

The Bank considers contracts entered into with other primarily financial entities as derivative financial instrument trading when they meet the following characteristics:

1. The price is determined in accordance with one or more underlying assets.
2. One or more nominal amounts or provisions of payments or both are incorporated.
3. The underlying face amounts or payment provisions, together 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 so that the other party is in the same condition as if it had been 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 Bank has entered into the following derivative instrument transactions, which are recorded and valued at year-end as shown below:

Trading activities:

1. Forward contracts

In this type of transaction, the buyer and seller record an asset position and a liability position at the time the contract is entered into. The buyer records the asset position at the face value of the contract. At the closing, that contract is valued at fair value. The liability position at closing is maintained at face value. On the other hand, the seller records and values the contract in the opposite way, that is, the asset position is maintained at face value and the liability position is valued at fair value.

2. Futures contracts

At the time these contracts are entered into, an asset position and a liability position are recorded at the face amount of the contracts. They are valued at fair value every day, by recognizing price fluctuations in net interest income.

3. Option contracts

The Bank, when acting as the buyer of the option, records the premium paid in the asset caption Securities and derivatives trading. At closing, the asset is valued at fair value (market value or based on formal valuation techniques).

The Bank, when issuing the option, records the cash receipt by recognizing the premium charged in the liabilities caption of Securities and derivatives trading. At closing, the liability is valued in accordance with the fair value of the option.

4. Swaps

The contract value of the asset or liability position, respectively, is recorded. At each month-end, these are valued in accordance with the fair values of cash flows receivable or payable. In the event of a swap in face amounts, that amount will be incorporated as cash flows receivable or payable, as the case may be.

Any foreign currency denominated derivative will be translated into Mexican pesos, taking into account the exchange rate published by BANXICO, once it has been valued in accordance with the rules of the COMMISSION.

Increments or reductions between the fair value and the agreed value of derivative financial instruments are recognized in the income statement as "Brokerage income".

Hedging transactions:

1. Futures contracts and forward contracts

In this type of transaction, the buyer and seller record an asset position and a liability position. In the case of the buyer, the asset position will reflect the spot price (price or equivalent of the underlying asset on the market). Subsequently, the asset part is valued at the fair value of the underlying asset. The liability position is maintained at the face value of the contract. On the other hand, the seller records and values the transaction in the opposite way, the asset position is maintained at face value and the liability position is valued at the spot price and subsequently valued at the fair value of the underlying asset.

The differences between the face amount and the spot price of the underlying asset are recorded as a deferred charge or credit that is amortized on a straight-line basis over the term of the contract.

2. Option contracts

The Bank, when acting as the buyer of the option to hedge an open risk position, records the premium paid in the assets caption Securities and derivatives trading. At closing, the contract is valued at the fair value of the option.

When issuing the option or acting as a seller to hedge an open risk position it records the cash receipt by recognizing the premium charged in the liabilities caption Securities and derivatives trading. At closing, the liability is valued in accordance with the fair value of the option.

3. Swaps

The contract value of the asset or liability position, respectively, is recorded. At each month-end, the contract is valued in accordance with the fair values of cash flows receivable or payable. In the event of a swap in face amounts, that amount will be recorded as cash flows receivable or payable, as the case may be.

When cash flows receivable or payable are denominated in foreign currency, these are valued at the exchange rates published by BANXICO.

Changes in the valuation of the asset and liability positions of these derivative financial instruments are recognized in the income statement in the same caption where the result from valuation of the primary position is recorded.

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

h. Loan portfolio

Loans and negotiable instruments in effect or renewed are stated at their nominal value in accordance with the LIC. Loans are granted based on an analysis of the financial position of the borrower, the economic viability of the investment projects and the other general characteristics referred to by the LIC, as well as the manuals and internal policies of the Bank.

The loan portfolio balance shown on the balance sheet represents the amounts effectively lent to borrowers, plus uncollected accrued interest less the interest charged in advance. Moreover, the loan portfolio balance is net of the allowance for loan losses.

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

- Loans payable in a single installment of principal and interest, when 30 or more days past due.
- Loans payable in a single installment and periodic interest payments when the interest is 90 or more days past due, or the principal 30 or more days past due.
- Loans payable in periodic installments of principal and interest, when 90 or more days past due.
- Revolving loans when they are two monthly billing periods or 60 or more days past due.
- Mortgage loans when there are periodic installments of principal and interest 180 or more days past due.

The unpaid balance of the loans is also considered past due portfolio when it is known that the debtor has been declared in mercantile bankruptcy, in accordance with the Law of Mercantile Bankruptcy.

Interest is recognized as income as earned. However, recognizing interest is suspended when the loans are transferred to past due loan portfolio.

An allowance is set up in an amount equivalent to the total uncollected accrued ordinary interest considered as past due, at the time when the loan is transferred to past due loan portfolio.

As long as the loans are part of the past due portfolio, accrued interest is controlled in memorandum accounts. When such interest is collected, it is directly recognized in income for that year.

Commissions on loan granting are recognized as income when they are charged.

Restructured loans are considered as past due portfolio until there is evidence of sustained payment; that is, when the bank receives the complete payment without delay for three consecutive monthly payments, or else on the collection of one installment in cases where the installment covers periods of more than 60 days.

Reserved loans in which the creditor has not paid the accrued interest and at least 25% of the original loan amount on time will be considered as past due as long as there is no evidence of sustained payment.

i. Allowance for loan losses

The allowance for loan losses is calculated based on the "Rules for Rating the Loan Portfolio of Credit Institutions" issued by the Secretaría de Hacienda y Crédito Público (Ministry of Finance and Public Credit or "SHCP") and the methodology established by the COMMISSION for each type of loan. Such rules establish that the commercial portfolio must be rated every three months.

In the months when the commercial portfolio is not rated, the risk degrees determined based on the last rating should be applied to the amount of the portfolio in such months. Furthermore, the amounts recovered from the previously reserved loan portfolio shall be credited to the preventive allowance for loan losses and not to the income for the year.

As from the year 2001, the rating of the commercial portfolio is performed in conformity with Circular 1480 "Methodology for the rating and constitution of the allowance for loan losses of the commercial portfolio" issued by the COMMISSION on September 29, 2000, which superseded Circular 1128.

This circular proposes a methodology which would assign a rating for each borrower and furthermore rate each loan in relation to the value of the guarantees in order to estimate a probable loss and define the percentage of necessary preventive reserves; however, the Circular also establishes the option to use the Bank's own methodology to assign the risk rating to each debtor, subject to the evaluation and certification process of the COMMISSION.

In this respect, the COMMISSION issued official letter No. 601-II-105524 dated June 15, 2001, granting the Bank the temporary (for the years ended December 31, 2001 and 2002) and limited use of an internal rating model for the commercial portfolio.

The BANORTE Internal Risk Rating or CIR BANORTE has been implanted by the Bank with the objective of evaluating the quality of loan assets, as well as of clearly identifying the risk level represented by each borrower, through the assignment of an individual risk level. It also evaluates the financial, operating and credit capacity of borrowers and evaluates the collateral supporting the loans. It also serves as a basis for analyzing quality migration of the loan portfolio, estimates the probability of non-compliance and expected losses, unifies credit selection and authorization criteria determined by the Bank, respecting differences between industries and business segments, and determines the allowances for loan losses necessary to cover the loan portfolio risk.

Allowances for loan losses relative to mortgage, credit card and consumer loans are calculated by applying certain percentages in accordance with the risk of these portfolios, determined based on the number of past due payments. As from June 2000, the mortgage portfolio considers additional allowance percentages based on the probability of unpaid balances from the debtor. The ratings for this type of loans are performed on a monthly basis.

The Bank constitutes additional preventive allowances at 100% for those loans granted without previously consulting with a credit information organization (Credit Bureau) or that present past due debts. Furthermore, the Bank's management may create estimates if it concludes that the credit risk measurement process requires it. Finally, among the additional elements that serve as estimators in the constitution of allowances is the use of a "Transition Chart", which calculates the migration of borrowers between the different levels of risk rating and the particular characteristics of some borrowers with difficult situations in the concentration of credit risk in the Bank.

The losses, cancellations or discounts on the portfolio are recorded by a charge to the allowance for loan losses. Also, when there is evidence of a non-recoverable loan, such loan is charged directly against the preventive allowance.

j. Loss sharing with FOBAPROA

As mentioned in Note 11, in accordance with the rules established by the COMMISSION, the Bank comprehensively recognizes the shared loss generated by its participation in FOBAPROA loan portfolio flows.

During the year, the Bank recognized allowances in income in the amount of Ps35,903 (Ps179,095 in 2001), corresponding to the loss sharing and incentives agreement in its participation portfolio flows with FOBAPROA.

k. Other accounts receivable and payable

Amounts corresponding to sundry debtors and creditors of the Bank not recovered or paid within 60 or 90 days following their initial recording (depending on whether the balances are identified or not), are charged to income, independently of their possibility of recovery or of the clarification process of liabilities.

l. Property, furniture and equipment

Property, furniture and equipment and installation expenses are initially recorded at their acquisition cost. They are restated by applying UDI-derived factors.

Depreciation - The acquisition cost restated for inflation is depreciated on a straight-line basis, effective the month following the purchase of the assets.

The amount of the depreciation and amortization charged to income was Ps591,909 and Ps366,925 in 2002 and 2001, respectively.

m. Foreclosed assets

Foreclosed assets are recorded at the value at which they are adjudicated by the courts. That value 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 that allowance will be adjusted.

Those assets are considered as monetary items; hence, they are not subject to any restatement for inflation.

The recorded value of these assets can be written down if there is sufficient evidence that the value at which the asset can be realized is lower than the value recorded in books.

n. Leases

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

o. Permanent stock investments

These represent the investments in subsidiaries not belonging to the financial sector and are valued by using the equity method based on their book value, as well as other types of investments, in which the Bank's percentage interest is insignificant and which are valued at restated cost.

The amount of the equity in net income (loss) of affiliates and associated companies recorded in the income statement was Ps75,459 and (Ps2,590) in 2002 and 2001, respectively.

p. Income tax and employees' profit sharing

Income tax and employee profit sharing charged to income are based on the taxable income determined as the basis for paying those items.

The Bank recognizes the effect of deferred taxes determined by the comprehensive asset-and-liability method, in accordance with Statement D-4 "Accounting for income tax, asset tax and employees' profit sharing" issued by the IMCP, through a comparison of the accounting and tax values of the assets and liabilities. Temporary differences arising from this comparison are multiplied by the tax rate. On the other hand, employees' profit sharing is calculated taking into consideration the temporary differences of the year which will presumably result in future liabilities or benefits.

The net effect of the aforementioned items is presented in the balance sheet within the assets section under the caption "Deferred taxes".

q. Customer deposits

Customer deposit liabilities, including promissory notes with a yield payable at maturity, are recorded at the amount received plus accrued interest, determined by the days elapsed at the end of each month. Interest is charged to income of the year as accrued.

r. Labor liabilities

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

The Bank records seniority premiums, pension plans and retirement payments as they accrue, in accordance with actuarial calculations based on the projected unit credit method, and in compliance with guidelines established in Statement D-3 Labor Obligations, issued by the IMPC.

At December 31, 2002 and 2001 for pension plans and seniority premiums, the Bank had recorded estimated liabilities in accordance with Statement D-3.

At the beginning of 2001, the Bank implemented an optional defined contribution pension plan through which the company contributes preestablished cash amounts to a specific investment fund. The benefits to the employees will consist of the sum of such contributions plus or minus the gains or losses in the administration of such funds. The responsibility of the Bank in relation to such plans is limited to the payment of the specified contributions, and normally companies do not acquire the obligation to make supplementary contributions.

s. Stockholders' equity

Capital stock, retained earnings and net income of the year represent the historical amounts restated by UDI factors.

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.

t. Earnings per share

The basic earnings per share is determined by dividing the net income of the year by the weighted average shares outstanding. The diluted earnings, per share, when applicable, is determined by dividing the net income, adjusted for dilution, by the weighted average number of shares outstanding increased by the number of potentially dilutive shares.

u. Foreign currency position and investment units

Foreign currency denominated transactions 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 local currency (Mexican pesos) at the exchange rates or references values in effect issued by BANXICO at the balance sheet date. Differences are recorded in income in accordance with the exchange rate fluctuations between the transaction date and their liquidation or valuation at year-end.

v. 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 nonperformance by the debtor. Simultaneously, the liability payable by the Bank is recognized.

w. Custody and administration of assets

The Bank 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 Bank accepts responsibility for safeguarding assets.

x. Trusts

Trust assets are recognized in memorandum accounts, based on the implied responsibility of the Bank to fulfill the purpose of the trusts.

NOTE 5 - SIGNIFICANT DIFFERENCES WITH GENERALLY
ACCEPTED ACCOUNTING PRINCIPLES IN MEXICO:

- I. The financial statements have been prepared in conformity with the accounting practices established by the COMMISSION. Those practices are approximately similar to domestic and international accounting standards, which provide comparability with any other international financial entity. However, there are some differences with regard to the provisions of MEX GAAP, which are summarized below:

a. Consolidation

The consolidated financial statements include only the subsidiary companies belonging to the financial sector and those that render complementary or auxiliary services thereto, but not other subsidiaries, which are not consolidated. MEX GAAP require 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 require that these changes be recognized in the statement of income.

c. Repo transactions

Repo transactions are recognized as buy and sell transactions or as the temporary transfer of the securities that guarantee the transaction. However, they are not accounted for in accordance with the substance of the transaction (financing). They are valued considering the present value of the price of the security at the maturity of the transaction, instead of recognizing the accrued premium on a straight-line basis.

d. Foreclosed assets

These assets are considered monetary assets; therefore they are not restated and they form part of the calculation basis of the gain or loss on monetary position of the Bank. MEX GAAP consider this type of assets as non-monetary assets.

II. Taking into consideration that financial institutions perform specialized transactions, the COMMISSION issues specific accounting rules when it deems it convenient. In this respect, the COMMISSION has issued several official letters affecting the financial statements of the Bank, which reflect differences vis-à-vis MEX GAAP and, in some cases, with the general accounting practices established by the COMMISSION. The following are among the most important of these cases:

a. Investment in shares of BANCRECER

At the end of the 2001 the Bank acquired 100% of the capital stock of BANCRECER. Since management control of this institution was not taken over until January 2, 2002, the Bank recorded this investment, in the amount of Ps1,783,951 (Ps1,689,656 nominal value), within the held-to-maturity securities. Consequently, the financial statements of the Bank at December 31, 2001 were not consolidated with those of BANCRECER, nor was such investment valued by the equity method. MEX GAAP established that the investment should have been recorded in permanent investment in shares and valued by the equity method.

After the acquisition of BANCRECER was completed, the investment was consolidated with the Bank (from January 2002 onward).

b. Correction of overstatement of foreclosed assets

As mentioned in Note 2e, at December, 2001 the Bank cancelled an overstatement of the foreclosed assets in the amount of Ps312,855 (Ps296,318 nominal value), charging retained earnings and deferred taxes in the amount of Ps201,213 (Ps192,606 nominal value) and Ps109,500 (Ps103,712 nominal value), respectively.

Taking into account the origin of this operation, in conformity with the amount of the overstatement of foreclosed assets should have been recognized in the income of the year in which the reversal of the BANCEN Segment I trust occurred as in the year in which BANCEN considered it had the necessary evidence to estimate that arising on the reversal.

NOTE 6 - CONSOLIDATION OF FINANCIAL STATEMENTS:

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

At December 31, 2002 and 2001, the entities that consolidated with the Bank were the following:

	<u>Equity percentage</u>	
	<u>2002</u>	<u>2001</u>
<u>Subsidiaries</u>		
Inmobiliaria Banorte, S. A. de C. V. (1)	99.99%	99.99%
Constructora Primero, S. A. de C. V.	99.99%	99.99%
Derivados Banorte, S. A. de C. V. (2)	51.00%	51.00%
Inmobiliaria Bancrecer, S.A. de C. V. (3)	99.99%	-
Inmobiliaria Innova, S.A. de C. V. (3)	99.99%	-
Inmobiliaria Banormex, S.A. de C. V. (3)	99.99%	-
Inmuebles de Occidente, S.A. de C. V. (3)	99.99%	-
Inmobiliaria Finsa, S.A. de C. V. (3)	99.99%	-
Inmobiliaria Bra, S.A. de C. V. (3)	99.89%	-
Inmuebles de Tijuana, S.A. de C. V. (3)	99.86%	-
Corporacion Arrendadora Bancrecer, S.A. de C. V. (3)	99.99%	-
Poliservicio Profesional y Tecnico, S.A. de C. V. (3)	99.99%	-

- (1) On January, 2001, Inmobiliaria Banpais, S.A. de C.V. changed its name to Inmobiliaria Banorte, S.A. de C.V.
- (2) On January 29, 2001, the Bank acquired 51% of the shares of Derivados Banorte, S.A. de C.V. from Casa de Bolsa Banorte, S.A. de C.V for Ps1,077 (Ps1,020 nominal value), represented by 1,020,000 shares with a par value of Ps1 each.
- (3) As a result of the merger of the Bank with BANCRECER in the first quarter 2002, the indicated subsidiaries of BANCRECER were included in the consolidation from April 2002 onwards.

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

<u>Subsidiaries</u>	<u>2002</u>			<u>2001</u>	
	<u>Assets</u>	<u>Liabilities</u>	<u>Income (loss) for the year</u>	<u>Stockholders' equity</u>	<u>Stockholders' equity</u>
Inmobiliaria Banorte, S. A. de C. V.	Ps 673,891	Ps 201	(Ps 8,982)	Ps 673,690	Ps 682,664
Constructora Primero, S. A. de C. V.	293,915	61,215	(7,561)	232,700	240,240
Derivados Banorte, S.A. de C.V.	498	35	32	463	545
Inmobiliaria Bancrecer, S.A. de C. V.	546,772	244,629	(16,578)	302,143	-
Inmobiliaria Innova, S.A. de C. V.	239,061	98,887	(18,145)	140,174	-
Inmobiliaria Banormex, S.A. de C. V.	31,059	4,904	(188)	26,155	-
Inmuebles de Occidente, S.A. de C. V.	57,657	11,364	(277)	46,293	-
Inmobiliaria Finsa, S.A. de C. V.	97,845	17,912	(487)	79,933	-
Inmobiliaria Bra, S.A. de C. V.	84,365	10,882	3,423	73,483	-
Inmuebles de Tijuana, S.A. de C. V.	4,650	-	83	4,650	-
Corporacion Arrendadora					
Bancrecer, S.A. de C. V.	11,500	50	(92)	11,450	-
Poliservicio Profesional y Tecnico, S.A. de C. V.	1,060	-	(59)	1,060	-
Total	<u>Ps 2,042,273</u>	<u>Ps 450,079</u>	<u>(Ps48,831)</u>	<u>Ps1,592,194</u>	<u>Ps923,449</u>

NOTE 7 - CASH AND CASH EQUIVALENTS:

As of December 31, 2002 and 2001, cash and cash equivalents were summarized as shown below:

<u>Concept</u>	<u>2002</u>	<u>2001</u>
Cash	Ps 4,437,147	Ps 2,173,804
Deposits in BANXICO	13,643,111	2,776,193
Domestic and foreign banks	4,417,591	1,296,624
Call money	281,000	2,243,590
Other deposits and cash equivalents	164,834	95,749
Total	<u>Ps 22,943,683</u>	<u>Ps 8,585,960</u>

The balance of cash and cash equivalents as of December 31, 2002 comprised US\$471,847,000 (US\$91,002,000 in 2001) and Ps18,017,931 in Mexican pesos (Ps7,751,517 in 2001).

NOTE 8 - 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 risks of credit and market liquidity.

Risk management policies, as well as an analysis of the risks that the Bank is exposed to, are described in Note 33.

The investment securities position is summarized as shown below:

a. Trading securities

<u>Instrument</u>	<u>No. of Certificates</u>	<u>Market value</u>	<u>2002</u>			<u>Unrealized gain (loss)</u>	<u>2001</u>
			<u>Cost of acquisition</u>	<u>Interest</u>			<u>Market value</u>
Commercial paper	51,506,000	Ps 537,265	Ps 537,287	Ps -	(Ps 22)		Ps1,448,496
Federal Treasury	82,147,798	804,062	779,447	24,833	(218)		37,754
Bank securities	1,967,894,808	1,949,076	1,694,242	243,269	11,565		687,364
Nafin	598,705	556	252	235	69		-
BPAS	5,009	500	500	-	-		-
GEO	602,100	64,330	60,210	3,659	461		-
Brems	1,405	140	140	-	-		-
Private Pmp	-	-	-	-	-		96,807
Total	<u>2,102,755,825</u>	<u>Ps 3,355,929</u>	<u>Ps 3,072,078</u>	<u>Ps271,996</u>	<u>Ps11,855</u>		<u>Ps2,270,421</u>

b. Available-for-sale securities

<u>Instrument</u>	<u>No. of Certificates</u>	<u>Market value</u>	<u>2002</u>			<u>Unrealized gain (loss)</u>	<u>2001</u>
			<u>Cost of acquisition</u>	<u>Interest</u>			<u>Market value</u>
Eurobonds	113,500,000	Ps 585,152	Ps1,188,741	Ps 42,569	(Ps 646,158)		Ps 991,608
United Mexican Stats (UMS)	<u>57,000,000</u>	<u>723,956</u>	<u>672,706</u>	<u>20,524</u>	<u>30,726</u>		-
Total	<u>170,500,000</u>	<u>Ps1,309,108</u>	<u>Ps1,861,447</u>	<u>Ps 63,093</u>	<u>(Ps 615,432)</u>		<u>Ps991,608</u>

At March 2001, the Bank 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, the Bank held US\$68.5 million of EUROBONDS issued by AHMSA and CYDSA that mature in 2002, 2004, and 2009. An estimated loss reserve was created as of December 2001 in the amount of US\$60.1, including US\$6 million corresponding to CYDSA. The effect of that valuation is recognized in stockholder equity under "Valuation gain (loss) on available-for-sale securities". The Bank's transferred this recognized such amount in 2002 to retained earnings upon observing a sustained decrease in the value of these securities.

Furthermore, by authorization of the COMMISSION, effective May 1999 interest ceased being accrued on AHMSA's EUROBONDS, which amounted to US\$2.9 million at that date.

At December 31, 2002, AHMSA and CYDSA's EUROBONDS suffered a decline in value of US\$2.5 million (including US\$1.8 million from AHMSA) which was charged to income of the year. Consequently, their market value amounted to US\$6.7 million at December 31, 2002.

At February 14, 2003, date of issuance of the financial statements, the EUROBONDS of AHMSA and CYDSA showed a gain (loss) on market valuation of Ps26,072 (Ps9,234), respectively, of which only the loss on valuation of CYDSA was recognized in income for 2003.

c. Held-to-maturity securities

<u>Instrument</u>	<u>2002</u>			<u>2001</u>
	<u>Cost of acquisition</u>	<u>Accrued interest</u>	<u>Net value</u>	<u>Net value</u>
Special Federal Treasury Certificates	Ps 4,715,195	Ps1,647,978	Ps6,363,173	Ps 3,615,442
Shares of Bancrecer (1)	-	-	-	1,765,154
Clearing Master Trust (2) (Note 32)	108,466	-	108,466	91,586
Azteca Strip Bonds	263,554	-	263,554	-
Myra Bonds	9,060	111	9,171	-
Nemak	156,590	15	156,605	-
Trust rights	24,605	-	24,605	29,234
United Mexican States (UMS)	3,606,386	118,692	3,725,078	-
UDI Trust Bonds	(3,271,458)	-	(3,271,458)	(2,613,330)
Total	<u>Ps 5,612,398</u>	<u>Ps 1,766,796</u>	<u>Ps7,379,194</u>	<u>Ps 2,888,086</u>

- (1) As mentioned in Note 2a, the Bank was authorized by the COMMISSION to record its investment in BANCRECER shares within this category of investment securities at December 31, 2001.
- (2) This amount corresponds to the value of notes supporting the flow of remittances in transit pending collection; therefore, it is considered a restricted asset at the end of each month and each year.

NOTE 9 - SECURITIES AND DERIVATIVES TRADING:

a. Repo transactions

The repo transactions in process at December 31, are summarized as shown below:

The Bank as seller

<u>Instrument</u>	<u>2002</u>			<u>2001</u>		
	<u>Securities receivable</u>	<u>Payables under repo agreements</u>	<u>Difference</u>	<u>Securities receivable</u>	<u>Payables under repo agreements</u>	<u>Difference</u>
Federal Treasury	Ps 5,608,806	Ps 5,602,859	Ps 5,947	Ps 4,388,032	Ps 4,376,140	Ps 11,892
Bondes	-	-	-	29,167	29,154	13
Brems	11,248,375	11,247,448	927	9,063,269	9,081,885	(18,616)
Tribondes	4,612,798	4,614,198	(1,400)	629,951	633,026	(3,075)
IPAB bonds	37,420,005	37,399,200	20,805	17,590,047	17,570,112	19,935
Bank bonds	813,655	810,964	2,691	4,148,039	4,148,154	(115)
Cedes	7,184,633	7,187,431	(2,798)	4,817,877	4,817,808	69
Bondes 91	59,891	59,855	36	2,045,207	2,038,775	6,432
Pagarés	83,031	83,040	(9)	448,661	448,669	(8)
Bond	62,787	62,752	35	2,100,005	2,080,542	19,463
BPAS	-	-	-	2,161,824	2,119,164	42,660
Bondes 182	3,400,762	3,393,112	7,650	-	-	-
Tribondes IPAB	1,189,800	1,187,088	2,712	-	-	-
Total	<u>Ps71,684,543</u>	<u>Ps71,647,947</u>	<u>Ps 36,596</u>	<u>Ps 47,422,079</u>	<u>Ps 47,343,429</u>	<u>Ps 78,650</u>

With the Bank as the selling entity, the accrued premiums charged to income amounted to Ps4,697,457 in 2002 (Ps5,353,336 in 2001).

The Bank as purchaser

<u>Instrument</u>	<u>2002</u>			<u>2001</u>		
	<u>Receivables under repo agreements</u>	<u>Securities payable</u>	<u>Difference</u>	<u>Receivables under repo agreements</u>	<u>Securities payable</u>	<u>Difference</u>
Federal Treasury	Ps 5,604,287	Ps 5,608,632	(Ps 4,345)	Ps 4,367,709	Ps4,378,087	(Ps 10,378)
Bondes	-	-	-	29,141	29,167	(26)
Brems	11,249,124	11,248,515	609	9,084,806	9,063,269	21,537
Tribonds	4,616,511	4,612,798	3,713	633,611	629,951	3,660
Cedes	7,187,250	7,184,637	2,613	4,817,789	4,817,878	(89)
Bank bonds	812,180	813,655	(1,475)	4,149,459	4,148,039	1,420
Bondes 91	59,895	59,891	4	2,029,645	2,034,594	(4,949)
Pagarés	83,040	83,032	8	418,416	418,407	9
IPAB Bonds	37,413,165	37,420,504	(7,339)	17,577,371	17,590,047	(12,676)
Bond	62,766	62,787	(21)	1,075,162	1,088,255	(13,093)
UdiBond	-	-	-	2,121,676	2,161,824	(40,148)
Bondes 182	3,393,821	3,400,762	(6,941)	-	-	-
Tribonds IPAB	1,187,898	1,189,800	(1,902)	-	-	-
Total	<u>Ps71,669,937</u>	<u>Ps71,685,013</u>	<u>(Ps15,076)</u>	<u>Ps46,304,785</u>	<u>Ps46,359,518</u>	<u>(Ps54,733)</u>

With the Bank as the buying entity, the accrued premiums recognized in income amounted to Ps5,033,029 in 2002 (Ps4,116,259 in 2001).

b. Derivative financial instrument trading

The Bank trades the following derivative financial instruments: forwards, futures, swaps, warrants and options.

The Bank'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 shareholders' and customers' capital (see Note 33).

As of December 31, 2002 and 2001, the Bank's derivative financial instrument positions are summarized as shown below:

<u>Instrument</u>	<u>2002</u>		
<u>Foreign currency forwards:</u>	<u>Buy</u>	<u>Sell</u>	<u>Net</u>
Market value	Ps 371,862	(Ps 29,126)	Ps342,736
Agreed price	(362,069)	28,544	(333,525)
Net asset position	<u>Ps 9,793</u>	<u>(Ps 582)</u>	<u>Ps 9,211</u>
<u>Swaps</u>	<u>Flow receivable</u>	<u>Flow payable</u>	<u>Net flows</u>
Cross currency	Ps5,202,371	(Ps6,010,338)	(Ps807,967)
Interest rate	19,202	(27,827)	(8,625)
	<u>Ps5,221,573</u>	<u>(Ps6,038,165)</u>	<u>(Ps816,592)</u>
<u>Foreign currency options:</u>	<u>Opening premium</u>	<u>Valued premium</u>	<u>Valuation</u>
Premium collected	(Ps 663)	(Ps 73)	(Ps 736)
Net liability position			<u>(Ps817,328)</u>

<u>Instrument</u>	<u>2001</u>		
<u>Swaps</u>	<u>Flow receivable</u>	<u>Flow payable</u>	<u>Net flows</u>
Cross currency	Ps1,240,814	(Ps1,211,929)	Ps 28,885
Interest rate	26,967	(39,722)	(12,755)
Net asset position	<u>Ps1,267,781</u>	<u>(Ps1,251,651)</u>	<u>Ps 16,130</u>

	<u>Buy</u>	<u>Sell</u>	<u>Net</u>
<u>Foreign currency forwards:</u>			
Market value	Ps 996,168	(Ps 599,208)	Ps396,960
Agreed price	(1,008,701)	601,532	(407,169)
	(Ps 12,533)	Ps 2,324	(Ps 10,209)
 <u>Opening premium Valued premium Valuation</u>			
<u>Foreign currency options:</u>			
Premium collected	(Ps 366)	Ps 300	(Ps 66)
Net liability position			(Ps 10,275)

The Bank's operations for hedging purposes comprise foreign currency and interest rate swaps. Foreign currency swaps fall due between 2003 and 2011. Interest rate swaps fall due between 2003 and 2017, in order to offset the financial risk of long-term loans offered by the Bank at a fixed rate.

The Bank's operations for trading purposes are intended to provide a service to the customer who needs to have a hedge.

The book value of the collateral constituted to comply with obligations established in interest rate swap contracts at December 31, 2002, amounted, to Ps9,653 (Ps21,901 in 2001), represented by debt instruments (special federal treasury certificates). In the case of foreign currency swaps, the value of collateral at December 31, 2002, was US\$356,832 represented by debt instruments (UMS). (see Note 8 c)

NOTE 10 - LOAN PORTFOLIO:

The loan management process is based on internal manuals drawn up by the Bank. Compliance with that manual is general, hence control over loan portfolio management is exercised in three central areas: the Branches (under the Commercial Banking Division), Operations Division and Risk Management Division.

The manual sets forth the policies and procedures established to determine concentrations of credit risks.

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

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

There are scheduled 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.

- a. As of December 31, 2002 and 2001, the current loan portfolio of the Bank was summarized as shown below:

<u>Type of loan</u>	<u>2002</u>			<u>2001</u>
	<u>Principal</u>	<u>Accrued interest</u>	<u>Total current portfolio</u>	<u>Total current portfolio</u>
Commercial portfolio	Ps 3 1,730,324	Ps 174,012	Ps 31,904,336	Ps 21,316,052
Loans to financial intermediaries	7,850,939	6,359	7,857,298	1,504,260
Consumer loans	4,961,421	22,894	4,984,315	2,422,068
Mortgage loans	11,868,711	2,886	11,871,597	4,629,753
Loans to government entities	84,485,525	498,613	84,984,138	41,189,797
Loans to FOBAPROA or IPAB	<u>6,526,848</u>	<u>-</u>	<u>6,526,848</u>	<u>10,665,242</u>
Total current loan portfolio	<u>Ps147,423,768</u>	<u>Ps 704,764</u>	<u>Ps 148,128,532</u>	<u>Ps 81,727,172</u>

The loans to government entities include a straight loan in the amount of Ps32,887,437 granted to IPAB in November 2000 (Ps37,356,985 in 2001). This loan is for a 10-year term (4 promissory notes maturing November 2010), repayable in six-monthly installments commencing in month No. 58.

The interest accrued on that loan is payable monthly from the date the loan was granted, at the TIIE rate plus 0.85 percentage points. This transaction was carried out simultaneously with the settlement of the promissory notes signed by IPAB in favor of BANCEN and BANPAIS.

This item also includes Ps46,282,816 corresponding to a straight loan granted in November 1999 to IPAB by BANCRECER, so that the IPAB could capitalize BANCRECER with a nominal amount of Ps102,200,000. With these resources, BANCRECER paid for the collection rights added by BANXICO on the loan granted to IPAB, which falls due on November 1, 2009. The interest was payable originally on a quarterly basis at the higher of the weighted average bank funds rate plus 3.5 percentage points, adjustable every quarter, are that equivalent to the percentage change in the value of UDIs. On November 22, 2000, a change in interest rate was approved. The new rate was at the arithmetical average of the TIIE published during each interest period, plus 2.5 percentage points during January 2001, 2 percentage points during February 2001, 1.5 percentage points during March 2001, 1 percentage point during April 2001, and 0.40 percentage points from May 1, 2001 onward, payable monthly. In 2002 and 2001, interest accrued and recorded in income for the year amounted to Ps3,988,203 and Ps6,736,880, respectively.

<u>Concept</u>	<u>2002</u>			<u>2001</u>
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Total</u>
Straight loan to IPAB (BANCRECER)	<u>Ps45,940,407</u>	<u>Ps 342,409</u>	<u>Ps46,282,816</u>	<u>Ps -</u>

The loans to government entities include benefits granted to debtors in the amount of Ps184,418 (Ps520,643 in 2001). The Federal Government granted these benefits through the implementation of various Support to Bank Debtors Programs.

In 2002 and 2001, the Bank recognized extraordinary revenues in the amount of Ps175,716 and Ps223,831, respectively, directly in income, corresponding to interest received from the Federal Government for conditional support of the farming and corporate programs, respectively.

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

<u>Type of loan</u>	<u>2002</u>			<u>2001</u>
	<u>Principal sum due</u>	<u>Interest due</u>	<u>Total past due portfolio</u>	<u>Total past due portfolio</u>
Commercial portfolio	Ps2,226,508	Ps 94,463	Ps2,320,971	Ps 2,382,705
Consumer loans	297,560	28,976	326,536	333,551
Mortgage loans	<u>1,590,524</u>	<u>193,198</u>	<u>1,783,722</u>	<u>1,666,149</u>
Total past due loan portfolio	<u>Ps4,114,592</u>	<u>Ps316,637</u>	<u>Ps4,431,229</u>	<u>Ps 4,382,405</u>

- c. The rating of the portfolio and the allowances created by the Bank as of December 31, 2002 and 2001, are summarized below:

<u>Rated loan portfolio</u>					<u>Allowance for loan losses</u>	
<u>Risk</u>	<u>2002</u>		<u>2001</u>		<u>2002</u>	<u>2001</u>
	<u>%</u>	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>Amount</u>	<u>Amount</u>
A	80.06%	Ps 44,465,433	76.47%	Ps 26,696,493	Ps 318,956	Ps 197,569
B	10.10%	5,609,168	8.92%	3,114,693	426,393	335,405
C	3.48%	1,934,821	4.55%	1,588,656	604,755	558,170
D	2.84%	1,579,762	4.41%	1,540,170	1,112,008	1,082,378
E	3.52%	1,947,771	5.65%	1,972,478	1,929,692	1,949,926
	<u>100.00%</u>	<u>55,536,955</u>	<u>100.00%</u>	<u>34,912,490</u>	<u>4,391,804</u>	<u>4,123,448</u>
Portfolio:						
Unrated		339,215		648,710		
Excepted		<u>97,524,703</u>		<u>51,099,763</u>		
Total		<u>Ps 153,400,873</u>		<u>Ps 86,660,963</u>		
Allowance for loan losses recorded					<u>5,153,029</u>	<u>4,291,078</u>
Allowance for loan losses created in excess					<u>Ps 761,225</u>	<u>Ps 167,630</u>

The rated portfolio by type of loan is analyzed as follows:

Risk degree	December 31, 2002				December 31,
	Commercial	Consumer	Mortgage	Total	2001
A	Ps 32,680,421	Ps 4,296,982	Ps 7,488,030	Ps 44,465,433	Ps 26,696,493
B	1,318,868	605,208	3,685,092	5,609,168	3,114,693
C	1,064,471	119,535	750,815	1,934,821	1,588,656
D	60,231	145,149	1,374,382	1,579,762	1,540,170
E	<u>1,754,934</u>	<u>192,837</u>	<u>-</u>	<u>1,947,771</u>	<u>1,972,478</u>
Rated portfolio	36,878,925	5,359,711	13,298,319	55,536,955	34,912,490
Unrated	31,076	(48,860)	356,999	339,215	648,710
Excepted	<u>97,524,703</u>	<u>-</u>	<u>-</u>	<u>97,524,703</u>	<u>51,099,763</u>
Total	<u>Ps134,434,704</u>	<u>Ps 5,310,851</u>	<u>Ps13,655,318</u>	<u>Ps 153,400,873</u>	<u>Ps86,660,963</u>

The allowance for loan losses constituted by the Bank as of December 31, 2002 and 2001, includes Ps74,803 corresponding to a supplement to create a reserve for 100% of interest due as of year end (Ps84,328 in 2001).

In conformity with the rules for rating the loan portfolio issued by the SHCP and the COMMISSION, the Bank determined the allowance for loan losses by taking into account the capacity of debtors to pay. The commercial loans were rated at December 31, 2002.

The mortgage portfolio and consumer portfolio, based on the rule of the COMMISSION, are rated monthly based on the number of past due installments.

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

	2002	2001
Balance at beginning of year	Ps4,291,078	Ps 4,195,534
Increase in the allowance charged to income (1)	659,629	911,639
Reserves existing in BANCRECER at January 1, 2002	786,865	-
Losses and write-offs	(614,241)	(681,285)
Transfer of reserves due to purchase of segmented portfolio	-	175,225
Restatement effects	(226,814)	(200,648)
Appreciation of foreign currency items and UDIs	231,594	16,388
Reductions and benefits to mortgage debtors	(122,518)	(157,580)
Contributions by the Bank	73,402	-
Create from profit margin	33,379	40,135
Benefits to FOPYME and FINAPE programs	(12,657)	(11,695)
Maturity of Segment I trust (Banpaís)	-	20,812
Others	<u>53,312</u>	<u>(17,447)</u>
Balance at end of year	<u>Ps5,153,029</u>	<u>Ps 4,291,078</u>

- (1) The allowance for loan losses charged to income in the year amounted to Ps783,609 (Ps1,147,897 in 2001). This amount comprised Ps747,706 (Ps968,800 in 2001), credited directly to the reserve and Ps35,903 (Ps179,095 in 2001), corresponding to the recognition of the loss shared with the IPAB, derived from the financial rescue program. This last amount is presented in the balance sheet under the caption "Loans to FOBAPROA or IPAB".

NOTE 11 - IPAB:

As part of the steps taken to deal with 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 "Instituto para la Protección al Ahorro Bancario" (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 geared toward avoiding financial problems that may be faced by credit institutions, as well as to insure performance by these institutions with regard to depositors.

In exchange for the loan portfolio sold to FOBAPROA, the Bank received promissory notes payable by FOBAPROA, which mature in 8 to 10 years, counted from the date of the transaction. The Bank retained the obligation to share in 29% or 25% of the loss suffered by FOBAPROA on the transferred portfolio. In the event any gains were generated on that portfolio, those gains would apply completely to the Bank.

Payments made to the IPAB during 2002 for fees amounted to Ps643,474 (Ps369,432 in 2001).

The loan transfers carried out by the Bank and FOBAPROA were assumed by the IPAB.

The caption denominated "Loans to FOBAPROA or IPAB" in the balance sheet as of December 31, 2002 and 2001, comprises the following promissory notes:

<u>Trust</u>	<u>2002</u>			<u>2001</u>
	<u>Capital</u>	<u>Interest</u>	<u>Total</u>	<u>Total</u>
477 Tranche I	Ps 161,101	Ps 1,414,489	Ps 1,575,590	Ps 1,564,609
477 Tranche II	430,547	964,976	1,395,523	1,385,960
477 Tranche III	336,885	911,111	1,247,996	1,239,298
490	2,040,771	4,295,187	6,335,958	6,277,321
508	467,073	857,317	1,324,390	1,297,733
19001	-	11,239	11,239	1,670,209
19000	-	23,436	23,436	3,482,750
Loss shared with FOBAPROA			(2,405,058)	(2,502,269)
FOBAPROA current account			(2,982,226)	(3,750,369)
	<u>Ps 3,436,377</u>	<u>Ps 8,477,755</u>	<u>Ps 6,526,848</u>	<u>Ps10,665,242</u>

**NOTE 12 - CONSOLIDATION OF TRUSTS FOR RESTRUCTURED
LOANS DENOMINATED IN UDIs:**

The rules of the COMMISSION require consolidating the trusts of restructured loans denominated in UDIs with the Bank, in order to reflect the operating fund, which is presented similarly to an interest rate swap with the Federal Government.

- a. The balances of the items corresponding to trust assets and liabilities, as of December 31, 2002 and 2001, are summarized as shown below:

<u>Assets</u>	<u>2002</u>	<u>2001</u>
Banks	Ps 137,245	Ps 22,064
Government securities	7,361	6,509
Loan portfolio	3,271,452	2,623,849
Past due portfolio	764,599	728,734
Interest accrued on loans	8,300	7,849
Past due interest	41,288	41,664
Allowance for loan losses	(890,682)	(775,185)
Total assets	<u>Ps3,339,563</u>	<u>Ps2,655,484</u>
<u>Liabilities and income</u>	<u>2002</u>	<u>2001</u>
Trust bonds	Ps3,271,458	Ps2,613,330
Other accounts payable	8,226	-
Deferred taxes	55,077	36,261
Income of the year	<u>4,802</u>	<u>5,893</u>
Total liabilities	<u>Ps3,339,563</u>	<u>Ps2,655,484</u>

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

<u>Recorded by the trusts</u> <u>debit (credit)</u>	<u>2002</u>	<u>2001</u>
Banks	Ps 137,245	Ps 22,064
Trust bonds	3,271,458	2,613,330
Administrative expenses recovered	(99,698)	(85,853)
Interest paid	(150,015)	(134,605)

<u>Recorded by the Bank</u> <u>debit (credit)</u>	<u>2002</u>	<u>2001</u>
Sundry creditors	(Ps 137,245)	(Ps 22,064)
Held-to-maturity securities	(3,271,458)	(2,613,330)
Fees collected	99,698	85,853
Interest earned	150,015	134,605

- c. The amount of the total program of loans in UDIs as of December 31, 2002 and 2001 is summarized below:

<u>Item</u>	<u>2002</u>				<u>2001</u>
	<u>States and municipalities</u>	<u>Mortgage</u>	<u>Industrial sector</u>	<u>Total</u>	<u>Total</u>
Current portfolio	Ps1,149,515	Ps1,987,773	Ps134,164	Ps3,271,452	Ps 2,623,849
Current interest	639	6,736	925	8,300	7,849
Past due portfolio	-	471,435	293,164	764,599	728,734
Past due interest	-	20,082	21,206	41,288	41,664
Total	<u>Ps1,150,154</u>	<u>Ps 2,486,026</u>	<u>Ps449,459</u>	<u>Ps4,085,639</u>	<u>Ps 3,402,096</u>

During fiscal 2002 an allowance for loan losses was created using the profit margin of the trusts, amounting to Ps33,379 (Ps38,355 in 2001).

NOTE 13 - FORECLOSED ASSETS:

The amount of foreclosed assets as of December 31, 2002 and 2001 is summarized below:

<u>Item</u>	<u>2002</u>	<u>2001</u>
Personal property	Ps 362,870	Ps 354,450
Real property	775,725	895,475
Promised-for-sale assets	<u>274,405</u>	<u>263,950</u>
	1,413,000	1,513,875
Allowance for asset write-down	(222,839)	(103,917)
Total foreclosed assets	<u>Ps1,190,161</u>	<u>Ps 1,409,958</u>

In 2002, the amount generated from the recovery of personal and real property was Ps20,371 (Ps24,519 en 2001).

NOTE 14 - PROPERTY, FURNITURE AND EQUIPMENT:

Property, furniture and equipment as of December 31, 2002 and 2001 is summarized below:

<u>Item</u>	<u>2002</u>	<u>2001</u>
Buildings and constructions	Ps3,743,876	Ps 2,075,514
Electronic computer equipment	943,178	768,579
Furniture and office equipment	732,460	500,309
Transportation equipment	39,171	44,124
Installations and improvements	<u>1,343,914</u>	<u>1,002,070</u>
	6,802,599	4,390,596
Accumulated depreciation	(1,447,648)	(833,557)
Total property, furniture and equipment, net	<u>Ps5,354,951</u>	<u>Ps 3,557,039</u>

NOTE 15 - PERMANENT STOCK INVESTMENTS:

The Bank maintains permanent stock investments in associated and subsidiary companies which are not consolidated. These were valued by the equity method at December 31, 2002 and 2001, as follows:

<u>Investee</u>	<u>2002</u>			<u>2001</u>
	<u>Acquisition cost</u>	<u>Surplus or (deficit)</u>	<u>Total</u>	<u>Total</u>
Servicio Panamericano de Protección, S.A. de C.V.	Ps 50,958	Ps 169,672	Ps 220,630	Ps 208,694
Sólida Administradora de Portafolios, S.A. de C.V.	65,050	6,427	71,477	73,837
Controladora Prosa, S.A. de C.V.	47,486	(3,580)	43,906	39,554
Corporativo Edinbur, S.A. de C.V.	17,798	(3,970)	13,828	15,468
S.D. Indeval, S.A. de C.V.	3,000	14,249	17,249	10,307
Afinad, S.A. de C. V. Norte (MD-A)	4,142	5,234	9,376	9,388
Procesar, S.A. de C.V.	8,143	(1,106)	7,037	3,739
Others	<u>39,737</u>	<u>25,406</u>	<u>65,143</u>	<u>47,410</u>
Total	<u>Ps 236,314</u>	<u>Ps 212,332</u>	<u>Ps 448,646</u>	<u>Ps 408,397</u>

- (1) In June 2002, the ratings agency Fitch Ratings assigned the category of Financial Asset Manager with the rating of High Average (mex) to Sólida. Since its founding Sólida has participated constitution has been participated in the loan asset auctions carried out by IPAB, and has obtained around of 50% of the loan portfolios auctioned.

NOTE 16 - DEFERRED TAXES:

The income tax currently payable by the Bank only reflects the taxable income of the year, measured in accordance with currently enacted tax legislation. However, due to the temporary differences in recognizing revenues and expenses for accounting and tax purposes, as well as the differences in balance sheet accounts between book and tax balances, the Bank has recognized a net deferred tax asset, which includes deferred profit sharing, amounting to Ps1,002,348 (Ps1,014,815 in 2001) determined using a 35% rate for the income tax and a 10% rate for profit sharing shown below:

	<u>2002</u>			<u>2001</u>		
	<u>Temporary differences</u>	<u>Income tax</u>	<u>Deferred Profit sharing</u>	<u>Temporary differences</u>	<u>Income tax</u>	<u>Deferred Profit sharing</u>
Loss sharing with FOBAPROA	Ps 2,060,113	Ps 721,040	Ps -	Ps 2,144,029	Ps 750,410	Ps -
Tax loss carryforwards (1)	938,252	328,388	-	3,892,760	1,362,466	-
Loss on valuation of securities	581,769	203,619	58,177	613,118	214,591	61,312
Excess of tax over book value of foreclosed assets	796,060	278,621	-	130,639	45,724	-
Allowance for loan losses (not deductible)(2)	-	-	-	631,019	220,857	-
Others	<u>133,163</u>	<u>46,607</u>	<u>13,316</u>	<u>353</u>	<u>123</u>	<u>-</u>
TOTAL DEFERRED ASSETS	<u>Ps 4,509,357</u>	<u>Ps 1,578,275</u>	<u>Ps 71,493</u>	<u>Ps 7,411,918</u>	<u>Ps 2,594,171</u>	<u>Ps 61,312</u>

	2002			2001		
	Temporary differences	Income tax	Deferred Profit sharing	Temporary differences	Income tax	Deferred Profit sharing
Accrued interest and inflationary component of transactions with FOBAPROA (2))	Ps -	Ps -	Ps -	Ps 3,008,635	Ps 1,053,022	Ps -
Excess of book over tax value of fixed assets and prepaid expenses	1,565,757	548,015	44,328	1,447,724	506,703	44,682
Income tax payable on UDI trusts	-	55,077	-	-	36,261	-
TOTAL DEFERRED LIABILITIES	<u>Ps 1,565,757</u>	<u>Ps 603,092</u>	<u>Ps 44,328</u>	<u>Ps 4,456,359</u>	<u>Ps 1,595,986</u>	<u>Ps 44,682</u>
NET DIFFERENCE	<u>Ps 2,943,600</u>	<u>Ps 975,183</u>	<u>Ps 27,165</u>	<u>Ps 2,955,559</u>	<u>Ps 998,185</u>	<u>Ps 16,630</u>
DEFERRED TAX ASSET			<u>Ps 1,002,348</u>			<u>Ps 1,1014,815</u>

(1) Based on an analysis made by the Bank's management at the end of 2002, only Ps938,252 of a total of Ps3,964,463 of tax loss carryforwards are expected to be realized (see Note 30 c.)

(2) During 2002, the deferred tax calculation was decreased by a net amount of Ps832,165 as a result of the reversal of temporary differences.

The deferred tax effect of the year was a decrease in the deferred tax asset in the amount of Ps12,467, derived from the Bank's recognition of the incorporation of BANCRECER's subsidiaries, Ps63,019, as well as a charge to income for the year of Ps28,434 and an increase in stockholders' equity in item "effect from valuation of available-for-sale securities" in the amount of Ps78,986.

The charge to income for the year in the amount of Ps28,434 comprised a credit in the amount of Ps20,070 shown in the statement of income as "Deferred income tax" and a charge in the amount of Ps48,504 included in the monetary gain.

During the year the Bank realized tax losses, due to the interest accrued and the inflationary component of transactions with FOBAPROA. Also, the allowance for loan losses from prior years was fully deducted.

As a result of the amendments to the Income Tax Law, published on January 1, 2002, the tax rate (35%) will be reduced annually commencing in 2003, until it reaches 32% in 2005. At December 31, 2002, the Bank determined the deferred tax by applying a 35% rate instead of the effective 34% rate; consequently, this decrease in the tax rate will reduce, in 2003, the deferred tax asset by Ps50,202, decreasing the income for the year and the stockholders' equity in the amount of Ps43,053 and Ps7,149, respectively.

Management has drawn up financial and tax projections, based on economic forecasts estimated to be conservative. These allow management to be confident of recovering the deferred tax asset with future taxable income in the normal course of the operations of the Bank.

NOTE 17 - OTHER ASSETS:

The other assets recorded as of December 31, 2002 and 2001, are analyzed below:

<u>Asset</u>	<u>2002</u>	<u>2001</u>
Investments of provisions for personnel pensions (see Note 22)	Ps 1,076,449	Ps 455,490
Provision for labor obligations (see Note 22)	(1,076,449)	(455,490)
Other deferred expenses	857,608	790,073
Accumulated amortization of other expenses	(179,554)	(113,180)
Goodwill (see Note 2f.)	61,295	-
Guarantee deposits	<u>345</u>	<u>364</u>
Total	<u>Ps 739,694</u>	<u>Ps 677,257</u>

NOTE 18 - DEMAND DEPOSITS:

The balance of this item as of December 31, 2002 and 2001 is summarized below:

	<u>2002</u>	<u>2001</u>
Non-interest-bearing checking accounts without interest	Ps 17,820,369	Ps 11,968,857
Checking accounts with interest-bearing	18,625,053	12,753,941
US dollar denominated checking accounts	3,537,290	2,594,640
US dollar denominated checking accounts in the border	1,746,588	733,694
Deposits in savings accounts	31,444	38,084
Demand deposits in peso current accounts	8,646,663	3,136,203
IPAB checking account	2,372,883	-
Demand deposits in US-dollar-denominated current accounts	101	93
Accrued interest payable	<u>582</u>	<u>8</u>
Total	<u>Ps52,780,973</u>	<u>Ps31,225,520</u>

These liabilities accrue interest at an annual interest rate that fluctuates between 0.55% and 3.26% (0.95% and 8.76% in 2001) depending on the type of instrument and the average balance maintained in the accounts.

NOTE 19 - TERM DEPOSITS:

The balance of this item as of December 31, 2002 and 2001, is summarized below:

	<u>2002</u>	<u>2001</u>
Promissory notes with yield at maturity	Ps 23,636,206	Ps 12,737,872
Money desk promissory notes	56,223,587	29,153,000
Peso-denominated fixed-term deposits	3,054,741	293,572
US-dollar-denominated fixed-term deposits	5,660,370	4,665,968
Deposits withdrawable on preestablished days	293,131	291,766
Others deposits in US dollars	-	39
Accrued interest payable	<u>471,993</u>	<u>261,144</u>
Total	<u>Ps 89,340,028</u>	<u>Ps 47,403,361</u>

These deposits accrue interest at annual rates ranging from 3.09% to 12.31% in 2002 (1.00% to 15.54% in 2001), depending on the balances and yields.

NOTE 20 - OUTSTANDING BANK BONDS:

As of December 31, 2002 and 2001, the Bank had the following bonds outstanding:

	<u>2002</u>	<u>2001</u>
BANORTE 1-00 issue of 10,000,000 bonds with a face value of one hundred pesos each, due on May 1, 2003, with interest payable every 189 days at a 15.59% annual fixed rate.	Ps 1,000,000	Ps 1,055,807
BANORTE 2-00 issue of 2,500,000 bonds with a face value of one hundred pesos each, due on September 4, 2003, with interest payable every 189 days at a 16.00% annual fixed rate.	<u>250,000</u>	<u>263,952</u>
	Ps 1,250,000	Ps 1,319,759
Accrued interest payable	<u>44,548</u>	<u>54,503</u>
Total	<u>Ps 1,294,548</u>	<u>Ps 1,374,262</u>

The total interest expense on these bonds was Ps198,621 in 2002(Ps209,705 in 2001).

NOTE 21 - INTERBANK AND OTHER ENTITY LOANS:

The balance of this item as of December 31, 2002 and 2001, is summarized below:

	<u>2002</u>	<u>2001</u>
Deposits and bank loans	Ps 24,441,459	Ps 4,677,123
Deposits and loans from foreign banks	41,919	791,091
Loans on rediscounted portfolio	5,564,020	4,359,099
CPO's issued (see Note 32)	544,754	2,525,952
Call money	46,000	316,742
FOVI rediscounts	4,774,640	1,661,694
Accrued interest payable	64,842	22,658
Total	<u>Ps 35,477,634</u>	<u>Ps 14,354,359</u>

The balances of loans recorded in currencies denominated in referred to the US dollars and Mexican pesos, as of December 31, 2002 and 2001, are summarized below:

	<u>Hired</u>		<u>At exchange rate</u>	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
Thousands of U.S. dollars	US\$ 208,717	US\$ 576,828	US\$ 2,178,857	US\$ 5,289,226
National currency	Ps \$33,298,777	Ps \$9,065,133	<u>Ps \$33,298,777</u>	<u>Ps \$ 9,065,133</u>
Total			<u>US\$35,477,634</u>	<u>US\$14,354,359</u>

NOTE 22 - LABOR LIABILITIES:

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

The amount of actuarial present value of benefit obligations and projected benefits as of December 31, 2002 and 2001, corresponding to the "Defined Benefit Pension and Seniority Premium Plan", determined by independent experts, is summarized below:

	<u>2002</u>		<u>2001</u>	
	<u>Personnel pensions</u>	<u>Seniority premiums</u>	<u>Personnel pensions</u>	<u>Seniority premiums</u>
Projected benefit obligation (PBO)	Ps 541,930	Ps 74,346	Ps 224,473	Ps 50,051
Plan assets at market value	<u>631,213</u>	<u>68,874</u>	<u>169,387</u>	<u>75,529</u>
Plan financial situation	(89,283)	5,472	55,086	(25,478)
Unamortized transition liability (asset)	(77,800)	22,016	(106,687)	40,768
Prior service and amendments of plans, unamortized	-	4,998	104,600	6,772
Assumption changes and adjustments for experience, unamortized	-	-	(52,999)	(22,062)
Unrecognized actuarial loss	-	(18,730)	-	-
Projected net (asset) liability (1)	<u>(Ps 167,083)</u>	<u>Ps 13,756</u>	<u>Ps -</u>	<u>Ps -</u>
Accumulated benefit obligation (ABO)	<u>Ps 494,368</u>	<u>Ps 56,501</u>	<u>Ps 82,586</u>	<u>Ps 34,972</u>

<u>Item</u>	<u>2002</u> Medical services for <u>retired personnel</u>
Projected benefit obligation (PBO)	Ps 731,309
Plan assets at market value	<u>136,570</u>
Financial situation	594,739
Unamortized transition (liability) asset	(441,412)
Prior service and amendments of plans, unamortized	-
Assumption changes and adjustment for experience, unamortized	-
Unrecognized (gain) loss	-
Projected net liability (1)	<u>Ps 153,327</u>
Accumulated benefit obligation (ABO)	<u>-</u>

(1) Medical expenses for retired personnel in the amount of Ps153,327 should be added to the projected net liability of BANORTE for the benefits retired personnel receive after their retirement. Consequently, the Bank has a net accounting provision with a zero balance, but has assets (in an external fund) that amount to Ps836,657 (including the corresponding medical expense for retirees) to cover these obligations, in conformity with Statement D-3 of the IMCP. The latter amount is recorded in "Other Assets" (see Note 17).

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

Amounts of labor obligations for pension plans presented in this note correspond to the defined benefit pension plan (prior plan), covering the personnel that decided to stay in this plan.

At the beginning of 2001, the Bank implemented an optional defined contribution pension plan, which replaces the defined benefit pension plan. Employees participating in this new plan register voluntarily; the amount of the defined contribution pension plan was Ps239,792 at December 31, 2002 (see Note 17).

Employees that decided to register in the defined contribution pension plan have the right to receive a benefit for prior services, assigning 50% of it immediately and the remaining 50% over a 10-year period (receiving the first installment at 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 IMPC, in as much as the cost of this plan is equal to the contributions made in favor of the participants.

The initial assignment of the benefit on prior services was financed by transferring from the defined benefit fund the reduction in liability due to the advance extinguishment of obligations, recognized under the guidelines of Statement D-3 of the IMCP.

NOTE 23 - OUTSTANDING SUBORDINATED DEBENTURES:

On November 28, 2002, the Bank issued, through a public offering, non-convertible, non-preferential, non-cumulative subordinated debentures, indexed to the exchange rate with the US dollar (BANORTE 02D) for an amount of Ps1,500,000, with a 10-year term (due in November 2012), of which Ps1,167,976 (Ps1,136,000 at face value) were placed, with six-monthly interest payments and repayment of principal at the end of the 10-year term.

On June 21, 2001, BANORTE issued, through a public offering, non-convertible subordinated debentures (BANORTE 01U) amounting to 436,000 UDIs and equal to Ps1,406,439 (Ps1,301,000 face value) with an 8-year term (due June 2009). These debentures accrue interest at an 8% annual real interest rate, which will be fixed during the term of the issue, with six-monthly interest payments and repayment of principal at the end of the 8-year term.

These issues are summarized as follows:

	<u>2002</u>	<u>2001</u>
Debentures (BANORTE 02D) maturing November 2012 with interest at an annual 8.00% rate for the first 10 six-month periods, after which it will be adjusted the remaining 10 six-month periods. The adjusted rate will not be less than 8.00% or more than 10.00%	Ps1,167,976	Ps -
Debentures (BANORTE 01U) maturing June 2009 with interest at an annual 8.00% net real rate, which will be fixed during the term of the debentures.	1,406,439	1,406,439
Accrued interest payable	<u>11,638</u>	<u>3,438</u>
	<u>Ps2,586,053</u>	<u>Ps 1,409,877</u>

At December 31, 2002 and 2001, interest on these debentures charged to the income statement was Ps119,847 (Ps59,920 in 2001).

NOTE 24 - CONTINGENCIES AND COMMITMENTS:

As of December 31, 2002 and 2001, the Bank had the following contingent obligations and commitments:

- a. The Bank has commitments due to the opening of irrevocable letters of credit, and other contingent obligations in the amount of Ps13,408,380 (Ps9,588,326 in 2001), which are recorded in memorandum accounts.

- b. Separation payments in favor of personnel in case of unjustified lay-offs or death, under certain circumstances provided for in the Labor Law.
- c. Due to tax differences that could result from an eventual review of the tax returns filed by the Bank and differences in interpreting legal provisions between the Bank and the tax authorities.
- d. There are lawsuits filed against the Bank in civil and commercial courts and others that, in the opinion of the Bank's lawyers, at December 31, 2002 represent a probable liability of Ps28,160, of which Ps26,400 have been provided for in the financial statements. In addition, lawsuits amounting to Ps5,500 have been filed against the Bank in its capacity as trustee.
- e. At December 31, 2002, the Bank recorded interest effectively received of Ps28,500 in Other accounts receivable, corresponding to past due loan packages that it intends to sell to Sólida, and with which no formal agreement has been reached regarding their transfer.

**NOTE 25 - 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, as it is the preponderant foreign currency for the Bank.

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 Bank's net capital.
- b. Permitted foreign currency denominated liabilities should not exceed 183% of the basic capital of the Bank.
- 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, 2002 and 2001, the Bank had a foreign currency position denominated in US dollars, as summarized below:

	Thousands of US dollars	
	2002	2001
Assets	US\$ 1,877,967	US\$1,310,496
Liabilities	<u>1,787,701</u>	<u>1,394,322</u>
Long (short) position	<u>US\$ 90,266</u>	<u>(US\$ 83,826)</u>

As of December 31, 2002, the exchange rate set by BANXICO for the valuation of liabilities was Ps10.4393 per US dollar (Ps9.1695 in 2001).

Transactions denominated in UDIs

As of December 31, 2002, the value of the UDI determined by BANXICO and used by the Bank to value its assets and liabilities denominated in UDIs was Ps3.225778 (Ps3.055273 in 2001). At those same dates, the Bank had assets and liabilities in UDIs as shown below:

	Thousands of UDIs	
	2002	2001
Assets	1,972,148	460,113
Liabilities	<u>647,534</u>	<u>570,822</u>
Long (short) position	<u>1,324,614</u>	<u>(110,709)</u>

NOTE 26 - STOCKHOLDERS' EQUITY:

As of December 31, 2002, the fixed and variable capital stock of the Bank was represented by 23,080,347,212 common Series "O" shares, with a par value of ten Mexican cents each, fully subscribed and paid. The capital stock is summarized below:

<u>Description</u>	<u>Number of shares</u>		<u>Amount</u>	
	2002	2001	2002	2001
"Series O" shares	<u>23,080,347,212</u>	<u>23,080,347,212</u>	Ps2,308,035	Ps 2,308,035
Restatement increase			2,132,522	2,132,522
Capital stock not subscribed			(<u>34,552</u>)	(<u>34,552</u>)
Total capital stock			<u>Ps4,406,005</u>	<u>Ps 4,406,005</u>

The Bank is required to create a legal reserve fund by appropriating 10% of its earnings each fiscal year until that fund is equivalent to its paid-in capital paid out.

Dividends paid by the Bank will be tax-free if they are paid out of the Cuenta de Utilidad Fiscal Neta (Net Taxable Income Account or "CUFIN"). Dividends paid in excess of the balance of the CUFIN are subject to 35% income tax on the result of multiplying the dividend paid by a 1.5385 factor. During 2002, the Bank paid dividends to GRUPO the amount Ps203,732 (Ps200,000 nominal value) out of the CUFIN.

In addition to the foregoing, dividends paid to individuals or foreign residents are subject to a 5% withholding payable by the stockholder, on the result of multiplying those dividends by the 1.5385 factor (1.515 if the dividends are paid to individuals resident in Mexico if those dividends are paid out of the CUFIN at December 31, 1998).

When dividends are paid to residents in countries with which treaties have been entered into to avoid double taxation, the with Bank will be made in accordance with the terms of the applicable treaty.

NOTE 27 - CAPITALIZATION:

The new standards issued by BANXICO for calculating the capitalization index take into account the credit and market risk of the various assets. By considering only the credit risk, the capitalization index determined by the Bank at December 2002 reached 16.11% (12.57% in 2001), with a basic capital of 12.77% (8.24% in 2001). By including market risks in the determination of assets weighted by risk, the total capitalization index of the Bank reached 14.21% (10.97% in 2001), with a basic capital of 11.26% (7.20% in 2001). In both years the index was well above regulatory requirements.

Relevant events discussed in Note 2 especially the merges with BANCRECER affected the determination of net capital of the Bank as follows:

	<u>2002</u>		<u>2001</u>	
<u>% of assets subject to risk</u>	<u>Credit risk</u>	<u>Credit and market risk</u>	<u>Credit risk</u>	<u>Credit and market risk</u>
Basic capital	12.77%	11.26%	8.24%	7.20%
Supplementary capital	<u>3.34%</u>	<u>2.95%</u>	<u>4.33%</u>	<u>3.77%</u>
Net capital	<u>16.11%</u>	<u>14.21%</u>	<u>12.57%</u>	<u>10.97%</u>
Assets subject to credit risk		Ps 66,667,152		Ps43,964,225
Assets subject to market risk		<u>8,948,564</u>		<u>6,392,476</u>
Total assets subject to risk		<u>Ps 75,615,716</u>		<u>Ps50,356,701</u>

NOTE 28 - COMPREHENSIVE INCOME:

As provided for by Statement B-4 issued by the IMCP, the comprehensive income for the years ended December 31, 2002 and 2001, is summarized below:

	<u>2002</u>	<u>2001</u>
Net income, as shown in statement of income	Ps1,469,848	Ps 501,102
Valuation of available-for-sale securities	136,831	(238,962)
Gain (loss) from Bank non-monetary assets (permanent stock investments)	(24,986)	8,181
Gain (loss) from Bank non-monetary assets (fixed assets)	11,025	
Effect of reversal of Bancen Segment I trust	-	(201,213)
Comprehensive income	<u>Ps1,592,718</u>	<u>Ps 69,108</u>

NOTE 29 - NET EARNINGS PER SHARE:

As provided for by Statement B-14 Earnings per share, issued under MEX GAAP, the following is disclosed:

- Basic earnings per share are the result of dividing the net earnings by the weighted average shares outstanding of the Bank.
- Diluted earnings per share represent an adjustment to net earnings and the amount of outstanding shares, by considering the effect of future capitalizations of obligatorily 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 convertible debentures. Earnings adjusted as aforementioned are then divided by the weighted average outstanding shares, including those applicable to future capitalizations of outstanding debentures.

The earnings per share determined on the above basis were:

	<u>2002</u>	<u>2001</u>
Basic earnings per share	Ps 1,469,848	Ps 501,102
Diluted earnings per share	<u>1,469,848</u>	<u>501,102</u>
<u>Weighted average share outstanding:</u>		
For basic earnings per share	22,734,829,632	21,296,560,156
For diluted earnings per share	<u>22,734,829,632</u>	<u>21,296,560,156</u>
Basic earnings per share	Ps 0.0647	Ps 0.0235
Diluted earnings per share	<u>Ps 0.0647</u>	<u>Ps 0.0235</u>

NOTE 30 - INCOME TAX, EMPLOYEES' PROFIT SHARING
AND ASSET TAX:

- a. During 2002, and 2001, the income tax rate in effect was 35% on taxable income.
- b. At December 31, 2002 the caption of "income tax and employees statutory, profit sharing", shown in the statement of income of the Bank, in the amount of Ps206,631, represent asset tax and profit sharing payable by the Bank and the income tax consolidated subsidiaries which amount to Ps45,929. In fiscal 2001, the caption represented income tax payable by the consolidated subsidiaries of Ps15,022.
- c. The total amount of accumulative tax loss carryforwards at December 31, 2002 was Ps3,964,463, which the INPC, published by BANXICO, and may be applied against taxable income in the few years following the year in which they originated.
- d. At December 31, 2002, the Bank had a profit sharing liability, of Ps141,521, of which Ps95,228 is included in the statement of income, in the caption "current income tax and employees' profit sharing", and Ps46,293, is included in the extraordinary item.
- e. The Bank is subject to asset tax, calculated at the rate of 1.8 percent on the average of the assets not subject to financial intermediation, less the average liabilities related to acquisition of these assets. Asset tax is payable only when it exceeds the income tax for the year. Asset tax paid way to the extend income tax exceeded asset tax in the last three years or exceeds it in the next ten years. In 2002, the Bank incurred asset tax of Ps 49,198 and during the year recovered prior years asset tax of Ps28,535, which was credited to the deferred asset since in accordance with the tax projections of the Bank it is not likely to be recovered in future years.

NOTE 31 - MEMORANDUM ACCOUNTS:

The balance of this item is summarized as shown below:

<u>Item</u>	<u>2002</u>	<u>2001</u>
Guarantees given	Ps -	Ps 3,146
Other contingent liabilities	12,567,268	9,036,938
Opening of irrevocable credits	841,112	548,242
Assets in trust or mandate	59,160,380	19,738,503
Investment of the funds of the retirement savings system	1,549,650	2,432,075
Assets in custody or administration	121,138,257	78,457,520
Investment banking transactions for account of third parties, net	73,531,913	108,963,575
Amounts committed in transactions with FOBAPROA	5,352,131	3,748,304
Amounts contracted in derivative instruments	<u>4,773,036</u>	<u>3,468,424</u>
	<u>Ps278,913,747</u>	<u>Ps 226,396,727</u>
Securities receivable under repo agreements	Ps 71,684,543	Ps 47,422,079
Payables under repo agreements	(71,647,947)	(47,343,429)
	<u>Ps 36,596</u>	<u>Ps 78,650</u>
Receivables under repo agreements	Ps 71,669,937	Ps 46,304,785
Securities payable under repo agreements	(71,685,013)	(46,359,518)
	<u>(Ps 15,076)</u>	<u>(Ps 54,733)</u>
Other memorandum accounts	<u>Ps358,719,045</u>	<u>Ps132,326,693</u>

NOTE 32 - SECURITIZATION:

As part of the policies established by the general management and treasury of the Bank, the Bank operations whereby assets have been transferred to a trust in order for that trust to issue securities to be placed among the investing public. The investor acquires foregoing results in the right to the yields or proceeds of the sale of the assets traded (securitization). The assets are included the investment in securities (see Note 8) as a restricted asset.

Certificates of the Bank have been successfully placed on the international financial market among foreign investors, through foreign financial entities. At year-end, the balances thereof amount to Ps544,754 (Ps2,525,952 in 2001), equivalent to US\$51,985 (US\$260,913 million dollars in 2001). This transaction allowed the Bank 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 US dollar remittances and cash flows derived therefrom belong to a trust established in New York in favor of the foreign investors. The terms of 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:

	<u>2002</u>	<u>2001</u>
CPOs - Series 1999-2A covering 300 certificates with a face value of US\$250,000 each (US\$75 million) payable in a 5-year term at a fixed interest rate of 8.94 %	Ps 3 43,598	Ps 497,938
CPOs - Series 1999-2B covering 100 certificates with a face value of US\$250,000 each (US\$25 million) payable in a 7-year term at a fixed interest rate of 9.49 %	199,089	225,938
CPOs - Series 1999-1 covering 800 certificates with a face value of US\$250,000 each (US\$200 million) payable in a 7-year term at a variable interest rate equivalent to LIBOR plus 1.15%	-	1,797,199
Accrued interest payable	<u>2,067</u>	<u>4,877</u>
	<u>Ps 544,754</u>	<u>Ps2,525,952</u>

In 2002, the Bank recognized interest expense in connection with these securitizations in the amount of Ps90,607 (Ps191,722 in 2001).

NOTE 33 - RISK MANAGEMENT:

The Chief Risk Office is responsible for the function of identifying, measuring, monitoring and reporting the various types of risk to which the Bank is exposed.

The Chief Risk Office reports to the Chief Executive Officer of GRUPO, thereby complying with the provisions of Circular 1423, "Rules for Prudent Comprehensive Risk Management", while maintaining the independence of the Business Areas.

In order to maintain appropriate Risk Management, GRUPO has corporate organs that lay down risk policies and strategies and that follow-up thereon by verifying that they are properly carried out..

The Risk Policy Committee was established within those corporate organs. In turn, the Bank has the following approval committees:

- Central Credit Committee
- Central Recovery Committee
- Treasury Committee
- Asset and Liability Committee
- Product Committee
- Operation and Technology Committee
- Trust Business Committee
- Communication and Control Committee

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

- Credit Risk Control and Standards;
- Financial Risk Control and Standards;
- Loan Portfolio Risk Control;
- Review of Assets Subject to Risk;

At present, GRUPO 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:

- Standardize risk control and measurement;
- Protect the institution's capital against unexpected losses from market transactions, credit bankruptcies and operation risks;
- Develop valuation models for the different types of risks;
- Establish procedures to optimize the loan portfolio management;
- Make a diagnosis based on Risk Management, availability and quality of risk information.

GRUPO 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 which 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. Operation 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 GRUPO, or the advanced or forced sale of assets at unusual discounts in order to face its obligations.
5. Legal risk: The potential loss due to the non-compliance with applicable legal and administrative rules, the issuance of unfavorable administrative and judicial resolutions and the application of fines, in connection with GRUPO's operations.

In December 2000, the Bank concluded the implementation of the regulations established in Circular 1423 issued by the COMMISSION. The Board of Directors approved, in turn, the corresponding Risk Policies Manual.

The Bank 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 diffusion of the manual, through presentations via satellite, organizational communications and the continuous updating of the GRUPO's Intranet.

▪ Market Risk

In order to use the same methodology for the calculation of market risks, for the establishment and control of internal limits, as well as for their corresponding disclosure to the investing public and corresponding authorities, the Board of Directors approved the use of Value Risk through historical simulation as the methodology to be applied.

The Value Risk methodology through historical simulation (VaR) is applied in GRUPO through the simulation of the effect of the last 500 historical scenarios on current portfolios of GRUPO exposed to variations of risk factors directly affecting their valuation (local interest rates, foreign interest rates, exchange rates, among others), using a 99% confidence level and a 10-day period for Bank portfolios.

The quarterly average of the VaR of the financial instrument portfolio of GRUPO (banking and brokerage sector) including bonds, shares, money market transactions, interest rate swaps, forwards, futures, and other derivatives on and off balance sheet, was as follows:

Millions of constant pesos at December 31, 2002

	<u>1T02</u>	<u>2T02</u>	<u>3T02</u>	<u>4T02</u>
VaR a 10 días	235	135	143	204

The Value Risk at ten days for the fourth quarter of 2002 calculated under the foregoing premises, analyzed by sector, amounted to Ps173 million constant pesos.

The consolidated Value Risk for the Banking Sector as well as for GRUPO considers the correlations of all the risk factors that influence the valuation of portfolios; therefore, the arithmetical sum of the Value Risk per Institution may not coincide.

Furthermore, the Value Risk per risk factor of the instrument portfolio described for GRUPO, in the fourth quarter of 2002 was as follows:

Million pesos	<u>Total</u>
Local interest rate	Ps 105
Foreign interest rate	94
Exchange rate	55
Capital	20
Eurobond prices	172
Total GRUPO	204

▪ 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 monitor the liquidity risk.

▪ Credit Risk

The Banking Sector of GRUPO has credit risk methodologies that include the best and most up-to-date international practices with regard to the identification, measurement, control and follow-up of this type of risk.

These methodologies permit determination of the current value of the portfolio loans, that is, the credit exposure. The calculation of credit exposure entails the generation of the cash flow of each of the credits, principal as well as interest, and subsequently discounting it. This exposure is sensitive to changes in the market, making the calculation under different economic scenarios easier.

The calculations of the probability of non-compliance are also considered, the severity of the loss and the modeling of borrowers to calculate credit risk measures. The probability of non-compliance is the probability that borrowers will not comply with their debt obligation with the bank in accordance with the terms and conditions originally agreed upon. The probability of non-compliance is based on transition matrixes calculated as from the migration of the borrowers in the different levels of risk rating. The severity of the loss is the percentage of total exposure estimated to be lost in the event the borrower does not comply. The modeling of borrowers is focused on associating the future behavior of the borrower with credit and market factors.

Among the significant results obtained from the foregoing are the expected and unexpected loss in a time horizon of a year, as well as the analysis of credit concentration and quality. The expected loss is the mean of loss distribution of the loan portfolio. The unexpected loss is the maximum loss, given the loss distribution at a specific confidence level.

With respect to the rating methodology, in 2001 GRUPO obtained the certification of its internal methodology (Internal Risk Rating - CIR) from the COMMISSION. Through this methodology it is possible to obtain the debtor ratings of the customers with a balance equal to or greater than seven hundred investment units.

At December 31, 2002, the credit VaR to be considered for the current and past due loan portfolio of the Bank is summarized below:

Millions of pesos	<u>Total</u>
Expected loss	Ps 3,688
Current portfolio	582
Past due portfolio	3,107
Unexpected loss	2,440

▪ Operation and Legal Risk

Policies and procedures have been defined in order to identify, measure and calculate the operation risk of GRUPO. The analysis of the operation risk includes the possible contingencies from operations with lending, borrowing, credit and debit cards, ATMs, and general cash operations as well as operation centers.

The operation risk of the Electronic media department, lending operations, borrowing operations, Operating support and Banking services is analyzed considering the following items: Internal control, process control, liquidation and custody.

Likewise, policies and procedure have been defined to manage and control the legal risk, for their measurement and analysis. Legal risk reports include the expected loss in lawsuits in process and a reserve is set up to cover the resulting contingencies.

NOTE 34 - RELATED PARTIES:

The Branch follows the practice of identifying those balances and transactions carried out with parent, subsidiary and associated companies. The principal operations with related parties carried out during the year comprised:

- a. Granting of loans
- b. Carrying out money market operations
- c. Rendering of administrative services

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

<u>Institution</u>	<u>Income</u>		<u>Accounts Receivable</u>	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
Arrendadora Banorte, S. A. de C. V.	Ps 41,452	Ps 29,949	Ps 452,836	Ps 189,899
Casa de Bolsa Banorte, S. A. de C. V.	55,186	296,283	-	-
Banco del Centro, S. A.	4,869,256	3,756,175	890,235	2,921,397
Banorte Generali, S. A. de C. V. AFORE	42	1,846	-	-
Almacenadora Banorte, S. A. de C. V.	13,712	14,737	278,986	139,984
Solida Administradora de Portafolios, S.A. de C. V.	-	-	-	927,450
Factor Banorte, S. A. de C. V.	38,925	63,585	599,543	273,465
Inmobiliaria Bancrecer, S. A. de C. V.	-	-	229,079	-
Inmobiliaria Innova, S. A. de C. V.	-	-	79,068	-
Total	<u>Ps 5,018,573</u>	<u>Ps 4,162,575</u>	<u>Ps 2,529,747</u>	<u>Ps 4,452,195</u>

<u>Institution</u>	<u>Expenditures</u>		<u>Accounts payable</u>	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
Grupo Financiero Banorte, S. A. de C. V.	Ps 9,165	Ps 24,218	Ps 17,180	Ps 153,340
Arrendadora Banorte, S. A. de C. V.	35,530	25,096	9,929	18,421
Casa de Bolsa Banorte, S. A. de C. V.	16,000	71,934	376	2,542
Banco del Centro, S. A.	131,277	127,805	102,822	48,954
Banorte Generali, S. A. de C. V. AFORE	8	16	4,477	2,088
Almacenadora Banorte, S. A. de C. V.	55	2,441	3,743	5,631
Factor Banorte, S. A. de C. V.	196	127	17,270	33,090
Inmobiliaria Banorte, S. A. de C. V.	18,510	20,375	21,500	101,232
Constructora Primero, S. A. de C. V.	21,929	25,585	29,529	33,242
Inmobiliaria Bancrecer, S.A. de C. V.	40,990	-	10,543	-
Inmobiliaria Innova, S.A. de C. V.	14,254	-	9,540	-
Inmobiliaria Banormex, S.A. de C. V.	780	-	5,680	-
Inmobiliaria Finsa, S.A. de C. V.	2,486	-	18,745	-
Inmobiliaria Bra, S.A. de C. V.	3,529	-	44,789	-
Inmuebles de Occidente, S.A. de C. V.	1,527	-	10,056	-
Inmuebles de Tijuana, S.A. de C. V.	43	-	616	-
Corporacion Arrendadora Bancrecer, S.A. de C. V.	559	-	8,437	-
Poliservicio Profesional y Tecnico, S.A. de C. V.	-	-	28	-
Derivados Banorte, S. A. de C. V.	-	-	186	58
Total	<u>Ps 296,838</u>	<u>Ps 297,597</u>	<u>Ps 315,446</u>	<u>Ps 398,598</u>

In accord with the 73 Article of the LIC, loans granted by the Bank to related parties may not exceed 75% of its basic part of its net capital. At December 31, 2002, loans to related parties amounted to Ps3,939,345 (Ps4,564,431 in 2001).

NOTE 35 - SEGMENT INFORMATION:

In order to analyze the financial information of the Bank, the most significant information is presented as of December 31, 2002.

a. The amounts by service sector of the Bank are summarized below:

At December 31, 2002, the 83% of the Bank's income is concentrated in the following areas:

	<u>Amount</u>
Interest on loans to government entities	Ps 7,569,130
Premiums on securities, repurchase and derivative operations	4,906,834
Interest on commercial loans	2,478,021
Interest on investments in securities	1,249,941
Interest on mortgage loans	1,039,062
Interest on promissory notes receivable from FOBAPROA	900,470
Interest on cash and cash equivalents	<u>832,021</u>
	<u>Ps18,975,479</u>

At December 31, 2002, the 55% of the Bank's costs are concentrated in the following areas:

	<u>Amount</u>
Interest on time deposits	Ps 4,695,486
Premiums on repurchase operations	4,578,544
Interest on interbank loans and loans from other entities	2,355,872
Interest on demand deposits	914,003
Interest on bank bonds	<u>198,621</u>
	<u>Ps12,742,526</u>

- b. Interest income and expenses generated in Mexico and abroad, are summarized below:

	<u>2002</u>	<u>2001</u>
<u>Interest income</u>		
Mexico	Ps 20,831,814	Ps 19,394,108
Outside of Mexico	373,386	355,758
Total interest income	<u>Ps 21,205,200</u>	<u>Ps 19,749,866</u>
<u>Interest expense</u>		
Mexico	Ps 13,040,796	Ps 13,163,196
Outside of Mexico	277,142	490,973
Total interest expense	<u>Ps 13,317,938</u>	<u>Ps 13,654,169</u>

- c. The balances of commercial portfolio and deposits generated in Mexico and abroad are summarized below:

	<u>2002</u>	<u>2001</u>
<u>Commercial portfolio</u>		
Mexico	Ps 150,049,405	Ps 84,638,920
Outside of Mexico	2,510,356	1,470,657
Total commercial portfolio	<u>Ps 152,559,761</u>	<u>Ps 86,109,577</u>
<u>Deposits</u>		
Mexico	Ps 137,789,211	Ps 75,302,255
Outside of Mexico	5,626,338	4,700,888
Total deposits	<u>Ps 143,415,549</u>	<u>Ps 80,003,143</u>

d. The current loan portfolio grouped by economic sector and geographical area is as follows:

2002

Geographical area

Economic sector	Monterrey	Mexico City	West	North-east	North-west	South-east	Total
Farming	Ps 264,895	Ps 3,435	Ps 243,393	Ps 192,886	Ps 241,660	Ps 6,299	Ps 952,568
Mining	139,831	28,758	11,126	46,871	2,269	14,819	243,674
Manufacturing	5,173,528	2,065,748	1,080,711	817,590	315,572	107,642	9,560,791
Construction	584,321	634,514	212,738	151,777	374,499	55,347	2,013,196
Electricity, gas and water	598	5,507	1,002	2,443	1,800	1,524	12,874
Commerce, restaurants and hotels	2,006,751	1,888,307	1,387,669	1,061,591	1,061,298	664,615	8,070,231
Transport and communications	964,856	1,138,423	50,739	73,016	46,554	47,694	2,321,282
Financial services	3,034,033	3,925,616	182,065	43,696	148,396	40,579	7,374,385
Community, social and personal services	813,557	1,131,246	311,127	466,610	236,167	260,810	3,219,517
Trade, professional and civic groupings	9,501	24,749	3,082	3,413	1,308	2,082	44,135
Public administration services	1,991,929	10,249,972	247,310	900,460	532,718	1,059,571	14,981,960
Internal organization services	1,899	320	29	63	169	130	2,610
Credit cards							1,578,190
Loans to FOBAPROA or IPAB, ADE, FOPYME and FINAPE							85,881,522
Mortgage loans							11,871,597
Current loan portfolio							Ps 148,128,532

e. The past-due loan portfolio grouped by economic sector and geographical area is as follows:

2002

Geographical area

Economic sector	Monterrey	Mexico City	West	North-east	North-west	South-east	Total
Farming	Ps 12,676	Ps 4,799	Ps 3,709	Ps124,439	Ps 13,422	Ps 1,171	Ps 160,216
Mining	265,703	14,218	167	183	-	-	280,271
Manufacturing	796,017	151,149	106,875	21,147	17,342	3,349	1,095,879
Construction	31,212	1,461	2,780	14,572	5,064	1,161	56,250
Electricity, gas and water	65	42	77	1,490	178	1	1,853
Commerce, restaurants and hotels	105,704	88,906	85,387	209,221	39,380	99,099	627,697
Transport and communications	21,779	9,806	1,885	16,490	3,338	3,761	57,059
Financial services	7,043	2,200	3,807	8,684	2,110	1,891	25,735
Community, social and personal services	120,982	29,964	25,838	44,516	15,633	12,886	249,819
Trade, professional and civic groupings	140	39	94	234	97	134	738
Public administration services	1	-	-	-	7,729	-	7,730
Internal organization services	-	77	-	-	86	-	163
Credit cards							84,097
Mortgage loans							1,783,722
Past-due loan portfolio							<u>Ps4,431,229</u>

f. The loan portfolio assigned on the basis of responsibility, was as follows:

2002

	Commercial	Corporate	Total
Commercial loan	Ps 26,371,683	Ps 13,389,951	Ps39,761,634
Consumer loan	4,984,315	-	4,984,315
Mortgage loan	11,871,597	-	11,871,597
Loans to FOBAPROA or to IPAB and ADE	91,510,986	-	91,510,986
Total current portfolio	134,738,581	13,389,951	148,128,532
Commercial loans	1,431,015	889,956	2,320,971
Consumer loans	326,536	-	326,536
Mortgage loans	1,783,722	-	1,783,722
Total past due loan portfolio	3,541,273	889,956	4,431,229
Total loan portfolio	138,279,854	14,279,907	152,559,761
Allowance for estimated loan losses			(5,153,029)
Loan portfolio (net)			<u>Ps147,406,732</u>

g. The deposits grouped by economic sector and geographical area are as follows:

2002

Geographical area

Product	Monterrey	North-east	Mexico City	West	North-west	South-east	Treasury and others	Total
Checking accounts non-interest-bearing	Ps 4,803,407	Ps 2,877,444	Ps 3,378,473	Ps 2,612,935	Ps 2,024,534	Ps 1,853,409	Ps 381,138	Ps 17,931,138
Checking accounts with interest-bearing	4,251,188	3,137,280	4,401,437	2,762,954	2,061,208	2,042,290	(31,305)	18,625,362
Deposits in savings accounts	8,904	12,462	1,877	2,811	1,109	4,278	3	31,464
Demand deposits in peso denominated current account and preestablished with drawal days	1,665,493	1,463,981	1,300,049	1,029,201	1,686,777	1,377,189	14,407	8,537,687
Demand deposits in dollars	1,388,133	1,058,075	736,747	595,498	1,910,116	139,359	(26,538)	5,801,328
Cedes	-	300	-	-	18,441	-	-	18,741
Promissory notes with yield at maturity	4,520,270	4,436,951	5,117,778	3,435,156	2,945,251	3,092,249	1,975	23,549,630
US dollar denominated fixed term deposits	866,466	1,198,672	635,216	1,194,630	782,346	450,752	14,838	5,142,910
Customer money market	5,299,097	2,590,568	2,797,025	2,397,974	1,696,417	1,771,249	409,812	16,962,142
Financial entities	-	-	-	-	-	-	42,675,788	42,675,788
Bank bonds	-	-	-	-	-	-	1,250,000	1,250,000
Checking accounts of FOBAPROA and accrued interest payable	-	-	-	-	-	-	2,890,005	2,890,005
Total deposits	Ps 22,802,958	Ps 16,775,733	Ps 18,368,602	Ps 14,031,159	Ps 13,126,199	Ps 10,730,775	Ps 47,580,123	Ps 143,415,524

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BANCO MERCANTIL DEL NORTE, S.A.

(Incorporated in accordance with the laws of the United Mexican States) acting through its Grand Cayman Branch

U.S.\$300,000,000

5.875% Step-Up Subordinated Callable Notes Due 2014

Sole Book-Runner

Deutsche Bank Securities

Co-Manager

Morgan Stanley

Luxembourg Listing Circular

April 13, 2004