



Annual report 2000

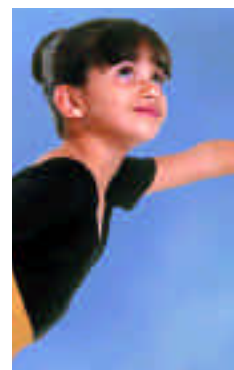
insight into the future



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## Annual report 2000

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## MISSION

Satisfy our clients' financial needs through the most up to date means of delivery to ensure that quality service is provided with cordiality and efficiency.

Maintain the integrity and quality of all our operations, particularly in the handling of the Group's deposits and capital.

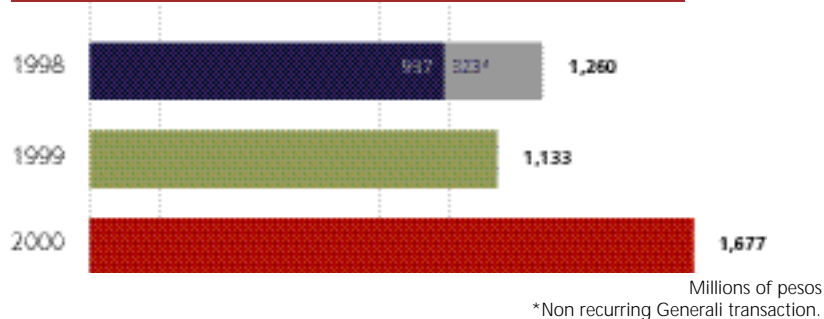
Adopt profitability and the generation of value as the work approach that will serve as an endorsement for depositors and shareholders, and will be a base for the Group's reinvestment as well.

Be responsible both as citizens and as an institution, seeking to hold a position of leadership in the communities we serve, promoting development through a philosophy of "Pensar en Grande" (Thinking Big).

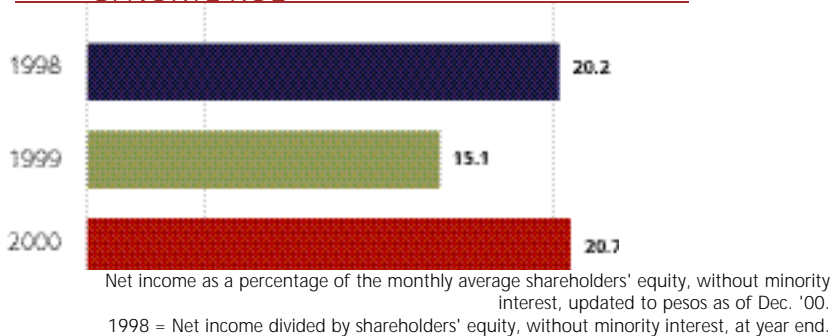
Be, as a company, a source of serious and fair employment, with the objective of treating each of our employees with the highest sense of equality and fairness.

# HIGHLIGHTS

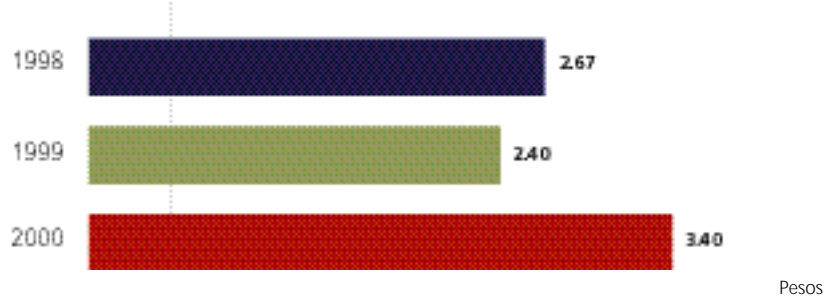
## GENORTE NET INCOME



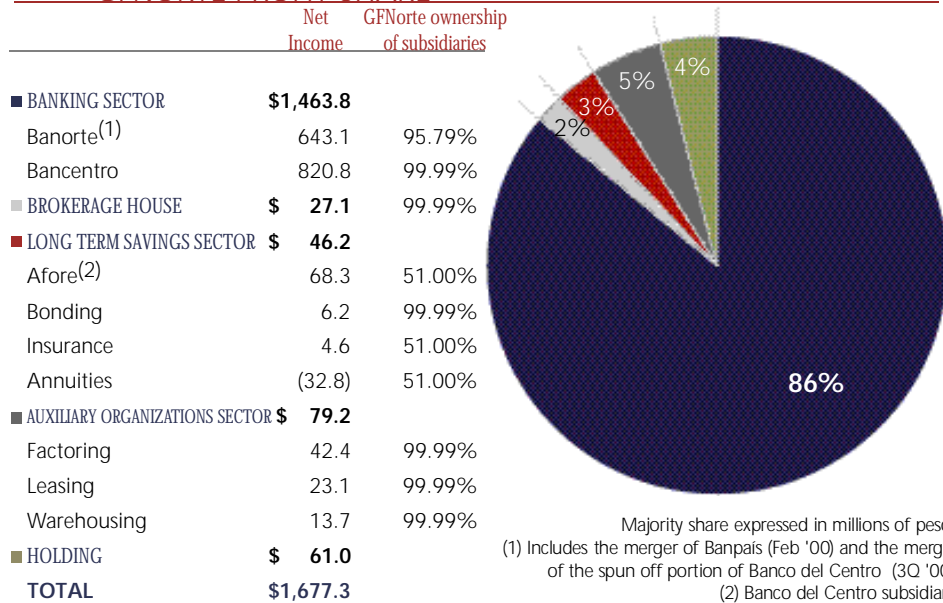
## GENORTE ROE



## GENORTE NET INCOME PER SHARE



## GENORTE PROFIT SHARE



	1998	1999	2000		1998	1999	2000
<b>GRUPO FINANCIERO BANORTE</b>				<b>LONG TERM SAVINGS SECTOR</b>			
Total Assets	91,190.9	115,432.7	103,115.6	<b>AFORE</b>			
Shareholders' Equity <sup>(1)</sup>	6,304.6	7,677.8	7,503.6	Total Assets	702.6	884.1	1,109.6
Return on Assets <sup>(2)</sup>	1.4	1.1	1.4	Shareholders' Equity	673.2	845.3	984.5
Number of Branches <sup>(3)</sup>	456	456	452	Net Income	44.4	107.1	140.0
Number of Employees <sup>(4)</sup>	11,241	11,141	11,284	<b>ANNUITIES</b>			
Number of shares (thousands)	472,321	472,261	493,174	Total Assets	307.0	1,030.3	2,149.4
Book value per share (pesos)	13.186	16.258	15.215	Shareholders' Equity	71.5	92.7	84.4
Deposits	62,250.8	85,018.7	67,667.8	Net Income	(8.4)	(26.4)	(64.4)
Loan Portfolio	72,963.9	78,027.2	80,086.3	<b>INSURANCE</b>			
Past Due Loan Ratio	5.8	5.9	5.2	Total Assets	429.3	1,097.7	1,251.3
Reserve Coverage	122.2	100.2	100.9	Shareholders' Equity	107.5	101.8	118.2
Net Income (according to share)	1,260.0	1,133.1	1,677.3	Net Income	11.6	(11.6)	8.8
Net Income per share of stock (pesos)	2.668	2.399	3.401	<b>BONDING</b>			
<b>BANKING SECTOR</b>				Total Assets	83.4	109.2	120.4
<b>BANORTE<sup>(5)</sup></b>				Shareholders' Equity	40.9	51.1	61.0
Total Assets	39,530.9	61,268.3	99,124.7	Net Income	4.8	5.8	6.2
Shareholders' Equity	4,358.0	5,117.1	5,562.0	<b>AUXILIARY ORGANIZATIONS SECTOR</b>			
Net Income <sup>(6)</sup>	1,008.0	733.7	723.3	<b>LEASING</b>			
<b>BANCENTRO</b>				Total Assets	460.7	460.5	525.9
Total Assets	22,344.5	22,298.6	3,266.5	Shareholders' Equity	66.8	86.3	114.5
Shareholders' Equity	1,211.7	1,594.6	1,785.1	Net Income	4.3	10.4	23.1
Net Income <sup>(7)</sup>	215.0	232.4	839.3	<b>FACTORING</b>			
<b>BANPAÍS<sup>(5)</sup></b>				Total Assets	703.6	1,130.5	1,854.9
Total Assets	28,771.2	38,292.6	—	Shareholders' Equity	73.0	109.2	161.3
Shareholders' Equity	1,276.0	1,686.0	—	Net Income	15.1	26.7	42.4
Net Income	380.0	236.8	—	<b>WAREHOUSING</b>			
<b>BROKERAGE SECTOR</b>				Total Assets	45.4	52.8	218.3
<b>BROKERAGE HOUSE</b>				Shareholders' Equity	43.3	51.4	50.1
Total Assets	1,342.1	931.6	360.6	Net Income	1.7	2.3	13.7
Shareholders' Equity	434.2	486.9	143.2				
Net Income	7.8	148.0	27.1				

Millions of nominal pesos.

With UDI's and subsidiaries.

(1) Without minority interest.

(2) Net income as a percentage of the monthly average of total assets, without minority interest, expressed in pesos as of December '00; 1998: Net income divided by total assets at the '00 year end.

(3) Includes banking modules and excludes agencies abroad.

(4) Full-time employees and professional fees.

(5) As of Feb. '00, Banpais merged with Banorte.

(6) 1998 and 1999: including Banpais' majority interest and Afore.

(7) 2000: including Afore majority interest.



**Roberto González Barrera**  
Chairman of the Board of Directors

## MESSAGE FROM THE CHAIRMAN OF THE BOARD

**BANORTE** faced major challenges in the year 2000: increased competition, the decrease of intermediation margins due to lower interest rates, a decrease in the estimated yields from the FOBAPROA notes and pressure on operating expenses.

To meet these challenges, a clear-cut strategy was established aimed at maintaining the intermediation margins by promoting credit activity and the rationalization of costs for attracting deposits. An approach was designed that focused on the profitability of all products and services and the enhancement of the quality of customer services.

Moreover, measures were taken to increase non financial income, promote income from administration and the collection of the third parties' loan portfolio and the establishment of a very precise program for reducing operating expenses in both the short and medium terms.

As a result of the timely compliance with this strategy, profit indexes reached very significant levels and the institution achieved the highest profits in its history.

Decisions were also made to confirm the GROUP's financial soundness and strength, such as the following:

- The increase of credit and contingency reserves derived from the sale of the loan portfolio to the FOBAPROA, complying with all the legal requirements.
- The complete and early compliance with the capitalization requirements of the year 2003.
- The renegotiation of the terms of the FOBAPROA notes, with respect to conditions and time limits.

The progress in our functional reorganization generated synergy among the specialized and territorial direction offices in expediting actions, as well as keeping close to the market and consolidating our operating capacity and efficiency.

The strategy was strengthened through effecting various strategic alliances with leading companies in their fields, aimed at enhancing our customer service, within the demands of accelerating globalization, and stressing the

development of internet technologies and e-business. At the same time, Long Term Savings Banking and Brokerage House services, which handle various market segments, recorded significant advances in obtaining funds.

Based on all the foregoing, **BANORTE** strengthened the trust customers and the market have in it, as shown by the acceptance of our placement of bonds, the successful conversion of subordinated debt into capital and the important external recognition received. The latter includes the following commendations:

- Achievement of the highest level of individual strength granted to a banking institution in Mexico, by the prestigious rating firm, Fitch Investors Service, Inc., which confirms **BANORTE**'s outstanding performance and high capitalization ratio.
- Designation as the "best Mexican bank" by "The Banker" magazine, a publication of the Financial Times Group. This award recognizes our evolution from a regional to a national bank and also our development capability in a more competitive market.

We have made great strides as a financial institution and can make more. Our strengths will be fundamental but we also know that they are put to the test daily and that we can not risk becoming static or complacent, in the face of the increasingly demanding environment. World economic conditions in 2000 marked the culmination of a long period of expanding trade and investment and the beginning of a pronounced volatility in financial markets. In 2000, Mexico's economic performance was outstanding.

Our institutional challenges have become greater, insofar as it is clear that we have come out of a year of strong national and worldwide economic growth and entered one where growth will be moderate and various factors of uncertainty will affect these markets.

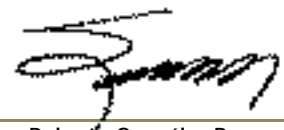
These are cautionary signs, which, in addition to demanding greater financial discipline from us both as a nation and as an enterprise, must stimulate our ingenuity and creativity, the capacity to do more with less and adapt to the new conditions, as well as strengthening the mystique of teamwork. As a country, we possess a great asset and international prestige because we are living in a full-fledged democracy, in which all of us must do our part to convert this into a powerful force to achieve the unity, development and well-being of Mexicans.

I am fully confident that **GRUPO FINANCIERO BANORTE** will continue to grow and gain a profitable market, because although the new millennium presents great challenges, it offers great opportunities as well, which **BANORTE** is increasingly prepared to capitalize on, in accordance with the values we are known for: prudence, austerity and transparency.

We will keep on track in fulfilling our key objectives of efficiency, soundness and cost reduction and will continue to strengthen the institution by stressing the focus on knowing our clients and their needs, making on-going improvements to the quality of service, the optimization of channels of access to new and better products and the diversification of the sources that generate profitable income, always with effective marketing, high quality personnel and the support of state of the art technology.

We are completely confident that in meeting these objectives, we can count on the full support of our clients, shareholders, board members and collaborators, to achieve excellence in every aspect of our operations and service.

On behalf of the institution, I am pleased to reiterate my highest acknowledgment to all those whose trust and support have made our philosophy of "PENSAR EN GRANDE" (Thinking Big) a reality and have made **BANORTE** "EL BANCO FUERTE DE MEXICO" (The Strong Bank of Mexico).



**Roberto González Barrera**  
Chairman of the Board of Directors



**Othón Ruiz Montemayor**  
Vice President of the Board of Directors  
and Chief Executive Officer

## MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

The year 2000 was an extraordinary one for **GRUPO FINANCIERO BANORTE**, due to the very attractive results attained, which have placed it among the groups achieving the highest yields on capital in the Mexican financial system. Accrued earnings for the year totalled \$1,677.3 million pesos, 48% higher than those reported in 1999.

The Group's Banking Sector showed an outstanding performance. With respect to attracting deposits, significant increases were achieved in non-interest bearing demand deposits, maintaining our leadership position in the non-interest bearing demand deposits per branch. Likewise, traditional and integral means of attracting deposits recorded increases during the year.

We especially stressed the active but prudent placement of credits, achieving a 30% growth rate in the current loan portfolio over the previous year average balance. The quality of the loan portfolio was also benefited by the 13% decrease in past due loans, as a result of the intense recuperation efforts **GFNORTE** implemented.

Our media delivery strategy was oriented to greater efficiency and growth, seeking to channel operations via lower cost delivery media. During the year the number of branches decreased from 456 to 452 as a result of the program to enhance the efficiency of the network; the number of ATM's installed increased from 1,345 to 1,434, while the point of sales terminals dropped from 9,512 to 9,037, in line with the profitability strategy implemented.

The number of companies utilizing the Servinómina Banorte (Banorte Payroll Service) rose from 4,608 to 5,379 and served over a million of employees; similarly, the companies handling the product "Banorte en su Empresa" (Banorte in Your Company) increased from 4,608 to 6,286, while the number of phone calls processed through our Banortel Call Center grew from 8.2 to 10.1 million.

The results achieved by **GFNORTE** in Recovery Banking operations merit special mention, since at the December year end closing it was administering assets totalling \$57,317 million pesos, only \$8,587 million of which were classified as own risk loans. The level of efficiency achieved in recovery was very good since 85% of the total assets recovered over the course of the year consisted of cash collections.

The excellent results achieved in this area were favored by the conclusion of the mortgage programs designated as "Punto Final" (End Point) and "Banorte es más que Punto Final" (Banorte is more than an End Point), in addition to the fourth quarter launch of the program "Ahora Banorte está Contigo" (Now Banorte is with You).



I would like to mention the financial indexes of the **GFNORTE** banking sector, which reflect the successful results of banking operations in the year 2000. The index of past due loans with respect to total loans decreased from 5.8% to 5.1%; the reserve for past due loans is 101.1%; the return on our bank assets is 1.3%; the average yield on shareholders' equity is 23.3% and the capitalization index achieved by **BANORTE** and Bancentro is 11.2% and 21.1%, respectively, after applying the 2003 capitalization rules required by the National Banking and Securities Commission. (CNBV)

With respect to our Long Term Savings Sector, each of the businesses comprising it developed significantly during the year. The Afore Banorte Generali company, in turn, gained 230,082 new affiliates in 2000, a figure 43% higher than the affiliation rate of the previous year, to achieve a year end figure of 1,581,460 members, with an 8.9% market share and an affiliation cost that has maintained our leadership position in the industry.

In our Insurance Banking business, the number of auto and life insurance policies sold during the year was 15% higher than the prior year and generated a total of \$346 million pesos in premiums, 65% more than the total number of premiums sold a year earlier.

Sales of annuities premiums rose 61% over the previous year, which increased our market share from 7.1% to 9.5%.

The Brokerage Sector closed the year through our Brokerage House with 8,759 clients and a portfolio balance of \$40,819 million pesos. The total portfolio held reached \$62 billion pesos as of December 31, 2000.

Our Factoring business in the Auxiliary Organizations Sector achieved a loan portfolio of \$1,833 million pesos, 63% above the previous year's balance and its past due accounts were fully covered by reserves. The total loan

portfolio for Arrendadora Banorte (Leasing) was \$513 million pesos at the 2000 year end, in which the past due credit portfolio dropped from 4.7% to 1.9%.

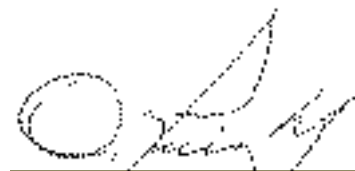
In addition, to successfully operating the different businesses comprising **GRUPO FINANCIERO BANORTE**, in the quest for on-going improvement, a series of corporate events were effected in 2000, which I will briefly summarize below:

- The merger between Banpais and Banco Mercantil del Norte was carried out successfully and, as of March 1, 2000, the latter is the remaining company.
- **BANORTE** created \$1,738 million pesos in reserves that fully complied with the FOBAPROA regulatory requirements and constituted the \$303 million peso credit provisions requested by the National Banking and Securities Commission. \$1,938 million pesos of the preceding total reserves were charged to shareholders' equity, with the special authorization of the aforementioned Commission, while the rest was charged to the results of the year.
- Banorte placed \$1,000 million pesos in bank bonds, a demonstration of the investing public's confidence in **GFNORTE**'s soundness.
- **GFNORTE** developed three important projects: the "Profitability" project that allows the automatic, on-line determination of profitability per business area, territory, branch, product and client; the "Transformation" project that consists of implementing a new credit model to efficiently administer internal business, and the "Evolution" project, oriented towards enhancing the efficiency of and control over the Group's operations. These projects provide an important competitive advantage in the market and contribute to increasing the value of the **GFNORTE** franchise.

- As part of GFNORTE's consolidation process, an organizational restructuring was implemented in October aimed at increasing commercial effectiveness in the market, to better serve our clients, by providing more and better services and facilitating the task of attracting new clients to the Group.
- It is imperative that e-business be developed, in order to ensure that GFNORTE maintains its level of excellence in service, competitiveness and capability of attracting new clients. To this end, in August we relaunched the integrated supply of GFNORTE products and services on the internet, via the www.banorte.com portal. Thus, GFNORTE will maintain an on-going flow of new services, such as making e-commerce payments with a credit card, offering the virtual internet card, the contracting and payment of Banorte-Generali insurance policies via the internet, as well as on-line purchase and sale operations of stock and of Banorte Brokerage House investment associations.

Having thus shared with you a synthesis of the results achieved by the different GFNORTE sectors, as well as the significant events of the year 2000, we can conclude that we have successfully implemented the strategy we had defined at the year's outset. We improved our productivity in attracting deposits, successfully commenced the process of placing credits, increased non financial income, reduced the Group's expenses and continued to generate profit in our Recovery Banking. We are sure that at the end of 2000, GRUPO FINANCIERO BANORTE, and all of us who comprise it, found that we had concluded it enriched by another year of experience, achievements and strong results that allow us to back up the statement that we are "The Strong Bank of Mexico" with results.

I would like to thank Roberto González Barrera, Chairman of the Board of Directors, and the Members of the Board for entrusting us to direct the Group during a year which was one of transition for the nation at large and of consolidation of institutions for the Group, and for their acknowledging our colleagues' and suppliers' work, dedication and effort. Most particularly, I would like to express my appreciation to our clients, who have been a determining factor for the success achieved in 2000.



**Othón Ruiz Montemayor**  
Vice President of the Board of Directors  
and Chief Executive Officer

# FINANCIAL ENVIRONMENT

The macroeconomic environment in the year 2000 was the strongest in the last three decades. Not only was the six-year cycle resulting from changes of presidential administrations broken, which had negatively impacted the country for the last 25 years, but a political transition was achieved with no upheavals, in which the participants' sense of responsibility and good will prevailed. An outstanding 6.9% growth in the Gross Domestic Product was reached, the highest in the last 20 years, and the 8.96% inflation rate demonstrated a downward trend. The exchange rate also remained stable, closing the year at 9.57 pesos per dollar and external accounts were relatively controlled.

It was a year when, in addition to the driving force of the exports sector, the main impetus for the economy was private consumption. The favorable combination of a lower than predicted inflation rate and the strong creation of jobs comprised the base for an important improvement in real salaries and, therefore, for a high growth in salaries taken as a mass. Investments also entered the economy and direct foreign investment achieved a record level.

The fixed income market, on the other hand, fluctuated all year long, as a result of a restrictive monetary policy that led to high real interest rates, particularly in the second half of the year. Throughout 2000, the strength of internal demand brought with it concern about the potential risk of "overheating" the economy, which could have affected the strong performance of inflation and external accounts. This concern was borne out by the six increases to the "shorts" applied by the central bank, Banco de México, in an attempt to curb the high growth rate. Despite achieving the investment grade by Moody's Investors Service and having a flawless election, interest rates continued on a rising trend as of July, and by the 2000 year end, 28 day Cetes were at 17.59%, for which the year's average was 15.27%.

The exchange market in general performed much better than expected, which resulted mainly from higher than expected oil prices and the U.S. economic growth, which was also higher than expected and, in general, a favorable domestic environment. Incoming capital flows were strong, mostly long-term investments, and this financing, which permitted correcting the imbalance in the current account.

The macroeconomic variables have shown a favorable evolution over the last three years, since the average growth of the Gross Domestic Product was 5.2% in the 1998-2000 period, the drop in inflation from 18.61% in 1998 to 8.96% in 2000, as well as the decrease in the average 28 day Cetes interest rate that dropped from 24.62% to 15.27% in the same period and the 13.4% growth in foreign investment to reach 13,162 million dollars by the end of 2000.

In the last three years, the consolidation process of the Mexican Financial System has continued. Among the most significant events were the mergers of the Santander-Serfin and BBVA-Bancomer banks, which have had a role in creating a more competitive and globalized environment, one in which **BANORTE** has established specific strategies to strengthen its position and be competitive.

## ECONOMIC INDICATORS

	2000	1999	1998
GDP (Real annual growth rate)	6.9%	3.8%	4.9%
Inflation (End of period)	8.96%	12.32%	18.61%
28 day Cetes (Annual average)	15.27%	21.29%	24.62%
28 day Cetes (End of period)	17.59%	16.25%	31.20%
Exchange rate (Annual average) (Pesos/dollar)	9.46	9.56	9.16
Exchange rate (End of period) (Pesos/dollar)	9.57	9.51	9.87
Direct foreign investment (Millions of dollars)	13,162	11,915	11,602

# I RELEVANT EVENTS

**DISCIPLINE**



High Level of Competence



# I. RELEVANT EVENTS

## FINANCIAL RESTRUCTURING OF GFNORTE

At the end of the third quarter of 2000, **GRUPO FINANCIERO BANORTE** was financially restructured. This strategy resulted in a more effective use of its capital and reserves through reassigning assets, liabilities and capital among **BANORTE**, Bancentro and the Banorte Brokerage House, which provided each institution the appropriate operational parameters. The following benefits were achieved:

- A reserve was created to cover the contingencies related to the FOBAPROA note, Loss Sharing, a plan for incentives and the contingencies related to the trusts of foreclosed assets.
- The obligatory criteria for capitalization as of the year 2003 were complied with in advance.
- Banking operations were channelled through a single institution, thus making its operations transparent.

This reinforcement to **BANORTE**'s capital allowed the creation of a \$1,938 million pesos reserve to meet requirements for credit and to comply with the regulations imposed by the FOBAPROA.

The transactions were carried out among subsidiaries and far from affecting the Financial Group, on the contrary, enabled it to present itself to the international financial community as an institution that has left the effects of the crisis behind and that has become fully consolidated.

## BANORTE-BANPAÍS MERGER

To meet commitments made with the Mexico's Ministry of Finance and Public Credit (SHCP) in December 1997, as a result of the acquisition of Banpaís, all the corporate actions required to merge Banpaís and Banco Mercantil del Norte were successfully carried out, so that as of March 1, 2000, the latter is the remaining institution.

## PLACEMENT OF BANK BONDS

On March 23, 2000, **BANORTE** placed three-year bank bonds in the amount of \$1,000 million pesos at a fixed rate of 15.59%, thus demonstrating the investing public's confidence in **GFNORTE**'s soundness, as well as strengthening our nation's economic expectations.

This issue will strengthen **BANORTE**'s liability structure and will give impetus to the placement of medium term, fixed rate credits.

## EFFICIENCY PROCESS

**GFNORTE**'s efficiency enhancing process emphasizes its "Profitability", "Evolution" and "Transformation" projects, in addition to strengthening the Group's risk management efforts.

### **THE PROFITABILITY PROJECT ("Rentabilidad")**

On-line systems provide data to determine profitability by area of business, territory, branch, product and client. This project was implemented during 2000.

### **THE EVOLUTION PROJECT ("Evolución")**

The Evolution Project consists of automating the branches' on-line operations, ensuring the security of the process, reducing operating expenses and allowing the branch network to implement a more business-oriented approach.

### **THE TRANSFORMATION PROJECT ("Transformación")**

The objective of the Transformation Project is to structure and implement a new credit process to efficiently manage internal operations based on reliable information, for the purpose of controlling profitability and level of risk.

### **THE RISK MANAGEMENT PROJECT ("Administración de Riesgo")**

To uphold the best international practices, GRUPO FINANCIERO BANORTE has made significant investments in the development of methodologies, models and systems for managing credit and market risks, thus complying with the risk management regulatory requirements established by Circular 1423 of the National Banking and Securities Commission.

### NEW GFNORTE ORGANIZATIONAL STRUCTURE

As part of the process of consolidation and efficiency implemented by GRUPO FINANCIERO BANORTE, it restructured its operations in October 2000 to achieve three basic objectives:

1. Reduce the number of general direction offices directly reporting to the Group's General Direction, which will facilitate participation in relationships with the nation's governmental authorities, as well as with future investors.
2. Integrate specialized business and territorial offices into a chain of reporting to enable them to perform their merchandising activities with greater synergy and efficiency.
3. Ensure that the levels of service provided by the corporate support and control areas meet the requirements of the business areas and the territories.

### STOCK OPTION PLAN FOR TOP MANAGEMENT

In October 2000, a stock option plan was established for acquiring GRUPO FINANCIERO BANORTE, S.A. de C.V. shares for the 24 highest ranking executives, in order to retain the key officers, promote the optimization of the value of the stock and attract new executives.

### CONVERTIBLE SUBORDINATED DEBT

On December 7, \$425 million pesos in convertible subordinated debt were converted to GFNORTE 97 capital at the obligatory conversion price of \$13.172 pesos, in which 487,123,948 shares remain in circulation as of December 11, 2000, representing a 5.22% dilution with respect to the shares in circulation as of September 30.

This operation was carried out using the form of conversion approved by the General Extraordinary Stockholders' Meeting and the General Meeting of Debentures Holders convened on November 21, 2000.

## II PILLARS OF THE ORGANIZATION

FOCUS ON CLIENTS





# Summa



BANCORP



Synonymous with strength

## II. PILLARS OF THE ORGANIZATION

### MARKETING

In the year 2000, the banks operating in Mexico began allotting resources to integrate and consolidate their structures using a marketing approach to gain in-depth knowledge on final consumers, so as to understand their needs, the importance of segmenting the banking market was stressed in order to channel supply towards the type of value and services Mexican consumers seek. This changed the public's perception of the Banking field's image, as well as their expectations for the Sector. In addition, bankers increased their efforts and recourses aimed at the country's different social levels.

Four years ago **BANORTE** became the pioneer in forming a group of marketing professionals, that directed its efforts towards creating an image for **BANORTE** and positioning the brand as an umbrella, all of which were based on the institutional strategy, as well as the strategy for each product, with promotional and communications support.

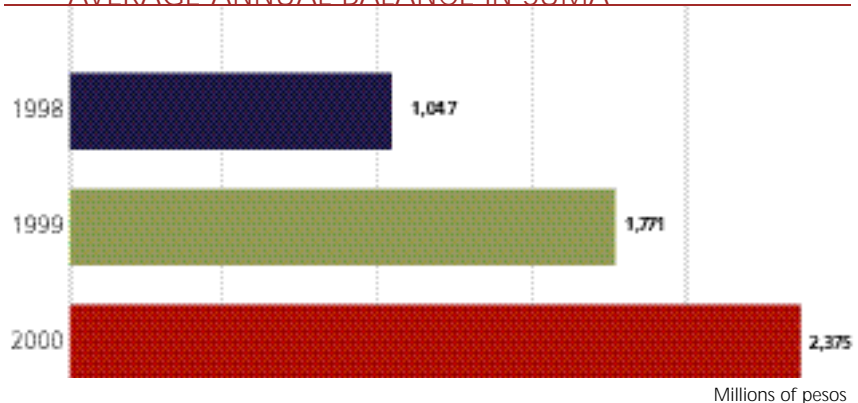
### **SUMA**

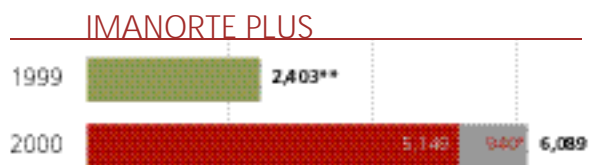
SUMA has positioned itself in the mass market of savers and in three years has consolidated itself as one of the most competitive savings products. Via its marketing strategy, SUMA has obtained a 5% market share in two years, in a segment where Spanish banks are aggressive competitors.

The consolidation of SUMA has created a sound and real foundation for **BANORTE**, by attracting the low-income social segments to using banks (55% of the country's total population), a market that only five years ago was not active as consumers in the Banking Sector.

SUMA is supported by a Promotions Strategy that offers an attractive option to this segment of savers with monthly lotteries designated as "Save, Increase and 'Sum in' a (peso) Bill" ("Ahorra, Incrementa y Súmate un billete") and has achieved a 127% growth in the average balance and a 7% market share in 3 years.

### AVERAGE ANNUAL BALANCE IN SUMA





Millions of pesos

\*From Ps\$400,000 to Ps\$1,600,000, it was launched in September 2000.

\*\*IMANORTE was launched in September 1999.

## TERM INVESTMENTS

IMANORTE entered the Term Investments market segment following an aggressive advertising strategy that clearly and precisely communicated the value of the product: the yield from interest rates.

IMANORTE is aimed at a high-level investor segment, oriented towards seeking the best yield on their money in a given term. IMANORTE PLUS was launched in September 2000, expanding the level of investments to amounts over \$400,000 pesos, increasing the balance of \$940 million pesos to reach a total of \$6,089 million pesos in IMANORTE deposits.

## INSURANCE

**BANORTE** launched a campaign strategically designed to position Banorte-Generali Insurance in the minds of consumers and consolidate the sales of auto, life and home insurance through the branch network.

The advertising investment consolidated the insurance sales strategy with a sense of institutional communications.

## PROMOTIONAL PLANS

Promotional plans are instruments aimed at specific points of sale, providing special support to optimize promotional resources, producing results that translate into solid medium and long-term business.

These plans were put into effect in 2000 with "Autoestrene" (Drive a New Car), a strategic **BANORTE** product in the automotive financing market. Each Territory implements these promotional models through a local promotional strategy for unlimited time periods and with promotional resources that support the car dealers' business, achieving a dominant presence in this market.

**BANORTE** generates tactical and modular support through this type of Promotional Plan, that enables the Territorial Direction Offices to adapt it to different key sales products in an aggressive and timely manner.

**BANORTE consolidated its position as "The Strong Bank of Mexico" in the year 2000 by strategically focusing its marketing activities.**

## HUMAN RESOURCES

**As of the 2000 year end closing, GFNORTE had a staff of 11,284 full-time and external professionals, 81% of whom work in the Banking and Auxiliary Organizations Sector.**

### FULL-TIME EMPLOYEES AND EXTERNAL PROFESSIONALS

<b>Sector</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>
Banking & Credit Auxiliaries	10,062	9,135	9,172
Long Term Savings	842	1,619	1,729
Brokerage House	337	387	383
<b>GFNORTE</b>	<b>11,241</b>	<b>11,141</b>	<b>11,284</b>

### **ORGANIZATIONAL ENVIRONMENT**

**BANORTE** has achieved a prestigious name and image in the market as a sound and successful institution, where a cordial and harmonious internal atmosphere prevails. This was determined through an opinion poll conducted among employees, in which the questions related to identity received the high mark of 80 in a 100 point scale. Areas of opportunity were detected in the internal equity and recognition aspects, so that institution-wide programs were developed to improve these areas of critical importance to employees. The year 2000 index of voluntary employee turnover was 6.5%, one of the lowest in the market.

### **TRAINING AND COMMUNICATIONS**

**BANORTE** is committed to training as the principal tool in its employees' development, providing a total of 406,033 hours of training during the year, the equivalent of 5.6 days per employee, mainly focused on the certification of key positions in five specific areas: sales, management capabilities, banking products and services, credit analysis and regulations.

In addition to traditional training methods, **BANORTE** has integrated advanced communications systems, such as the Integral Banorte Communications (CIB), based on a satellite signal that simultaneously reaches 85 different receiving points nationwide.

### **COMPENSATION**

In 2000, **BANORTE** implemented an integral variable compensation system focused on profitability. This plan benefited both branches personnel as well as executives in every area and includes quarterly and semestral payments to motivate the personnel's efforts in achieving objectives.

## TECHNOLOGY

In the process of enhancing its customer service, developing competitive advantages and increasing its value, **BANORTE** has used technology, making important investments in technological architecture, including telecommunications networks, delivery channels, business systems, control, executive information and systems administration platforms. Thus, **BANORTE** has provided its clients with one of the most modern platforms in the Mexican Financial System.

### **TELECOMMUNICATIONS**

The Group's telecommunications network has the capacity to support all its business units and clients with voice mail, data and video services, through a high capacity topology and redundancy built on optic fiber rings and cutting edge technology.

The main characteristic is its high level of availability that allows operating the delivery channels and branches at high continuity levels, as well as processing our clients' financial transactions integrated into the internet institutional culture. The automatic teller machine network has the additional support of transactional switches, that together comprise the technological platform of our Electronic Banking system.

The Call Center Banortel mainly uses the telecommunications network to automatically serve those clients that have subscribed to this delivery medium.

### **INFORMATION SYSTEMS**

The **BANORTE** Data Warehouse works with Microstrategy, DSS Agent tools and integrates information on deposits, placement and transactions in the various service delivery media, in addition to the DSS Broadcast and DSS Microstrategy Web tools. This Data Warehouse generates practically all the Group's information related to operations and processing in an integral and timely manner. Currently, 16,000 different electronic reports are generated monthly for the various areas of business, support and control.

**BANORTE** constantly updates its products' systems of Deposits (Alltel Information Systems), Credit, Accounting and Control (SAP), Trust, Leasing and Factoring, Human Resources (Meta 4) and Risk Control (Algorithmics), among others.

### **TECHNOLOGICAL PLATFORM**

**GFNORTE's** technological platform supports the growing number of transactions offered to its clients, at a high level of reliability, due to the fact that it is comprised of powerful central computer systems with processing capabilities of approximately 660 million instructions per second, backed up by high speed communications controllers for accessing and the most advanced equipment for information storage and back-up.

To guarantee its clients' service and the security of its operations, **BANORTE** has established a recovery plan in the event of disaster, through SunGard Incorporated, located in Philadelphia, Pennsylvania, U.S.A.

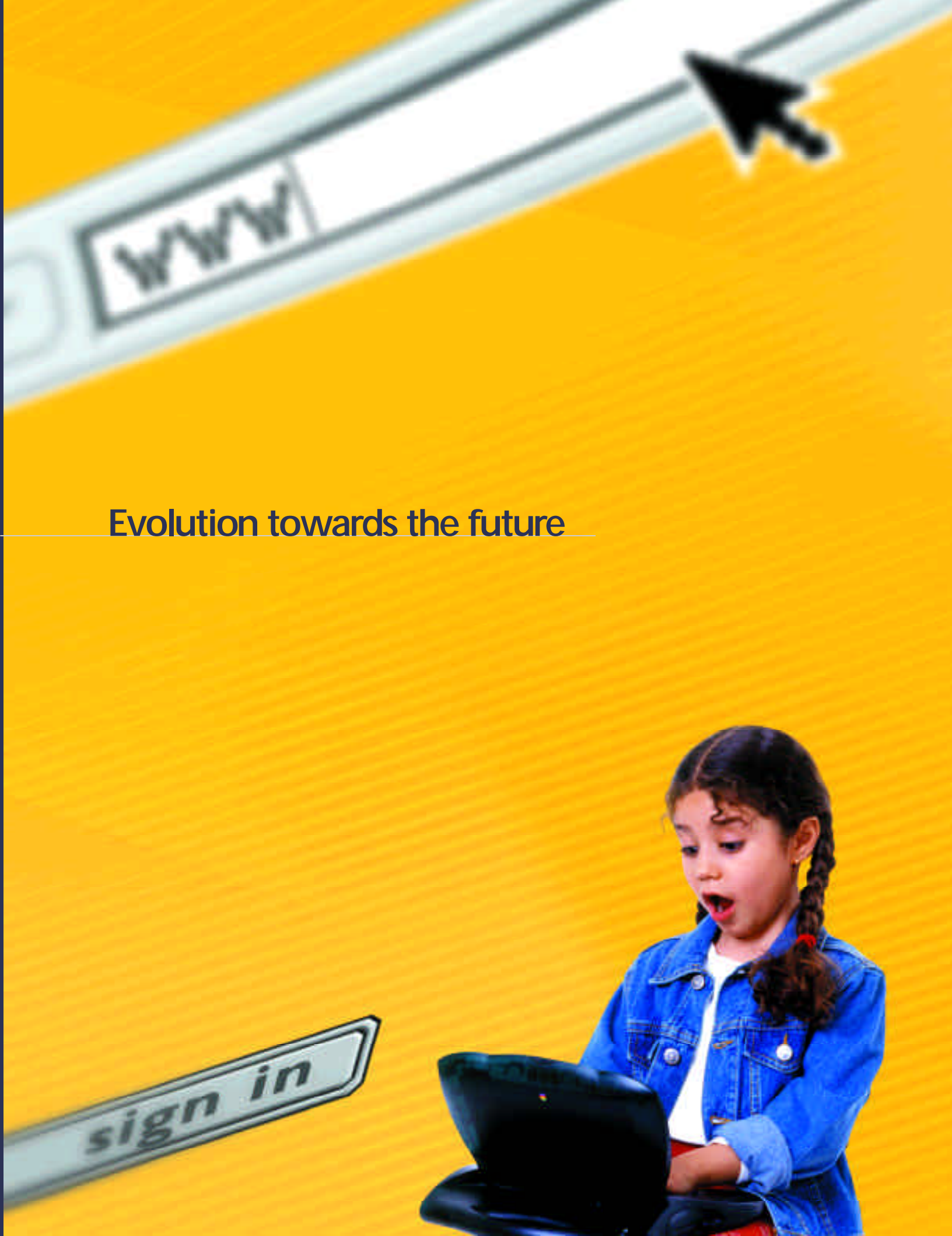
Year	1998	1999	2000
Transactions	420	529	572

Millions of transactions



TECHNOLOGY

III DISTRIBUTION CHANNELS



Evolution towards the future

### III. DISTRIBUTION CHANNELS

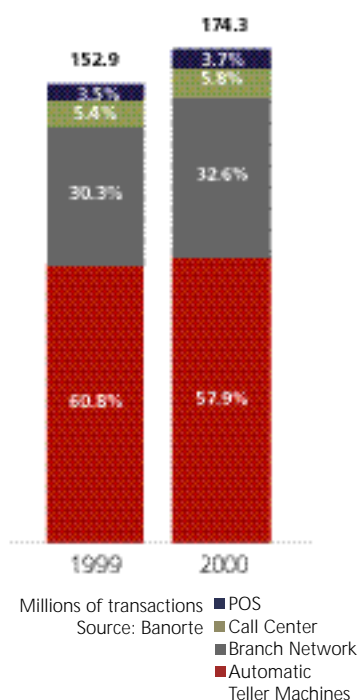
In order to ensure quality service, BANORTE has developed a technological infrastructure to meet its clients' different financial requirements through various distribution channels that BANORTE has created through the Branch Network, Electronic Media, Call Center Banortel and Internet.

#### BRANCH NETWORK

At the end of 2000, BANORTE had 452 branches, equivalent to 5.9% of the national market, placing it 6th in the Mexican Banking System.

The number of branches has remained virtually stable and an important effort was made towards the profitability of the BANORTE Branches Network during the year.

#### TRANSACTIONS



#### AUTOMATIC TELLER MACHINES

As of the 2000 year end closing, BANORTE had 1,434 ATM's, an 8.2% share of the national market, through which over 100 million transactions were made.

#### POINT OF SALE TERMINALS (POS)

Based on profitability criteria, BANORTE consolidated 9,037 terminals and handled 6.5 million transactions in 2000.

#### CALL CENTER BANORTE

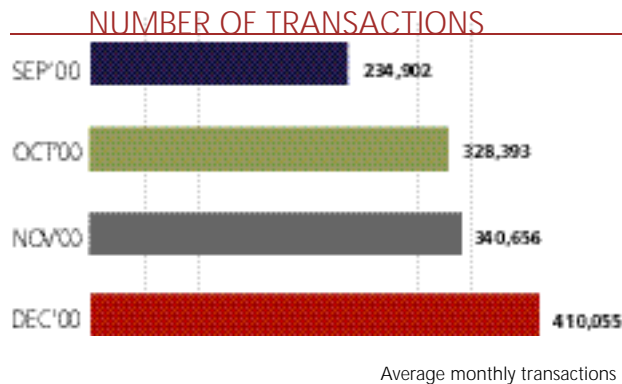
Over 10 million calls were processed in 2000 (23% more than the previous year), 81% of which were handled automatically, with an average response time of 8 seconds.

Part of the strategy to promote the use of this channel consisted of incorporating such services as the payment of utilities, transfers between accounts and loyalty programs.





## BANORTE ON THE INTERNET



### BANORTE ON THE INTERNET

With respect to financial services via the internet, GFNORTE has effectively responded to market requirements with its [www.banorte.com](http://www.banorte.com) portal.

In 2000, new versions of the "Banorte Financial Services Portal" and of all the companies' transactional systems were launched, incorporating advanced security and operational mechanisms.

In addition, and to obtain financial and product information, transactions can be made at [www.banorte.com](http://www.banorte.com), ranging from receiving information on accounts and movements at any time, to executing complex interbank transactions or trading stock.

The new internet version of "Banorte in Your Company" enables companies to make peso transfers from any computer to accounts in other Mexican banks, purchase dollars to be

remitted abroad, make inquiries about payments received at the teller windows at the BANORTE point of sales terminals, in addition to distribute the payroll, paying taxes or investing surpluses in the money market.

Because of their security and versatility, the mechanisms for paying for services via the internet are used more everyday and are additional detonators of the growth and acceptance of BANORTE's financial services on the internet.

Investments were made in internal projects and GFNORTE capitalized on trade alliances with specialized companies. In the medium term, the e-business strategy will lead to achieve the optimum balance between distribution channels, creating new products and driving efficiency through the transformation of internal operating processes.

# IV BUSINESS TRANSACTIONS AND RESULTS

EFFICIENCY



A young boy with short brown hair, wearing a dark blue polo shirt and khaki pants, is kneeling on the floor. He is focused on building a tall, narrow tower of colorful LEGO bricks. The tower is composed of red, yellow, green, and blue bricks. He is holding a red brick with a blue piece on top, ready to add it to the top of the tower. The background is a light blue, semi-transparent architectural drawing of a classical building with multiple levels of arches and columns. The text "A guarantee of soundness" is written in a dark red, serif font on the left side of the image.

*A guarantee of soundness*

## IV. BUSINESS TRANSACTIONS AND RESULTS

### STRATEGY FOLLOW-UP

The **GFNORTE** Banking Sector dealt with the trend to lower interest rates and the predicted reduction of IPAB income with a strategy that consisted of:

- An improvement in the mix of deposits and an increase in the volume of resources obtained and credits placed.
- An increase in non-financial income and income from the business unit of Recovery Banking.
- A reduction of non-financial expenses.

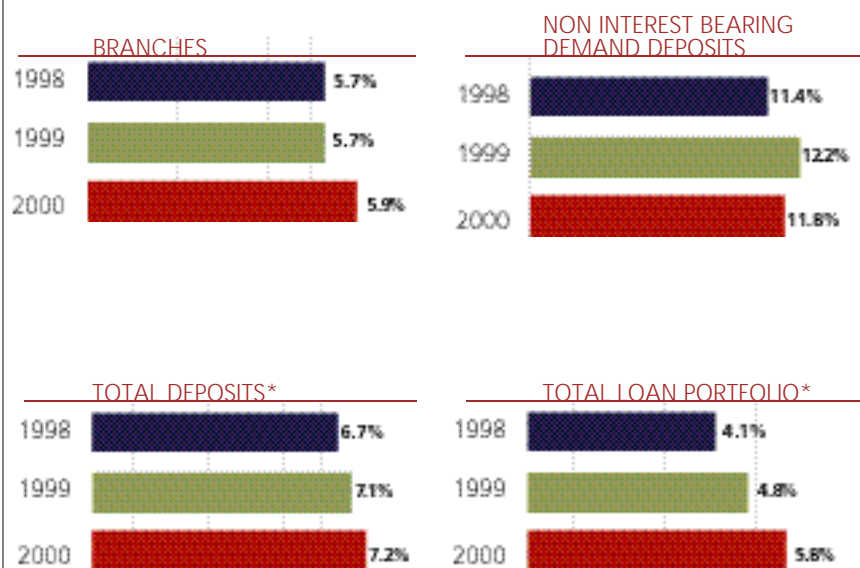
The follow-up of this strategy has generated results that have been acclaimed by international analysts. This strategy will continue to be followed in 2001.

### BANKING SECTOR

#### **MARKET SHARE**

After experiencing significant growth in the 1996 to 1999 period, **BANORTE** initiated a consolidation stage in 2000 focussing its actions more on quality than the volume of clients and stressed the placement of credit, with a focus on profitability.

#### MARKET SHARE



\* Excludes Financial Intermediaries

\* Excludes Fobraproa

Source: A.B.M.

## DEPOSITS AND LOAN PORTFOLIO

### Deposits

Non interest bearing demand deposits as of December 2000 rose to an average of \$9,866 million pesos, 24% higher than the previous year, so that **BANORTE** has kept its leading position in the market of non interest bearing demand deposits per branch, with an 11.8% market share in this item.

With the enhanced quality of accounts, overall deposits in the Banking Sector reached \$112,769 million pesos, a 14% increase over the 1999 year end closing.

#### BANKING SECTOR DEPOSITS

<u>Item</u>	<u>Dec'99</u>	<u>Dec'00</u>	<u>Variation</u>
Demand deposits	\$20,373	\$23,038	13%
Investments	11,856	11,173	(6%)
Dollars	6,936	8,055	16%
TRADITIONAL	39,165	42,266	8%
MONEY MARKET	39,196	48,152	23%
FINANCIAL INTERMED.	20,931	22,350	7%
<b>OVERALL DEPOSITS</b>	<b>\$99,292</b>	<b>\$112,769</b>	<b>14%</b>

Average balances in millions of pesos

### Loan Portfolio

As a fundamental part of its strategy to fully develop essential intermediation activity, **BANORTE** has actively but prudently promoted the placement of credit, so that in December 2000 it achieved an average of \$27,690 million pesos in its current loan portfolio, a growth of \$6,361 million pesos in 2000.

In turn, past due loans decreased 13% in the year as a result of recovery efforts, which enhanced the quality of the Group's assets.

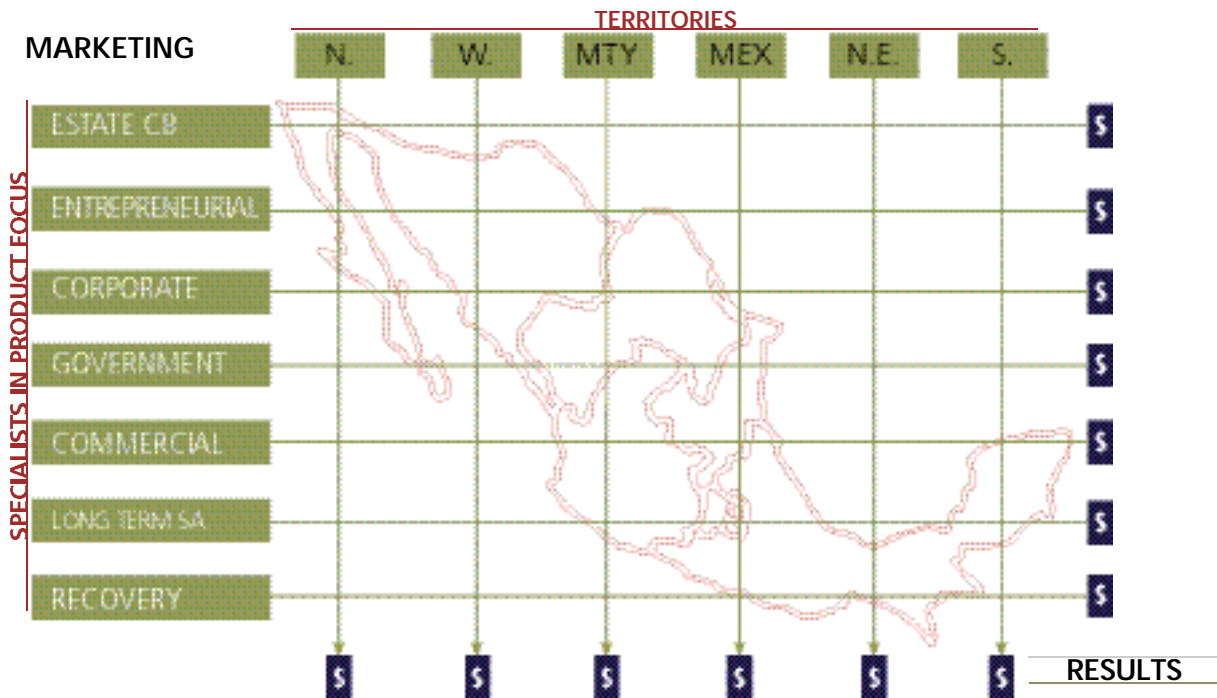
#### BANKING SECTOR LOAN PORTFOLIO

<u>Item</u>	<u>Dec'99</u>	<u>Dec'00</u>	<u>Variation</u>
Current loan portfolio	\$21,329	\$27,690	30%
Past due loan portfolio	4,777	4,163	(13%)
COMMERCIAL			
LOAN PORTFOLIO	26,106	31,853	22%
SUPPORT PROGRAMS	1,110	915	(18%)
FOBAPROA NOTES	58,290	54,562	(6%)
<b>TOTAL LOAN PORTFOLIO</b>	<b>\$85,506</b>	<b>\$87,330</b>	<b>2%</b>

Average balances in millions of pesos

### FINANCIAL MARGIN

In the year 2000, the financial margin was \$4,073 million pesos, a figure 6% nominally lower than the corresponding amount at the 1999 year end closing. The fall in the prime Cetes interest rate averaged 29% for the year, equivalent to 6 percentage points. This decrease was compensated by the growth of the loan portfolio and deposit volumes, as well as an improvement in the mix of the latter.



## BUSINESS SEGMENTS

To fully meet clients' specific needs, **BANORTE** has assembled its different financial products and services into 5 major business segments that report to the main offices of **BANORTE**'s 6 national territories.

### Commercial Banking

In order to offer an increasingly attractive portfolio of products and services, based on the knowledge of market preferences, product packages have been developed in each segment, to address clients' specific needs through our Retail, Personal Banking and Pymes.

Intense promotional efforts were made to place both consumer credits (Automotive, Mortgage, Credit Card, Payroll and Durable Consumer Goods), as well as commercial credits, in addition to implementing parametric credit authorization processes in the branches.

Based on criteria oriented towards collections for transaction, the reduction of operating costs and timely

and personalized service, impetus was given to service in every delivery channel: Branches, Banortel, Automatic Teller Machines, Point of Sale and internet.

### Corporate Banking and International Business

Corporate Banking was consolidated in 2000 as an area capable of generating integral financial solutions for its clients.

Corporate loan portfolios and securities grew 36% in 2000, in the order of \$10,348 million pesos.

An important fact of note is that 88% of this loan portfolio is rated at the "A" risk level by the National Commission of Banking and Securities.

Moreover, the International Business Area, in addition to retain the international ISO 9002 rating, has effected various strategic alliances to develop new foreign commerce products and services to provide enhanced support to the Financial Group clients.

### Entrepreneurial Banking

Via Entrepreneurial Banking, **BANORTE** develops and provides specialized services comprised of: Trust services, that administers \$36,163 million pesos in estates; Promotion Funds, where the Credi-Activo product has positioned it as the market leader with year-end balances of \$1,125 million pesos and 2,764 clients have been granted credits; Agriculture and Livestock with a portfolio of \$2,057 million pesos and Pymes, where the funds amount to \$8,490 million pesos and there are 494 clients.

This area also includes the Factoring, Warehousing and Leasing financial products and services.

### Government Banking

**BANORTE**'s Government Banking has earned a reputation with its clients for personal attention and its acumen for providing services and products to the federal sector, state financial institutions, decentralized organizations and para-state enterprises, as well as being an important generator of business for the other **GRUPO FINANCIERO BANORTE** banks and companies.

The client base has increased and become more diversified, with a 28% growth in deposits compared to 1999 and representing 9.2% of total demand deposits in **GFNORTE**'s Banking Sector in 2000.

### Recovery Banking

The results in the Recovery Banking area were a very significant factor in the generation of **GFNORTE**'s profits in the year 2000.

By year end, the total assets administered reached \$57,317 million pesos, including \$17,300 million pesos of the Serfin bank's past due loan portfolio and \$8,587 million pesos of its own risk loan portfolio. Of these total assets, \$5,561 million pesos were recovered during the year and it should be noted that \$4,738 million of pesos of the former figure were collected in cash, equivalent to 85% of the total recovered.

#### RECOVERY OF FUNDS IN 2000

	<u>AMOUNT</u>	<u>%</u>
CASH	\$4,738	85%
FORECLOSURES	794	14%
OTHERS	29	1%
<b>SUBTOTAL</b>	<b>\$5,561</b>	<b>100%</b>

Millions of pesos

The successful conclusion of the "Final Point" (Punto Final) and "Banorte is More Than a Final Point" (Banorte es más que Punto Final) mortgage programs should be stressed, through which 1,926 cases were resolved, involving a total loan portfolio of \$1,468 million pesos. In addition, the "Now Banorte is with You" program was launched in the fourth quarter, that resolved 433 cases, totalling \$421 million pesos, with 1,242 cases still in process for a total of \$732 million pesos.

In late 2000, **GFNORTE** participated in a bidding for mortgage loans and acquired a new \$2,691 million pesos package, designated as "Meseta", comprised of 19,253 Banca Serfín loans to low-income clients, 66% of which consists of the balance in effect.

**BANORTE** paid \$621 million pesos for this package, only 1% higher than the closest bidder and expects to obtain benefits in the order of \$30 million pesos the first year the recovery process commences.

### LONG TERM SAVINGS SECTOR

Long Term Savings Sector is becoming an increasingly important one for **GFNORTE** and will continue to do so, in view of the increasing volume of clients, funds administered, premiums sold, technical reserves, as well as the fact that this is an excellent medium for realizing the crossed sale of the Group's products and services.

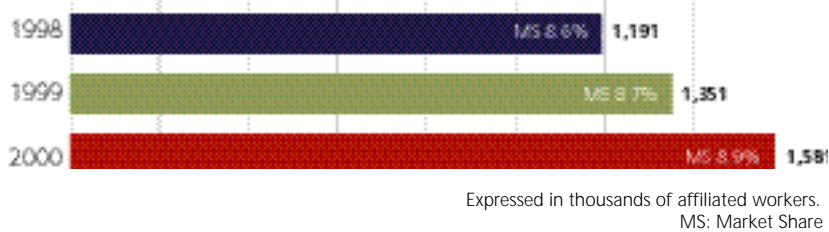
### **AFORE**

In 2000, the Afore Banorte-Generali obtained 230,082 new affiliates, 43% more than in the previous year, which brings the total of clients to 1,581,460, comprising 8.9% of the national market, so that the bank retains its 7th place ranking.

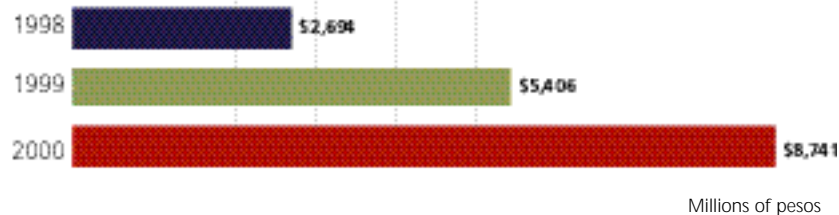
The funds administered increased 62% in the year 2000, reaching a total of \$8,741 million pesos. From the first, the Siefore Banorte-Generali has held second place for accumulated yields generated in workers' funds.

Afore Banorte-Generali offers one of the highest rates of nominal accumulated income in the industry; while its collections commission plans is among the lowest. It also has an internet portal, [www.banorte-general.com.mx](http://www.banorte-general.com.mx), which provides information on affiliates' individual accounts.

### NUMBER OF AFFILIATES AND MARKET SHARE



### FUNDS ADMINISTERED



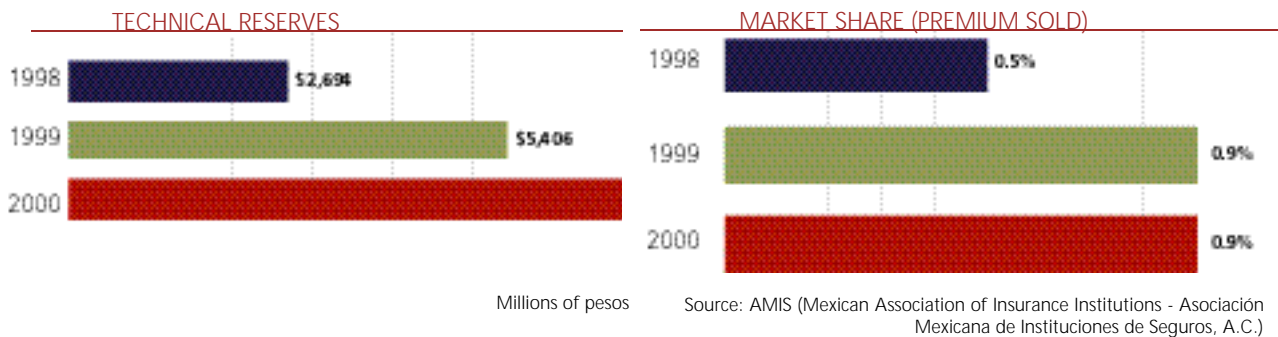


## INSURANCE

Sales of individual life and automobile insurance policies via the bank branches network rose in 2000, with a total of 60,204 policies sold, at a premium of \$346 million pesos, 65% above the corresponding figure for premiums sold in 1999.

Traditional insurance sold through over 400 professional agents reached \$427 million pesos in 2000, 20% higher than the previous year.

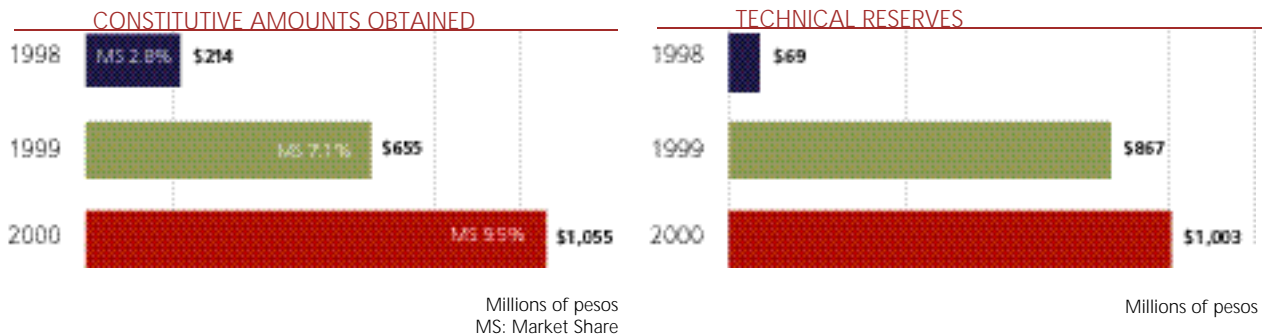
The Banorte-Generali insurance technical reserves increased to \$1,003 million pesos by year end, a 15% increase over 1999.



## ANNUITIES

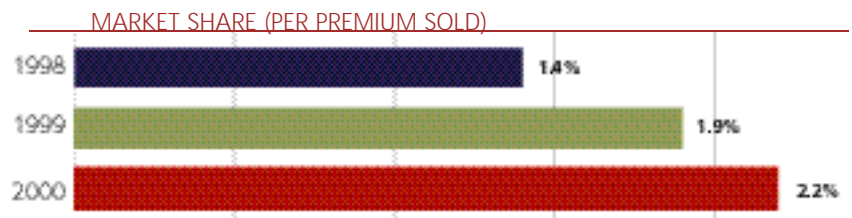
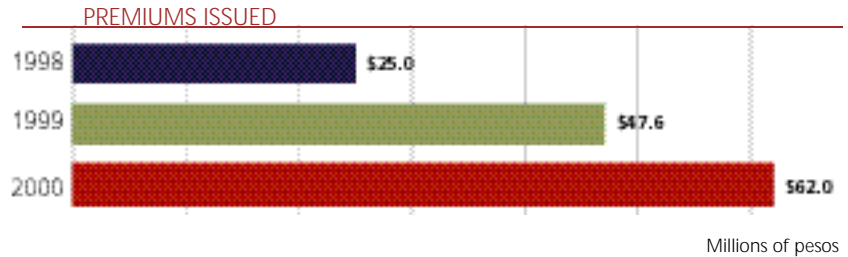
Banorte-Generali's Annuities continued its consolidation process in 2000 as a result of the sales force's focus on attracting higher income clients in a highly competitive environment.

Thus, the total technical reserves reached \$2,054 million pesos for a 121% growth rate for the year. This area has attracted constitutive amounts totalling \$1,055 million pesos and has therefore retained fifth place with a 9.5% market share.



## BONDING

Fianzas Banorte's sales force grew 12% during the year, strengthening its national presence with a timely and personalized service that resulted in the issue of \$62 million pesos in premiums, 30% higher than in 1999.



Source: CNSF (National Commission of Insurance and Bonds- Comisión Nacional de Seguros y Fianzas)

## BROKERAGE SECTOR

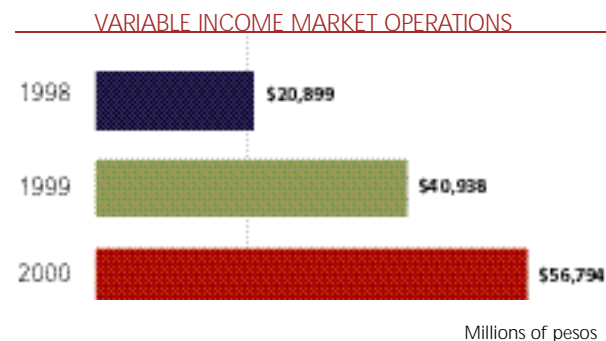
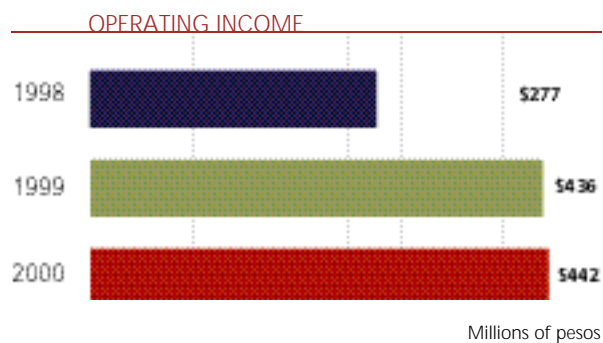
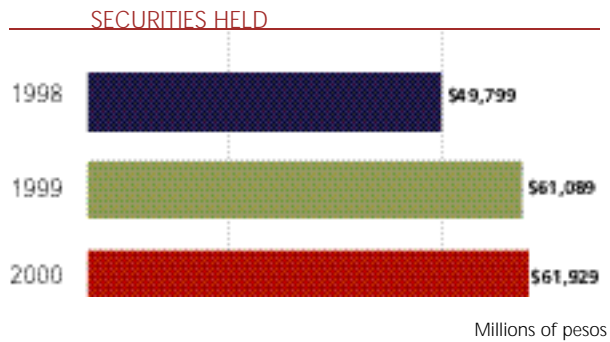
### BROKERAGE HOUSE

The year 2000 was especially difficult for the markets the Casa de Bolsa operates in; the Cetes rate rose from 12.76% in April to 17.59% in December, while the stock market fell 20.73% over the course of the year. Nevertheless, Casa de Bolsa Banorte increased its operating income by \$6 million pesos.

Variable income operations rose to \$56,724 million pesos, 39% higher than 1999, achieving a stronger market share by advancing to seventh place.

The securities held as of December 2000 reached \$61,929 million pesos, slightly higher than the prior year, despite the previously mentioned stock market drop. Casa de Bolsa Banorte served a total of 8,759 clients, maintaining an average balance of \$7.1 million pesos.

A noteworthy fact is that Casa de Bolsa Banorte paid the Financial Group a dividend of \$100 million pesos.



## AUXILIARY CREDIT ORGANIZATIONS

### **LEASING**

At the 2000 year end closing, Arrendadora Banorte had a total loan portfolio of \$513 million pesos, a substantial improvement over the previous percentage of the net past due loan portfolio, decreasing from 4.7% to 1.9%. As a result of its geographical expansion strategy, Arrendadora has retained a 4.8% market share in loan portfolios, placing 8th nationwide.

### **FACTORING**

The total loan portfolio of Factor Banorte at the 2000 year end closing rose to \$1,833 million pesos, placing it first in the Mexican market both in average portfolio figures, as well as in profits. This loan portfolio maintained a sound position, as a result the 100% provisioning of reserves for past due loans.

### **WAREHOUSING**

With respect to profits generated, Almacenadora Banorte ranked second in the national market for the year 2000. In addition, it considerably expanded its roofed storage area, as well as implementing an inventory marketing service, which has produced strong results.

MEMBERS OF THE BOARD OF DIRECTORS

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Vice President Rodolfo Barrera Villarreal  
First Member Carlos Maldonado Elizondo  
Second Member José G. Garza Montemayor  
Third Member Jacobo Zaidenweber Cvilich  
Fourth Member Alejandro Alvarez Figueroa  
Fifth Member Othón Ruiz Montemayor

ALTERNATES

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Vice President Jesús L. Barrera Lozano  
First Member Juan Manuel Quiroga Garza  
Second Member David J. Villarreal Montemayor  
Third Member Simón Nizri Cohen  
Fourth Member Jorge Altschuler Castro  
Fifth Member Robert Chandler Edwards

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Alternate Corporate Examiner Hugo Lara Silva  
Secretary Emilio Yarto Sahagún  
Alternate Secretary Jorge A. García Garza  
Deputy of the Chairman of the Board Robert W. Chandler, Jr.

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Richard Frank  
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David Villarreal Montemayor  
Netzahualcóyotl de la Vega García  
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Carlos Romero Deschamps  
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Juan Manuel Quiroga Garza

ALTERNATE  
MEMBERS

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Jesús L. Barrera Lozano  
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Víctor Villafaña Ferrer  
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Isaac Hamui Musali  
José Antonio Díaz Vicente  
Javier Martínez Abrego  
Isaac Becker Kabacnik  
César Verdes Sánchez  
Victor Flores Morales  
Eduardo Livas Cantú  
Germán Francisco Moreno Pérez  
Rafael del Castillo Torre de Mer

## GROUP DIRECTORS

Othón Ruiz Montemayor	Executive Vice President of the Board and Chief Executive Officer GFNorte
Juan Manuel Quiroga Garza	General Director GFNorte Corporate
Federico Valenzuela Ochoa	General Director Banorte
Robert W. Chandler Edwards	General Director Investor Relations
Miguel Angel García-Padilla Fernández	General Director Recovery Banking
Enrique Castellón Vega	General Director Long Term Savings Banking
Manuel Sescosse Varela	General Director Commercial Banking
Enrique Catalán Guzmán	General Director Entrepreneurial Banking
Antonio Emilio Ortiz Cobos	General Director Corporate Banking
Jorge Altschuler Castro	General Director Estate Banking
Rafael del Castillo Torre de Mer	General Director Government Banking and Government Relations
Daniel Greaves Munguía	General Director Marketing
Luis Raúl Seyffert Velarde	General Director Integral Risk Management
Roberto Hiriart Torruco	General Director Human Resources and Materials
Sergio García Robles Gil	General Director Planning and Control
Gerardo Coindreau Fariás	General Director Technology and Operations
Alejandro Ramos Larios	General Director E-Business
Emilio Yarto Sahagún	General Director Legal Department
Eduardo Sastré de la Riva	General Director Communications and Corporate Image
Jesús Oswaldo Garza Martínez	Monterrey Territorial Director
Marcelo Guajardo Vizcaya	Mexico City Territorial Director
Ernesto Sáenz Ocampo	West Territorial Director
David Salazar Vite	Northeast Territorial Director
Luis Alberto Delgado Villarreal	Northwest Territorial Director
Juan Antonio de la Fuente Arredondo	South Territorial Director



## A SOLID STRUCTURE

V AUDITED FINANCIAL  
STATEMENTS

# The Backbone of the Strong Bank of Mexico



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AUDITED  
FINANCIAL STATEMENTS

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