AUDITED FINANCIAL STATEMENTS

INDEX

Mexico City, February 20, 2004.

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

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

As Chairman of the Committee and in representation of the same, I would like to inform you of the main activities carried out during the course of the year ended December 31, 2003.

I. The schedule of monthly meetings was complied with and seven extraordinary meetings were also held. Minutes were drafted of the resolutions reached and the activities carried out, which are in the possession of management.

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

1. Modifications to the general internal control guidelines that establish directives for operating properly, establishing that an organization chart and description of positions should be available for any operations involving a risk.

2. The designation of the external auditing firm, the scope of its activities and the conditions for engagement, as well as the establishment of a policy to regulate the rotation of the accounting firm and partner that signs the reports.

3. The Manual of Securities Operations Policies and Procedures for the Directors and Employees of the Financial Group.

III. In support of the Board of Directors, the Committee did the following:

1. It participated in the information and commitment program for the personnel, the objective of which is to make them aware of and to observe the Code of Ethics.

2. It contributed to the analysis and opinion on the Banking Sector Internal Control System in compliance with the regulatory requirements.

3. It ascertained that the policies and procedures in the operating manuals are in accordance with the laws and internal control regulations and guidelines.

4. It guaranteed the independence of the Internal Auditing area, since it reports to the Board through the Audit Committee; ascertained its effectiveness, the quality of its review programs and the punctual execution of the same, making an evaluation of its performance. The U.S. Institute of Internal Auditors was engaged to evaluate the internal audit operations with respect to the best international practices and to ascertain whether the recommendations made are being implemented.

5. It reviewed the reports on the inspection visits made by the competent authorities, the results of the same were submitted to the Board and the pertinent recommendations and corrective measures were followed up.

6. It reviewed the observations made by the Internal and External Auditors and the Examiner, including the review of the risk management system and followed up the corrective measures taken, reporting all relevant matters to the Board.

7. It evaluated the performance of the External Auditors, their opinion and the reports it is drafting in compliance with the legal provisions in effect.

8. It communicates and coordinates its work with the Internal Controllership in relation to its on-going programs for strengthening operations.

9. It participated in verifying the fairness of the financial information and the process of issuing the same, supported by the work of the internal and external auditors.

10. It participated in the review of the consolidated financial statements as of the Financial Group and the Banking Sector as of December 31, 2003, as well as the external auditors' opinions, which, together with the internal auditors' reports enable it to analyze and ascertain that the policies authorized for this purpose were adopted. Based on the foregoing, we made the recommendation to the Board that it should approve the same.

11. The internal and external auditors' reports on operations with related parties revealed no transactions which it is necessary to report.

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

Francisco J. Alcalá de León

Chairman of the Audit Committee

Monterrey, N. L., March 26, 2004.

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

In my capacity as Examiner and in compliance with the stipulations of Article 166 of the General Law for Mercantile Companies and the statutes of the same, I hereby issue my report on the exactness, sufficiency and fairness of the financial information which the Board of Directors has submitted to you, in relation to the company's performance for the year ended December 31, 2003.

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

As stated in Note 3, the HOLDING is required to prepare and present its consolidated financial statements based on the accounting rules issued by the National Banking and Securities Commission (the COMMISSION), applicable to controlling companies of financial groups, which is not in accordance with generally accepted accounting principles in the cases indicated in Note 4. The financial statements of the HOLDING as of December 31, 2003 are subject to review by the COMMISSION.

In my opinion, the accounting and financial information criteria and policies followed by the Company, and considered by management in preparing the financial information it presents to this Meeting, are adequate and sufficient and applied on a basis consistent with the prior year; therefore, this information truly, fairly and sufficiently presents the consolidated financial position of Grupo Financiero Banorte, S. A. de C. V. and its subsidiaries as of December 31, 2003, the consolidated results of its operations, the changes in stockholders' equity and changes in the consolidated financial position for the year then ended, in conformity with the bases prescribed by the COMMISSION.

Carlos Arreola Enríquez, C.P.A.

Examiner

PRICEWATERHOUSECOOPERS

Condominio Losoles D-21, Av. Lázaro Cárdenas Pte. 2400
C.P. 66270 Garza García, N. L.
Teléfono (81) 8152 2000 / Fax (81) 8663 3483

Monterrey, N. L., March 26, 2004

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

1. We have audited the consolidated balance sheets of Grupo Financiero Banorte, S. A. de C.V. and subsidiaries (the GRUPO), as of December 31, 2003 and 2002, and the related consolidated statements of income, of changes in stockholders' equity and of changes in financial position for the years then ended. These consolidated financial statements are the responsibility of the GRUPO's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

3. As discussed in Note 3, GRUPO is required to prepare and present its consolidated financial statements in accordance with accounting practices prescribed by the Mexican Banking and Securities Commission (the COMMISSION) for financial groups. Those rules differ from Mexican Generally Accepted Accounting Principles in the cases discussed in Note 4. The consolidated financial statements of GRUPO as of December 31, 2003 are subject to review by the COMMISSION.

4. In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Grupo Financiero Banorte, S. A. de C.V. and subsidiaries as of December 31, 2003 and 2002, 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.

C. P. C. José Antonio Quesada Palacios
Assurance and Business Advisory Services Partner

GRUPO FINANCIERO BANORTE S. A.DE C. V. AND SUBSIDIARIES
CONSOLIDATED AS OF DECEMBER 31,2003 AND 2002
(Amounts stated in thousands of Mexican Pesos of December 2003 purchasing power) (Notes 1,2,3,4,5,6,22,25,32,34 and 35)

ASSETS	2003	2002
CASH AND CASH EQUIVALENTS (Note 6)	Ps 30,743,161	Ps 24,558,586
INVESTMENT SECURITIES (Note 7):		
Trading securities	9,247,453	3,100,870
Available-for-sale securities	239,885	1,360,333
Held-to-maturity securities	9,367,690	7,881,415
TOTAL INVESTMENT SECURITIES	18,855,028	12,342,618
SECURITIES AND DERIVATIVES TRADING (Note 8):		
Unassigned values pending payment	1,295	-
Debit balances on repo transactions	50,965	223,395
Derivatives trading	2,886	10,425
	55,146	233,820
CURRENT LOAN PORTFOLIO (Notes 9 and 11):		
Commercial portfolio	38,157,166	36,324,000
Loans to financial intermediaries	2,532,327	6,820,413
Consumer loans	8,658,874	5,360,700
Mortgage loans	14,714,590	12,627,318
Loans to government entities	78,188,140	88,326,026
Loans to FOBAPROA or IPAB (Note 10)	6,685,138	6,368,440
TOTAL CURRENT LOAN PORTFOLIO	148,936,235	155,826,897
PAST-DUE LOAN PORTFOLIO (Notes 9 and 11):		
Commercial portfolio	1,913,175	2,614,457
Consumer loans	458,545	349,189
Mortgage loans	1,182,559	1,994,694
Loans to government entities	8,107	-
TOTAL PAST-DUE LOAN PORTFOLIO	3,562,386	4,958,340
TOTAL LOAN PORTFOLIO	152,498,621	160,785,237
ALLOWANCE FOR LOAN LOSSES	4,316,151	5,828,197
NET LOAN PORTFOLIO	148,182,470	154,957,040
CREDIT ASSETS PORTFOLIO (Note 12)	2,065,049	1,928,084
OTHER RECEIVABLES, NET	2,230,525	2,739,348
FORECLOSED ASSETS (Note 13)	1,123,430	1,263,978
PROPERTY, FURNITURE AND EQUIPMENT, NET (Note 14)	5,712,902	5,945,483
PERMANENT STOCK INVESTMENTS (Note 15)	1,703,713	1,063,986
DEFERRED TAXES, NET (Note 16)	970,151	840,974
OTHER ASSETS (Note 17):		
Other assets, deferred charges and intangibles	1,545,018	1,599,505
TOTAL ASSETS	**Ps 213,186,593**	**Ps 207,473,422**

C. P. Othón Ruiz Montemayor
General Director

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Administration and Finance General Director

C. P. Isaías Velázquez González
Audit Executive Director

C. P. Nora Elia Cantú Suárez
Accounting Director

LIABILITIES	2003	2002
DEPOSITS:		
Demand deposits (Note 18)	Ps 66,158,704	Ps 54,724,814
Time deposits (Note 19)		
General public	75,406,295	30,545,752
Money market	20,879,458	62,272,299
Bank bonds (Note 20)	-	1,345,204
TOTAL DEPOSITS	162,444,457	148,888,069
BANK AND OTHER ENTITY LOANS (Note 21):		
Demand loans	4,737,732	13,993,555
Short term	13,467,821	13,979,607
Long term	11,110,915	11,057,919
	29,316,468	39,031,081
SECURITIES AND DERIVATIVES TRADING (Note 8):		
Unassigned values pending payment	1,146	-
Credit balances on repo transactions	214,769	178,757
Derivatives trading	12,185	849,310
	228,100	1,028,067
OTHER PAYABLES:		
Income tax and employees' statutory profit sharing	266,358	393,393
Sundry creditors and other payables	3,774,556	2,962,184
	4,040,914	3,355,577
OUTSTANDING SUBORDINATED DEBENTURES (Note 23)	2,731,188	2,687,245
DEFERRED CREDITS	64,848	23,314
CONTINGENCIES AND COMMITMENTS (Note 24)	-	-
SUBSECUENTS EVENTS (Note 36)		
TOTAL LIABILITIES	**198,825,975**	**195,013,353**

STOCKHOLDERS' EQUITY (Notes 25,26, 27 and 28):		
PAID-IN CAPITAL:		
Capital stock	5,330,119	5,313,626
Paid stock premiums	1,584,005	1,554,137
TOTAL PAID-IN CAPITAL	6,914,124	6,867,763
EARNED SURPLUS:		
Capital reserves	1,319,281	1,094,389
Retained earnings	11,414,849	9,862,632
Surplus or deficit from restatement of stockholders' equity	(5,437,816)	(5,437,816)
Loss from holding nonmonetary assets		
Net income	(2,959,300)	(2,868,953)
	2,218,490	2,094,744
TOTAL EARNED SURPLUS	6,555,504	4,744,996
MINORITY INTEREST IN STOCKHOLDERS' EQUITY	890,990	847,310
TOTAL STOCKHOLDERS' EQUITY	14,360,618	12,460,069
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**Ps 213,186,593**	**Ps 207,473,422**

The accompanying notes are part of these consolidated financial statements.

STATEMENTS OF INCOME

GRUPO FINANCIERO BANORTE S. A.DE C. V. AND SUBSIDIARIES
CONSOLIDATED FOR THE YEARS ENDED DECEMBER 31,2003 AND 2002
(Amounts stated in thousands of Mexican Pesos of December 2003 purchasing power) (Notes 1, 2 ,3 ,4 ,5 ,1 1 , 34 and 35)

	2003	2002
Interest income	Ps 22,409,578	Ps 25,268,679
Interest expense	(13,755,434)	(16,490,024)
Monetary gain, relative to net interest income	55,371	80,105
NET INTEREST INCOME	8,709,515	8,858,760
Allowance for loan losses	(808,916)	(855,979)
NET INTEREST INCOME ADJUSTED FOR CREDIT RISKS	7,900,599	8,002,781
Fee and commission income	4,962,703	5,115,436
Fee and commission expense	(814,762)	(1,187,326)
Brokerage income	980,216	405,708
	5,128,157	4,333,818
TOTAL OPERATING INCOME	13,028,756	12,336,599
Administrative and promotion expenses	(10,507,049)	(10,337,959)
OPERATING INCOME	2,521,707	1,998,640
Other income	2,550,735	2,534,934
Other expenses	(2,666,638)	(2,491,567)
	(115,903)	43,367
INCOME BEFORE INCOME TAX AND EMPLOYEES' STATUTORY PROFIT SHARING	2,405,804	2,042,007
Current income tax and employees' statutory profit sharing (Note 30)	(343,296)	(354,614)
Deferred income tax and employees' statutory profit sharing (Note 16)	99,497	(7,448)
	(243,799)	(362,062)
INCOME BEFORE EQUITY IN EARNINGS OF NONCONSOLIDATED SUBSIDIARY AND ASSOCIATED AND AFFILIATED COMPANIES, AND MINORITY INTEREST	2,162,005	1,679,945
Equity in earnings of nonconsolidated subsidiary and associated,and affiliated companies, Net	200,671	171,918
INCOME FROM CONTINUING OPERATIONS BEFORE MINORITY INTEREST	2,362,676	1,851,863
Discontinues operation, extraordinary departure and changes in accounting standards	693	426,913
	2,363,369	2,278,776
Minority interest	(144,879)	(184,032)
NET INCOME (Notes 26 and 27)	**Ps 2,218,490**	**Ps 2,094,744**

The accompanying notes are part of these consolidated financial statements.

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STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	PAID-IN CAPITAL			
	CAPITAL STOCK	VARIABLE CAPITAL STOCK	PAID STOCK PREMIUMS	CAPITAL RESERVES
Balance at January 1,2002	Ps 3,177,767	Ps 2,136,526	Ps 1,541,318	Ps 1,018,697
CHANGES RESULTING FROM RESOLUTIONS ADOPTED BY STOCKHOLDERS:				
Issuance of stock (stock repurchase)	-	(667)	12,819	(5,313)
Appropriation of income	-	-	-	-
Reserves created	-	-	-	81,005
Dividend decreed in Ordinary General Assembly of Stockholders at September 30, 2002				
CHANGES RELATED TO THE RECOGNITION OF COMPREHENSIVE INCOME:				
Net income of the year	-	-	-	-
Gain (loss) from holding non-monetary assets	-	-	-	-
Comprehensive income for the year (Note 29)	-	-	-	-
MINORITY INEREST	-	-	-	-
Balance at December 31, 2002	3,177,767	2,135,859	1,554,137	1,094,389
CHANGES RESULTING FROM RESOLUTIONS ADOPTED BY STOCKHOLDERS:				
Issuance of stock (stock repurchase)	-	16,493	29,868	121,782
Appropriation of income	-	-	-	
Reserves created	-	-	-	103,110
Dividend decreed in Ordinary General Assembly of Stockholders at October 16, 2003	-	-	-	-
CHANGES RELATED TO THE RECOGNITION OF COMPREHENSIVE INCOME:				
Net income of the year	-	-	-	-
Gain (loss) from holding non-monetary assets	-	-	-	-
Comprehensive income for the year (Note 29)	-	-	-	-
MINORITY INTEREST	-	-	-	-
Balance at December 31, 2002	**Ps 3,177,767**	**Ps 2,152,352**	**Ps 1,584,005**	**Ps 1,319,281**

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(Amounts stated in thousands of Mexican Pesos of December 2003 purchasing power) (Notes 26,27,28 and 29)

EARNED SURPLUS						
PRIOR YEARS RETAINED EARNINGS	**DEFICIT IN RESTATEMENT OF CAPITAL ACCOUNTS**	**GAIN (LOSS) FROM HOLDING NON-MONETARY ASSETS**	**NET INCOME OF THE YEAR**	**TOTAL MAJORITY INTEREST**	**MINORITY INTEREST IN CAPITAL**	**TOTAL STOCKHOLDERS´ EQUITY**
Ps 8,822,796	(Ps 5,437,816)	(Ps 2,965,205)	Ps 1,650,022	Ps 9,944,105	Ps 872,266	Ps 10,816,371
-	-	-	-	6,839	-	6,839
1,650,022	-	-	(1,650,022)	-	-	-
(81,005)	-	-	-	-	-	-
(529,181)				(529,181)	-	(529,181)
-	-	-	2,094,744	2,094,744	-	2,094,744
-	-	96,252	-	96,252	-	96,252
-	-	96,252	2,094,744	2,190,996	-	2,190,996
-	-	-	-		(24,956)	(24,956)
9,862,632	(5,437,816)	(2,868,953)	2,094,744	11,612,759	847,310	12,460,069
(81,840)	-	-	-	86,303	-	86,303
2,094,744	-	-	(2,094,744)	-	-	-
(103,110)	-	-	-	-	-	-
(357,577)	-	-	-	(357,577)	-	(357,577)
				-	-	
-	-	-	2,218,490	2,218,490	-	2,218,490
-	-	(90,347)	-	(90,347)	-	(90,347)
-	-	(90,347)	2,218,490	2,128,143	-	2,128,143
-	-	-	-	-	43,680	43,680
Ps 11,414,849	**(Ps 5,437,816)**	**(Ps 2,959,300)**	**Ps 2,218,490**	**Ps 13,469,628**	**Ps 890,990**	**Ps 14,360,618**

The accompanying notes are part of these consolidated financial statements.

STATEMENTS OF CHANGES IN FINANCIAL POSITION

GRUPO FINANCIERO BANORTE S. A.DE C. V. AND SUBSIDIARIES

CONSOLIDATED FOR THE YEARS ENDED DECEMBER 31,2003 AND 2002 (Amounts stated in thousands of Mexican Pesos of December 2003 purchasing power)

	2003	2002
OPERATING ACTIVITIES:		
Net income of the year	Ps 2,218,490	Ps 2,094,744
Items charged (credited) to income that did not affect resources:		
Allowance for loan losses	808,916	855,979
Depreciation and amortization	942,568	795,556
Deferred taxes	(99,497)	7,448
Minority interest	144,879	(184,032)
Provision for other obligations	(196,000)	735,204
Equity in earnings of nonconsolidated subsidiary and associated and affiliated companies, net	(200,671)	(171,918)
Unrealized investment income	26,070	48,408
	3,644,755	4,181,389
Items related to operations:		
Increase in deposits	13,556,388	65,995,044
Increase in investment securities	(6,538,480)	(5,270,950)
(Decrease) increase in bank and other entity loans	(9,714,613)	21,303,018
(Increase) decrease in credit assets portfolio	(136,965)	873,579
Decrease (increase) in loan portfolio	5,965,654	(68,910,907)
Increase in deferred taxes	(29,680)	(68,587)
(Decrease) increase in derivatives trading	(621,293)	856,188
Decrease (increase) in accounts receivable and payable	1,390,159	(1,287,743)
Resources provided by (used in) operating activities	7,515,925	17,671,031
FINANCING ACTIVITIES:		
Issuance of outstanding subordinated debentures	43,943	1,222,200
Common stock repurchase	86,303	6,839
Decree Dividends	(357,577)	(529,179)
Resources used in financing activities	(227,331)	699,860
INVESTMENT ACTIVITIES:		
Decrease in foreclosed assets	140,548	223,844
(Increase) decrease in permanent stock investments	(630,602)	449,986
Increase in deferred charges and credits	(378,217)	(506,008)
Net purchases of property, furniture and equipment	(235,748)	(2,402,579)
Resources used in investment activities	(1,104,019)	(2,234,757)
Increase in cash and cash equivalents	6,184,575	16,136,134
Cash and cash equivalents at beginning of year	24,558,586	8,422,452
Cash and cash equivalents at end of year	**Ps 30,743,161**	**Ps 24,558,586**

The accompanying notes are part of these consolidated financial statements.

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NOTE 1 DESCRIPTION OF BUSINESS:

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

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

GRUPO has entered into a liability agreement in accordance with the LRAF, through which it is fully liable for the obligations and losses of each of its subsidiary companies.

NOTE 2 HIGHLIGHTS:

A comprehensive business strategy was established with the fundamental purpose of strengthening the capital of Banco Mercantil del Norte, S. A., Institución de Banca Múltiple (Banorte) and improving its position in the market. This strategy required structural changes in GRUPO such as:

a. Acquisition of the stock of Bancr ecer, S.A. (“Bancr ecer”)
On September 24, 2001, the Instituto para la Protección del Ahorro Bancario (Bank Savings Protection Institute or “IPAB”) announced that BANORTE had won the right to purchase 100% of the capital stock of Bancrecer. Banorte paid Ps1,810,250 (Ps1,650,000 nominal value), equivalent to 0.66 times the historical book value of Bancrecer stockholders’ equity at the transaction date.

In accordance with the contract for the purchase of Bancrecer stock, Banorte paid 25% of the purchase price, Ps452,563 (Ps412,500 nominal value), on October 5, 2001 (the date on which the contract was entered into) and the remaining Ps1,357,687 (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 Ps17,542 (Ps15,989 nominal value). Additional expenses directly related to the acquisition amounting to Ps6,433 (Ps5,864 nominal value) brought the total cost of the acquisition to Ps1,834,225 (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 Banorte and the use of additional financing obtained before the date of the purchase of Bancrecer.

By official letter 60-II-105587 dated December 11, 2001, the COMMISSION authorized Banorte to temporarily record this investment in investment securities. Banorte did not take control of Bancrecer´s administration until January 2, 2002.

With regard to the stockholders' equity of Bancrecer, the COMMISSION's aforementioned official letter authorized Bancrecer to charge to stockholders' equity an allowance for known integration expenses. As a result and through the application of a negative goodwill of approximately Ps 932, (Ps850 millions at nominal value), Bancrecer established reserves during December 2001 totaling Ps744 (Ps678 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 to develop its own businesses or to find other work.

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 Banorte's strategic plan.

(Amounts stated in thousands of Mexican pesos of December 2003 purchasing power, except as otherwise indicated, number of shares and per share amounts,debentures and exchange rates)

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. Banorte 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 Ps80,700 (nominal value).

At December 31, 2002, Banorte recorded an additional charge of Ps51,749 (Ps49,800 nominal value) 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 and 2003***	***Balance at December 31,2003***
Reorganization	*Ps 368,100*	*(Ps 368,100)*	*Ps -*
Integration	*229,300*	*(174,689)*	*54,611*
Post-retirement benefits	*80,700*	*(80,700)*	*-*
Total	***Ps 678,100***	***(Ps 623,489)***	***Ps 54,611***

After the accrual of the aforementioned integration expenses, Bancrecer´s adjusted stockholders' equity amounted to Ps1,869,902 (Ps1,704,372 nominal value) at December 31, 2001.

The purchase of Bancrecer´s stock generated an adjusted negative goodwill totaling Ps35,677 (Ps32,519 nominal value), which was recorded in Banorte´s books on January 31, 2002.

During the first quarter of 2002, Banorte sold a property at No.116 Paseo de la Reforma Street, in Mexico City, which was previously used by Bancrecer. The sale of this property resulted in a loss of Ps50,270 (Ps45,820 nominal value), which was applied as an adjustment to the negative goodwill of Ps35,677 (Ps33,519 nominal value), resulting in an adjusted net positive goodwill of Ps14,592 (Ps13,301 nominal value). This goodwill was recorded in "Other Assets".

At General Extraordinary Shareholders' Meeting held on March 11, 2002, Banorte´s and Bancrecer's shareholders approved a merger of BANORTE and Bancrecer. Bancrecer was the legal surviving company, and subsequently changed its name to Banco Mercantil del Norte, S.A., Institución de Banca Multiple. 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, the COMMISSION's Circular 1448 provides that the substance of a transaction prevails over its form and that, for accounting purposes, the surviving entity is BANORTE, though for legal purposes the surviving entity is Bancrecer. The historical stockholders' equity presented herein is that of the BANORTE.

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

At December 19, 2003, GRUPO entered into a sale agreement of shares with the following entities: Maatschappij Graafschap Holland, N.V. (Participating company of Dutch origin), Assicurazioni Generali, S. A. (Company of Italian origin) and Transocean Holding Corporation (Company of Northamerican origin) to acquire shares representative of the capital stock of Generali México Compañía de Seguros, S. A. (Generali México). The net payment made by GRUPO amounted $84,945 (7.560 million US dollars) (after the tax withholding, which amounted to 90 thousand US dollars) representing 51% of the capital stock of Generali Mexico at the negotiation date. Derived from the aforementioned, goodwill was generated in the amount of $42,372 (3.771 million US dollars), which is included in the "Other assets, deferred charges and intangible assets" item in the balance sheet.

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

Given that Generali México is an entity belonging to the Savings and Welfare division of the GRUPO, this acquisition was recorded at the end of 2003 using the equity method and in the "Permanent investment in shares" item of the balance sheet in the amount of $45,853.

At the date of issuance of these financial statements, GRUPO's Management has planned to carry out a merger during the first semester of 2004, between Generali México and Seguros Banorte Generali, S. A. de C. V., Grupo Financiero Banorte, with the former as the merging company, in order to widen the number of products and services offered by the Savings and Welfare division of GRUPO.

c. Growth strategies

During the year 2003, GRUPO carried out corporate readjustments and business strategies that were intended to allow it to continue to maintain a solid financial structure and to offer more competitive products in the market. The most important strategies include:

1.MORTGAGE PORTFOLIO SECURITIZATION

Negotiated by Sólida Administradora de Portafolios S. A. de C. V. ("Sólida"):

During the last quarter of 2003, GRUPO realized, through Sólida, (a subsidiary of BANORTE) the first mortgage portfolio securitization in Mexico, which was placed in the Mexican Stock Exchange (Bolsa Mexicana de Valores, S. A. de C. V. or "BMV"). The loans placed in the Stock Exchange correspond to 10,164 social interest loans with a principal value of Ps1,543,000 which were originated by Banca Serfín, S. A., Institución de Banca Múltiple and acquired by Sólida through a public offering by the IPAB. Preferential Stock Exchange Certificates were issued through a Trust constituted by Nacional Financiera, S.N.C. (NAFIN), to be acquired by the general investing public for an amount of Ps340,000 with a nominal value of Ps100 each, as well as Subordinate Certificates, which were acquired by Sólida. The term of the certificates is 75 periods of 28 days each with a net interest rate of Cetes (28 days) + 0.90 points, payable every 28 days.

2. PURCHASES OF PORTFOLIO PACKAGES

During 2003, Sólida made several purchases of rights over cash the flows from loan portfolios auctioned mainly by the IPAB. The loan portfolios acquired comprised the following:

Package	Type of portfolio	Month of acquisition	Portfolio amount	Purchase proportion	Amount paid	Amount of portfolio at December 31, 2003	Unamortized balance at December 2003
Portfolio "BANORTE"	Commercial, mortgage and consumer	February	Ps 1,855,704	20.34%	Ps 377,544	Ps 1,332,500	Ps 306,147
Portafolio "Bancrecer III"	Commercial and consumer	August	979,800	3.85%	37,822	890,000	34,241
Portafolio "BANCO INDUSTRIAL"	Commercial and consumer	August	933,800	5.96%	66,863	815,000	48,571
Portafolio "BBVA Bancomer"	Commercial and consumer	October	1,189,000	17.33%	205,921	1,189,000	206,236
Total credit assets			4,958,304		688,150	4,226,500	595,195
Serfin Grises	Real estate	February, April,June, August,September, October and December	113,721	For sale	112,270	113,721	113,721
Interlomas	Real estate	October	61,494	For sale	58,292	61,494	61,494
Total non-credit assets			175,215		170,562	175,215	175,215
Total			**Ps 5,133,519**		**Ps 858,712**	**Ps 4,401,715**	**Ps 770,410**

3. SALE OF PORTFOLIO PACKAGES AMONG RELATED PARTIES

In February 2003, BANORTE sold Ps1,925 millions corresponding to its own portfolio (with interests) to Sólida at a price of Ps378 millions. Of this amount, Ps1,861 millions correspond to the past due portfolio and Ps64 millions to the current portfolio. The transaction was carried out based on figures of August 2002; therefore, the final amount affecting the balance sheet corresponding to February 2003 was Ps1,856, considering the collections made since August 2002. Jointly with the sold portfolio, Ps1,577 millions was transferred from the loan reserves associated with such portfolio (See Note 36).

(Amounts stated in thousands of Mexican pesos of December 2003 purchasing power, except as otherwise indicated, number of shares and per share amounts,debentures and exchange rates)

By Official Letter 601-II-323110 dated November 5, 2003, the Commission established the accounting criteria that should be followed in the financial and accounting treatment of this transaction, and it issue a series of resolutions requiring Banorte to keep detailed records of this transaction as long as there are loans understanding that this transaction was exceptional and not a permanent procedure for portfolio transfer.

Following is the evolution of the loan portfolio sold to Sólida as of August 2002 and for the quarters ended September 30 and December 31, 2003:

(Millions of pesos)	Local currency			Valued Foreign currency			Total		
Type of portfolio	Aug 02	Sep 03	Dec 03	Aug 02	Sep 03	Dec 03	Aug 02	Sep 03	Dec 03
Commercial	Ps 5	Ps 7	Ps 12	Ps 5	Ps 5	Ps 2	Ps 10	Ps 12	Ps 14
Mortgage	54	95	105	-	-	-	54	95	105
Current portfolio	59	102	117	5	5	2	64	107	119
Commercial	Ps 405	Ps 349	Ps 334	Ps 293	Ps 241	Ps 246	Ps 698	Ps 590	Ps 580
Consumer	81	77	77	-	-	-	81	77	77
Mortgage	1,112	867	818	-	-	-	1,112	867	818
Past due portfolio	1,598	1,293	1,229	293	241	246	1,891	1,534	1,475
Total portfolio	**Ps 1,657**	**Ps1,395**	**Ps 1,346**	**Ps 298**	**Ps 246**	**Ps 248**	**Ps 1,955**	**Ps 1,641**	**Ps 1,594**
Commercial	Ps 383	Ps 339	Ps 329	Ps 274	Ps 224	Ps 227	Ps 657	Ps 563	Ps 556
Consumer	80	77	77	-	-	-	80	77	77
Mortgage	840	568	539	-	-	-	840	568	539
Credit reserves(1)	Ps 1,303	Ps 984	Ps 945	Ps 274	Ps 224	Ps 227	Ps 1,577	Ps 1,208	Ps 1,172

(1) Reserves required in accordance with the portfolio methodology applied in BANORTE.
BANORTE owns 99.99% of the capital of Sólida.

At December 31, 2003, the Banorte´s loan portfolio, including the loans sold to Sólida, was analyzed as follows:

(Millions of pesos)	*Local currency*		*Foreign currency*		*Total*	
Type of potfolio	**Sep 03**	**Dec 03**	**Sep 03**	**Dec 03**	**Sep 03**	**Dec 03**
Commercial loans	*Ps 22,669*	*Ps 27,138*	*Ps 8,523*	*Ps 6,681*	*Ps 31,192*	*Ps 33,819*
Loans to financial entities	*2,551*	*3,048*	*773*	*302*	*3,324*	*3,350*
Consumer loans	*7,728*	*8,651*	*5*	*4*	*7,733*	*8,655*
Mortgage loans	*13,497*	*14,557*	*-*	*-*	*13,497*	*14,557*
Loans to government entities	*84,100*	*77,446*	*715*	*730*	*84,815*	*78,176*
Loans to IPAB	*6,847*	*6,887*	*(195)*	*(201)*	*6,652*	*6,686*
Current portfolio	*137,392*	*137,727*	*9,821*	*7,516*	*147,213*	*145,243*
Commercial portfolio	*1,291*	*1,281*	*1,000*	*1,017*	*2,291*	*2,298*
Consumer loans	*454*	*526*	*-*	*-*	*454*	*526*
Loans to government entities	*8*	*8*	*-*	*-*	*8*	*8*
Mortgage loans	*1,885*	*1,855*	*-*	*-*	*1,885*	*1,855*
Past due portfolio	*3,638*	*3,670*	*1,000*	*1,017*	*4,638*	*4,687*
Total portfolio	***141,030***	***141,397***	***10,821***	***8,533***	***151,851***	***149,930***
Loan reserves	*(3,819)*	*(3,846)*	*(1,301)*	*(1,171)*	*(5,120)*	*(5,017)*
Net portfolio	***Ps 137,211***	***Ps 137,551***	***Ps 9,520***	***Ps 7,362***	***Ps 146,731***	***Ps 144,913***
Reserves past due to portfolio					*110.39%*	*107.04%*
% of portfolio past due					*3.05%*	*3.13%*

At December 31, 2003, there were changes in the loan portfolio due to foreclosures amounting to Ps12,000 and due to forgiveness and write-offs of debts for Ps25,000 and from losses on foreclosures of Ps5,000.

4. LOAN PORTFOLIO TRANSACTIONS BETWEEN BANCO DEL CENTRO, S. A., Institución de Banca Múltiple, Grupo Financiero Banorte (BANCEN):

During 2003, 2002 and 2001 Bancen made several purchases and sales of rights over cash flows derived from auctioned loan portfolios, mainly the IPAB and through Sólida Administradora de Portafolios, S. A. de C. V. (Sólida), and once from GRUPO.

(Amounts stated in thousands of Mexican pesos of December 2003 purchasing power, except as otherwise indicated, number of shares and per share amounts,debentures and exchange rates)

The loan portfolios acquired are analyzed at nominal value as follows:

Project	Type of portfolio	Acquisition date	Nominal portfolio amount	Purchase price	Amount paid
Meseta	Mortgage	June 01	Ps 2,670,373	21.83%	Ps 583,000
Bancrecer I	Mortgage	July 01	2,006,754	28.13%	564,500
Goldman Sachs	Mortgage(1)	October 01	1,405,906	18.46%	259,643
Serfin-Santander	Mortgage and commercial	January 02	1,964,992	40.44%	794,713
Bital	Mortgage	December 03	2,184,327	19.93%	435,425
Total			**Ps 10,232,352**		**Ps 2,637,281**

(1) Also,during 2002,rights over the cash flows of loan portfolios denominated Meseta and the social interest portfolio of Goldman Sachs were ceded to Sólida,in the amount of Ps 924,746 (Ps 842,884 nominal value),without affecting the income for the year.

5. MODIFICATION TO THE PORTFOLIO ADMINISTRATION CONTRACT WITH THE FIDUCIARY DIVISION OF BANCA SERFIN (SERFIN)

During 2003, the Grupo negotiated a modification to the portfolio administration contract entered into with the fiduciary division of SERFIN; by means of which it included the retroactive effect of managing almost Ps2,800,000 additional assets among which stand out shares and securities and real property fiduciary rights that were granted since February 2000 to Bancen.

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 by circular 1456, 1448, 1458. For this purpose, the COMMISSION issued several Circulars, which were updated in October 2000 by Circular 1489, 1488, 1490, effective January 1, 2001. These Circulars modify various accounting rules in order to add disclosure rules related to interim financial information. They also incorporate the concept of comprehensive income, change the recording and valuation rules for past due mortgage loans 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 standards must be applied in order: Mexican Generally Accepted Accounting Principles ("MEX GAAP"), as issued by the Mexican Institute of Public Accountants ("MIPA"), International Financial Reporting Standards Boards ("IASB") and United States Generally Accepted Accounting Principles ("US GAAP"), as issued by the Financial Accounting Standards Board ("FASB").

The financial statements of Grupo and its subsidiaries at December 31, 2003 are subject to the approval of the COMMISSION, which is empowered to require make any 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. Consolidated financial statements

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

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

Company	*2003*				
	%	*Assets*	*Liabilities*	*Stockholder´s equity*	*Income for the year*
Fianzas Banorte, S. A.de C. V.	*99.99*	*Ps 240,414*	*Ps 144,304*	*Ps 96,110*	*Ps 10,605*
Seguros Banorte Generali, S. A. de C. V.	*51.00*	*2,621,944*	*2,233,499*	*388,445*	*152,684*
Pensiones Banorte Generali, S. A. de C. V.	*51.00*	*4,914,629*	*4,728,288*	*186,341*	*54,835*
Generali México Compañía de Seguros	*51.00*	*704,785*	*614,877*	*89,908*	*3,518*
Total		***Ps 8,481,772***	***Ps 7,720,968***	***Ps 760,804***	***Ps 221,662***

Company	*2002*				
	%	*Assets*	*Liabilities*	*Stockholder´s equity*	*Income for the year*
Fianzas Banorte, S. A. de C. V.	*99.99*	*Ps 203,548*	*Ps 118,106*	*Ps 85,442*	*Ps 8,131*
Seguros Banorte Generali, S. A. de C. V.	*51.00*	*2,065,867*	*1,830,107*	*235,760*	*82,316*
Pensiones Banorte Generali, S. A. de C. V.	*51.00*	*4,624,103*	*4,492,597*	*131,506*	*-*
Total		***Ps 6,983,518***	***Ps 6,440,810***	***Ps 452,708***	***Ps 90,447***

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

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

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

Balance sheets:

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

Foreclosed assets are considered monetary assets and, therefore, their carrying value is not restated. They form part of the basis for calculating GRUPO´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, 2003 and 2002, are presented in purchasing power pesos as of December 31, 2003. The historical amounts of transactions are restated by a factor obtained by dividing the UDI reference value at December 31, 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 BANXICO at the end of the year.

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

d. Investment securities

Investment securities include government and fixed income securities, classified as trading securities, available-for-sale securities and held-to-maturity securities. The latter are recorded at historical cost, plus the yields generated by those securities calculated in accordance with the imputed interest or straight-line method, as the case may be, are recognized as earned. These classifications are determined according to the intention of the GRUPO'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.

GRUPO will not be able to capitalize nor distribute the earnings derived from the valuation of any of its investments securities until these are in cash.

The transfer of securities among categories, requires the express authorization from the COMMISSION, except those corresponding to securities available for sale to securities to negotiate and transfers of securities maintained at maturity to any other category.

Upon transferring available-for-sale securities to trading securities, the accumulated effect of the "Result from valuation of available-for-sale securities" is cancelled and shown in income for the year.

Available-for-sale securities are transferred to held-to-maturity securities. The amount of the "Result from valuation of available-for-sale securities" is amortized to income based on the remaining life of the securities.

e. Unassigned values pending payment

Through official letter 601-II-DGDEE-189001 dated December 19, 2001, the COMMISSION established the accounting treatment relative to the rank operations (not assigned nor paid) and value date (assigned but pending payment), performed by the credit institutions, which are obligatory as of January 1, 2002. In this sense, the management of GRUPO applied the aforementioned accounting treatment to their financial statements.

Consequently, in range operations, with the BANORTE and BANCEN as the buyer, it recognizes a liability position representing the payment commitment agreed, whereas when BANORTE and BANCEN acts as the seller, it recognizes an asset position for the right to receive an payment agreed and a liability position for the securities to be delivered. The asset and liability positions represented by the securities to be received or delivered are valued at their fair value, affecting income for the year. The asset and liability positions representing cash receivable or payable are recorded at their nominal value. The asset and liability positions are ratted in the balance sheet under the value date operations, the Bank caption "Unassigned values payable".

For applies the recording and valuation rules described in paragraph f. below and the presentation rules described in the paragraph.

f. Repurchase (Repo) transactions

Repo transactions represent the purchase and the sale of financial instruments with the obligation by GRUPO to resell or repurchase those financial instruments at an agreed price.

These transactions recognize 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 GRUPO acts as seller or buyer, respectively. In order to comply with the presentation rules, the balance sheet shows an individual compensation of the lending and borrowing position of each one of the transactions held by GRUPO. The debit and credit balances resulting from the aforementioned procedure are never offset not even in the case of transactions with a single entity in which the GRUPO acts as the seller and buyer entity at once.

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.

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

Additionally, the lending and borrowing positions, acting the GRUPO as the seller and buyer, are recorded in memorandum accounts.

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

g. Derivative financial instruments

GRUPO 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 payment provisions, 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 instrument transactions are valued in accordance with their intended use, whether for hedging or trading purposes, as follows:

Trading and hedging activities:

1. FORWARD CONTRACTS

In this type of transactions, the buyer and seller will record an asset and a liability part. 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 transaction in the opposite way, that is, the asset position is maintained at face value and the liability position is valued at fair value.

2. FUTURE CONTRACTS

At the time these contracts are entered into, asset and a liability positions 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

GRUPO, when acting as the buyer of the option, records the premium paid in the asset caption Securities and derivatives trading. At closing, the contract is valued at fair value (market value, or based on formal valuation techniques).

GRUPO, when issuing the option, records the cash receipt by recognizing the premium charged in the liability caption Securities and derivatives trading. At closing, the contract is valued in accordance with the fair value of the option.

4. SWAPS

The contract value of the asset and liability positions is recorded. At each month-end, they 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 derivative denominated in a foreign currency will be translated into Mexican pesos, using the exchange rate published by BANXICO, once it has been valued in accordance with the rules of the Commission.

The increases or decreases in the fair value of derivative financial instruments are recognized in the statement of income as “Income from brokerage”.

For purposes of complying with the presentation rules affecting the balance sheet, for derivative financial instruments that incorporate rights and obligations, such as futures, forward contracts or swaps, the asset and liability positions are ratted. In the event that this compensation results in a debit balance, the difference is shown in assets, under Securities and derivatives trading; in the case of a credit balance, the difference is shown in liabilities, as part of the Securities and derivatives trading.

For derivative financial instruments granting exclusively rights or obligations, but not both, as in the case of put and call options, the amounts corresponding to such rights or obligations are shown in assets or liabilities, respectively, under securities and derivatives trading.

h. Loan portfolio

BANKING SECTOR

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 GRUPO.

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 payment 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 90 days or more past due (150 days in 2002).

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.

Commisions 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.

AUXILIARY CREDIT ORGANIZATIONS
AND ACTIVITIES SECTOR

The brokerage portfolio is recorded as follows:

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

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

The financial leasing portfolio is recorded as follows:

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

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

i. Allowance for loan losses

Allowance for loan losses is calculated based on the methodology established by the COMMISSION for each type of loan. Such methodology establishes 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 amount recovered from the previously reserved loan portfolio is credited to the allowance for loan losses.

Beginning in 2001, the rating of the commercial portfolio was 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.

The rating of the commercial portfolio is performed individually over at least 80% of the balance of such portfolio, including loans payable by a single debtor whose balance is equal to or greater than 700,000 UDIs at the date of the rating. The remaining 20% is rated parametrically according to its rating as effective or expired. The portfolio payable by the Federal Government or guaranteed is exempted.

Circular 1480 proposed a methodology that assigns a rating to each borrower and rates 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-28584 and 601-II-7694, dated June 18, 2003 and February 6, 2002, respectively, granting BANORTE the temporary and limited use of an internal rating model for its commercial portfolio (for the years ended December 31, 2003 and 2002, respectively). Whereas, the COMMISSION issued official letter 601-II-28585 dated June 17, 2003, granting BANCEN the temporary and limited use of an internal rating model for its commercial portfolio.

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 BANORTE and BANCEN, 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, BANORTE and BANCEN 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 GRUPO'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.

In the case of the Auxiliary Credit Organizations and Activities Sector, the preventive allowance for credit risks represents doubtful loan portfolios and is determined based on studies and projections made by GRUPO.

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 FOBAPRO A

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

BANORTE recognized provisions in income in the amount of Ps52,791 (Ps37,308 in 2002) respectively, relating to the loss sharing and incentives agreement based upon the FOBAPROA loan portfolio cash collections.

k. Loan in portfolio

PURCHASE OF LOAN PORTFOLIOS:
This item is represented by the cost of acquisition of several loan packages acquired by BANCEN; so that is, it corresponds to the amounts effectively paid by BANCEN to obtain the rights on the flows that arise from such portfolios.

Additionally, BANCEN follows the practice of capitalizing the interest and monetary gain or loss associated with the financing entered into by BANCEN for the acquisition of such portfolio packages during the first three months after the acquisition of the loan portfolios.

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

Once the preoperating stage has concluded and the portfolio collecting activities begin, this item is amortized in the proportion in which the associated asset (loan portfolio) is reduced, either by collections, forgiveness of debt or write-offs or allowances for doubtful accounts.

In connection with the amortization of the cost which for loan portfolios, BANCEN follows the following criteria:

- Monthly application of the initial proportion percentage of the acquisition cost in relation with the total portfolio acquired.
- Through financial projections, it estimates expected flows generated by loan portfolios and reconsiders the accounting criterion for the amortization of the cost of rights shown in the balance sheet.

PURCHASE OF LOAN PORTFOLIO PACKAGES:
This item is represented by the cost of those loan portfolio packages that BANORTE and BANCEN acquire and that are initially recognized in “Other Accounts Receivable”, while the files are received and the database is obtained for its subsequent incorporation to “Current Loan Portfolio” where they are handled in accordance with the loan management process and rating of established loans as indicated in paragraphs h. and i., above.

l. Other accounts recei vable 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, regardless of their opportunities to recover or from the process of clarification of liabilities.

m. Impairment of Long-Li ved Assets and Their Disposal

On January 1, 2004 the standards contained in Statement C –15 “Impairment of Long-Lived Assets and Their Disposal” issued by the Mexican Institute of Public Accountants became effective. This Statement contains general standards covering the identification and recording of losses due to impairment or reduction in value of long-lived assets, tangible or intangible, including goodwill, where applicable; in addition, it also describes standards for valuation of long-lived assets. GRUPO's Management is in the process of making a study to assess the recoverability of the Company's long-lived assets and to determinate if an actual impairment is present; however, it considers that as a result of the study there will not be any material modifications of effects that could modify the value of its assets.

n. 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, in accordance with the life of the asset.

o. 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.

p. Leases

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

q. Permanent stock investments

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

r. Goodwill

This caption represents the excess of the purchase price over the book value of shares of subsidiaries at the acquisition date, and is amortized by the straight-line method over a period not to exceed twenty years.

s. Intangible assets

From January 1, 2003 onwards, GRUPO adopted the standards contained in Statement C-8 “Intangible Assets” issued by the MIPA. These standards require that intangible assets be recognized in the balance sheet as long as they are identifiable, provide expected future economic benefits and such benefits are under the Bank´s control. Furthermore, this Statement establishes that intangible assets with an indefinite useful life shall not be amortized and those with a definite useful life shall be amortized systematically, based on the best estimate of their useful life determined in accordance with the expectation of future economic benefits. These assets are subject to an annual evaluation with respect to the recoverability in order to difference the existence of any loss from impairment in the value of such assets.

At December 31, 2003, the adoption of this Statement does not case any represent material effect on the financial position of the GRUPO.

t. Income tax and emplo yees’ profit sharing

Income tax and employee profit sharing charged to income are determined based on the taxable income.

GRUPO 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”.

u. Restructured loan trusts

Restructured loan trusts in UDIs are financially consolidated with GRUPO in order to reflect the reality of the transaction, which is an interest rate swap with the Federal Government.

v. Customer deposits

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

w. Labor liabilities

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

GRUPO records seniority premiums, pension plan and retirement payments as they accrue, as determined by actuarial calculations utilizing the projected unit credit method, and in accordance with guidelines established in Statement D-3 Labor Obligations, issued by the MIPA.

At December 31, 2003 and 2002, GRUPO has constituted reserves covering the minimum liabilities required in conformity with Statement D-3 to comply with obligations for pension plans and seniority premiums.

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

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

From January 1, 2003 onwards, GRUPO partially adopted (as described in the following paragraph), the standards contained in Statement C-9 "Liabilities, provisions, contingent assets and liabilities and commitments", issued by the MIPA, which establishes general rules for the valuation, presentation and disclosure of liabilities, provisions and contingent assets and liabilities; as well as for the commitments entered into by GRUPO as part of its normal operations.

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

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

During 2003, the MIPA issued the new Statement C-12 "Financial Instruments with Characteristics of Liabilities, Capital or Both". This Statement establishes the differences between liabilities and stockholders' equity, from the point of view of the issuer, as a basis for identifying, clarifying and accounting, on initial recognition for commitments relative to liabilities and capital of combined financial instruments.

The new Statement establishes the methodology for separating from the consideration received upon the placing of combined financial instruments the amounts corresponding to liabilities and stockholders' equity, which is based on the residual nature of the stockholders' equity, avoiding the use of fair values to affect the stockholders' equity in initial transactions. Likewise, it establishes that initial costs incurred on the issuance of combined instruments as from January 1, 2004 should be assigned to liabilities and stockholders' equity in the same proportion as the amounts of components recognized as liabilities and stockholders' equity, that losses and gains related to financial instruments' components classified as liabilities should be recorded as comprehensive financial expense and that the distribution of yields to owners of financial instruments classified as stockholders' equity should be charged directly to a capital account ratter than to the income for the year.

This Statement is effective January 1, 2004. It does not any restatement of information of prior years, not the recognition of any initial accumulated effect in income for the year in which it is adopted. The GRUPO's management estimates that the adoption of this Statement will have no impact on the financial statements.

z. Use of estimates

The preparation of these financial statements, in accordance with accounting criteria established by the COMMISSION, require that the GRUPO's management make estimates that affect the amount of certain assets and liabilities and certain income, costs and expenses at the report dates and for the years then ended, as well as the disclosure of contingent assets and liabilities. Actual results may defer from these estimates.

aa. Stockholders' equity

Capital stock, retained earnings and net income of the year represent the historical amounts restarted 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.

bb. Earnings per shar e

Basic earnings per share are determined by dividing the net income of the year by the weighted average shares outstanding. Diluted earnings per share are determined by dividing the net income by the weighted average number of shares outstanding increased by the number of potentially dilutive shares.

cc. Foreign currency position and investment units

Transactions denominated in a foreign currency and UDI denominated transactions are recorded at the exchange rates or reference 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 reference values in effect issued by BANXICO as of the balance sheet date. Differences arising from the exchange rate fluctuations between the transaction date and their liquidation or valuation at year-end are recorded in income.

dd. 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 GRUPO is recognized.

ee. Custody and administration of assets

GRUPO 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 GRUPO accepts responsibility for safeguarding assets.

ff. Trusts

Trust assets are recognized in memorandum accounts, based on the implied responsibility of the GRUPO to fulfill the purpose of the trusts.

gg. Reclassifications to the financial statements

The financial statements at December 31, 2002 contain certain accounts that have been reclassified (cash and cash equivalents and repo transactions, see Notes 6 and 8, respectively), with the objective of making their presentation comparable with the financial statements at December 31, 2003.

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

The financial statements have been prepared in conformity with the accounting practices established by the COMMISSION, which are close to other national and international standards, which facilitates the comparison of information with other financial entities. However, there are some differences with regard to the provisions set forth in MEX GAAP, which are summarized below:

a. Consolidation

The consolidated financial statements include only the subsidiaries belonging to the financial sector and those that render complementary or auxiliary services thereto, but not other subsidiaries, which are not consolidated. MEX GAAP requires consolidating all the subsidiaries that belong to the reporting entity and 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. Other accounts recei vable

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

e. Permanent stock investments

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

f. Foreclosed assets

Property, equipment and securities adjudicated to the GRUPO as practical recovery of for the recoveries of outstanding loans are recorded at the value declared in the deed or at the value established in the agreement with the debtor. MEX-GAAP require that these assets be recorded and accounted for at their market value at the date of receipt of the goods, recognizing a gain or loss from the resulting difference against the adjudicated value.

(Amounts stated in thousands of Mexican pesos of December 2003 purchasing power, except as otherwise indicated, number of shares and per share amounts,debentures and exchange rates)

Foreclosed assets are considered monetary assets; consequently, they are not restated for inflation but rather form part of the calculation basis of the gain or loss on monetary position. MEX GAAP considers foreclosed assets to be non-monetary assets.

g. Estimates and pr ovisions

The Allowance for loan losses includes the part of reserves determined in conformity with their portfolio rating as additional reserves described as “Excess in the allowances”. In accordance with Circular 1448 of the COMMISION, such excesses are not to be created, increased or decreased against the income for the year (which is consistent with Statement C-9 issued by the IMPC, see Note 3 w.). However MEXGAPP require that any the additional provision or estimate be reversed if it is not likely to require the use of economic resources for the purpose for which it was set up; whereas, the Commission has not established the mechanics for the handling and disposal of such excesses.

NOTE 5 CONSOLIDATION OF FINANCIAL ST ATEMENTS:

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, 2003 and 2002, the subsidiary entities which were consolidated in the GRUPO’s financial statements were:

	Equity percentage	
Subsidiaries	*2003*	*2002*
Banco Mercantil del Norte, S. A.(BANORTE)	*96.11 %*	*96.11 %*
Banco del Centro, S. A.(BANCEN)	*99.99 %*	*99.99 %*
Casa de Bolsa Banorte, S. A.de C. V. (CASA DE BOLSA)	*99.99 %*	*99.99 %*
Arrendadora Banorte, S. A.de C. V. (ARRENDADORA)	*99.99 %*	*99.99 %*
Factor Banorte, S. A. de C. V. (FACTOR)	*99.99 %*	*99.99 %*
Almacenadora Banorte, S. A.de C. V. (ALMACENADORA)	*99.99 %*	*99.99 %*

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

	2003				2002
	Asset	Liabilities	Income of the year	Stockholders´ equity	Stockholders´ equity
BANORTE	Ps 204,280,564	Ps 194,885,273	Ps 1,002,985	Ps 9,395,291	Ps 8,473,863
BANCEN	4,767,915	1,266,084	944,167	3,501,831	2,920,900
CASA DE BOLSA	543,923	110,396	101,747	433,527	338,626
ARRENDADORA	1,680,408	1,482,456	27,409	197,952	170,543
FACTOR	3,208,986	2,998,231	35,255	210,755	175,500
ALMACENADORA	300,703	225,491	20,055	75,212	61,457
Total	**Ps 214,782,499**	**Ps 200,967,931**	**Ps 2,131,618**	**Ps 13,814,568**	**Ps 12,140,889**

NOTE 6 CASH AND CASH EQUIVALENTS:

As of December 31, 2003 and 2002, cash and cash equivalents were as follows:

Concept	2003	2002
Cash	Ps 6,372,305	Ps 4,610,774
Deposits in BANXICO(1)	16,883,097	14,335,636
Domestic and foreign banks	1,837,699	4,953,827
Call money	4,224,744	374,087
Other deposits and cash equivalents(2) (see Note 31)	1,425,316	284,262
Total	**Ps 30,743,161**	**Ps 24,558,586**

(1) These amounts interest earning profits in terms of the monetary policy issued by BANXICO in 1999.They interest at a monthly rate equal to the 28-day Average Adjusted Daily Funding Rate.

(2) It includes Ps110,874 (Ps112,710 in 2002) corresponding to the value of notes supporting the flow of remittances in transit pending collection;therefore,it is considered as a restricted asset at the end of each month and year.

At December 31, 2003 and 2002, the composition of this item by type of currency was as follows:

	Local currency		Foreign Currency Converted		Total	
	2003	2002	2003	2002	2003	2002
Petty cash	Ps 5,872,231	Ps 4,213,972	Ps 500,074	Ps 396,802	Ps 6,372,305	Ps 4,610,774
Deposits in foreign BANXICO	-	-	1,307,099	4,677,971	1,307,099	4,677,971
Local banks	454,391	(2,013)	76,209	277,869	530,600	275,856
Deposits in BANXICO	16,865,955	14,331,676	17,142	3,960	16,883,097	14,335,636
Call money	4,000,000	374,087	224,744	-	4,224,744	374,087
Other deposits and cash and cash equivalents	107,393	131,777	1,317,923	152,485	1,425,316	284,262
Total	**Ps 27,299,970**	**Ps 19,049,499**	**Ps 3,443,191**	**Ps 5,509,087**	**Ps 30,743,161**	**Ps 24,558,586**

The balances of cash and cash equivalents as of December 31, 2003 and 2002 were US$303,374 (thousand of dollars) and US$497,463 (thousand of dollars), respectively.

(Amounts stated in thousands of Mexican pesos of December 2003 purchasing power, except as otherwise indicated, number of shares and per share amounts,debentures and exchange rates)

NOTE 7 - INVESTMENT SECURITIES:

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

Risk management policies, as well as the analysis of risks that GRUPO is exposed to, are discussed in Note 33.

The investment securities positions are summarized as follows:

a. Trading securities

	2003					2002
Instrument	*Securities*	*Market value*	*Acquisition cost*	*Interest*	*Surplus or (deficit)*	*Market value*
Commercial paper	*77,700,000*	*Ps 872,478*	*Ps 871,368*	*Ps 1,086*	*Ps 24*	*Ps 558,288*
Federal Treasury	*198,864,937*	*1,951,581*	*1,908,737*	*42,248*	*596*	*850,283*
Certificates	*5,896,172,738*	*5,868,687*	*5,866,055*	*4,216*	*(1,584)*	*1,389,925*
Bank bonds	*19,567,593*	*33,192*	*39,289*	*-*	*(6,097)*	*155,712*
Nafin	*-*	*-*	*-*	*-*	*-*	*578*
BPAS	*107,785*	*10,537*	*10,537*	*2*	*(2)*	*520*
GEO	*602,100*	*63,901*	*60,210*	*2,723*	*968*	*66,847*
Brems	*25,966*	*2,575*	*2,575*	*-*	*-*	*145*
Stock certificates	*3,007,525*	*302,081*	*300,753*	*1,233*	*95*	*-*
Government bonds	*182,263*	*19,095*	*19,739*	*(642)*	*(2)*	*747*
Foreign investment	*-*	*79,791*	*78,138*	*-*	*1,653*	*74,940*
Variable income investment	*1,330,250*	*35,310*	*34,107*	*-*	*1,203*	*-*
Other	*94,038*	*8,225*	*8,196*	*-*	*29*	*2,885*
Total	***6,197,655,195***	***Ps 9,247,453***	***Ps 9,199,704***	***Ps 50,866***	***(Ps 3,117)***	***Ps 3,100,870***

At December 31, 2003, the terms of these investments were as follows:

Instrument	From 1 to 179 days	From 6 to 12 months	From 1 to 2 years	More than 2 years	Total acquisition cost
Commercial paper	Ps 871,368	Ps -	Ps -	Ps -	Ps 871,368
Federal Treasury Certificates	1,530,836	377,901	-	-	1,908,737
Bank bonds	5,690,762	175,158	114	21	5,866,055
Shares	-	-	-	39,289	39,289
BPAS	-	-	-	10,537	10,537
GEO	-	-	-	60,210	60,210
Brems	-	-	-	2,575	2,575
Stock Certificates	-	-	-	300,753	300,753
Government Bonds	609	1,300	15,744	2,086	19,739
Foreign investment	78,138	-	-	-	78,138
Variable Income Investments	34,107	-	-	-	34,107
Other	8,196	-	-	-	8,196
Total	**Ps 8,214,016**	**Ps 554,359**	**Ps 15,858**	**Ps 415,471**	**Ps 9,199,704**

b. Available-for-sale securities

	2003					2002
Instrument	Securities	Market value	Acquisition cost	Interests	(Deficit) or surplus	Market value
Eurobonds	68,500,000	Ps 98,696	Ps 769,065	Ps 37,163	(Ps 707,532)	Ps 608,049
United Mexican States (UMS)	11,000,000	141,189	134,870	3,194	3,125	752,284
Total	**79,500,000**	**Ps 239,885**	**Ps 903,935**	**Ps 40,357**	**(Ps 704,407)**	**Ps 1,360,333**

In March 2001, BANORTE received authorization by the COMMISSION to reclassify its portfolios of “Eurobonds” from the category of “Held-to-maturity securities” to “Available-for-sale securities”.

At December 31, 2002, the GRUPO held an aggregate US$68.5 million (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$60.1, of which US$6 million related to CYDSA. The effect of the valuation is recognized in stockholders’ equity under “Valuation gain (loss) on available-for-sale securities”.In 2002 the Bank offered this amount to ratained xx. The AHMSA 02 series bounds amounting to US$40 million, April 2002 and are 100% reserved.

(Amounts stated in thousands of Mexican pesos of December 2003 purchasing power, except as otherwise indicated,
number of shares and per share amounts,debentures and exchange rates)

Furthermore, by authorization of the COMMISSION, effective May 1999 interest ceased to be acerted on AHMSA's Eurobonds, which totaled US$2.9 million at that date. In the case of CYDSA's Eurobonds, GRUPO suspended the accrual of interests as from 2002.

The amount of accumulated accrued interest not recorded at December 31, 2003 and 2002, from AHMSA and CYDSA's Eurobonds, was US$21 million and US$18 million, respectively.

At December 31, 2003, the Eurobonds of AHMSA and CYDSA suffered a decrease in value amounting to US$1.3 million, which was recognized under "Result from valuation of available-for-sale securities" in the stockholders' equity. In 2002, the decrease in value amounted to US$2.5 million, which were recorded under "Result from valuation" within the income for the year. The GRUPO's Management estimates that the permanent depreciation of these securities has already been recognized with the corresponding charge to income in the appropriate periods; consequently, the valuation (which amounted to US$8.8 and US$6.7 million in 2003 and 2002, respectively at market value) follows the criterion established for "available-for-sale securities"

c. Held-to-maturity securities

	2003			2002
Instrument	Acquisition cost	Accrued interest	Net value	Net value
Special Federal Treasury Certificates	Ps 6,032,109	Ps 25,742	Ps 6,057,851	Ps 6,959,037
Azteca Strip Bonds	231,203	294	231,497	273,867
Myra Bonds	6,571	24	6,595	9,530
Nemak	-	-	-	162,733
Fiduciary rights	26,487	-	26,487	25,568
United Mexican States (UMS)	5,979,431	210,832	6,190,263	3,870,840
Fiduciary securities in UDIs	(2,526,548)	-	(2,526,548)	(3,420,160)
PEMEX Bonds	1,013,894	15,943	1,029,837	-
Hedging swap	(1,648,641)	-	(1,648,641)	-
Other	349	-	349	-
Total	**Ps 9,114,855**	**Ps 252,835**	**Ps 9,367,690**	**Ps 7,881,415**

NOTE 8 SECURITIES AND DERIVATIVES TRADING:

a. Unassigned securities pending liquidation

At December 31, 2003, unassigned securities pending liquidation comprised the following:

Concept	Number of securities	Acquisition cost	Market value	(Loss) gain	Position Asset	Position Liability
Purchases						
Government securities	*21,920,000*	*Ps 1,350,119*	*Ps 1,349,083*	*(Ps 1,036)*	*Ps 31*	*Ps 1,067*
Sales						
Bank bonds	*500,000*	*49,433*	*49,510*	*(77)*	*-*	*77*
Government values	*10,340,000*	*1,092,798*	*1,091,536*	*1,262*	*1,264*	*2*
	10,840,000	*Ps 1,142,231*	*Ps 1,141,046*	*Ps 1,185*	*Ps 1,264*	*Ps 79*
Net position					***Ps 1,295***	***Ps 1,146***

b. Repo transactions

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

Selling entity (sale)

Instrument	2003 Securities receivable	Payables under repo agreements	Transaction setoff	Net Amount
Federal Treasury	*Ps 23,099,442*	*Ps 23,091,317*	*(Ps 8,099)*	*Ps 26*
Bank Bonds	*275,356*	*275,704*	*(324)*	*(672)*
Total	*Ps 23,374,798*	*Ps 23,367,021*	*(Ps 8,423)*	*(Ps 646)*
Federal Treasury	*8,935,930*	*8,936,144*	*(115)*	*(329)*
Brems	*12,166,424*	*12,167,028*	*(780)*	*(1,384)*
Tribondes	*3,119,185*	*3,116,364*	*(5,896)*	*(3,075)*
Bondes 91	*2,174,857*	*2,174,880*	*(2)*	*(25)*
Bondes 182	*210,800*	*213,503*	*(63)*	*(2,766)*
Bono	*16,966,572*	*17,131,975*	*(29,605)*	*(195,008)*
Bonos IPAB	*3,131,462*	*3,131,137*	*(2,809)*	*(2,484)*
IPAB Tribondes	*11,615,609*	*11,620,088*	*(4,573)*	*(9,052)*
Total	*Ps 58,320,839*	*Ps 58,491,119*	*(Ps 43,843)*	*(Ps 214,123)*
Credit balance in repo transactions				***(Ps 214,769)***

(Amounts stated in thousands of Mexican pesos of December 2003 purchasing power, except as otherwise indicated, number of shares and per share amounts,debentures and exchange rates)

	2002			
Instrument	Securities receivable	Payables under repo agreement	Transaction setoff	Net amount
Promissory notes	Ps 11,777,050	Ps 11,745,030	(Ps 555)	Ps 31,431
Bank Bonds	2,380,250	2,380,248	(2,825)	(2,827)
Cedes	23,632,836	23,632,835	(32,375)	(44,244)
	Ps 37,790,136	Ps 37,758,113	(Ps 35,755)	(Ps 15,640)
Federal Treasury	19,573,792	19,574,297	(8,545)	(10,202)
Brems	36,314,566	36,316,824	(14,896)	(26,652)
Tribondes	15,227,806	15,227,140	(14,696)	(27,206)
Bondes 91	180,122	180,125	(18)	(31)
Bondes 182	8,082,991	8,086,716	(3,990)	(22,385)
Bono	8,178,532	8,180,344	(126)	(1,938)
Bonos IPAB	86,395,311	86,394,334	(21,554)	(71,307)
IPAB Tribondes	2,885,451	2,886,108	(1,613)	(3,396)
Udibonos	33,091	32,197	(894)	-
Total	Ps 176,871,662	Ps 176,878,085	(Ps 66,332)	(Ps 163,117)
Credit balance in repo transactions				**(Ps 178,757)**

With GRUPO as the selling entity, the accrued premiums charged to income amounted to Ps5,219,767 in 2003 (Ps7,544,533 in 2002).

Buying entity (purchase)

	2003			
Instrument	Receivables under repo agreement	Securities payable	Transaction setoff	Net Amount
Promissory notes	Ps 1,721,923	Ps 1,721,877	Ps 8,099	Ps 8,145
Bank bonds	105,777	105,601	324	500
Cedes	1,101,882	1,101,818	-	64
	Ps 2,929,582	Ps 2,929,296	Ps 8,423	Ps 8,709
Federal Treasury	Ps 3,946,834	Ps 3,946,171	Ps 115	Ps 778
Brems	99,999	100,280	780	499
Bondes trimestrales	3,123,602	3,117,550	5,896	11,948
Bondes 91	-	-	2	2
Bondes 182	163,062	158,920	63	4,205
Bono	6,097,584	6,109,516	29,605	17,673
Bonos IPAB	7,978,512	7,978,731	2,809	2,590
Bonos IPAB trimestrales	9,133	9,145	4,573	4,561
Total	Ps 21,418,726	Ps 21,420,313	Ps 43,843	Ps 42,256
Debit balance in repo transactions				**Ps 50,965**

Instrument	2002 Receivables under repo agreement	Securities payable	Transaction setoff	Net Amount
Promissory notes	Ps 5,647,535	Ps 5,647,135	Ps 555	(Ps 415)
Bank bonds	1,192,483	1,187,555	2,825	7,765
Cedes	11,805,488	11,827,403	32,375	22,330
Total	Ps 18,645,506	Ps 18,662,093	Ps 35,755	Ps 29,680
Federal Treasury	18,515,174	18,514,356	8,545	26,641
Brems	21,144,856	21,127,499	14,896	8,961
Tribondes	15,083,822	15,081,015	14,696	12,561
Bondes 91	152,465	152,411	18	50
Bondes 182	8,072,230	8,082,254	3,990	44,582
Bono	20,210,228	20,206,591	126	385
Bonos IPAB	43,187,080	43,167,099	21,554	92,265
IPAB Tribondes	1,765,752	1,764,517	1,613	7,136
Udibonos	33,203	33,443	894	1,134
Total	Ps 128,164,810	Ps 128,129,185	Ps 66,332	Ps 193,715
Debit balance in repo transactions				**Ps 223,395**

With GRUPO as the buying entity, the accrued premiums recognized in income amounted to Ps7,544,533 in 2003 (Ps3,524,950 in 2002).

c. Derivative financial instruments

GRUPO 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.

GRUPO'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, 2003 and 2002, GRUPO's derivative financial instrument positions were summarized as follows:

(Amounts stated in thousands of Mexican pesos of December 2003 purchasing power, except as otherwise indicated, number of shares and per share amounts,debentures and exchange rates)

	2003		
Instrument	**Cash receivable flows**	**Cash payable flows**	**Net flows**
Swaps:			
Cross currency	Ps 782	(Ps 1,130)	(Ps 348)
Interest rate	3,828	(594)	3,234
Net asset position	**Ps 4,610**	**(Ps 1,724)**	**Ps 2,886**

Instrument	**Purchase**	**Sale**	**Net**
Foreign currency forwards:			
Market value	Ps 2,823,213	(Ps 38,505)	Ps 2,784,708
Agreed price	(2,834,910)	38,534	(2,796,376)
Net position	(11,697)	29	(11,668)

Instrument	**Opening premium**	**Valued premium**	**Valuation**
Foreign currency options:			
Premium Collected	(500)	185	315
Options and futures contracts:			
Hedging and trading			(202)
Net liability position			**(Ps 12,185)**

	2002		
	Purchase	**Sale**	**Net**
Foreign currency forwards:			
Market value	Ps 386,413	(Ps 30,266)	Ps 356,147
Agreed price	(376,236)	29,661	(346,575)
Net asset position	Ps 10,177	(Ps 605)	Ps 9,572
Warrants and Options:			
Hedging and trading			853
Net lending position			**Ps 10,425**

Instrument	**Cash receivable flows**	**Cash payable flows**	**Net flows**
Swap:			
Cross Currency	Ps 5,405,940	(Ps 6,245,523)	(Ps 839,583)
Interest rate	19,953	(28,916)	(8,963)
Net position	5,425,893	6,274,439	(848,546)

	Opening premium	**Valued premium**	**Valuation**
Foreign currency options:			
Premium collected	(689)	(75)	(764)
Net liability position			**Ps 849,310**

At December 31, 2003 nominal amounts of derivative financial instrument contracts by type of instrument and underlying value were as follows:

Trading swaps

Instrument	*Nominal Assets*	*Nominal Liabilities*	*Flow payable*	*Flow receivable*	*Net flows*
Interest rate	*Ps 550,000*	*Ps 550,000*	*Ps 594*	*Ps 781*	*Ps 187*
Cross currency	*112,372*	*112,372*	*1,130*	*3,829*	*2,699*
Total	***Ps 662,372***	***Ps 662,372***	***Ps 1,724***	***Ps 4,610***	***Ps 2,886***

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

Hedging Swaps

Instrument	*Nominal Assets*	*Nominal Liabilities*	*Flow payable*	*Flow receivable*	*Net flows*
These cover investment securities	*Ps 6,080,452*	*Ps 6,080,452*	*Ps 22,391*	*Ps 16,589*	*(Ps 5,802)*
and loan portfolio	*7,363,296*	*8,034,769*	*236,106*	*34,148*	*(201,958)*
Total	***Ps 13,443,748***	***Ps 14,115,221***	***Ps 258,497***	***Ps 50,737***	***(Ps 207,760)***

GRUPO'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 GRUPO's fixed rate long-term loans.

The book value of the collateral required in the interest rate swap contracts at December 31, 2003 and 2002 amounted to Ps15 and Ps10, respectively, and consisted of debt instruments (special federal treasury certificates). In the case of foreign currency swaps, the value of collateral at December 31, 2003, was US$605,862,000 and 29,080,000 euros represented by debt instruments (UMS y PEMEX). See Note 7 c.

NOTE 9 LOAN PORTFOLIO:

The loan management process is based on internal manuals drawn up by the GRUPO. 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 Management and Risk Management Division.

(Amounts stated in thousands of Mexican pesos of December 2003 purchasing power, except as otherwise indicated, number of shares and per share amounts,debentures and exchange rates)

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

a. As of December 31, 2003 and 2002, the current loan portfolio of GRUPO was summarized as shown below:

	2003			2002
Type of loan (Mexican pesos)	*Principal*	*Accured interest*	*Total current portfolio*	*Total current portfolio*
Commercial portfolio	Ps 30,177,863	Ps 138,643	Ps 30,316,506	Ps 28,202,932
Loans to financial entities	2,228,817	1,517	2,230,334	275,564
Consumer loans	8,611,283	41,938	8,653,221	5,353,516
Mortgage loans	12,707,281	21,454	12,728,735	10,158,883
Loans to government entities	76,036,753	332,966	76,369,719	86,334,074
Loans to FOBAPROA or IPAB	6,885,966	-	6,885,966	6,368,440
Total current loan portfolio	**Ps 136,647,963**	**Ps 536,518**	**Ps 137,184,481**	**Ps 136,693,409**

Type of loan (Foreign currency)	2003 Principal	2003 Accrued interest	2003 Total current portfolio	2002 Total current portfolio
Commercial loans	Ps 7,611,532	Ps 23,111	Ps 7,634,643	Ps 7,158,581
Loans to financial entities	301,526	467	301,993	822,172
Consumer loans	5,581	27	5,608	7,184
Loans to government entities	723,614	6,346	729,960	795,448
Loans to FOBAPROA or IPAB	(200,828)	-	(200,828)	-
Total current loan portfolio	**Ps 8,441,425**	**Ps 29,951**	**Ps 8,471,376**	**Ps 8,783,385**

Type of loan (own UDI´s)	2003 Principal	2003 Accrued interest	2003 Total current portfolio	2002 Total current portfolio
Commercial loans	Ps 185,921	Ps 1,769	Ps 187,690	Ps 822,110
Loans to financial entities	-	-	-	5,722,677
Consumer loans	46	-	46	-
Mortgage loans	450,388	1,583	451,971	395,883
Loans to government entities	7,844	8	7,852	1,345
Total current loan portfolio	**Ps 644,199**	**Ps 3,360**	**Ps 647,559**	**Ps 6,942,015**

Type of loan (Trusts in UDI´s)	2003 Principal	2003 Accrued interest	2003 Total current portfolio	2002 Total current portfolio
Commercial loans	Ps 18,326	Ps 1	Ps 18,327	Ps 140,377
Mortgage loans	1,529,535	4,348	1,533,883	2,072,552
Loans to government entities	1,079,979	630	1,080,609	1,195,159
Total current loan portfolio	**Ps 2,627,840**	**Ps 4,979**	**Ps 2,632,819**	**Ps 3,408,088**

Type of loan (Consolidated)	2003 Principal	2003 Accrued interest	2003 Total current portfolio	2002 Total current portfolio
Commercial loans	Ps 37,993,642	Ps 163,524	Ps 38,157,166	Ps 36,324,000
Loans to financial entities	2,530,343	1,984	2,532,327	6,820,413
Consumer loans	8,616,910	41,964	8,658,874	5,360,700
Mortgage loans	14,687,204	27,386	14,714,590	12,627,318
Loans to government entities	77,848,190	339,950	78,188,140	88,326,026
Loans to FOBAPROA or IPAB (Note 10)	6,685,138	-	6,685,138	6,368,440
Total current loan portfolio	**Ps 148,361,427**	**Ps 574,808**	**Ps 148,936,235**	**Ps 155,826,897**

+MORE

(Amounts stated in thousands of Mexican pesos of December 2003 purchasing power, except as otherwise indicated, number of shares and per share amounts,debentures and exchange rates)

The loans to government entities include two groups of straight loans granted to IPAB, by Banorte and Bancrecer, respectively. The main characteristics of both groups are as follows:

Loans	Original amount	December 2003	December 2002	Maturity in years	Month and year of maturity	Interest rate payable	Interest payment
IPAB (BANCEN y BANPAIS)[(1) y (2)]	Ps 35,248,700	Ps 22,778,700	Ps 34,030,157	10	November 2010	TIIE + 0.85% pb.	Monthly
IPAB (BANCRECER)[(3)]	102,200,000	45,940,407	47,738,055	10	November 2009	TIIE + 0.40% pb.	Monthly
Principal	Ps 137,448,700	Ps 68,719,107	Ps 81,768,212				
Accrued interest		321,663	499,974				
Total		**Ps 69,040,770**	**Ps 82,268,186**				

1. This straight loan is represented by 4 promissory notes for which the principal payments are to be made twice a year as from month N° 58.
2. These promissory notes were initially set up with FOBAPROA and later refinanced in 2000, with IPAB.
3. This represents a straight loan granted in November 1999 to IPAB, which was documented with Bancrecer so that IPAB capitalized Bancrecer for a nominal amount of Ps102,200,000. With these resources,Bancrecer paid for the transfer of loan rights made by BANXICO with respect to the loan granted to IPAB, which matures on November 1, 2009. The payment of interest was originally agreed on a quarterly basis at the higher of the average rate for bank funding, plus 3.5 percentage points, which can be adjusted every three months, or that resulting from the percentage change in the value of UDIs. On November 22, 2000, an interest rate change was approved, which consisted of adding 2.5 percentage points during the month of January 2001, 2 percentage points during February 2001, 1.5 percentage points during March 2001, 1 percentage point during April 2001 and 0.40 points as of May 1, 2001, to the arithmetic average of the Interbank Equilibrium Interest Rate (TIIE), published during each interest period, which will be paid on a monthly basis.

At December 31, 2003 and 2002 the straight loans granted to IPAB decreased due to advance payments of Ps9,970,000 and Ps2,500,000, respectively. Likewise, interest accrued and recorded in income for the year amounted Ps3,359,245 and Ps4,414,261, respectively.

Likewise, the item of loans to government entities includes Ps169,820 (Ps191,634 in 2002), corresponding to benefits granted to debtors. The Federal Government granted these benefits, through the implementation of various Support to Bank Debtors' Programs.

At December 31, 2002, GRUPO recognized extraordinary revenues in the amount of Ps182,592 directly in income, corresponding to interest received from the Federal Government for conditioned support of the agricultural and corporate program, respectively.

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

Type of loan (Mexican pesos)	2003 Principal sum due	2003 Interest due	2003 Total past due portfolio	2002 Total past due portfolio
Commercial loans	Ps 523,722	Ps 36,513	Ps 560,235	Ps 876,972
Consumer loans	448,328	9,868	458,196	348,575
Mortgage loans	492,811	12,254	505,065	1,329,100
Loans to government entities	42	-	42	-
Total past due loan portfolio	**Ps 1,464,903**	**Ps 58,635**	**Ps 1,523,538**	**Ps 2,554,647**

Type of loan (Foreign currency)	2003 Principal sum due	2003 Interest due	2003 Total past due portfolio	2002 Total past due portfolio
Commercial loans	Ps 762,181	Ps 13,540	Ps 775,721	Ps 1,360,586
Consumer loans	348	1	349	614
Total past due loan portfolio	**Ps 762,529**	**Ps 13,541**	**Ps 776,070**	**Ps 1,361,200**

Type of loan (own UDI´s)	2003 Principal sum due	2003 Interest due	2003 Total past due portfolio	2002 Total past due portfolio
Commercial loans	Ps 553,866	Ps 21,461	Ps 575,327	Ps 36,253
Mortgage loans	202,539	8,688	211,227	16,337
Loans to government entities	8,065	-	8,065	-
Total past due loan portfolio	**Ps 764,470**	**Ps 30,149**	**Ps 794,619**	**Ps 52,590**

Type of loan (Trusts in UDI´s)	2003 Principal sum due	2003 Interest due	2003 Total past due portfolio	2002 Total past due portfolio
Commercial loans	Ps 1,892	Ps -	Ps 1,892	Ps 340,646
Mortgage loans	449,524	16,743	466,267	649,257
Total past due loan portfolio	**Ps 451,416**	**Ps 16,743**	**Ps 468,159**	**Ps 989,903**

Type of loan (Consolidated)	2003 Principal sum due	2003 Interest due	2003 Total past due portfolio	2002 Total past due portfolio
Commercial loans	Ps 1,841,661	Ps 71,514	Ps 1,913,175	Ps 2,614,457
Consumer loans	448,676	9,869	458,545	349,189
Mortgage loans	1,144,874	37,685	1,182,559	1,994,694
Loans to government entities	8,107	-	8,107	-
Total past due loan portfolio	**Ps 3,443,318**	**Ps 119,068**	**Ps 3,562,386**	**Ps 4,958,340**

(Amounts stated in thousands of Mexican pesos of December 2003 purchasing power, except as otherwise indicated, number of shares and per share amounts,debentures and exchange rates)

The movement of the past due portfolio during 2003, was as follows:

	Amount
Balance at beginning of year	Ps 4,958,340
Transfer from current to past due portfolio	15,585,291
Purchase of portfolio	2,994,563
Restructurings and renewals	(65,146)
Collections (payment in cash)	(16,369,082)
Collections (payment in kind)	(63,903)
Debt capitalization	(121,685)
Sale of portfolio	(2,686,095)
Transfer of past due to current portfolio	(633,100)
Exchange fluctuation	149,914
Effect of restatement	(186,711)
Balance at end of year	**Ps 3,562,386**

c. At December 31, 2003 the total current and past due loan portfolio was as shown below:

	Days past due						Allowance	
Type of portfolio	1-30[i]	31-60	61-90	91-180	More than 180	Total portfolio	for loan losses	Net Portfolio
Commercial loans	Ps 36,457,112	Ps 1,153,702	Ps 443,229	Ps 83,473	Ps 19,650	Ps 38,157,166	Ps 706,620	Ps 37,450,546
Loans to financial entities	2,532,327	-	-	-	-	2,532,327	12,216	2,520,111
Consumer loans	8,413,526	174,278	71,070	-	-	8,658,874	300,956	8,357,918
Mortgage loans	13,890,675	564,543	259,372	-	-	14,714,590	236,653	14,477,937
Loans to government entities	78,188,136	4	-	-	-	78,188,140	51,915	78,136,225
Loans to IPAB	6,685,138	-	-	-	-	6,685,138	-	6,685,138
Current portfolio	146,166,914	1,892,527	773,671	83,473	19,650	148,936,235	1,308,360	147,627,875
Commercial loans	-	133,744	19,203	585,405	1,174,823	1,913,175	1,327,477	585,698
Consumer loans	-	227,223	21,408	45,326	164,588	458,545	356,557	101,988
Loans to government entities	-	-	-	42	8,065	8,107	8,104	3
Mortgage loans	-	118,629	52,229	382,659	629,042	1,182,559	654,456	528,103
Past due portfolio	-	479,596	92,840	1,013,432	1,976,518	3,562,386	2,346,594	1,215,792
Total portfolio	**Ps 146,166,914**	**Ps 2,372,123**	**Ps 866,511**	**Ps 1,096,905**	**Ps 1,996,168**	**Ps 152,498,621**	**Ps 3,654,954**	**Ps 148,843,667**

(i) Within the current portfolio classification of from 1 to 30 days due there were amounts the following current: 1) Commercial Loans $34,623,756, 2) Mortgage Loans $12,007,876 c) Consumer Loans Ps7,383,943 and d) Loans to government and financial entities past due for zero days.

d. The rating of the portfolio and the allo wance created by GRUPO as of December 31, 2003 and 2002 are summarized as follows:

	Rated loan portfolio				Allowance for loan losses	
	2003		2002		2003	2002
Risk	%	Amount	%	Amount	Amount	Amount
A	84.83%	Ps 59,157,222	79.47%	Ps 46,610,458	Ps 397,959	Ps 334,944
B	8.28%	5,775,160	10.25%	6,014,577	437,371	449,942
C	3.44%	2,400,295	3.53%	2,073,227	749,069	650,397
D	1.56%	1,089,912	3.02%	1,772,402	769,563	1,247,540
E	1.88%	1,314,444	3.72%	2,181,696	1,300,992	2,158,963
	100.00%	69,737,033	100.00%	58,652,360	3,654,954	4,841,786
Portfolio:						
Hedging swap		(114,674)		-		
Unrated		98,846		352,488		
Excepted		83,589,147		102,654,412		
Total		**Ps 153,310,352**		**Ps 161,659,260**		
Allowance for loan losses recorded					4,316,151	5,828,197
Allowance for loan losses created in excess					**Ps 661,197**	**Ps 986,411**

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

	December	Quarterly balances during 2003			
Concept	2002	March	June	September	December
Allowance for loan losses required	Ps 4,841,786	Ps 3,918,000	Ps 3,893,000	Ps 3,599,000	Ps 3,654,954
Allowance for loan losses recorded	5,828,197	4,456,000	4,613,000	4,429,000	4,316,151
Allowance for loan losses created in excess	**Ps 986,411**	**Ps 538,000**	**Ps 720,000**	**Ps 830,000**	**Ps 661,197**
Coverage of past due portfolio (in %)	**120.37%**	**113.73%**	**118.49%**	**123.06%**	**118.09%**

The excess allowances that amounts to Ps661,197 at December 31, 2003, has been maintained based on the allowance for additional reserves made by Management with respect to the UDI trusts and the reserves of GRUPO's portfolio, which amounted to Ps288,197 and Ps373,000, respectively at December 31, 2003.

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

(Amounts stated in thousands of Mexican pesos of December 2003 purchasing power, except as otherwise indicated, number of shares and per share amounts,debentures and exchange rates)

With respect to additional allowance relating to the reserves corresponding to GRUPO portfolio, currently these are identified and separated in the amount of Ps98,000, with the difference of Ps275,000 corresponding to provisions in excess.

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

	December	2003			
Concept	**2002**	**March**	**June**	**September**	**December**
Delinquency index	3.1	2.3	2.6	2.2	2.3
Past due loan portfolio hedging index	117.5	126.7	115.4	126.8	121.2

The rated portfolio by type of loan is analyzed as follows:

	December 31, 2003				December 31, 2002
Risk degree	**Comercial**	**Consumer**	**Mortgage**	**Total**	**Total**
A	Ps 40,099,332	Ps 7,264,360	Ps 11,793,530	Ps 59,157,222	Ps 46,610,458
B	1,882,620	1,165,241	2,727,299	5,775,160	6,014,577
C	1,666,535	263,732	470,028	2,400,295	2,073,227
D	55,428	276,592	757,892	1,089,912	1,772,402
E	1,125,500	188,944	-	1,314,444	2,181,696
Rated portfolio	44,829,415	9,158,869	15,748,749	69,737,033	58,652,360
Unrated	(109,963)	(54,263)	148,398	(15,828)	352,488
Excepted	83,589,147	-	-	83,589,147	102,654,412
Total portfolio	**Ps 128,308,599**	**Ps 9,104,606**	**Ps 15,897,147**	**Ps 153,310,352**	**Ps 161,659,260**

The allowance for loan losses constituted by the GRUPO at December 31, 2003 includes Ps22,380 needed to reserve 100% of the interest due at the end of the year (Ps83,520 in 2002).

In conformity with the rules for rating the loan portfolio issued by the SHCP and the Commission, GRUPO determined the allowance for loan losses by taking into account the capacity of debtors to pay, rating the risks of the commercial portfolio at December 31, 2003.

The rating of the mortgage and consumer portfolio was made based on the rules of the Commission and is performed each month based on the number of past due installments.

e. The changes in the allowance for loan losses are summarized belo w:

	2003	2002
Balance at beginning of year	Ps 5,828,197	Ps 4,906,607
Increase charged to income (1)	604,585	714,352
Reserves recorded in BANCRECER at beginning of year	-	817,655
Losses and write-offs	(2,082,450)	(641,918)
Effects from restatement	(218,650)	(259,349)
Valuation of foreign currencies and UDIs	156,315	265,752
Reductions and benefits to mortgage debtors	(121,661)	(149,268)
Contributions to the Bank	67,385	98,659
Created with profit margin	35,480	11,268
Benefits to FOPYME and FINAPE programs	(8,259)	(13,293)
Others	55,209	77,732
Balance at end of the year	**Ps 4,316,151**	**Ps 5,828,197**

(1)The allowance for loan losses charged to income amounted to Ps808,916 in 2003 and Ps855,979 in 2002, respectively. These amounts were comprised of Ps746,835 in 2003 and Ps 818,671 in 2002, respectively credited directly to the loan loss reserve while Ps62,081 in 2003 and Ps37,308 in 2002, was charged to the loss sharing reserve, derived from the IPAB financial rescue program. The latter amount is shown in the balance sheet decreasing the item of "Loans to FOBAPROA or IPAB".

NOTE 10 IPAB 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, GRUPO received promissory notes payable by FOBAPROA, which mature in 8 to 10 years, beginning on the date of the transaction. GRUPO retained the obligation to share in 29% or 25% of the aggregate loss suffered by FOBAPROA on the transferred portfolio.

The credit swaps performed by GRUPO with the FOBAPROA will be assumed by the IPAB.

(Amounts stated in thousands of Mexican pesos of December 2003 purchasing power, except as otherwise indicated, number of shares and per share amounts,debentures and exchange rates)

Monthly fees paid to IPAB (as prescribed by the Mexican Law to support the IPAB's operations) amounted to Ps732,427 and Ps678,193, in 2003 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:

	2003			2002
Concept	**Principal**	**Interest**	**Total**	**Total**
Promissory note:				
Trust 477 Tranche I	Ps 416,833	Ps 1,243,005	Ps 1,659,838	Ps 1,637,243
Trust 477 Tranche II	430,547	1,039,613	1,470,160	1,450,130
Trust 477 Tranche III	336,885	977,842	1,314,727	1,296,830
Trust 490	2,040,771	4,640,101	6,680,872	6,583,884
Trust 508	467,073	947,097	1,414,170	1,376,213
Trust 19001	-	-	-	11,679
Trust 19000	-	-	-	24,353
Loss shared with FOBAPROA	-	-	(2,456,535)	(2,499,167)
Check account FOBAPROA	-	-	(3,397,457)	(3,098,921)
Total	**Ps 3,692,109**	**Ps 8,847,658**	**Ps 6,685,775**	**Ps 6,782,244**

The characteristics of each one of the aforementioned promissory notes are described below:

Promissory note	**Maturity in years**	**Year of maturity**	**Interest rate payable**	**Interest payment**
Trust 477 Tranche I	10	2005	91-day CETES – 1.35% pb.	Capitalizable
Trust 477 Tranche II	10	2006	91-day CETES – 1.35% pb.	Capitalizable
Trust 477 Tranche III	10	2006	6-month LIBOR + 1.00% pb.	Capitalizable
Trust 490 and 508	10	2006	91-day CETES	Capitalizable

The Bank Savings Protection Law issued on January 20, 1999, granted the option to banks that had participated in the Capitalization and Purchase of Loan Portfolio program (PCC), to change their FOBAPROA promissory notes for the issuance of IPAB promissory notes under similar terms.

In June 2002, the IPAB communicated to the banks participating in the PCC, its intention to adopt certain procedures and conditions applicable to those institutions involved, with respect to the mechanics of interchange of FOBAPROA promissory notes for IPAB promissory notes. These procedures include the review, from the IPAB of the existence of loans originally transferred to FOBAPROA, review of the collection of loans and the certainty with respect to the legitimate and legal nature of such loans. This review refers to a part of the loans sold to FOBAPROA as part of the PCC. At December 31, 2003 the balance of the FOBAPROA promissory note associated to loans, which the IPAB intends to review amounts $5,441,000 (net amount of the resources from the portfolio collection and provisions regarding the shared loss and incentive program). Derived from the aforementioned, the possible effects of this review are described below:

- The possibility of certain loans being returned to GRUPO by IPAB;
- The value of the FOBAPROA promissory note may be reduced and
- The possibility of recording additional reserves with respect to the loans returned.

In July 2002, GRUPO filed a writ of relief in order to suspend the procedures and conditions established by the IPAB for the exchange, since they consider them without legal basis and containing ambiguous and open terms. On September 30, 2003 the judge was presented with the case and ruled in favor of the GRUPO. In this sense, IPAB filed an appeal for review before a court, which is still in an on-going process.

At the date of issuance of the audited financial statements, GRUPO is going through a review with the IPAB in order to agree on review procedures and conditions, which prove acceptable for the parties involved, as well as to obtain a commitment from the IPAB with respect to this review being the last and definitive one on the PCC, in order to begin the exchange of FOBAPROA's promissory notes.

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.

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

In this sense, GRUPO maintains the following Programs in UDIs:

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

In the case of the accredited who participate under the aforementioned Programs, the amount of principal and interests accrued from the amount of the loan in pesos, are translated at the UDI value at first and consequently, the interest is fixed at an agreed reference rate.

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 2002 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.

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

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

Item	*2003*	*2002*
Banks	*Ps 30,251*	*Ps 213,234*
Government Securities	*5,637*	*8,323*
Current loan portfolio	*2,627,839*	*3,688,015*
Past due loan portfolio	*451,415*	*939,615*
Interests accrued on loans	*4,979*	*9,895*
Due interests	*16,743*	*50,287*
Allowance for loan losses	*(595,098)*	*(1,349,552)*
Total assets	***Ps 2,541,766***	***Ps 3,559,817***

Item	*2003*	*2002*
Fiduciary values	*Ps 2,526,546*	*Ps 3,420,158*
Other accounts payable	*-*	*8,548*
Deferred taxes	*11,016*	*126,120*
Income for the year	*4,204*	*4,991*
Total liabilities	***Ps 2,541,766***	***Ps 3,559,817***

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

Accounting of trusts ***Debit (credit) balance***	*2003*	*2002*
Banks	*Ps 30,251*	*Ps 213,324*
Fiduciary values	*2,526,546*	*3,420,158*
Recovery of administrative expenses	*(71,658)*	*(117,546)*
Interest paid	*(116,601)*	*(156,526)*

Accounting of the Bank ***Debit (credit) balance***	*2003*	*2002*
Sundry creditors	*(Ps 30,251)*	*(Ps 213,324)*
Held-to-maturity securities	*(2,526,546)*	*(3,420,158)*
Fees collected from interest income	*71,658*	*117,546*
Interest income	*116,601*	*156,526*

(Amounts stated in thousands of Mexican pesos of December 2003 purchasing power, except as otherwise indicated, number of shares and per share amounts,debentures and exchange rates)

c. The amount of the total pr ogram of loans in UDIs as of December 31, is summarized belo w:

	2003				2002
Concept	States and Municipalities	Housing	Productive plant	Total	Total
Current portfolio	Ps 1,079,979	Ps 1,529,535	Ps 18,325	Ps 2,627,839	Ps 3,688,015
Current interest	630	4,348	1	4,979	9,895
Past due portfolio	-	449,525	1,890	451,415	939,615
Interest due	-	16,743	-	16,743	50,287
Total	Ps 1,080,609	Ps 2,000,151	Ps 20,216	Ps 3,100,976	Ps 4,687,812

During 2003 and 2002, an additional allowance for loan losses was created from the net profits of the trusts in the amounts of Ps35,480 and Ps58,102, respectively.

NOTE 12 LOAN ASSETS PORTFOLIO:

At December 31, 2003 and 2002, the balance of the loan assets of GRUPO, at cost was as follows:

	2003	2002
Serfin Project (Trust 025174-2 Bancen)	Ps 677,647	Ps 809,328
GFS Santander Project	525,467	598,722
Bancrecer I Project	427,877	520,034
Bital Project	434,058	-
Total credit assets portfolio	Ps 2,065,049	Ps 1,928,084

As mentioned in Note 3 j., this item represents the amount effectively paid by the GRUPO to obtaining the rights over the flows generated by the loan asset packages acquired, less the accumulated amortization at December 31, 2003 and 2002.

At December 31, 2003 and 2002, the nominal amounting the loan portfolios purchased by the GRUPO, was analyzed as follows:

	2003	2002
Serfin Project (Trust 025174-2 Bancen)	Ps 7,448,000	Ps 8,505,665
GFS Santander Project	1,775,000	2,041,882
Bancrecer I Project	1,574,000	1,887,315
Bital Project	2,194,327	-
Total	Ps 12,991,327	Ps 12,434,862

SERFIN PROJECT

At October 27, 1999, in compliance with the public tender bases and in accordance with instructions from IPAB, the trust division of Banca Serfín (SERFIN) selected BANORTE to supervise the management, recovery and collection of the loans and assets included in commercial portfolio Tranches I and II and mortgage portfolio Tranche III. Furthermore, said bases establish that BANORTE may propose a third party to enter into the corresponding agreement; therefore, on February 28, 2000, SERFIN signed such an agreement with BANCEN, whereby SERFIN and its trust division transferred to BANCEN the rights over the flows from portfolio Tranches I, II and III, totaling Ps20,872,500 (nominal value). The price paid for these flows was Ps2,474,465 (nominal value).

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

- 100% for GRUPO, up to the recovery of 50% of the investment.
- 80% for GRUPO, up to recovery of 100% of the investment and the remaining 20% for SERFIN.
- 70% for GRUPO, until obtaining a 10 internal yield rate or IYR) on the investment and the remaining 30% for SERFIN.
- 60% for GRUPO, until obtaining a 20% IYR on the investment and the remaining 40% for SERFIN.
- 40% for GRUPO, until obtaining a 30% IYR on investment and the remaining 60% for SERFIN.
- 40% of the remaining flows for GRUPO, once the previous scenarios have been covered, until the termination of the agreement.

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

MESETA, BANCRECER I, GOLDMAN SACHS SERFIN AND SANTANDER PROJECTS

The agreements entered into by BANCEN with Sólida, for the transfer of rights over the flows generated by these portfolio packages do not establish any limitation as to the participation of flows, so that upon the signing of the respective agreements, BANCEN acquires the right over all the cash flows generated by such portfolios.

(Amounts stated in thousands of Mexican pesos of December 2003 purchasing power, except as otherwise indicated, number of shares and per share amounts,debentures and exchange rates)

NOTE 13 FORECLOSED ASSETS:

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

Concept	2003	2002
Personal property	Ps 323,874	Ps 379,123
Real property	627,592	830,839
Promised-for-sale assets	285,828	285,611
	1,237,294	1,495,573
Allowance for asset write-down	(113,864)	(231,595)
Total foreclosed assets	**Ps 1,123,430**	**Ps 1,263,978**

At December 31, 2003 the amount generated from recovery of personal property and real property represented Ps33,732 (Ps27,065 in 2002).

At December 31,2003, foreclosed assets are as follows:

	Years of age				
Concept	Less than 1	1-2	2-3	3 onwards	Total
Personal property	Ps 103,932	Ps 16,877	Ps 8,951	Ps 194,114	Ps 323,874
Real property	15,275	12,688	68,800	530,829	627,592
Promised-for-sale assets	58,689	12,968	201,221	12,950	285,828
Total	**Ps 177,896**	**Ps 42,533**	**Ps 278,972**	**Ps 737,893**	**Ps 1,237,294**

NOTE 14 PROPERTY, FURNITURE AND EQUIPMENT:

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

Concept	2003	2002
Property	Ps 4,035,699	Ps 4,017,252
Electronic computer equipment	1,009,413	989,822
Furniture and office equipment	842,983	833,884
Transportation equipment	555,311	344,357
Installations and improvements	1,440,694	1,437,080
Other equipment	3,954	8,038
	7,888,054	7,630,433
Accumulated depreciation	(2,175,152)	(1,684,950)
Total property, furniture and equipment,net	**Ps 5,712,902**	**Ps 5,945,483**

NOTE 15 PERMANENT STOCK INVESTMENTS:

GRUPO 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:

	2003			2002
Entity	*Cost of acquisition*	*Surplus or (deficit)*	*Total*	*Total*
Siefore Banorte Generali, S. A.de C. V. SIEFORE	*Ps 198,570*	*Ps 99,762*	*Ps 298,332*	*Ps 279,792*
Servicio Panamericano de Protección, S. A.de C. V.	*50,958*	*158,808*	*209,766*	*229,263*
Sólida Administradora de Portafolios, S. A.de C. V.	*445,050*	*95,210*	*540,260*	*74,274*
Fianzas Banorte, S. A.de C. V.	*37,225*	*58,885*	*96,110*	*85,391*
Seguros Banorte Generali, S. A.de C. V.	*28,050*	*170,057*	*198,107*	*120,164*
Controladora Prosa, S. A. de C. V	*47,486*	*1,365*	*48,851*	*45,624*
Pensiones Banorte Generali, S. A.de C. V.	*57,324*	*37,710*	*95,034*	*67,036*
Corporativo Edinbur, S. A.de C. V.	*17,798*	*(4,872)*	*12,926*	*14,369*
S.D. Indeval, S. A.de C. V.	*10,339*	*15,991*	*26,330*	*24,694*
Procesar, S. A.de C. V.	*5,235*	*(1,382)*	*3,853*	*7,312*
Sociedades de Inversión Bancen	*11,719*	*2,055*	*13,774*	*13,188*
Sociedades de Inversión Banorte	*38,294*	*25,033*	*63,327*	*60,937*
Sociedades de Inversión Casa de Bolsa	*2,151*	*-*	*2,151*	*1,074*
Afinad, S. A.de C. V. Norte (MD-A)	*4,143*	*5,637*	*9,780*	*9,743*
Bolsa Mexicana de Valores, S. A. de C. V.	*20,373*	*-*	*20,373*	*17,225*
Seguros Generali México, S. A.de C. V. (Véase Nota 2b)	*164,393*	*(118,541)*	*45,852*	*-*
Other	*18,887*	*-*	*18,887*	*13,900*
	Ps 1,157,995	***Ps 545,718***	***Ps 1,703,713***	***Ps 1,063,986***

NOTE 16 DEFERRED TAXES:

The tax currently payable by GRUPO 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, GRUPO has recognized a net deferred tax asset amounting to Ps970,151 (Ps840,974 in 2002), as shown below:

(Amounts stated in thousands of Mexican pesos of December 2003 purchasing power, except as otherwise indicated, number of shares and per share amounts,debentures and exchange rates)

	2003			2002		
	Temporary	Deferred		Temporary	Deferred	
Item	**differences**	**Income tax**	**Profit sharing**	**differences**	**Income tax**	**Profit sharing**
Allowance for loan losses						
(not deducted)	Ps 14,995	Ps 4,798	Ps -	Ps 8,435	Ps 3,068	Ps -
Tax loss carryforwards[1]	1,455,924	482,443	-	1,170,617	425,748	-
Loss on valuation of securities	626,351	206,696	62,635	583,682	212,263	60,664
Loss sharing with FOBAPROA[2]	2,105,269	673,686	-	2,060,113	749,253	-
Asset tax recoverable	-	923	-	-	762	-
Excess of tax over book value of						
foreclosed assets	450,276	148,591	-	796,298	289,611	-
Loss on sale of stock	-	-	-	63,076	22,285	6,554
Others	343,540	113,348	29,178	153,005	55,632	13,837
TOTAL DEFERRED ASSETS	**Ps 4,996,355**	**Ps 1,630,485**	**Ps 91,813**	**Ps 4,835,226**	**Ps 1,758,622**	**Ps 81,055**

	2003			2002		
	Temporary	Deferred		Temporary	Deferred	
Concept	**differences**	**Income tax**	**Profit sharing**	**differences**	**Income tax**	**Profit sharing**
Excess of book over tax value of						
fixed assets and prepaid expenses	Ps 1,847,438	Ps 600,369	Ps 54,947	Ps 1,961,769	Ps 686,584	Ps 46,147
Deduction of inventories	195,430	66,446	-	291,516	102,031	-
Unrealized surplus on investment						
in SIEFORE	58,693	19,369	-	40,227	14,079	-
Income tax payable on UDI Trusts	33,382	11,016	-	-	126,120	-
Other	-	-	-	67,206	23,498	244
TOTAL DEFERRED LIABILITIES	**Ps 2,134,943**	**Ps 697,200**	**Ps 54,947**	**Ps 2,360,718**	**Ps 952,312**	**Ps 46,391**
NET DIFFERENCE	**Ps 2,861,412**	**Ps 933,285**	**36,866**	**Ps 2,474,508**	**Ps 806,310**	**Ps 34,664**
DEFERRED TAX			**Ps 970,151**			**Ps 840,974**

(1) Based on management's analysis performed at the end of 2003, Ps1,455,924 (Ps1,170,617 in 2002) of a total of Ps7,907,551 of tax loss carryforwards are expected to be realized in future years (see Note 30 c.). The expiration date is before 2011.
(2) The deferred tax determined in this item was calculated with the 32% rate, since the maturity date of FOBAPROA promissory notes is identified.

During 2003, the calculation of the deferred tax was increased in the net amount of Ps129,177 corresponding to the recognition of lending and borrowing temporary items. The net effect of the year for this concept was the increase of the deferred tax assets in Ps99,497, derived from the recognition of tax loss carryforwards pending amortization.

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, 2003, GRUPO determined the deferred tax by applying a 33% rate; recognizing the effect in capital and income, due to the projection of the materialization in 2004 and 2005, of the items comprising deferred taxes.

Management has drawn up financial and tax projections, based on economic forecasts estimated to be conservative. These allow management to be confident in recovering the deferred tax asset from future taxable income in the normal course of GRUPO's operations.

NOTE 17 OTHER ASSETS:

The other assets as of December 31 are as follows:

Concept	*2003*	*2002*
Investments of provisions for personnel pensions (see Note 23)	*Ps 1,331,214*	*Ps 1,192,298*
Provision for labor obligations (see Note 23)	*(1,244,743)*	*(1,118,570)*
Other deferred expenses	*1,420,795*	*1,179,613*
Accumulated amortization of other expenses	*(520,711)*	*(304,753)*
Storage inventory	*195,430*	*291,518*
Organization expenses (net)	*184,957*	*257,863*
Goodwill (see Note 2e.)	*90,046*	*63,693*
Collateral deposits	*27,833*	*16,840*
Investments of the contingency reserves	*3,063*	*3,011*
Provision for the contingency reserve	*(3,063)*	*(3,011)*
Other assets	*60,197*	*21,003*
Total	***Ps 1,545,018***	***Ps 1,599,505***

NOTE 18 DEMAND DEPOSITS:

The balance of this item as of December 31, 2003 and 2002 is summarized below:

Concept	*2003*	*2002*
Checking accounts	*Ps 47,085,520*	*Ps 37,750,053*
US dollar denominated checking accounts	*5,661,851*	*5,490,636*
IPAB checking account	*3,750,086*	*2,465,734*
Demand deposits in current account	*9,651,545*	*8,985,112*
Deposits in savings accounts	*9,095*	*32,674*
Demand deposits in US dollar denominated current account	*607*	*605*
Total	***Ps 66,158,704***	***Ps 54,724,814***

(Amounts stated in thousands of Mexican pesos of December 2003 purchasing power, except as otherwise indicated, number of shares and per share amounts,debentures and exchange rates)

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

BANORTE

	2003				2002			
Foreign currency	**March**	**June**	**September**	**December**	**March**	**June**	**September**	**December**
Local currency and Udis	2.16%	1.86%	1.45%	1.60%	2.00%	1.84%	2.04%	1.90%
Foreign currency	0.62%	0.60%	0.56%	0.61%	0.93%	1.22%	0.92%	0.78%

BANCEN

	2003				2002			
Foreign currency	**March**	**June**	**September**	**December**	**March**	**June**	**September**	**December**
Local currency and Udis	9.04%	0.00%	0.00%	0.00%	9.36%	8.61%	9.12%	9.49%
Foreign currency	-	-	-	-	-	-	-	-

NOTE 19 TERM DEPOSITS:

Balances as of December 31, are as follows:

Concept	2003	2002
Over-the-counter promissory notes	Ps 69,342,345	Ps 24,561,091
Money desk promissory notes	18,667,569	58,405,764
Fixed term deposits in Mexican pesos	5,956,151	5,881,860
Fixed term deposits in U.S. dollars	1,243,191	3,174,273
Bank term deposits	303,183	304,601
Provisions for interest(1)	773,314	490,462
Total	**Ps 96,285,753**	**Ps 92,818,051**

(1) It includes Ps2,163 relative to hedging swap transactions to pay money desk promissory notes.

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

BANORTE

	2003				2002			
Foreign currency	**March**	**June**	**September**	**December**	**March**	**June**	**September**	**December**
General Public								
Local currency and Udis	7.15%	5.58%	4.03%	4.47%	7.47%	3.84%	3.73%	5.41%
Foreign currency	0.74%	0.67%	0.60%	0.49%	1.44%	1.51%	1.29%	1.11%
Money Market								
Local currency and Udis	7.97%	6.99%	5.79%	6.88%	6.03%	7.13%	8.43%	7.44%

BANCEN

	2003				2002			
Foreign currency	**March**	**June**	**September**	**December**	**March**	**June**	**September**	**December**
Money Market								
Local currency and Udis	9.18%	6.95%	4.89%	5.13%	8.59%	7.41%	7.58%	8.44%

At December 31, 2003, the negotiation terms of these deposits are as follows:

Concept	**From 1 to 179 days**	**From 6 to 12 months**	**From 1 to 2 years**	**More than 2 years**	**Contractual Value**
Over-the-counter and money desk promissory notes,					
and fixed term deposits (local currency)	Ps 85,328,682	Ps 422,324	Ps 292,337	Ps 3,209,762	Ps 89,253,105
Fixed term deposits (foreign currency)	3,767,738	431,958	1,756,455	-	5,956,151
Bank term deposits	-	-	-	303,183	303,183
Interest provision	773,314	-	-	-	773,314
Total	**Ps 89,869,734**	**Ps 854,282**	**Ps 2,048,792**	**Ps 3,512,945**	**Ps 96,285,753**

(Amounts stated in thousands of Mexican pesos of December 2003 purchasing power, except as otherwise indicated, number of shares and per share amounts,debentures and exchange rates)

NOTE 20 OUTSTANDING BANK BONDS:

As of December 31, GRUPO had the following bonds outstanding:

	2003	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.	Ps -	Ps 1,039,130
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.	-	259,783
	-	1,298,913
Accrued interest payable	-	46,291
Total	**Ps -**	**Ps 1,345,204**

The total interest expense on these bonds was Ps79,733 in 2003 and Ps206,393 in 2002, respectively.

In the months of May and September 2003, bank bonds reached their established maturity.

NOTE 21 INTERBANK AND OTHER ENTITY LOANS:

The balances as of December 31 are as follows:

	2003	2002
Deposits and bank loans	Ps 12,149,302	Ps 25,669,992
Deposits and foreign bank loans	898,063	43,559
Loans on rediscounted portfolio	9,858,586	7,665,542
CPO's issued (see Note 32)	305,143	566,070
Call money	1,838,291	47,800
FOVI rediscounts	4,229,477	4,961,471
Interest provisions	37,606	76,647
Total	**Ps 29,316,468**	**Ps 39,031,081**

The balance as of December 31, 2003 of interbank loans includes to US$276,689 (US$60,406 in 2002).

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

BANORTE

	2003				2002			
Foreign currency	***March***	***June***	***September***	***December***	***March***	***June***	***September***	***December***
Call money								
Mexican pesos and Udis	*9.96%*	*7.74%*	*4.35%*	*5.78%*	*7.09%*	*6.52%*	*6.97%*	*7.76%*
Other interbank loans								
Mexican pesos and Udis	*8.68%*	*7.05%*	*5.24%*	*6.45%*	*8.52%*	*7.22%*	*7.54%*	*8.27%*
Foreign currency	*7.57%*	*5.01%*	*4.93%*	*4.93%*	*5.73%*	*6.46%*	*5.50%*	*6.64%*

BANCEN

	2003				2002			
Foreign currency	***March***	***June***	***September***	***December***	***March***	***June***	***September***	***December***
Call money								
Mexican pesos and Udis	*8.88%*	*6.09%*	*4.56%*	*5.67%*	*7.72%*	*6.51%*	*7.00%*	*7.69%*
Other interbank loans								
Mexican pesos and Udis	*5.40%*	*3.2%*	*1.97%*	*4.14%*	*7.93%*	*4.43%*	*3.47%*	*4.41%*
Foreign currency	*7.61%*	*7.35%*	*7.45%*	*7.50%*	*7.96%*	*8.09%*	*8.18%*	*7.97%*

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

Concept	***From 1 to 179 days***	***From 6 to 12 months***	***More than 1 year***	***Contractual value***
Deposits and loans of national banks	*Ps 2,050,144*	*Ps 10,099,158*	*Ps -*	*Ps 12,149,302*
Deposits and loans of foreign banks	*9,010*	*253,872*	*635,181*	*898,063*
Loans of rediscounted portfolio	*1,532,607*	*3,816,503*	*4,509,476*	*9,858,586*
Issuance of CPO´s	*-*	*-*	*305,143*	*305,143*
Call money	*1,838,291*	*-*	*-*	*1,838,291*
FOVI rediscounts	*-*	*-*	*4,229,477*	*4,229,477*
Interest provision	*37,606*	*-*	*-*	*37,606*
Total	***Ps 5,467,658***	***Ps 14,169,533***	***Ps 9,679,277***	***Ps 29,316,468***

NOTE 22 LABOR LIABILITIES:

GRUPO 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.

(Amounts stated in thousands of Mexican pesos of December 2003 purchasing power, except as otherwise indicated, number of shares and per share amounts,debentures and exchange rates)

The actuarial present value of benefit obligations and projected benefits as of December 31, 2003 and 2002, corresponding to the "Defined Benefit Pension and Seniority Premium Plan", determined by independent actuarial experts, is summarized below:

	2003			
Concept	**Personnel pensions**	**Seniority premium**	**Medical insurance to retired**	**Total**
Projected benefit obligations (OBP)	Ps 542,143	Ps 110,146	Ps 821,721	Ps 1,474,010
Plan assets at market value	697,049	100,671	207,830	1,005,550
Financial situation of the plans	(154,906)	9,475	613,891	468,460
Unamortized transition (assets) liabilities	(94,762)	17,330	(439,282)	(516,714)
Prior services amendment of plans unamortized	25,714	2,654	-	28,368
Unamortized changes in assumptions and adjustments from experience	(29,220)	(31,374)	(13,617)	(74,211)
Projected net (Assets) liabilities [1]	(Ps 253,174)	(Ps 1,915)	Ps 160,992	(Ps 94,097)
Current benefit obligations (OBA)	466,271	66,250	-	532,521

	2002			
Concept	**Personnel pensions**	**Seniority premium**	**Medical insurance to retired**	**Total**
Projected benefits obligations (OBP)	Ps 626,845	Ps 103,629	Ps 759,925	Ps 1,490,399
Plan assets at market value	728,382	89,514	141,914	959,810
Financial situation of the plans	(101,537)	14,115	618,011	530,589
Unamortized transitions (assets) liabilities	(99,060)	17,642	(458,685)	(540,103)
Unamortized prior services and plan amendments	(5,371)	2,718	-	(2,653)
Unrecognized loss	(30,688)	(30,872)	-	(61,560)
Projected net (assets) liabilities [1]	(Ps 236,656)	Ps 3,603	Ps 159,326	(Ps 73,727)
Current benefit obligations (OBA)	513,713	58,712	-	572,425

(1)GRUPO has a net accounting provision with a zero balance, since the same amount of the provision is invested in an external fund for an amount equal to Ps968,412 (Ps943,123 in 2002), which helps face the aforementioned amount of obligations, in conformity with Statement D-3 of the IMPC. This last amount is recorded in within the item "Other Assets" (see Note 17).

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 2002, covering the personnel, which elected to remain in this plan.

Through this plan GRUPO 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 GRUPO 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 Ps362,802 and Ps249,175, at December 31, 2003 and 2002, respectively. See Note 17.

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 23 OUTSTANDING SUBORDINATED DEBENTURES:

On November 28, 2002, BANORTE issued, non-convertible, non-preferential, non-cumulative subordinated debentures, indexed to the U.S. dollar / Mexican peso exchange rate in the amount of Ps1,500,000 (Ps1,136,000 at nominal value) where Ps1,213,679 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.

In a general extraordinary meeting held on June 16, 2003, the stockholders agree to decrease the total amount of the BANORTE 02D issue, to reach an amount of up to $1,136,000 at face value, through the issuance of 11,360,000 subordinate debentures with face value of $100 each. This decision is based on the seventh clause of the issuance act, which establishes that if the issuer does not place all its subordinate debentures within a maximum period of 161 days, as from the date of issuance, the securities not placed will be cancelled and will consequently reduced the amount of the issuance.

(Amounts stated in thousands of Mexican pesos of December 2003 purchasing power, except as otherwise indicated, number of shares and per share amounts,debentures and exchange rates)

On June 21, 2001, BANORTE issued, non-convertible subordinated debentures in the amount of 436,000 UDIs and equal to Ps1,461,473 (Ps1,301,000 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:

	2003	2002
Issuance of debentures (BANORTE 02D), maturingn November 2012 and interest at an 8.00% annual rate for the first10 semesters. It will be reviewed on the fifth year, for the Remaining 10 semesters and such rate should not be less than 8.00% and should not exceed 10.00% annual interest rate.	Ps 1,257,247	Ps 1,213,679
Issuance of debentures (BANORTE 01U), maturing June 2gfh009 and interest at an actual rate of annual 8.00% which will be maintained fixed during the effective term of the issuance.	1,461,473	1,461,473
Accrued interest payable	12,468	12,093
	Ps 2,731,188	**Ps 2,687,245**

For the years ended December 31, 2003 and 2002, interest expense related to these debentures totaled Ps213,309 and Ps124,537 respectively.

NOTE 24 CONTINGENCIES AND COMMITMENTS:

As of December 31, 2003 and 2002, GRUPO had the following contingent obligations and commitments:

a. GRUPO has commitments due to the opening of irrevocable letters of credit, and other contingent obligations in the amount of and other contingent obligations in the amount of Ps18,541,284 at December 31, 2003 and Ps29,078,421 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 GRUPO as a result differing interpretations of legal provisions between the GRUPO and the tax authorities.

d. There are suits and commitments filed against GRUPO for ordinary, civil, labor, commercial and other trials. In the opinion of the lawyers of GRUPO, as of December 31, 2003, the suits filed are considered unfavorable in the amount of Ps62,000 for which only Ps41,000 are provided for. Additionally, there are suits filed against the GRUPO for Ps14,000 in its role as fiduciary entity.

e. There are transactions during the year between subsidiary companies and GRUPO, and in turn, transactions among the same subsidiary companies, in which tax authorities have the right to determine if they are stated at market value or at the value that would be fixed with independent parties in similar transactions.

f. At December 31, 2002, GRUPO had a writ of relief against the sentence execution from the trial promoted due to the succession of Mr. Manuel Lance de la Torre, against Afin Casa de Bolsa, S.A. de C.V. (today Casa de Bolsa Banorte, S.A. de C.V., Grupo Financiero Banorte), originated from the recognition of that succession as shareholder and owner of 7.832% of the stock package, as well as the dividend payment for the period from 1990 to 1994, legal expenses and costs and certain statutory rights.

At February 27, 2003, a District judge pronounced judgment, discontinuing the legal proceedings of the writ of relief filed by the plaintiff. In this sense, the legal area of GRUPO does not consider the sentence acquitting the writ of relief as admissible and it considers having sufficient elements to reach a favorable resolution before the corresponding courts.

At June 29, 2003, during a Board of Directors' Meeting, GRUPO communicated that on July 4, 2003 the GRUPO was granted protection by the federal justice so that the effects of the definitive sentence declared in the trial promoted by the Lance family was not executed with respect to the GRUPO. In such resolution, the court observed that Casa de Bolsa Banorte and the GRUPO are two different entities; therefore, all actions aiming to execute the sentence for the GRUPO are totally groundless, with which GRUPO is totally disentailed from the aforementioned trial without any change in its shareholding structure.

NOTE 25 ASSETS AND LIABILITIES DENOMIN ATED IN FOREIGN CURRENCY AND UDIs:

FOREIGN CURRENCY TRANSACTIONS

The amounts shown in this note are stated in thousands of US dollars.

(Amounts stated in thousands of Mexican pesos of December 2003 purchasing power, except as otherwise indicated, number of shares and per share amounts,debentures and exchange rates)

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 GRUPO's net capital.

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

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

As of December 31, GRUPO had a foreign currency position denominated in US dollars, as summarized below:

	Thousands of US dollar	
	2003	**2002**
Assets	1,199,720	2,030,972
Liabilities	1,211,932	1,935,206
(Short) long position	**(12,212)**	**95,766**

As of December 31, 2003 and 2002, the exchange rates set by the BANXICO for the valuation of liabilities was Ps11.2372 and Ps10.4393 per US dollar, respectively.

TRANSACTIONS DENOMINATED IN UDIs

As of December 31, 2003 and 2002, the value of the UDI determined by the BANXICO and used by GRUPO to value its assets and liabilities denominated in UDIs was Ps3.352003 and Ps3.225778, respectively. At those same dates, GRUPO had assets and liabilities in UDIs as shown below:

	Thousands of UDIs	
	2003	**2002**
Assets	200,332	1,972,162
Liabilities	572,028	669,088
(Short) long position	**(371,696)**	**1,303,074**

NOTE 26 STOCKHOLDERS' EQUITY:

a. As of December 31, 2003, the fixed and variable capital stock of GRUPO was represented by 504,551,887 common Series "O" shares, with a par value of three pesos and fifty cents each, fully subscribed and paid. That capital stock is summarized below:

	Number of shares		*Amount*	
Description	***2003***	***2002***	***2003***	***2002***
Fixed capital stock	*252,157,233*	*252,157,233*	*Ps 882,550*	*Ps 882,550*
Variable capital stock	*252,394,654*	*247,768,891*	*883,381*	*867,191*
Increase from restatement			*3,564,188*	*3,563,884*
Total			***Ps 5,330,119***	***Ps 5,313,625***

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

Dividends paid will be exempt from income tax if they are paid out of the Net Taxable Income Account or "CUFIN" and will be subject to income tax at a 4.62% and 7.69% rate if they are paid out of the Reinvested CUFIN. Dividends paid in excess of the balance of such CUFIN are subject to a 49.25% and 47.06% if paid during 2004 and 2005, respectively. The resulting tax will be payable by GRUPO and may be credited against the income tax for the year or that of the two following years. Dividends paid will not be subject to any withholding.

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

b. GRUPO, through the BANORTE, adopted a long-term incentive plan under a program denominated "Option plan for the purchase of shares" aimed at certain Executives and/or Directors appointed by the corresponding Committee. In accordance with this plan, a trust was constituted through a Mexican financial institution in charge of managing the share packages of GRUPO, which are acquired by the trust itself. The term for the Executives and/or Directors to begin exercising the share purchase option is as from the third year at 100%. It is important to mention that it is until the sixth year after their granting when they are reincorporated to the trust's capital in the event that the Executive chooses not to exercise the share purchasing option.

(Amounts stated in thousands of Mexican pesos of December 2003 purchasing power, except as otherwise indicated, number of shares and per share amounts,debentures and exchange rates)

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

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

c. In conformity with the Bank Savings Protection Law, the IPAB will be in charge of Managing the Bank Savings Protection System, which will be gradually reformulated in conformity with transition mechanics guidelines established by the IPAB. The new bank savings protection system will be effective on December 31, 2005 at the latest and comprises, among other changes, that the protection to the public's raising should amount to 400,000 UDIs (Ps1.34 and Ps1.29 at December 31, 2003 and 2002, respectively), excluding, among others, the deposits payable to stockholders and high-rank bank officials.

The protection offered by IPAB to public's raising in the following years, is shown as follows:

Years	***Maximum amount payable for savers'deposits***
2004	*5 millions of UDIs*
2005	*400 thousands of UDIs*

NOTE 27 CAPITALIZATION:

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

Los índices de capitalización de las subsidiarias bancarias se resumen como sigue:

a. BANORTE

By considering only the credit risk, the capitalization index determined by the Bank at December 31, 2003 and 2002 reached 14.33% and 16.11, respectively, with a basic capital of 11.32% 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, 2003 and 2002 reached 10.90% and 14.21%, respectively, with a basic capital of 8.61% and 11.26%, respectively.

Relevant events discussed in Note 2, including the merger with Bancrecer, affected the determination of net capital of the BANORTE as follows:

% of Assets under Risk	2003 Credit risk	2003 Credit and market risk	2002 Credit risk	2002 Credit and market risk
Basic capital	11.32%	8.61%	12.77%	11.26%
Complementary capital	3.01%	2.29%	3.34%	2.95%
Net capital	**14.33%**	**10.90%**	**16.11%**	**14.21%**
Assets subject to credit risk		Ps 81,883,534		Ps 69,275,838
Assets subject to market risk		25,835,748		9,298,721
Total asset subject to risk		**Ps 107,719,282**		**Ps 78,574,559**

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

Concept	4Q02	1Q03	2Q03	3Q03	4Q03
Net capital / Assets subject to credit risk	16.11%	15.88%	15.39%	15.24%	14.34%
Net capital / Assets subject to credit and market risk	14.21%	13.84%	13.33%	13.12%	10.90%
Liquidity = Liquid assets / liquid liabilities	35.3%	45.4%	40.9%	46.9%	48.9%
Min = Quarterly financial margin / Average productive assets	4.1%	4.3%	3.6%	3.6%	4.3%
Operating efficiency	4.7%	4.5%	4.5%	4.7%	4.7%
ROE = Net quarterly income / Average stockholders' equity	16.1%	14.1%	6.8%	12.7%	11.4%
ROA = Net quarterly income / Total average assets	0.7%	0.6%	0.3%	0.6%	0.5%

b. BANCEN

By considering only the credit risk, the capitalization index determined by the BANCEN at December 31, 2003 and 2002 reached 107.28% and 26.01, respectively, with a basic capital of 106.03% and 25.88%, respectively. By including market risks in the determination of assets weighted by risk, the total capitalization index of the BANCEN at December 31, 2001 and 2002 reached 66.79% and 19.61%, respectively, with a basic capital of 66.01% and 19.51%, respectively. The index exceeds the legal requirements for both years.

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

Risk assets %	2003 Credit risk	2003 Credit and market risk	2002 Credit risk	2002 Credit and market risk
Basic capital	106.03%	66.01%	25.88%	19.51%
Complementary capital	1.25%	0.78%	0.13%	0.09%
Net capital	**107.28%**	**66.79%**	**26.01%**	**19.60%**
Assets subject to credit risk		Ps 2,278,931		Ps 7,153,812
Assets subject to market risk		1,381,566		2,334,712
Total assets subject to risk		**Ps 3,660,497**		**Ps 9,488,524**

(Amounts stated in thousands of Mexican pesos of December 2003 purchasing power, except as otherwise indicated, number of shares and per share amounts,debentures and exchange rates)

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

Concept	4Q02	1Q03	2Q03	3Q03	4Q03
Net capital / Assets subject to credit risk	26.01%	31.09%	37.70%	47.99%	107.28%
Net capital / Assetsw subject to credit and market risk	19.61%	11.29%	15.06%	18.20%	66.79%
Liquidity = Liquid assets / Liquid liabilities	178.70%	249.60%	365.00%	395.40%	114.90%
Financial margin / Average productive assets	8.9%	0.1%	2.3%	6.6%	(1.9%)
Operating efficiency	12.4%	12.5%	12.4%	12.6%	13.6%
ROE = Net income for the quarter /average stockholders' equity	6.4%	20.3%	37.2%	24.4%	29.9%
ROA = Net income for the quarter / Total average assets	3.6%	12.3%	23.9%	17.1%	22.1%

During 2003, BANCEN's Management decided to assign money desk transactions (repo transactions and traditional deposits) to BANORTE, consequently, the capitalization index changed significantly with respect to its market risk.

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

NOTE 28 COMPREHENSIVE INCOME (LOSS):

In conformity with the new Statement B-4 issued by the IMCP, comprehensive income (loss) for the years ended December 31, 2003 and 2002, is summarized below:

	2003	2002
Net income, as shown in statement of income	Ps 2,218,490	Ps 2,094,744
Gain (loss) from holding non-monetary assets	(90,347)	96,252
Comprehensive income	Ps 2,128,143	Ps 2,190,996

NOTE 29 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:

The earnings per share determined on the above, basis were:

	2003			2002
	Earnings	Weighted average of shares	Earnings per share	Earnings per share
Earnings from continuing operations attributable to paid-in capital	Ps 2,218,490	501,892,512	Ps 4.4202	Ps 4.0323
Net earnings per share	2,218,490	501,892,512	4.4202	4.0323
Diluted earnings per share	2,218,490	501,892,512	4.4202	4.0323

NOTE 30 INCOME TAX, EMPLOYEES' PROFIT SHARING AND ASSET TAX:

a. Income Tax

GRUPO and its subsidiaries are subject to income tax, which is calculated by considering certain impacts of inflation as taxable or deductible. Those impacts involve depreciation calculated on values in constant pesos, which allow for deducting current costs. Furthermore, the impact of inflation on certain assets and monetary assets and liabilities is taxed or deducted by using the inflationary component. The income tax rate in effect was 34% on the taxable income. GRUPO has to pay 30% income tax every year and the remaining earnings are distributed. This remainder is recorded as a long-term liability.

b. Tax loss carryforwards

GRUPO and its consolidated subsidiaries have tax loss carryforwards that are indexed in this fiscal year in which they are realized. Those tax loss carryforwards can be realized against taxable income in a period not exceeding 10 years. The restated amount of those tax loss carryforwards at the date of the financial statements are the following:

Entity	*Tax loss carryforwards*
Banco del Centro, S. A.	*Ps 3,818,915*
Banco Mercantil del Norte, S. A.	*2,961,898*
Arrendadora Banorte, S. A.de C. V.	*1,008,370*
Almacenadora Banorte, S. A. de C. V.	*132,024*
	Ps 7,921,207

c. Asset tax

GRUPO and its subsidiaries are subject to asset tax, which is calculated by applying a 1.8% rate to the average of fixed assets and deferred charges, reduced by the average of the debts incurred to acquire those assets. The amount paid during the year was immaterial.

(Amounts stated in thousands of Mexican pesos of December 2003 purchasing power, except as otherwise indicated, number of shares and per share amounts,debentures and exchange rates)

d. Employees' profit sharing

Employees' profit sharing is calculated in accordance with taxable income, considering tax depreciation at historical values, therefore the inflationary component is not considered.

NOTE 31 MEMORANDUM ACCOUNTS:

The balance of this item is summarized as shown below:

Transactions for account of third parties	*2003*	*2002*
Customer banks (current accounts)	*Ps 4,691*	*Ps 2,205*
Liquidation of customer transactions	*(7,660)*	*14,107,829*
Securities of customers received in custody	*147,164,492*	*129,998,524*
Customer repo transactions	*17,319,998*	*26,612,963*
Purchase transaction (option price)	*8,568*	*57,031*
Administrative trusts	*2,383,610*	*1,574,726*
	Ps 166,873,699	***Ps 172,353,278***

Transactions for own account	*2003*	*2002*
Guarantees given	*Ps 32,400*	*Ps -*
Other contingent liabilities	*17,729,553*	*28,204,396*
Opening of irrevocable credits	*779,331*	*874,025*
Amounts committed in transactions with FOBAPROA	*6,741,366*	*5,974,481*
Asset deposits	*683,679*	*482,246*
Securities of the company delivered in custody	*228,621*	*194,461*
Government securities of the company in custody	*610*	*390*
Assets in trust or mandate	*82,327,395*	*84,857,466*
Assets in custody or administration	*108,986,483*	*132,559,778*
Investments of the funds of the retirement savings system	*247,233*	*1,610,288*
Investment banking transactions for account of third parties,net	*54,850,273*	*76,409,217*
Amounts contracted in derivative instruments	*10,418,607*	*4,959,805*
	Ps 283,025,551	***Ps 336,126,553***

Repo transactions	*2003*	*2002*
Securities receivable under repo agreements	*Ps 87,469,604*	*Ps 214,653,077*
Less: Payables under repo agreements	*87,660,268*	*214,615,486*
	(Ps 190,664)	***Ps 37,591***
Receivables under repo agreements	*Ps 18,574,342*	*Ps 146,819,033*
Less:Securities payable under repo agreements	*18,547,482*	*146,811,985*
	Ps 26,860	***Ps 7,048***

NOTE 32 SECURITIZATION:

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

Certificates of GRUPO have been placed on the international capital markets. At year-end, the balances thereof amounted to Ps305,143 in 2003 and Ps566,070 in 2002, respectively, equivalent to US$27,155 thousand in 2003 and US$51,985 thousand 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:

	2003	*2002*
CPOs - Series 1999-2A that cover 300 certificates with a face value amounting US$ 250,000 each (US$75 million) payable in a 5-year term at a fixed interest rate of 8.94%	*Ps 142,368*	*Ps 357,043*
CPOs - Series 1999-2B that cover 100 certificates with a face value amounting US$ 250,000 each (us$25 million) payable in a 7-year term at a fixed interest rate of 9.49%	*161,606*	*206,879*
Accrued interest payable	*1,169*	*2,148*
	Ps 305,143	***Ps 566,070***

+MORE

GRUPO recognized interest expense in connection with these securitizations in the amount of Ps40,263 in 2003 and Ps94,152 in 2002, respectively.

NOTE 33 RISK MANAGEMENT:

The Chief Risk Office is responsible for identifying, measuring, monitoring and reporting the various types of risk to which the GRUPO is exposed..

The Chief Risk Office reports to the Chief Executive Officer of GRUPO, thereby complying with the provisions of Circular 1423, with regard to the independence of the Business Areas.

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

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

- Credit Committee
- Recovery Committee
- Treasury Committee
- Assets and Liabilities Committee
- Products Committee
- Technology and Operations Committee
- Fiduciary Business Committee
- Communication and Control Committee

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

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

At present, 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 operating risks;
- Develop valuation models for the different types of risks;
- Establish procedures to optimize the loan portfolio management and
- 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. **Operating risk**: The potential loss due to failures or deficiencies in information systems, in internal controls or due to mistakes in the processing of operations.

4. **Liquidity risk**: The potential loss due to the impossibility to renew liabilities or to contract others in normal conditions for GRUPO, due to the advanced or forced sale of assets at unusual discounts in order to face its obligations.

5. **Legal risk**: The potential loss due 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, GRUPO 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.

(Amounts stated in thousands of Mexican pesos of December 2003 purchasing power, except as otherwise indicated, number of shares and per share amounts,debentures and exchange rates)

GRUPO has continued updating and improving the policies and procedures for risk management in accordance with the objectives established and with the participation of all involved areas, continuously maintaining the diffusion of the manual, through presentations via satellite, organizational communications and the continuous updating of GRUPO's Intranet.

MARKET RISK

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

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

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

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

In order to show the VaR behavior and its correlation with the net worth of the Bank during 2003, following are the quarterly values.

BANORTE

	4Q02 (2)	1Q03	2Q03	3Q03	4Q03
VaR (1)	$ 173	$ 161	$ 126	$ 166	$ 217
Net capital (3)	10,743	10,720	10,905	11,329	11,739
VaR/Net capital	1.61%	1.50%	1.16%	1.47%	1.85%

BANCEN

	4Q02 (2)	1Q03	2Q03	3Q03	4Q03
VaR (1)	$ 117	$ 153	$ 133	$ 105	$ 51
Net capital (3)	1,790	1,918	2,275	2,453	2,445
VaR/Net capital	6.54%	7.98%	5.85%	4.28%	2.09%

(1) Quarterly average.
(2) The VaR amounts for these periods were calculated through the parametric historical simulation VaR methodology, considering a 10-day term to undo portfolios.
(3) Net worth at the end of the corresponding quarter.

The quarterly average of the VaR per risk factor of the financial instrument portfolio (including bonds, money market transactions swaps, forwards, futures, and other derivatives in and out of the balance sheet) of the BANORTE and BANCEN, during the fourth quarter was as follows:

Risk factors	***BANORTE***	***BANCEN***
Local interest rate	*Ps 97*	*Ps 51*
Foreign interest rate	*106*	-
Exchange rate	*209*	-
Eurobonds prices	*184*	-
Capital	-	*1*
Total VaR	*217*	*182*

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

LIQUIDITY RISK

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

CREDIT RISK

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

The objectives of the credit risk management in GRUPO are:

- To develop and execute credit risk policies related to the strategic objectives of the BANORTE.
- To support the decision-making strategies, by maximizing the creation of value for stockholders and guaranteeing client security.

- To establish specific policies and procedures for the identification of the creditors' risk level, using such procedures as a basis for the granting and monitoring of loans.
- To calculate the credit risk exposure through time, considering and evaluating the exposure concentration per risk ratings, geographic regions, economic activities, foreign currencies, and type of product.
- To create strategies for the diversification of the credit portfolio, defining limits for such portfolio.
- To implement a global credit risk management, by supervising all operations and aspects relative to the credit risk.

INDIVIDUAL CREDIT RISK

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

a. With respect to the Credit Risk Rating for the Commercial Portfolio, this is rated based on Circular 1480 of the COMMISSION as from the first quarter of 2001, using the "CIR BANORTE" to calculate the Debtor's Rating and Circular 1480 to calculate the Credit Rating. For lower credits the GRUPO uses a system that determines the level of risk parametrically. The mortgage, consumer and credit card portfolios are rated in accordance with Circulars corresponding to the COMMISSION.

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

CREDIT RISK

GRUPO has designed a Portfolio credit risk methodology that besides comprising international practices regarding the identification, measurement, control and monitoring of risks, has been adapted to work within the context of the Mexican Financial System.

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

The calculation of the credit exposure entails the generation of cash flow from each of the credits, from capital as well as interest to further discount it. This exposure is sensitive to changes in the market, facilitating calculations under different economic scenarios.

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

Among the main results obtained from the foregoing are the expected loss and the unexpected loss in a one-year term. The expected loss is the distribution mean of a credit portfolio's losses. The unexpected loss is the maximum loss, given the distribution of losses, at a specific confidence level.

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

(Amounts stated in thousands of Mexican pesos of December 2003 purchasing power, except as otherwise indicated, number of shares and per share amounts,debentures and exchange rates)

At December 31, 2003 and 2002, the credit VaR to consider for the current and past due loan portfolio of the Banking sector (BANORTE and BANCEN) is as follows:

	2003	2002
Expected loss	Ps 3,025	Ps 3,688
Current portfolio	812	582
Past due portfolio	2,213	3,106
Unexpected loss	3,994	2,440

GENERAL RULES FOR THE DIVERSIFICATION OF RISKS WITH REGARD TO THE REALIZATION OF LENDING AND BORROWING TRANSACTIONS APPLICABLE TO CREDIT INSTITUTIONS.

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

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

GRUPO, upon granting financing to a single person or group of persons, that due to their representing a Common Risk, are considered a single entity, should adjust to the maximum Financing limit resulting from applying a table connected to the capitalization level for banking entities.

On the other hand, in relation with the deposit of public resources, GRUPO should diversify its risks, aiming at an adequate integration of its liabilities, in accordance with the placing of deposited resources.

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

	BANORTE	BANCEN
Basic capital at September 30,2003	Ps 8,966	Ps -
I. Financing for which the individual amount represents more than 10% of the basic capital:		
Number of borrowers	2	-
Amount of total credits [i]	Ps 3,064	Ps -
% in proportion to the basic capital	34%	-
II.Maximum amount of financing with the 3 major debtors representing a Common Risk[i]	Ps 6,450	Ps 162

(i) Loans granted are guaranteed by the Federal Government.

OPERATING AND LEGAL RISK

The Operating Risk (RO) is defined as the risk of direct loss resulting from failed or inadequate internal processes, human error, system failures and external events. This definition includes the Legal Risk. The entity also considers the Strategic and Reputation Risks. This group of risks in the entity is known as Operating Risk.

As from 2003, GRUPO created a formal RO area denominated "Executive Direction of Operating Risk Management" (ARO), within the General Direction of Comprehensive Risk Management. This area has elaborated a master plan considering the implementation in a five-year period, during which specific strategies, RO events recording and calculation of the Operation Risk Value (Op VaR) will be established. The CPR has approved this plan.

The master plan comprises the following phases:

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

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

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

(Amounts stated in thousands of Mexican pesos of December 2003 purchasing power, except as otherwise indicated, number of shares and per share amounts,debentures and exchange rates)

In order to face the RO promoted by a high-impact external event, GRUPO has started a development supported by the consulting group to achieve an efficient Business Continuity Plan (BCP). The BCP also considers the Business Recovery Plan (BRP). The BCP project leader is the General Controller's Direction due to its relationship with procedures and the compliance with standards. However, the Technology, Operating and Business areas and the ARO Direction participate in a fundamental way, since the first success factor of a BCP is teamwork.

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

NOTE 34 RELATED PARTIES:

GRUPO follows the practice of identifying those balances and transactions carried out with parent, subsidiary and associated companies which were eliminated for purposes of presentation of the consolidated financial statements, as well as for those companies that do not consolidate. The amounts thereof are immaterial.

NOTE 35 SEGMENT INFORMATION:

In order to analyze the financial information of GRUPO, the most significant information is presented as of December 31, 2003.

a. The amounts by service sector of GRUPO are summarized below:

	2003
Banking sector:	
Net income	Ps 1,947,152
Stockholders' equity	12,372,048
Total portfolio	149,054,486
Past due portfolio	3,517,357
Allowance for loan losses	4,282,066
Net total assets	207,364,556
Brokerage sector:	
Net income	Ps 101,747
Stockholders' equity	433,527
Portfolio in custody	147,164,492
Net total assets	543,923

	2003
Long-term savings sector:	
Net income	Ps 423,049
Stockholders' equity	1,646,365
Net total assets	8,803,943
Auxiliary credit organizations sector:	
Net income	Ps 93,324
Stockholders' equity	580,028
Total portfolio	4,413,342
Past due portfolio	45,028
Allowance for loan losses	34,085
Net total assets	5,430,511

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

	2003						
	Geographic Area						
Economic Sector	***Monterrey***	***Mexico City***	***West***	***Northwest***	***Northeast***	***Southeast***	***Total***
Agriculture	*Ps 277,187*	*Ps 22,346*	*Ps 388,389*	*Ps 388,508*	*Ps 320,651*	*Ps 183,722*	*Ps 1,580,803*
Mining	*88,549*	*1,534*	*3,041*	*3,634*	*35,758*	*5,505*	*138,021*
Manufacturing	*5,639,344*	*2,048,050*	*930,583*	*396,022*	*930,534*	*250,495*	*10,195,028*
Construction	*939,768*	*479,801*	*269,304*	*371,921*	*93,094*	*117,626*	*2,271,514*
Energy, gas and water	*811*	*5,377*	*808*	*725*	*3,741*	*196*	*11,658*
Commerce, restaurants and hotels	*2,253,059*	*1,936,472*	*1,455,379*	*1,240,333*	*846,415*	*640,194*	*8,371,852*
Transportation and communications	*535,990*	*668,209*	*47,127*	*36,481*	*69,649*	*60,800*	*1,418,256*
Financial services	*2,398,291*	*3,175,749*	*269,055*	*443,890*	*46,735*	*30,766*	*6,364,486*
Community, social and personal services	*1,613,959*	*1,530,805*	*307,993*	*170,568*	*232,427*	*150,747*	*4,006,499*
Professional,civic, political and							
mercantile association	*7,067*	*11,226*	*1,156*	*401*	*39,446*	*166*	*59,462*
Public administration Services	*1,276,749*	*6,546,672*	*355,736*	*1,178,180*	*764,645*	*858,425*	*10,980,407*
Internal organization services	*1,418*	*73*	*36*	*202*	*295*	*-*	*2,024*
Subtotal current loan portfolio							*45,400,010*
Credit card							*2,655,797*
Consumer							*6,053,389*
Mortgage loans							*14,731,619*
Leasing loans							*1,179,289*
Factoring loans							*3,189,025*
Loans to FOBAPROA or							
IPAB,ADE,FOPYME and FINAPE							*75,841,780*
Hedging Swap							*(114,674)*
Total current loan portfolio							***Ps 148,936,235***

(Amounts stated in thousands of Mexican pesos of December 2003 purchasing power, except as otherwise indicated, number of shares and per share amounts,debentures and exchange rates)

	2002						
	Geographic Area						
Economic Sector	**Monterrey**	**Mexico city**	**West**	**Northwest**	**Northeast**	**Southeast**	**Total**
Agriculture	Ps 280,456	Ps 3,569	Ps 252,918	Ps 251,116	Ps 201,035	Ps 6,547	Ps 995,641
Mining	145,302	29,883	11,561	2,357	48,705	15,400	253,208
Manufacturing	5,376,038	2,146,580	1,122,999	327,928	849,582	111,851	9,934,978
Construction	607,185	659,342	221,062	389,153	158,755	57,514	2,093,011
Energy, gas and water	621	5,722	1,041	1,870	2,538	1,545	13,337
Commerce, restaurants and hotels	2,085,345	1,962,196	1,441,968	1,102,826	1,103,620	690,623	8,386,578
Transportation and communications	1,002,610	1,182,969	52,724	48,375	75,873	49,562	2,412,113
Financial services	1,671,905	4,079,225	189,189	154,202	45,405	42,169	6,182,095
Community, social and personal services	846,141	1,175,511	323,301	245,408	484,868	271,017	3,346,246
Professional, civic, political and							
mercantile association	9,872	25,717	3,202	1,359	3,545	2,167	45,862
Public administration Services	2,069,873	10,651,053	256,987	553,563	935,694	1,101,034	15,568,204
Internal organization services	1,973	332	30	175	65	137	2,712
Subtotal current loan portfolio							49,233,985
Credit card							1,639,944
Mortgage loans							12,627,364
Leasing loans							764,567
Factoring loans							2,304,767
Loans to FOBAPROA or							
IPAB,ADE,FOPYME and FINAPE							89,256,270
Total current loan portfolio							**Ps 155,826,897**

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

	2003						
	Geographic Area						
Economic Sector	*Monterrey*	*Mexico city*	*West*	*Northwest*	*Northeast*	*Southeast*	*Total*
Agriculture	Ps 16,316	Ps 4,622	Ps 17,619	Ps 28,814	Ps 24,273	Ps 1,306	Ps 92,950
Mining	279,403	30	455	226	403	105	280,622
Manufacturing	468,468	104,177	305,462	16,815	27,066	2,220	924,208
Construction	37,543	945	7,588	26,571	21,463	308	94,418
Energy, gas and water		12					12
Commerce, restaurants and hotels	46,381	40,988	92,624	19,886	153,608	9,472	362,959
Transportation and communications	14,531	6,837	2,014	2,173	3,152	2,583	31,290
Financial services	3,521	922	5,191	-	6,461	134	16,229
Community, social and personal services	29,479	9,282	5,620	5,372	13,178	1,759	64,690
Public administration Services				8,107			8,107
Others							9,631
Subtotal past due loan portfolio							1,885,116
Credit card							169,240
Consumer							280,442
Mortgage loans							1,182,559
Leasing loans							30,191
Factoring loans							14,838
Total past due loan portfolio							**Ps 3,562,386**

+MORE

(Amounts stated in thousands of Mexican pesos of December 2003 purchasing power, except as otherwise indicated, number of shares and per share amounts,debentures and exchange rates)

	2002						
	Geographic Area						
Economic Sector	**Monterrey**	**Mexico city**	**West**	**Northwest**	**Northeast**	**Southeast**	**Total**
Agriculture	Ps 14,597	Ps 4,986	Ps 17,515	Ps 13,947	Ps 149,455	Ps 1,218	Ps 201,718
Mining	276,099	14,774	770	-	424	-	292,067
Manufacturing	833,836	168,942	128,309	18,020	29,244	3,481	1,181,832
Construction	35,408	3,114	5,787	5,262	24,387	1,208	75,166
Energy, gas and water	67	43	80	184	1,548	3	1,925
Commerce, restaurants and hotels	117,519	97,920	126,152	40,920	226,387	102,979	711,877
Transportation and communications	22,763	10,189	3,169	3,468	18,255	3,910	61,754
Financial services	8,596	4,405	4,077	2,192	9,746	1,968	30,984
Community, social and personal services	127,788	31,556	29,707	16,244	54,778	13,992	273,465
Professional, civil,political and mercantile association	145	40	97	100	243	141	766
Public administration Services	-	-	-	8,032	-	-	8,032
Others	-	-	-	169	-	-	169
Subtotal past due loan portfolio							2,839,755
Credit card							87,387
Mortgage loans							1,994,700
Leasing loans							23,584
Factoring loans							12,914
Total past due loan portfolio							**Ps 4,958,340**

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

	2003							
	Geographic Area							
Product	Monterrey	Northwest	Mexico city	West	Northwest	Southeast	Treasury and others	Total
Non-interest bearing checking (DC)	Ps 5,616,080	Ps 3,506,500	Ps 4,075,850	Ps 3,000,240	Ps 2,945,190	Ps 2,413,770	Ps 441,440	Ps 21,999,070
Interest bearing checking (DC)	4,677,960	4,145,870	8,243,780	2,933,500	2,705,930	2,379,410	-	25,086,450
Savings accounts	2,575	2,080	1,060	1,070	480	1,830	-	9,095
Current account in Mexican pesos and Pre-established	1,766,385	1,640,490	1,462,220	1,142,250	2,009,010	1,612,450	18,740	9,651,545
Interest-bearing US dollar demand	1,320,101	989,580	695,250	380,700	2,065,110	211,110	-	5,661,851
Over-the-counter note	5,235,132	5,023,300	5,710,270	3,716,500	3,269,330	3,470,230	20	26,424,782
Term deposits in US dollars	1,144,241	1,258,510	747,840	1,286,300	729,680	775,760	13,820	5,956,151
Money desk clients	13,896,094	7,263,870	6,321,330	7,971,860	3,449,470	3,663,530	351,409	42,917,563
Financial intermediary							20,216,106	20,216,106
Check book FOBAPROA and provisions and interest							4,524,007	4,524,007
Hedging swap							(2,163)	(2,163)
Total Deposits	**Ps 33,658,568**	**Ps 23,830,200**	**Ps 27,257,600**	**Ps 20,432,420**	**Ps 17,174,200**	**Ps 14,528,090**	**Ps 25,563,379**	**Ps 162,444,457**

	2002							
	Geographic Area							
Product	Monterrey	Northwest	Mexico city	West	Northwest	Southeast	Treasury and others	Total
Non-interest bearing checking (DC)	Ps 4,991,364	Ps 2,990,038	Ps 3,510,672	Ps 2,715,179	Ps 2,103,754	Ps 1,925,932	Ps 396,054	Ps 18,632,993
Interest bearing checking (DC)	4,180,746	3,260,041	4,573,665	2,871,068	2,141,863	2,122,204	(32,527)	19,117,060
Savings accounts	9,252	12,949	1,950	2,920	1,152	4,445	6	32,674
Current account in Mexican pesos and Pre-established	1,844,622	1,521,266	1,350,919	1,069,473	1,752,780	1,431,078	14,974	8,985,112
Interest-bearing US dollar demand	904,688	1,099,477	765,575	618,799	1,984,858	144,812	(27,573)	5,490,636
Over-the-counter note	4,787,112	4,610,568	5,318,036	3,569,573	3,060,498	3,213,248	2,056	24,561,091
Term deposits in US dollars	1,438,068	1,245,576	660,072	1,241,375	812,959	468,389	15,421	5,881,860
Money desk clients	5,419,527	2,691,936	2,906,472	2,491,806	1,762,797	1,840,557	425,852	17,538,947
Financial intermediary	-	-	-	-			44,345,691	44,345,691
Bank bonds	-	-	-	-			1,298,913	1,298,913
Check book FOBAPROA and provisions and interest	-	-	-	-			3,003,092	3,003,092
Total Deposits	**Ps 23,575,379**	**Ps 17,431,851**	**Ps 19,087,361**	**Ps 14,580,193**	**Ps 13,620,661**	**Ps 11,150,665**	**Ps 49,441,959**	**Ps 148,888,069**

NOTE 36 SUBSEQUENT EVENT:

a. In an Extraordinary Meeting held on January 27, 2004 BANORTE's stockholders agreed to the issuance of Step-up Subordinated Callable Notes denominated in US dollars through public offer in the Luxembourg Stock Market, for an amount of up to US$300,000 thousand at a 10-year term (with maturity in January 2014). Interest is paid every six months and the capital is amortized at the end of the ten-year period. The objective of this issuance of callable notes is to pay in advance at June 2004, these callable notes denominated in UDIs (BANORTE 01U) (see Note 22). In the event of a change in market conditions, BANORTE will not be bound to the advance payment of such callable notes issued in 2001.

On February 10 and 13, 2004, respectively, the final deposit of the aforementioned issuance of callable notes was concluded as follows::

- A principal amount of US$250,000 thousand with a 5.875% interest rate.
- An additional amount of US$50,000 thousand with a 5.875% interest rate.

b. At the date of issuance of the financial statements and as a result of the conclusion of the inspection visit made by the COMISSION starting as from 2003, BANORTE's Management proceeded to recognize under "Income (loss) from prior years" an amount of $259,394, returning preventive allowances for credit risks, which were cancelled in advance. Such cancellation amounted to $1,577,981 (constituting the difference between the sales price and the accounting value of the portfolio at the date of the transaction) instead of the allowances associated to the settlement of such transaction, which amounted to $1,318,587 (See Note 2 paragraph c. numeral 3.).