AUDITED FINANCIAL STATEMENTS

2005 ANNUAL REPORT

GRUPO FINANCIERO BANORTE

MISSION

- Satisfy our customers' financial requirements through the most advanced distribution channels that ensure high-quality service provided with friendliness and efficiency.
- Maintain integrity and quality in all our operations, especially in handling the Group's deposits and capital.
- Focus on profitability and the generation of value to provide support to depositors and shareholders and constitute a reinvestment base for the Group.
- Be responsible, both as citizens and as an institution, seeking to achieve a position of leadership in the communities we serve by promoting their development.
- Be an institution that is a source of serious and fair employment, treating each of our employees with the highest degree of equality and impartiality.

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For further information about the 2005 Annual Report,
please visit our web site banorte.com

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Mexico City, March 31, 2006.

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

As instructed by the Board of Directors of Grupo Financiero Banorte, the Audit Committee has fulfilled its purpose of providing support to the Board in enhancing the Internal Control System, updating the objectives and guidelines related to the operating procedures as set forth in the institutions' strategies and objectives, in the functions and responsibilities of its social organizations, in the process of issuing financial information and complying with the applicable laws, acting in its role as the communications channel between the internal and external auditors.

As Chairman of the Committee and on behalf of the same, I would like to report the main activities carried out during the fiscal year ended as of December 31, 2005.

I. Six of the scheduled meetings were held, in January, February, April, July, October and December, and two extraordinary meetings were convened in July and October. The resolutions reached and activities carried out therein were entered into the minutes, which are in the possession of Management.

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

1. Quarterly reports on the activities carried out by the Credit Comptrollership issued in January and April. Starting in July, with the change in the related legal provisions, the Committee continued to carry out its quarterly review of these activities and a report on the same will be issued to the Board in April.

2. The semiannual reports of the Audit Committee on the status of the Internal Control System were submitted in April and October.

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

1. The retaining of a new external auditing firm and the partner who signed the auditors' report, as well as the scope of their work and conditions of engagement. The bidding process was conducted by the Committee in June and July and the selection of Galaz, Yamazaki, Ruiz Urquiza, S. C., a member of Deloitte Touche Tohmatsu, was proposed to the Board, which approved the same at the July 28th meeting.

2. The proposed Audit Committee Statutes were approved by the Board at its July 28th meeting.

3. The general plan for implementing the new internal control provisions of a cautionary nature, issued by the National Banking and Securities Commission of the Banking Sector on September 27, 2005, was approved at the October 27th meeting, at which the Committee was given the responsibility of following up on the respective implementation plan to be completed on February 28, 2006.

IV. To support the Board of Directors:

1. Changes were approved to the internal control operating manuals, derived from the updated regulations, to bring them in line with the laws, regulations and new internal control guidelines.

2. The independence of the Internal Auditing area was ensured, since this area reports to the Board through the Audit Committee; the effectiveness, the quality of its review programs and its timely execution of the same were verified assessing its performance. The scope of the program for implementing the recommendations of the American Institute of Internal Auditors was reviewed.

3. The reports made by the competent supervising authorities were reviewed, the results of the same were reported to the Board and the implementation of the pertinent recommendations and corrective measures was followed up.

4. The observations made by the Internal and External Auditors and the Examiner about the Grupo Financiero and the Banking, Brokerage and Long-Term Savings Sectors were reviewed, including a review of the Risk Management System and follow-up was given to the corrective measures implemented and all relevant matters were reported to the Board.

5. The performance of the External Auditing firm, the opinion and reports it issued, in compliance with the legal provisions in effect, were evaluated.

6. Communication and coordination are maintained with the Internal Comptrollership, related to the on-going programs to enhance their functions.

7. The Internal Control System was reviewed in connection with the issuing of financial information, supported by the work of the external and internal auditors.

8. The Committee took part in the review and discussion of the financial statements as of December 31, 2005, pertaining to the Grupo Financiero and the Banking, Brokerage and Long-Term Savings Sectors which are the responsibility of Management, as well as the external auditors' reports, which together with the internal auditors' reports allowed the verification and analysis required to ensure that the accounting and information policies and criteria followed by the companies are adequate and sufficient that these are applied on a consistent basis and that they support the financial information presented by the Chief Executive Officer. Based on the foregoing, we recommend that the Board approve the same.

9. The internal and external auditors' reports on operations with related parties were reviewed and disclose that no operations require comment.

10. Communication and coordination were maintained with the Chief Executive Officer and the Audit Committees of the Brokerage and Long-Term Savings Sectors, which include members of their respective Boards of Directors.

V. We carried out continuous reviews of the status of the process for enhancing the Internal Control System, in conformity with the plan established by Management.

Very truly yours,

Francisco J. Alcalá de León
Chairman of the Audit Committee

Monterrey, N. L., January 27, 2006.

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

In my capacity as Examiner and in compliance with the provisions of Article 166 of the General Law for Mercantile Companies and the by-laws of Grupo Financiero Banorte, S. A. de C. V. and Subsidiaries (the "Financial Group"), I hereby issue my report on the exactness, sufficiency and fairness of the individual and consolidated financial information which the Board of Directors has submitted to you, in relation to the Financial Group's performance for the year ended December 31, 2005.

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

As mentioned in Notes 1 and 5 of the consolidated financial statements, the operations of the Financial Group's, as well as financial information requirements are regulated by the National Banking and Securities Commission (the "Commission") through accounting bulletins issued for that purpose, as well as by general and special official letters regulating the manner in which certain transactions are to be entered into the accounting records and by other applicable laws. Note 4 indicates the main differences between the accounting practices prescribed by the Commission and the Generally Accepted Accounting Principles in Mexico usually applied in preparing financial statements for other types of non-regulated companies.

Note 5 indicates the change in accounting policies recognized in 2005, corresponding to the recognition of liabilities for remunerations upon the termination of the work relationship for causes apart from restructuring, in accordance with the new provisions in Bulletin D-3, "Labor Obligations", as well as the effect corresponding to such change.

In my opinion, the accounting and information criteria and policies followed by the Financial Group and considered by management in preparing the individual and consolidated financial information presented to this Meeting, are adequate and sufficient and, except for the change mentioned in the preceding paragraph, with which I concur, were applied on a basis consistent with the prior year; therefore, this individual and consolidated information submitted by management truly, sufficiently and fairly presents the financial position of Grupo Financiero Banorte, S. A. de C. V. as of December 31, 2005, the results of its operations, the variations in stockholders' equity and the changes in the consolidated financial position for the year then ended, in conformity with the accounting bases established by the Commission.

C. P. C. Ernesto González Dávila
Examiner

Deloitte.

Galaz, Yamazaki, Ruiz Urquiza, S. C.
Lázaro Cárdenas 2321 Poniente, PB
Residencial San Agustín, 66260
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January 27, 2006.

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

We have audited the accompanying consolidated balance sheet of Grupo Financiero Banorte, S. A. de C. V. and Subsidiaries (the "Financial Group") as of December 31, 2005, and the related consolidated statements of income, of changes in stockholders' equity and of changes in financial position for the year then ended, all expressed in millions of Mexican pesos of purchasing power of December 31, 2005. These consolidated financial statements are the responsibility of the Financial Group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The consolidated financial statements of the Financial Group for the year ended December 31, 2004 were audited by other auditors, whose report dated March 28, 2005, expressed an unqualified opinion.

We conducted our audit in accordance with auditing standards generally accepted in Mexico. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and that they are prepared in conformity with the accounting practices prescribed by the National Banking and Securities Commission (the "Commission"). An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting practices used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As explained in Notes 1 and 5 to the accompanying consolidated financial statements, the Commission regulates the operations of the Financial Group and its financial reporting requirements through accounting circulars and general and specific purpose official letters that regulate the recording of transactions and other applicable laws. Note 4 to the accompanying financial statements describes the differences between the accounting practices prescribed by the Commission and Generally Accepted Accounting Principles in Mexico, commonly applied in the preparation of financial statements for other types of unregulated entities in Mexico.

As mentioned in Note 5, effective January 1, 2005, the Financial Group adopted the revisions to Bulletin D-3, "Labor Obligations", related to recognition of the liability for severance payments at the end of the work relationship for reasons other than restructuring. The impact of adopting this accounting principle recognized in 2005 is disclosed in Note 5. Through December 31, 2004, severance payments were charged to results when the liability was determined to be payable.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Grupo Financiero Banorte, S. A. de C. V. and Subsidiaries as of December 31, 2005, and the results of their operations, changes in their stockholders' equity and changes in their financial position for the year then ended in conformity with the accounting practices prescribed by the Commission.

The accompanying consolidated financial statements have been translated into English for the convenience of users.

Galaz, Yamazaki, Ruiz Urquiza, S. C.
Member of Deloitte Touche Tohmatsu

C. P. C. Carlos A. García Cardoso
Registry Number 04919
in the General Administration of Federal Tax Audits

BALANCE SHEETS

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

CONSOLIDATED AS OF DECEMBER 31, 2005 AND 2004 (IN MILLIONS OF MEXICAN PESOS OF PURCHASING POWER OF DECEMBER 31, 2005)

ASSETS	2005	2004
Cash and cash equivalents	**Ps 38,788**	**Ps 40,510**
Securities:		
Trading securities	8,995	10,960
Available-for-sale securities	135	249
Held-to-maturity securities	12,303	9,268
	21,433	**20,477**
Securities and derivative financial instruments:		
Debtor balances under repurchase and resale agreements	156	52
Derivative financial instruments	468	5
	624	**57**
Current loan portfolio:		
Commercial loans	57,856	47,767
Loans to financial institutions	1,964	411
Consumer loans	15,511	11,742
Mortgage loans	23,782	19,062
Government loans	15,217	19,157
FOBAPROA or IPAB loans	161	7,150
Total current loan portfolio	**114,491**	**105,289**
Past-due loan portfolio:		
Commercial loans	671	651
Consumer loans	412	349
Mortgage loans	767	844
Government loans	-	13
Total past-due loan portfolio	**1,850**	**1,857**
Total loan portfolio	**116,341**	**107,146**
Allowance for loan losses	**(3,067)**	**(2,832)**
Loan portfolio (net)	**113,274**	**104,314**
Credit asset portfolio	**3,233**	**2,212**
Other receivables (net)	**2,785**	**2,943**
Foreclosed assets (net)	**446**	**375**
Property, furniture and equipment (net)	**5,682**	**6,114**
Permanent stock investments	**2,226**	**1,931**
Deferred taxes (net)	**403**	**697**
Other assets:		
Other assets, deferred charges and intangible assets	1,292	1,715
TOTAL ASSETS	**Ps 190,186**	**Ps 181,345**

Ing. Luis Peña Kegel
Chief Executive Officer

Ing. Sergio García Robles Gil
Managing Director - CFO

C. P. Román Martínez Méndez
Managing Director - Audit

Lic. Jorge Eduardo Vega Camargo
Executive Director Controlling

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

LIABILITIES	2005	2004
Deposits:		
Demand deposits	Ps 76,041	Ps 67,169
Time deposits:		
General public	54,333	52,284
Money market	7,064	12,680
	137,438	**132,133**
Bank and other loans:		
Demand loans	2,564	4,748
Short-term loans	5,538	7,001
Long-term loans	11,468	11,955
	19,570	**23,704**
Securities and derivative financial instruments:		
Creditor balances under repurchase and resale agreements	333	79
Derivative financial instruments	447	9
	780	**88**
Other payables:		
Income taxes and employee profit sharing	1,702	297
Sundry creditors and other payables	4,595	3,485
	6,297	**3,782**
Subordinated debentures	**4,554**	**4,744**
Deferred credits	**72**	**49**
TOTAL LIABILITIES	**168,711**	**164,500**
STOCKHOLDERS' EQUITY		
Paid-in capital:		
Capital stock	11,117	5,784
Additional paid-in capital	1,719	1,719
	12,836	**7,503**
Other capital:		
Capital reserves	1,671	1,554
Retained earnings from prior years	10,480	13,886
Insufficiency in restated stockholders' equity	(5,901)	(5,901)
Valuation of permanent stock investments	(4,309)	(3,793)
Net income	5,719	2,697
	7,660	**8,443**
Minority interest	**979**	**899**
TOTAL STOCKHOLDERS' EQUITY	**21,475**	**16,845**
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**Ps 190,186**	**Ps 181,345**

MEMORANDUM ACCOUNTS (NOTE 34)
"These balance sheets, consolidated with those of the financial entities and other companies that form part of the Financial Group and are susceptible to consolidation, were prepared according to Accounting Principles applicable to Financial Group Holding Companies issued by the National Banking and Securities Commission according to article 30 of the Law of Financial Institutions, of general and mandatory observance, consistently applied, reflecting the operations conducted by the Holding company and the financial entities and the other companies that form part of the Financial Group and are susceptible to consolidation as of the date above, which were performed and valued according to sound practices and applicable legal and administrative dispositions."
"As of December 31, 2005, the historical Capital stock amounted Ps 7,065"
"These consolidated balance sheets were approved by the Board of Directors under the accountability of the signers".
See accompanying notes to these consolidated balance sheets.

STATEMENTS OF INCOME

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

CONSOLIDATED FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004 (IN MILLIONS OF MEXICAN PESOS OF PURCHASING POWER OF DECEMBER 31, 2005)

	2005	2004
Interest income	Ps 35,322	Ps 26,121
Interest expense	(21,928)	(15,836)
Monetary position loss, net (financial margin)	(147)	(141)
Financial margin	**13,247**	**10,144**
Provision for loan losses	(1,445)	(1,227)
Financial margin after provision for loan losses	**11,802**	**8,917**
Commission and fee income	6,629	6,100
Commission and fee expense	(1,498)	(994)
Brokerage revenues	1,037	914
	6,168	**6,020**
Net operating revenues	**17,970**	**14,937**
Administrative and promotional expenses	(11,116)	(11,508)
Operating income	**6,854**	**3,429**
Other income	2,900	2,260
Other expenses	(1,859)	(2,297)
	1,041	**(37)**
Income before income taxes and employee profit sharing	**7,895**	**3,392**
Current income taxes and employee profit sharing	(2,287)	(512)
Deferred income taxes and employee profit sharing	24	(223)
	(2,263)	**(735)**
Income before equity in earnings of subsidiaries and associated companies and minority interest	**5,632**	**2,657**
Equity in earnings of subsidiaries and associated companies	403	229
Income before minority interest	**6,035**	**2,886**
Minority interest	(316)	(189)
NET INCOME	**Ps 5,719**	**Ps 2,697**

"These income statements, consolidated with those of the financial entities and other companies that form part of the Financial Group and are susceptible to consolidation, were prepared according to Accounting Principles applicable to Financial Group Holding Companies issued by the National Banking and Securities Commission according to article 30 of the Law of Financial Institutions, of general and mandatory observance, consistently applied, reflecting all of the revenues and expenses derived from the operations conducted by the Holding company and the financial entities and the other companies that form part of the Financial Group and are susceptible to consolidation as of the date above, which were performed and valued according to sound practices and applicable legal and administrative dispositions.

"These consolidated income statements were approved by the Board of Directors under the accountability of the signers."

See accompanying notes to these consolidated financial statements.

Ing. Luis Peña Kegel
Chief Executive Officer

Ing. Sergio García Robles Gil
Managing Director - CFO

Lic. Jorge Eduardo Vega Camargo
Executive Director Controlling

C. P. Román Martínez Méndez
Managing Director - Audit

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

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

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

CONSOLIDATED FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004 (IN MILLIONS OF MEXICAN PESOS OF PURCHASING POWER OF DECEMBER 31, 2005)

	PAID-IN CAPITAL			
	Capital stock	Additional paid-in capital	Capital reserves	Retained earnings
BALANCES AT DECEMBER 31, 2003	**Ps 5,784**	**Ps 1,719**	**Ps 1,431**	**PS 12,388**
Transactions approved by the stockholders:				
Issuance (repurchase of shares)	-	-	5	-
Transfer of prior year's result	-	-	-	2,407
Creation of reserves	-	-	118	(118)
Dividends paid	-	-	-	(527)
Total transactions approved by the stockholders	**-**	**-**	**123**	**1,762**
Comprehensive income entries:				
Net income	-	-	-	-
Result from holding nonmonetary assets	-	-	-	-
Loss on sale of portfolio, per official letter of the CNBV No. 601-II-34966	-	-	-	(267)
Write-off of foreclosed assets and creation of reserves for past-due portfolio of Arrendadora Banorte, S. A. de C. V.	-	-	-	(15)
Merger with Seguros Generali México, S. A. de C. V.	-	-	-	18
Total comprehensive income	**-**	**-**	**-**	**(264)**
BALANCES AT DECEMBER 31, 2004	**5,784**	**1,719**	**1,554**	**13,886**
Transactions approved by the stockholders:				
Issuance (repurchase of shares)	1	-	(17)	-
Transfer of prior year's result	-	-	-	2,697
Creation of reserves	-	-	134	(134)
Dividends paid	-	-	-	(637)
Increase in capital stock	5,332	-	-	(5,332)
Total transactions approved by the stockholders	**5,333**	**-**	**117**	**(3,406)**
Comprehensive income entries:				
Net income	-	-	-	-
Result from holding nonmonetary assets	-	-	-	-
Total comprehensive income	**-**	**-**	**-**	**-**
BALANCES AT DECEMBER 31, 2005	**Ps 11,117**	**Ps 1,719**	**Ps 1,671**	**Ps 10,480**

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Executive Director Accounting

OTHER CAPITAL					
Insufficiency in restated stockholders' equity	Valuation of permanent stock investments	Net income	Majority interest	Minority interest	Total stockholders' equity
Ps (5,901)	**Ps (3,212)**	**Ps 2,407**	**Ps 14,616**	**Ps 967**	**Ps 15,583**
-	-	-	5	-	5
-	-	(2,407)	-	-	-
-	-	-	-	-	-
-	-	-	(527)	-	(527)
-	**-**	**(2,407)**	**(522)**	**-**	**(522)**
-	-	2,697	2,697	-	2,697
-	(581)	-	(581)	-	(581)
-	-	-	(267)	-	(267)
-	-	-	(15)	-	(15)
-	-	-	18	-	18
-	**(581)**	**2,697**	**1,852**	**(68)**	**1,784**
(5,901)	**(3,793)**	**2,697**	**15,946**	**899**	**16,845**
-	-	-	(16)	-	(16)
-	-	(2,697)	-	-	-
-	-	-	-	-	-
-	-	-	(637)	-	(637)
-	-	-	-	-	-
-	**-**	**(2,697)**	**(653)**	**-**	**(653)**
-	-	5,719	5,719	-	5,719
-	(516)	-	(516)	-	(516)
-	**(516)**	**5,719**	**5,203**	**80**	**5,283**
Ps (5,901)	**Ps (4,309)**	**Ps 5,719**	**Ps 20,496**	**Ps 979**	**Ps 21,475**

"These statements of changes in stockholders' equity, consolidated with those of the financial entities and other companies that form part of the Financial Group and are susceptible to consolidation, were prepared according to Accounting Principles applicable to Financial Group Holding Companies issued by the National Banking and Securities Commission according to article 30 of the Law of Financial Institutions, of general and mandatory observance, consistently applied, reflecting all of the movements in equity accounts derived from the operations, conducted by the Holding company and the Financial entities and the other companies that form part of the Financial Group and are susceptible to consolidation as of the date above, which were performed and valued according to sound practices and applicable legal and administrative dispositions."
"These consolidated statements of changes in stockholders' equity were approved by the Board of Directors under the accountability of the signers."
See accompanying notes to 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, 2005 AND 2004 (IN MILLIONS OF MEXICAN PESOS OF PURCHASING POWER OF DECEMBER 31, 2005)

	2005	2004
Operating activities:		
Net income	Ps 5,719	Ps 2,697
Items not generating (requiring) resources:		
Provision for loan losses	1,445	1,227
Depreciation and amortization	948	1,102
Deferred income taxes and employee profit sharing	(24)	223
Minority interest	316	189
Provision for sundry obligations	1,864	243
Equity in earnings of subsidiaries and associated companies	(403)	(229)
Valuation result on financial instruments	(42)	(18)
	9,823	**5,434**
Changes in operating assets and liabilities:		
Deposits	5,305	(44,149)
Financial instruments	(915)	2
Bank and other loans	(4,134)	(8,110)
Loan portfolio acquired	(1,021)	29
Loan portfolio, net	(10,405)	55,264
Deferred taxes, net	318	133
Securities and derivative financial instruments, net	125	(157)
Other receivables and payables	809	(1,368)
Loss on sale of past-due portfolio	-	(266)
Creation of reserves for past-due portfolio of Arrendadora Banorte, S. A. de C. V.	-	(11)
Net resources (used in) generated by operating activities	**(95)**	**6,801**
Financing activities:		
Subordinated debentures	(190)	1,780
Income of Generali México Compañía de Seguros, S. A. in results from prior years	-	17
Issuance (repurchase) of shares	(16)	5
Dividends paid	(637)	(527)
Net resources (used in) provided by financing activities	**(843)**	**1,275**
Investing activities:		
(Increase) decrease in foreclosed assets	(71)	844
Increase in investments in shares	(643)	(693)
(Increase) decrease in deferred charges and credits	99	(424)
Acquisitions of property, furniture and equipment, net of disposals	(169)	(651)
Write-off of foreclosed assets of Arrendadora Banorte, S. A. de C. V.	-	(4)
Net resources used in investing activities	**(784)**	**(928)**
Net decrease (increase) in funds available	(1,722)	7,148
Funds available at beginning of year	40,510	33,362
FUNDS AVAILABLE AT END OF YEAR	**Ps 38,788**	**Ps 40,510**

"These statements of changes in financial position, consolidated with those of the financial entities and other companies that form part of the Financial Group and are susceptible to consolidation, were prepared according to Accounting Principles applicable to Financial Group Holding Companies issued by the National Banking and Securities Commission according to article 30 of the Law of Financial Institutions, of general and mandatory observance, consistently applied, reflecting all of the origins and applications of cash derived from the operations conducted by the Holding company and the financial entities and the other companies that form part of the Financial Group and are susceptible to consolidation as of the date above, which were performed and valued according to sound practices and applicable legal and administrative dispositions."

"These consolidated statements of changes in financial position were approved by the Board of Directors under the accountability of the signers."

See accompanying notes to these consolidated financial statements.

Ing. Luis Peña Kegel
Chief Executive Officer

Ing. Sergio García Robles Gil
Managing Director - CFO

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

1] ACTIVITIES AND REGULATORY ENVIRONMENT

Grupo Financiero Banorte, S. A. de C. V. and Subsidiaries (the "Financial Group") is authorized by the Mexican Treasury Department (SHCP) to operate as a financial group under the form and terms established by the Mexican Financial Group Law, subject to the supervision and monitoring of the Mexican National Banking and Securities Commission (the "Commission"). Its main activities consist of acquiring and managing entities engaged in the financial services industry and supervising their activities, as defined in the above-mentioned Law. The Financial Group and its subsidiaries are regulated, depending on their activities, by the Commission, the Mexican National Insurance and Bond Commission, the Mexican National Retirement Savings Systems Commission (CONSAR), Banco de México and other applicable laws.

The main activity of the Financial Group's subsidiaries is to carry out financial transactions that include the rendering of full-banking services, securities brokerage activities, management of retirement funds, the purchase and sale of uncollected invoices and notes, rendering of general warehousing services and providing life insurance and casualty insurance.

Per legal requirements, the Group has unlimited liability for the obligations assumed and losses incurred by each of its subsidiaries.

The powers of the Commission in its capacity as regulator of financial groups include reviewing the Financial Group's financial information and requesting modifications to such information.

2] SIGNIFICANT EVENTS DURING THE YEAR

a) Management Audits, Identity of Purpose, Existence, Legitimacy and Legality (GEL) and exchange of promissory notes

Based on agreements established in the New Program Contract signed by the Bank Savings Protection Institute (IPAB) and Banco Mercantil del Norte, S. A., Institución de Banca Múltiple, Grupo Financiero Banorte (Banorte) on July 12, 2004, the GEL Audits began in October 2004 and concluded in March 2005, as described below:

Results

The final reports on the GEL Audits were provided to the Financial Group's management in March and May 2005. Such reports indicated the restated amounts to April 7, 2005 resulted in a reduction of Ps 201 in the Payment Obligations owed by IPAB to Banorte. Banorte's net effect was Ps 100, after decreasing the resources recovered from the related credits and applying the allowance for loan losses associated with the shared loss arrangement, which is included under the heading of "Other expenses" in the consolidated statement of income.

Exchange of promissory notes for IPAB instruments

Having concluded the GEL Audits, pursuant to the terms of the New Program Contract, on May 18, 2005 the Payment Instruments owed by IPAB were exchanged for promissory notes, denominated IPAB Instruments. The total IPAB Instruments issued to Banorte was Ps 7,433.

Encapsulated loans (less than two hundred thousand mexican pesos)

On August 17, 2005, the final ruling issued by the Mexican Supreme Court on case 91/2003, filed by the Executive Branch, declared the invalidity and inappropriateness of the observations and recommendations made by the Federal Superior Audit (ASF) in the review of the 2001 public account, relative to loans of less than two hundred thousand mexican pesos. As a result, the three IPAB Instruments held in trust (Series "F") were delivered to Banorte for a total amount of Ps 107.5, which had no effect on the consolidated financial statements as they were only reclassified under the same heading in the consolidated balance sheet.

Payments in advance

Starting July 21, 2005 the IPAB made payments in advance of principal regarding the instruments for which it was liable to Banorte. The amount of the weekly payments was Ps 400, between the aforementioned date and November 3, 2005, including a discount of Ps 48, established in the New Contract Program, derived from the present value of the obligation payable by IPAB at the time of the advance payment. From November 10 to December 8, 2005, the advance payments were for smaller amounts. The total amount of the advance payments, net of the discounts described during 2005 was Ps 6,970. Such discount is included under the heading "Provision for loan losses" in the consolidated statement of income.

Portfolio sales

The New Program Contract allowed for the sale of portfolio packages (assets and loans) held by the trusts. The auctions of the portfolio packages consisting of assets and loans were held on September 19, 2005.

With regard to the asset packages, no economic proposals were made by the participants, for which reason the auction was declared null and void. Accordingly, Banorte acquired the assets package at a cash value of Ps 150. As of December 31, 2005, an amount of Ps 138 is included under the heading of "Loan portfolio acquired" in the consolidated balance sheet.

The winner of the auction for the loan package paid Ps 116, which had no effect on the financial statements of Banorte, because it was only a managed portfolio.

b) Refund of Value-Added Tax (IVA)

In January 2003, the Financial Group filed an amparo lawsuit (seeking court relief on constitutional grounds) against the amendments to article 4 of the Value-Added Tax Law (LIVA).

A favorable verdict was issued on November 16, 2004; however, it was not until 2005 that SHCP made the refunds for the months from January 2003 to August 2004. The Financial Group recorded income of Ps 1,042, which is presented under the heading of "Other income" in the consolidated statement of income.

3] BASIS OF PRESENTATION

Explanation for translation into English

The accompanying consolidated financial statements have been translated from Spanish into English for the convenience of users. These consolidated financial statements are presented on the basis of accounting practices prescribed by the Commission. Certain accounting practices applied by the Financial Group may not conform to accounting principles generally accepted in the country of use.

Consolidation of financial statements

The accompanying consolidated financial statements include those of the Financial Group and its subsidiaries mentioned below.

All significant intercompany balances and transactions have been eliminated in consolidation.

As of December 31, 2005 and 2004, the Financial Group's consolidated subsidiaries and its ownership percentage is as follows:

Banco Mercantil del Norte, S. A.	96.11%
Banco del Centro, S. A.	99.99%
Casa de Bolsa Banorte, S. A. de C. V.	99.99%
Arrendadora Banorte, S. A. de C. V.	99.99%
Factor Banorte, S. A. de C. V.	99.99%
Almacenadora Banorte, S. A. de C. V.	99.99%
Créditos Pronegocio, S. A. de C. V.	99.99%

4] PRINCIPAL DIFFERENCES COMPARED TO GENERALLY ACCEPTED ACCOUNTING PRINCIPLES IN MEXICO

On May 31, 2004, the Mexican Institute of Public Accountants (IMCP) formally transferred the function of issuing financial information standards to the Mexican Board for Research and Development of Financial Information Standards (CINIF), consistent with the international trend of requiring this function be performed by an independent entity.

Accordingly, the task of establishing bulletins of Generally Accepted Accounting Principles in Mexico (Mexican GAAP) and circulars issued by the IMCP was transferred to CINIF, who adopted and subsequently renamed standards of Mexican GAAP as "Normas de Información Financiera" (Financial Reporting Standards, or "NIFs"), and determined that NIFs encompass (i) new bulletins established under the new function; (ii) any interpretations issued thereon; (iii) any Mexican GAAP bulletins that have not been amended, replaced or revoked by the new NIFs; and (iv) International Financial Reporting Standards ("IFRS") that are supplementary guidance to be used when Mexican GAAP does not provide primary guidance. As of January 1, 2006, the financial statements for other kinds of unregulated entities must be prepared in accordance with NIFs.

The consolidated financial statements have been prepared in conformity with the accounting practices prescribed by the Commission, which, in the following instances, differ from Mexican GAAP commonly applied in the preparation of financial statements for other types of unregulated entities:

- The Financial Group's consolidated financial statements include the financial statements of its subsidiaries engaged in the financial sector and those of the subsidiaries that render complementary services, excluding insurers of the Financial Group. Mexican GAAP establishes that all controlled subsidiaries must be consolidated, regardless of the sector to which they belong.

- Repurchase and resale agreements are recorded as purchase and sale transactions, based on their form rather than their substance (financing), and the present value of the price thereof at maturity is reflected in the statements of income, instead of recording the agreed-upon premium on a straight-line basis as required by Mexican GAAP.

- Allowances for loan losses in addition to those required by the Commission may not be canceled without the express authorization of the Commission, for which reason they cannot be credited to results of the year in which such excesses are identified as required by Mexican GAAP but rather until such authorization is granted.

- Sundry debts that are not recovered within 60 or 90 days, depending on their nature, are charged to the statement of income, regardless of whether they may be recovered by the Financial Group.

- Commission revenues in the Retirement Funds Manager (Afore) are recorded as collected; account balance commissions are recognized as they are earned.

- Commissions on granting credits and commissions on rendering services are recorded in the income statement when collected, rather than when earned.

- The effect derived from the 2004 modification of the allowance for loan losses and foreclosed assets, which came to Ps 540, was recognized directly in the "retained earnings" account in stockholders' equity, instead of in results of the year, as required by Mexican GAAP.

- As of January 1, 2005, with the enactment of the provisions of Mexican Bulletin B-7, "Business Acquisitions", the following differences exist, among others, between the accounting criteria of the Commission (the Commission has not issued an accounting circular regarding business acquisitions) and Mexican GAAP: a) the adoption of the purchase method as the sole valuation rule for these transactions; b) goodwill arising from an acquired entity should not be amortized, but should be subject to impairment tests, at least on an annual basis in conformity with Bulletin C-15, "Accounting for Impairment and Disposal of Long-lived Assets". It also provides rules for the accounting treatment of asset transfers or share exchanges between entities under common control and for the acquisition of minority interest, the effects of which are recorded in stockholders' equity.

- Mexican Bulletin C-10, "Derivative Financial Instruments and Hedging Activities", went into effect as of January 1, 2005, and its content differs from the criteria established by the Commission for the treatment of such instruments. These differences are, among others:

  - Under Mexican GAAP, derivative financial instruments are recorded at fair value, regardless of the purpose for which they are held. The accounting criteria of the Commission establish that derivative financial instruments held for hedging purposes are recorded using the same treatment as for the primary position being hedged; i.e., as accrued or at fair value.

  - The Commission's accounting criteria establishes that financial derivatives held for hedging purposes should be offset with the primary position being hedged, whereas Mexican GAAP require they be presented separately in the balance sheet.

  - Mexican GAAP establishes specific rules for the identification of embedded derivative instruments within an entity's contracts. When an embedded derivative is identified and the host contract has not been stated at fair value and adequate elements for its valuation exist, the embedded derivative is segregated from the host contract, stated at fair value and classified as trading or designated as a financial instrument for hedging. The Commission's accounting criteria does not require such segregation from the host contract nor for the instrument to be stated at fair value.

- The contribution or managed margin accounts (delivered and received), when financial derivative instruments listed in standardized markets (stock exchanges) and off-market are traded, are recorded under the heading of "Funds available" and "Sundry creditors and other payables", respectively, instead of presenting them under the heading of "Derivative financial instruments", as established by Mexican GAAP.

- Under Mexican GAAP, transfers to or from financial instruments classified as trading to other categories are not allowed, which for purposes of the Commission's accounting criteria would be allowed with its prior authorization.

- Foreclosed assets are considered as monetary assets, in accordance with the Commission's criteria, while Mexican GAAP considers them as nonmonetary assets.

- Mexican Bulletin C-12, "Financial Instruments With Characteristics of Liabilities, of Equity or Both", establishes rules for the classification and valuation of the liability and equity components of combined instruments upon initial recognition, as well as rules for their disclosure. The Commission's accounting criteria do not establish the above-mentioned rules.

5] SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies of the Financial Group are in conformity with practices prescribed by the Commission's accounting circulars, and other general and specific purpose official letters issued for such purposes, which require management to make certain estimates and use certain assumptions to determine the valuation of certain items included in the consolidated financial statements and make the required disclosures therein. Although these estimates are based on management's best knowledge of current events, actual results may differ.

Change in accounting policy

Severance payments at the end of the work relationship
Effective January 1, 2005, the Financial Group adopted the revised provisions of Bulletin D-3, "Labor Obligations", related to recognition of the liability for severance payments at the end of the work relationship for reasons other than restructuring, which is recorded using the projected unit credit method, based on calculations by independent actuaries. Bulletin D-3 grants the option to immediately recognize, in current earnings, the resulting transition asset or liability, or to amortize it over the average remaining labor life of employees. Through December 31, 2004, severance payments were charged to results when the liability was determined to be payable. The accrued liability as of January 1, 2005 calculated by independent actuaries is Ps 18 (nominal value). The Financial Group chose to record such amount as a transition liability to be amortized using the straight-line method over 10 years, which represents the average labor life of employees expected to receive such benefits.

The significant accounting policies followed by the Financial Group are as follows:

Recognition of the effects of inflation in financial information

The Financial Group restates its consolidated financial statements to Mexican peso purchasing power of the most recent balance sheet date presented. Accordingly, the consolidated financial statements of the prior year, that are presented for comparative purposes, have also been restated to Mexican pesos of the same purchasing power and, therefore, differ from those originally reported in the prior year.

To recognize the effects of inflation in terms of purchasing power of the most recent balance sheet presented, the following procedures are applied:

To the balance sheet accounts
Real estate property is restated based on a factor derived from the value of Investment Units (UDIs), taking values determined by independent appraisers as the basis for their valuation.

Furniture and fixtures are restated based on a factor derived from the value of the UDI from their acquisition date to the most recent balance sheet presented.

Foreclosed assets are considered to be monetary items, and therefore these assets are not restated for the effects of inflation, but are included in the calculation of the monetary position result.

Investments in shares are valued based on the equity method and restated as described below.

The difference between the restatement of the balance at the beginning of the period using the restatement factor derived from the value of the UDI and the increase or decrease from the equity in earnings is reflected as a result from holding nonmonetary assets.

Contributed capital and retained earnings, as well as other nonmonetary items, are restated using a factor derived the value of the UDI from the date of contribution or when earned. Contributed and earned capital is restated taking May 1992 as the base month for restatement.

To the accounts of the statement of income
Revenues and expenses that affect or come from a monetary item (funds available, financial instruments, loan portfolio, deposits, etc.) and those derived from current operations (commissions, tariffs and administrative and promotional expenses) are restated from the month in which they occur to the most recent balance sheet presented, using a factor derived from the value of the UDI.

Depreciation for the year is calculated on restated values based on the estimated useful lives determined by independent appraisers.

Monetary position result, which represents the erosion of purchasing power of monetary items caused by inflation, is calculated by applying the inflation factor derived from the value of the UDI to the monthly net monetary position and is restated using the factor discussed above at the most recent balance sheet presented. Gains (losses) result from maintaining a net monetary liability (asset) position, respectively.

To the accounts of the statement of changes in financial position

The statement of changes in financial position presents the changes in constant pesos, starting from the financial position at the most recent balance sheet presented, restated to pesos of the previous balance sheet presented.

Comprehensive income

Represents changes in stockholders' equity during the year, for concepts other than distributions and activity in contributed common stock, and is comprised of the net income of the year, plus other comprehensive income (loss) items of the same period, which are presented directly in stockholders' equity without affecting the consolidated statements of income, in accordance with the accounting practices followed by the Financial Group. In 2005, other comprehensive income items consist of the result from holding nonmonetary assets and the result from valuation of securities available for sale.

Cash and cash equivalents

Funds available are stated at nominal value. Coins or foreign currencies are stated at fair value based on exchange rates at the most recent balance sheet date presented. Funds available in foreign currency are valued at the exchange rate published by Banco de México at the most recent balance sheet date presented.

Trading securities

Trading securities represent debt instruments and equity securities owned by the Financial Group, from which it intends to obtain profits by participating in the market, stated at fair value, which is determined by the price vendor contracted by the Financial Group, in conformity with the guidelines of the Commission.

Available-for-sale securities

Available-for-sale securities are debt or equity securities acquired for a purpose other than obtaining profits from trading them in the market or holding them to maturity. They are valued in the same way as trading securities, with unrealized gains and losses recognized in stockholders' equity, net of their monetary position result. The monetary position result generated by the acquisition cost of these securities is recorded in results of the year.

Held-to-maturity securities

Held-to-maturity securities consist of debt instruments whose payments can be determined and with known maturities exceeding 90 days, which are acquired with the intent to hold them to maturity. They are initially recorded at acquisition cost and include accrued interest. Accrued interest is recorded in the statement of income using the straight-line method.

If sufficient evidence exists that a security represents a high credit risk and/or its estimated value decreases, the book value could be modified based on the net realizable value determined by using formal valuation techniques, with a charge to results recorded in the year of the write-down.

Some transfers of securities within these categories must be approved by the Commission.

Repurchase agreements

Represent the temporary purchase or sale of certain financial instruments in exchange for an established premium with the obligation to resell or repurchase such securities in the future.

When the Financial Group acts as the vendor of securities, the net position represents the difference between the fair value of the securities covered by the repurchase agreement (asset position) which, in turn, represents the securities to be received through the transaction, valued according to the investment valuation methods established for trading securities, and the value of the present value of the price at maturity (liability position).

When the Financial Group acts as the purchaser of securities, the net position represents the difference between the present value of the price at maturity (asset position) and the fair value of the securities received under the repurchase agreement (liability position) are valued according to the method discussed in the preceding paragraph.

The debit or credit balance resulting from transactions involving repurchase agreements is presented under assets or liabilities in the consolidated balance sheet under the heading "Securities and derivative financial instruments".

On September 2004, Telefax Circular 1/2003 issued by Banco de México went into effect, subsequently modifying the previous arrangement established for repurchase transactions. As a result of such modifications, a guarantee must be provided for repurchase transactions entered into for periods exceeding three business days to mitigate market and counterpart risks. Guarantees received for transactions not involving the transfer of ownership are recognized in memoranda accounts and considered as restricted assets.

Derivative financial instruments

The Financial Group is authorized to perform two types of transactions involving derivative financial instruments:

- Transactions to hedge the Financial Group's exposed position. Such transactions involve purchasing or selling derivative financial instruments to mitigate the risk resulting from a given transaction or group of transactions.

- Transactions entered into for trading purposes. The Financial Group enters into such transactions as a market participant for reasons other than to hedge its exposed position.

For hedging transactions of derivative financial instruments, offsetting asset and liability positions and the deferred charge or credit are presented net of the primary position being hedged, while transactions entered into for trading purposes are recorded as separate assets or liabilities.

When entering into transactions involving derivative financial instruments, the Financial Group's internal policies and procedures require an assessment and risk exposure regarding the financial institution acting as the counterparty to the transaction and that it be authorized by Banco de México to enter into this type of transaction. Before entering into these types of transactions with corporate customers, a precautionary credit line must be granted by the Credit Risk Committee or liquid guarantees given through a securitized collateral contract. Transactions entered into with medium and small sized companies and individuals provide for liquid guarantees established in securitized collateral contracts.

The recognition or cancellation of assets and/or liabilities derived from transactions involving derivative financial instruments occurs when these transactions are entered into to, regardless of the respective settlement or delivery date of the goods.

Forward and futures contracts
The balance of these transactions entered into for trading purposes represents the difference between the fair value of the contract and the established "forward" price. Asset and liability positions are individually offset; a resulting debit balance is presented as an asset under the "Derivative financial instruments" heading, while a credit balance is presented as a liability under the same heading.

Option contracts
The balance of these transactions entered into for trading purposes is stated at fair value and recorded as an asset or liability under the "Derivative financial instruments" heading.

These instruments are stated at their fair value with changes in their fair value recognized in results of the year.

Swaps
The balance of these transactions entered into for trading purposes represents the difference between the fair value of the asset and liability positions. Balances are presented as assets or liabilities under the "Derivative financial instruments" heading.

Loss sharing with the Bank Savings Protection Fund (FOBAPROA)

As discussed in Note 11, according to the regulations established by the Commission, the Financial Group fully recognizes the shared losses generated by its participation in FOBAPROA loan portfolio cash flows.

During 2005 and 2004, the Financial Group recognized reserves in its results of operations of Ps 79 and Ps 93, respectively, for the shared loss and incentive arrangements derived from its participation in FOBAPROA portfolio cash flows.

Loan portfolio

Represents the balance of amounts effectively granted to borrowers plus uncollected accrued interest less prepaid interest received. The loan portfolio balance is presented net of the allowance for loan losses.

The unpaid loan balance is recorded in the past-due portfolio, as follows:

- Single payment loans upon the maturity of principal and interest, 30 calendar days after maturity.
- Loans involving a single principal payment upon maturity, but with periodic interest payments, total principal and interest payment 30 and 90 calendar days after maturity, respectively.
- Loans for which the payment of principal and interest is agreed based on partial periodic payments, 90 calendar days after the first payment is due.
- In the case of revolving loans, whenever payment is outstanding for two billing periods or 60 or more days have elapsed following maturity.
- Overdrawn customer checking accounts are considered as part of the past-due portfolio when such situations arise.

Interest is recognized and accrued into income as it is earned. The accrual of interest income is suspended when loans are transferred to the past-due portfolio.

Loan commissions are recognized as income when collected.

Restructured past-due loans are not considered in the current portfolio until evidence of sustained payment is obtained; this occurs when credit institutions timely receive three consecutive payments, or a payment is received for periods exceeding 60 days.

Renewed loans in which the borrower has not paid on time or when the accrued interest balance equals least 25% of the original loan amount are considered past-due until evidence of sustained payment is obtained.

Accrued interest during the period in which the loan was included in the past-due portfolio is recognized as income when collected.

Allowance for loan losses

Application of new portfolio classification provisions

On August 20, 2004, the Commission issued the "General provisions for the classification methodology applicable to the loan portfolio of credit institutions" (the "Provisions"), which went into effect on December 1, 2004. Among other issues, the Provisions require an update of the valuation method applied to the allowance for loan losses used for the commercial, state and municipal, mortgage and consumer portfolios and the reserve created for foreclosed assets. This new methodology is explained in further detail below.

Commercial portfolio

The Provisions also establish general methodologies for the classification and calculation of allowances for each type of loan, while also permitting credit institutions to classify and calculate allowances based on internal methodologies, when previously approved by the Commission.

The Internal Risk Classification (CIR-Banorte) implemented by the Financial Group is intended to facilitate the estimation of credit assets held, while also serving as a tool for identifying the different levels of risk applicable to borrowers through the assignment of individual risk levels. Furthermore, it evaluates borrowers' financial, operating and credit capacity, together with loan collateral, as a basis for analyzing loan portfolio quality, estimating noncompliance probabilities and expected losses, standardizing loan selection and authorization criteria established by the Financial Institution, while respecting industry or business segment differences and determining the necessary allowances to cover the loan portfolio risk.

The Provisions primarily establish the following:

- The commercial loan portfolio classification procedure requires that credit institutions apply the established methodology (general or internal) based on quarterly information for the periods ending in March, June, September and December of each year, while also recording the allowances determined at the close of each period in their financial statements. Furthermore, during the month following each quarterly close, financial institutions must apply the respective classification to any loan utilized at the close of the immediately preceding quarter, based on the outstanding balance in effect on the last day of the aforementioned months. Similarly, the recovery of loan portfolio amounts that have been previously written-off must be applied to the allowance for loan losses instead of to results of the year.

- The consumer and housing mortgage portfolio classification procedure requires the creation of reserves, which must be recorded in the financial statements each month. Elements referring to billing periods in which instances of noncompliance were reported, the probability of noncompliance, the severity of the respective loss and the nature of loan guarantees must also be included.

- The commercial loan portfolio must be individually classified based on the loans or groups of loans payable by the same debtor, whenever the total balance equals or exceeds an amount equal to 900,000 UDIs at the classification date. The remainder is then classified based on the number of months elapsed from the first incidence of noncompliance. The portfolio payable by the Federal Government or with a federal guarantee is excluded from this process.

- Debt forgiveness or portfolio discounts are charged to the allowance for loan losses.

On December 1, 2004, the Commission issued Document No. DGSIF "A" 601-II-96079, through which it renewed the authorization of the aforementioned internal commercial loan portfolio classification methodology granted through Document No. SJIF "A-2" 601-II-34991 of May 19, 2004, for an additional two years beginning as of December 1, 2004.

The correlation between CIR-Banorte and the Regulatory Risk Classification is based on an analysis of the equivalence of noncompliance probabilities between CIR-Banorte and the Debtor's Risk Classification determined by the Commission, as detailed below:

CIR Banorte	Commission classification equivalence	Risk level description
1	A-1	Substantially risk-free
2	A-2	Below minimal risk
3	A-2	Minimum risk
4	B-1	Low risk
5	B-2	Moderate risk
6	B-3	Average risk
7	C-1	Risk requiring management attention
8	C-2	Potential partial loss
9	D	High loss percentage
10	E	Total loss

The allowances created by the Financial Group for the commercial loan portfolio based on the individual classification of each loan, are classified according to the following percentages:

Probability of noncompliance			Risk level
0.00%	to	0.50%	A-1
0.51%	to	0.99%	A-2
1.00%	to	4.99%	B-1
5.00%	to	9.99%	B-2
10.00	to	19.99%	B-3
20.00	to	39.99%	C-1
40.00%	to	59.99%	C-2
60.00%	to	89.99%	D
90.00%	to	100.00%	E

The Financial Group records monthly provisions for loan losses by applying the quarterly classification result to the outstanding balance at the last day of each month.

Mortgage portfolio

In the case of the mortgage portfolio, the allowance for loan losses is determined by applying specific percentages to the debtor's outstanding balance, net of support from the government and the Financial Group (the amount of support payable by credit institutions was completely provisioned based on the initial application of the Provisions). The total portfolio is then stratified according to the number of monthly payments reporting noncompliance at the classification date. The allowance for loan losses is generated by applying specific percentages to each of the following items determined for each level:

- Noncompliance probability- The reserve percentages established for this item range from 1% to 50% for up to four outstanding monthly payments, depending on the type of mortgage portfolio, and from 95% to 100% for five or more outstanding monthly payments.

- Loss severity - A 100% reserve has been created for loans with nine outstanding monthly payments.

Consumer loan portfolio

The consumer portfolio allowance is determined by applying specific percentages calculated based on the number of billing periods reporting noncompliance at the classification date and taking into consideration that billing periods may be weekly, biweekly or monthly.

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The allowances classification process performed by the Financial Group for consumer and mortgage loan portfolios is executed according to the following percentages:

Risk level	Probability of noncompliance		
A	0.00%	to	0.99%
B	1.00%	to	19.99%
C	20.00%	to	59.99%
D	60.00%	to	89.99%
E	90.00%	to	100.00%

In addition, a provision is recognized for the total amount of uncollected accrued interest on loans included in the past-due portfolio.

The Financial Group has also adopted the policy of recognizing provisions equal to 100% of loans with six outstanding monthly payments.

Credit asset portfolio

The loan portfolio acquired is comprised of the acquisition cost of different loan packages acquired by the Financial Group; i.e., amounts effectively paid by the Financial Group to obtain rights to the cash flows generated by these portfolios.

Furthermore, during the first three months following its acquisition of loan portfolios, the Financial Group capitalizes the respective interest and monetary results derived from financing contracted to acquire such portfolio packages.

On November 12, 2004, the Commission issued Document No. DGSIF "A" -601-II-96066, which establishes the accounting treatment applicable to portfolio acquisitions and loan settlements through payments in kind and/or the awarding of acquired portfolio goods.

Consequently, as the Commission and the IMCP have not issued a specific accounting standard, and based on the supplemental procedures established by the Commission's accounting circular A-3, "Supplemental Application of Accounting Treatments", the accounting treatment applicable to portfolio acquisitions is that established by Practice Bulletin 6, "Amortization of Discounts on Certain Acquired Loans", issued by the American Institute of Certified Public Accountants, which was in effect until December 15, 2004, and, as of that date, Statement of Position (SOP) 03-3, "Accounting for Certain Loans or Debt Securities Acquired in a Transfer", which replaced the aforementioned Practice Bulletin.

These standards establish that the proper treatment to be applied upon the transfer of the loan portfolios is applied based on the agreed upon transfer price.

The Financial Group's management has the policy of amortizing portfolio investments made prior to December 15, 2004, within a maximum eight-year period as of the original acquisition date. Furthermore, portfolio investments acquired after December 15, 2004, are amortized within a period not exceeding seven years in the case of mortgage loans, or five years for commercial loans.

Other accounts receivable and payable

Amounts involving the sundry debtors of the Financial Group that are not recovered within 60 or 90 days following their initial recognition (depending on whether the balances are identified or not), are included in the allowance for loan losses, regardless of their likelihood of recovery.

The balances of asset and liability settlement accounts represent transactions involving the sale and purchase of currency and securities, which are recorded when entered into and settled within 48 hours.

Impairment of the value of long-lived assets and their disposal

The Financial Group has established guidelines to identify and, if applicable, record losses derived from the impairment or decrease in value of long-lived, tangible or intangible assets, including goodwill. The Financial Group's management did not identify any indicators that impairment exists.

Foreclosed property or property received as payments in kind, net

Foreclosed property or property received as payments in kind are recorded at the lower of their net realizable value or cost. Cost is determined as the forced-sales value determined by the judge upon foreclosure or, in the case of payments in kind, the price agreed between the parties involved.

If the book value of the loan exceeds that of the foreclosed property, the difference is recognized by canceling the allowance for loan losses when such assets are awarded. If the book value of the loan is lower than the value of the foreclosed property, the latter must be adjusted to match the loan's book value.

The book value must only be modified when there is evidence that the net realizable value is lower than the recorded book value. The adjustments resulting from these estimates are applied to the results of the year as they arise.

When recognizing the effects of inflation in financial information, foreclosed property is considered to be a monetary item.

As of December 1, 2004, the provisions applicable to the new valuation methodology for the allowance for loan losses went into effect. As of that date, the valuation methodology for reserves related to either foreclosed property or those assets received as payment in kind establishes that additional quarterly provisions must be created to recognize the potential decrease in value over time of property awarded under legal proceedings, out-of-court or received as payment in kind, based on the following procedure:

I. In the case of collection rights and real property, the provisions referred to by the preceding paragraph must be treated as follows:

Personal property reserves	
Time elapsed as of awarding or payment in kind (months)	Reserve percentage
Up to 6	0%
More than 6 up to 12	10%
More than 12 up to 18	20%
More than 18 up to 24	45%
More than 24 up to 30	60%
More than 30	100%

The amount of the reserves to be created will be the result of applying the reserve percentage determined under the preceding table to the value of collection rights or real property foreclosed or received as payment in kind, based on the accounting criteria established by the Commission.

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II. Investments in securities must be valued in accordance with the provisions of the Commission's accounting circular B-2, "Investments in Securities", using annual audited financial statements and monthly reports of the entity in which the investment is held.

Following the valuation of foreclosed assets or assets received as payment in kind, the reserves resulting from applying the percentages established in the table of section I above to the estimated value, must be created.

III. In the case of real property, provisions must be created as follows:

Real property reserves

Time elapsed as of awarding or payment in kind (months)	Reserve percentage
Up to 12	0%
More than 12 and up to 24	10%
More than 24 and up to 30	15%
More than 30 and up to 36	25%
More than 36 and up to 42	30%
More than 42 and up to 48	35%
More than 48 and up to 54	40%
More than 54 and up to 60	50%
More than 60	100%

The amount of the reserves to be created will be the result of applying the reserve percentage detailed in the preceding table to the value of the foreclosed property which has to be determined in accordance with the Commission's accounting criteria. Furthermore, when problems are identified regarding the realization of the value of the foreclosed property, the Financial Group records additional reserves based on management's best estimates.

If appraisals subsequent to the foreclosure or payment in kind result in the recording of a decrease in the value of the collection rights, securities, personal or real property, the reserve percentages contained in the preceding table can be applied to the adjusted value.

Based on the initial application of the aforementioned provisions, in 2004, the Financial Group recognized a loss of Ps 540, which was charged to the results of prior years as required by the accounting practices of the Commission.

Property, furniture and fixtures

Are recorded at acquisition cost, restated as explained earlier in this note.

Depreciation is calculated using the straight-line method based on the useful lives of the assets as estimated by Financial Group's management.

Permanent stock investments

The Financial Group recognizes its unconsolidated investments in subsidiaries and associated companies using the equity method, based on the book values shown in the most recent financial statements of such entities.

Income taxes, tax on assets and employee statutory profit sharing

Provisions for income taxes (ISR) and employee statutory profit sharing (PTU) are recorded in the results of the year in which they are incurred. Deferred income tax assets and liabilities are recognized for temporary differences resulting from comparing the accounting and tax basis of assets and liabilities plus any future benefits from tax loss carryforwards.

The net effect of the aforementioned items is presented in the consolidated balance sheet under the "Deferred taxes, net" heading.

Deferred ISR assets are reduced by any benefits about which there is uncertainty as to their realizability.

Deferred PTU is derived from temporary differences between the accounting result and income for PTU purposes and is recognized only when it can be reasonably assumed that such difference will generate a liability or benefit, and there is no indication that circumstances will change in such a way that the liabilities will not be paid or benefits will not be realized.

Tax on assets paid that is expected to be recovered is recorded as prepaid income tax and presented in the balance sheet under the "Other accounts receivable, net" heading.

Intangible assets

Are recognized in the consolidated balance sheet provided they are identifiable and generate future economic benefits that are controlled by the Financial Group. Intangible assets with indefinite lives are amortized systematically over the period expected to receive benefits. The value of these assets is subject to annual impairment tests.

Deposits

Liabilities derived from deposits, including promissory notes with liquid yields upon maturity, are recorded at their procurement or placement cost plus accrued interest, determined according to the number of days elapsed at each monthly close and charged to results as incurred.

Provisions

Are recognized when the Financial Group has a current obligation that results from a past event, are probable to result in the use of economic resources and can be reasonably estimated.

Employee retirement obligations

According to Mexican Federal Labor Law, the Financial Group has obligations derived from severance payments and seniority premiums payable to employees that ceased to render their services under certain circumstances.

The Financial Group records a liability for both seniority premiums and medical services, which are recognized as costs over employee years of service and are calculated by independent actuaries using the projected unit credit method at net discount rates as established by Bulletin D-3 of Mexican GAAP.

Accordingly, the liability is being accrued which, at present value, will cover the obligation from benefits projected to the estimated retirement date of the Company's current employees, as well as the obligation related to retired personnel.

As discussed earlier in this note, as of January 1, 2005, the Financial Group adopted the provisions of Bulletin D-3, related to recognition of the liability for severance payments at the end of the work relationship for reasons other than restructuring, which is recorded using the projected unit credit method based on calculations by independent actuaries. Through December 31, 2004, severance payments at the end of the work relationship were charged to results when the liability was determined to be payable.

Foreign currency transactions

Foreign currency transactions are recorded at the applicable exchange rate in effect at the transaction date. Monetary assets and liabilities denominated in foreign currency are translated into Mexican pesos at the applicable exchange rate published by Banco de México in effect at the balance sheet date. Exchange fluctuations are recorded in the results of operations.

Interest from outstanding subordinated debentures

Accrued interest from outstanding subordinated debentures is regnized as it is accrued and translated according to the exchange rate in effect at each monthly close.

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Excess (or insufficiency) in restated stockholders' equity

Represents the accumulated monetary position result through the initial restatement.

Contributed capital restatement effects

Contributed and earned capital is restated by using a factor derived from the UDI.

Transfer of financial assets

In those transactions where the Financial Group can act as the assignor or assignee, as applicable, possession of financial assets is obtained such that the ownership of such assets may or may not be transferred. Transactions involving the transfer of ownership of financial assets establish that the assignor has effectively lost control of the assets being transferred, with the related effects subsequently recognized in the financial statements.

Securitization

Through this type of transaction, the Financial Group seeks to sell and transfer certain financial assets to a securitization vehicle, which in turn issues securities for sale to public investors representing rights to the yields or proceeds derived from the sale of the transferred assets. The Financial Group as the assignor can receive cash, securities or derivative financial instruments as payment.

However, if the assignor does not transfer ownership of the financial assets, i.e., if it retains the direct risk associated with such assets, the transaction is considered to be a financing securitization, whereby the payment made to the assignor is guaranteed by assets for which the latter assumes the related risk. Accordingly, the assignor cannot derecognize such transferred assets from its financial statements and recognizes them as restricted assets held as collateral in the consolidated balance sheet.

6] CASH AND CASH EQUIVALENTS

As of December 31, 2005 and 2004, this line item was comprised as follows:

	Mexican currency		US dollars converted into MxP		Total	
	2005	2004	2005	2004	2005	2004
Cash	Ps 4,994	Ps 5,012	Ps 597	Ps 637	Ps 5,591	Ps 5,649
Deposits with foreign institutions	-	-	4,479	8,509	4,479	8,509
Domestic banks	202	319	8	61	210	380
Deposits with Banco de México	25,780	22,554	2	12	25,782	22,566
Call money	1,501	3,088	-	46	1,501	3,134
Other deposits and available funds	1,225	68	-	204	1,225	272
	Ps 33,702	**Ps 31,041**	**Ps 5,086**	**Ps 9,469**	**Ps 38,788**	**Ps 40,510**

On August 29, 2002, Telefax Circular 30/2002 issued by Banco de México became effective, eliminating monetary regulation deposits established according to applicable provisions at that date, which were intended to regulate money market liquidity surpluses. Furthermore, the Circular established a new monetary regulation deposit for all credit institutions for an unlimited period, on which interest is payable every 28 days and is accrued beginning on September 26, 2002, the date of the first deposit. As of December 31, 2005 and 2004, the Financial Group had made monetary regulation deposits of Ps 25,780 and Ps 22,564, respectively.

7] SECURITIES

a) Trading securities

As of December 31, 2005 and 2004, trading securities are as follows:

	2005				2004
	Acquisition cost	Accrued interest	Valuation increase (decrease)	Book value	Book value
Government bonds	Ps 1	Ps -	Ps -	Ps 1	Ps -
Special Federal Treasury Certificates (CETES)	877	18	1	896	3,800
Bank securities	5,733	31	(2)	5,762	5,322
Commercial paper	1,861	-	3	1,864	1,306
Savings protection bonds (BPAS)	120	-	-	120	22
Corporacion GEO's bonds	-	-	-	-	65
Securitization certificates	308	3	4	315	439
Monetary regulation bonds (BREMS)	1	-	-	1	-
Shares listed in the International Quotation System (SIC)	7	-	1	8	-
Futures guarantees	1	-	-	1	2
Investment funds	26	-	-	26	-
Hedging swaps	1	-	-	1	4
	Ps 8,936	**Ps 52**	**Ps 7**	**Ps 8,995**	**Ps 10,960**

During 2005 and 2004, the Financial Group recognized a valuation effect for the net amount of Ps (12) and Ps 1, respectively, in the results of operations related to its trading securities.

As of December 31, 2005, these investments mature as follows (stated at their acquisition cost):

	From 1 to 179 days	From 6 to 12 months	From 1 to 2 years	More than 2 years	Total cost at acquisition
Commercial paper	Ps 1,843	Ps -	Ps -	Ps 18	Ps 1,861
Special Federal Treasury Certificates (CETES)	776	101	-	-	877
Bank securities	5,627	-	-	106	5,733
Savings protection bonds (BPAS)	-	-	120	-	120
Monetary regulation bonds (BREMS)	1	-	-	-	1
Securitization certificates	-	-	-	308	308
Government bonds	-	-	-	1	1
Shares listed in the SIC	7	-	-	-	7
Futures guarantees	1	-	-	-	1
Investment funds	26	-	-	-	26
Hedging swaps	1	-	-	-	1
	Ps 8,282	**Ps 101**	**Ps 120**	**Ps 433**	**Ps 8,936**

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b) Available-for-sale securities

As of December 31, 2005 and 2004, available-for-sale securities were as follows:

	2005				2004
	Acquisition cost	Accrued interest	Valuation increase (decrease)	Book value	Book value
Eurobonds	Ps -	Ps -	Ps -	Ps -	Ps 249
CYDSA shares	19	-	9	28	-
PEMEX Bond	106	1	-	107	-
	Ps 125	**Ps 1**	**Ps 9**	**Ps 135**	**Ps 249**

In April 2005, 60 million securities held by Banorte in its AHMSA 2002 and 2004 Eurobond position were sold, generating a profit of Ps 319 as a result of canceling the unrealized gain recognized in stockholders' equity derived from the fair market value adjustments of these securities, which is recorded under the "Brokerage revenues" heading in the consolidated statement of income.

c) Held-to-maturity securities

As of December 31, 2005 and 2004, held-to-maturity securities were as follows:

Medium and long-term debt instruments:

	2005			2004
	Acquisition cost	Accrued interest	Book value	Book value
Government bonds - support program for special Federal Treasury Certificates	Ps 570	Ps 10	Ps 580	Ps 530
Fiduciary rights	25	-	25	27
United Mexican States (UMS)	8,484	288	8,772	8,416
PEMEX bonds	3,889	37	3,926	1,854
Strip and Myra bonds	122	-	122	186
Hedging swaps	(871)	(251)	(1,122)	(1,745)
	Ps 12,219	**Ps 84**	**Ps 12,303**	**Ps 9,268**

As of December 31, 2005, these investments mature as follows:

	From 1 to 179 days	From 6 to 12 months	From 1 to 2 years	More than 2 years	Total acquisition cost
Special Federal Treasury Certificates - Support Program for Housing Debtors	Ps -	Ps -	Ps -	Ps 570	Ps 570
Strip Azteca and Myra bonds	-	-	-	122	122
Fiduciary rights	-	-	-	25	25
United Mexican States (UMS)	-	-	-	8,484	8,484
PEMEX Bonds	-	-	-	3,889	3,889
Hedging swaps	(67)	-	(39)	(765)	(871)
	Ps (67)	**Ps -**	**Ps (39)**	**Ps 12,325**	**Ps 12,219**

8] TRANSACTIONS INVOLVING SECURITIES AND DERIVATIVE FINANCIAL INSTRUMENTS

As of December 31, 2005 and 2004, transactions involving securities and derivative financial instruments were as follows:

a) Debtor and creditor balances derived from repurchase transactions

Acting as seller of securities:

	2005				2004			
	Asset position	Liability position			Asset position	Liability position		
	Value of securities receivable	Creditor repurchase agreement	Debit difference	Credit difference	Value of securities receivable	Creditor repurchase agreement	Debit difference	Credit difference
Cetes	Ps 1,070	Ps 1,070	Ps -	Ps -	Ps 71	Ps 71	Ps -	Ps -
Bondes 90	-	-	-	-	521	521	-	-
Bondes 182	432	431	1	-	5,679	5,676	3	-
Bonds IPAB	44,677	44,753	6	82	30,828	30,817	13	2
Quarterly IPAB bonds	73,041	73,175	43	177	24,604	24,636	14	46
Semiannual IPAB bonds	990	1,000	-	10	1,024	1,024	-	-
BREMS	37,078	37,080	2	4	460	460	-	-
5-year bonds	8,248	8,252	1	5	35,058	35,043	15	-
7-year bonds	3	3	-	-	-	-	-	-
10-year bonds	3,932	3,934	2	4	-	-	-	-
20-year bonds	117	117	-	-	-	-	-	-
UDIBONOS	14	14	-	-	-	-	-	-
Government securities	**169,602**	**169,829**	**55**	**282**	**98,245**	**98,248**	**45**	**48**
Promissory notes	3,695	3,694	1	-	4,721	4,720	1	-
CEDES	13,886	13,893	1	8	1,038	1,038	1	1
Bank acceptances	7	7	-	-	74	74	-	-
Bank securities	**17,588**	**17,594**	**2**	**8**	**5,833**	**5,832**	**2**	**1**
Private paper	24,530	24,543	2	15	45,740	45,737	4	1
Government CEBUR	3,595	3,595	-	-	-	-	-	-
Securitization certificates	24,509	24,525	1	17	-	-	-	-
Private securities	**52,634**	**52,663**	**3**	**32**	**45,740**	**45,737**	**4**	**1**
Total	**Ps 239,824**	**Ps 240,086**	**Ps 60**	**Ps 322**	**Ps 149,818**	**Ps 149,817**	**Ps 51**	**Ps 50**

With the Financial Group acting as the vendor, accrued premiums were charged to the results of operations in the amount of Ps 17,722 (Ps 8,171 in 2004).

During 2005 and 2004, the period of repurchase transactions entered into by the Financial Group in its capacity as vendor ranged from 3 to 91 days.

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Acting as securities purchaser:

	2005				2004			
	Liability position	Asset position			Liability position	Asset position		
	Value of securities deliverable	Debtor repurchase agreement	Debit difference	Credit difference	Value of securities deliverable	Debtor repurchase agreement	Debit difference	Credit difference
Cetes	Ps 650	Ps 650	Ps -	Ps -	Ps 11	Ps 11	Ps -	Ps -
Government development bonds (Bondes) 90	-	-	-	-	517	517	-	-
Bondes 182	427	428	-	1	5,673	5,675	-	2
Bonds IPAB	8,988	8,944	46	2	10,398	10,411	-	13
Quarterly IPAB bonds	12,127	12,105	24	2	3,084	3,085	-	1
Semiannual IPAB bonds	402	402	-	-	1,023	1,024	-	1
BREMS	8,619	8,619	-	-	444	445	-	1
5-year bonds	8,203	8,204	4	5	29,072	29,082	1	11
7-year bonds	0	0	-	-	-	-	-	-
10-year bonds	2,242	2,238	4	-	-	-	-	-
20-year bonds	104	104	-	-	-	-	-	-
UDIBONOS	-	-	-	-	-	-	-	-
Government securities	**41,762**	**41,694**	**78**	**10**	**50,222**	**50,250**	**1**	**29**
Promissory notes	2,259	2,259	-	-	2,273	2,273	-	-
CEDES	3,627	3,625	2	-	-	-	-	-
Bank acceptances	-	-	-	-	-	-	-	-
Bank securities	**5,886**	**5,884**	**2**	**-**	**2,273**	**2,273**	**-**	**-**
Private paper	22,534	22,519	16	1	-	-	-	-
Government CEBUR	910	910	-	-	-	-	-	-
Private securities	**23,444**	**23,429**	**16**	**1**	**-**	**-**	**-**	**-**
Total	**Ps 71,092**	**Ps 71,007**	**Ps 96**	**Ps 11**	**Ps 52,495**	**Ps 52,523**	**Ps 1**	**Ps 29**

With the Financial Group acting as the purchaser, accrued premiums were recognized in the results of operations in the amount of Ps 5,344 (Ps 3,897 in 2004).

During 2005 and 2004, the periods of repurchase transactions entered into by the Financial Group in its capacity as purchaser ranged from 3 to 28 days.

b) Transactions entered into involving derivative financial instruments

The transactions entered into by the Financial Group involving derivative financial instruments include forwards, swaps and options contracts. These transactions are entered into for to hedge various risks and for trading purposes.

Trading transactions are stated based on their fair market values; similarly, the effect derived from their market value adjustment is recorded in the results of the year.

Management's policy with regards to hedge contracts is to protect the Financial Group's individual balances and stockholders' equity by anticipating interest rate movements.

Accordingly, the Financial Group documents its hedging transactions based on the following guidelines:

- Interest rate swaps:
  The Financial Group's accounting model is intended to hedge cash flows, whereby interest rate hedges are entered into and not adjusted to fair market value as they are adjusted based on the accrued interest as stated in the contracts.

- Foreign currency swaps:
  The Financial Group's accounting model is intended to hedge cash flows, whereby foreign exchange hedges are entered into, but not adjusted to fair market value.

- Interest rate options and swaptions:

In 2005, the Financial Group added interest rate options and swaption transactions to its financial risk hedging strategy.

These hedges are entered into as protection against significant interest rate increases; based on the Commission's regulations, the fair value of these instruments is recognized in the results of operations.

As of December 31, 2005, the Financial Group has evaluated the effectiveness of transactions entered into involving derivative financial instruments for hedging purposes and has concluded that they are highly effective in achieving offsetting changes in fair value attributable to the hedged risk during the period that the hedge is designated.

As of December 31, 2005 and 2004, the positions of the Financial Group's derivative financial instruments held for trading purposes are as follows:

	2005		
Swaps	Receivable flows	Deliverable flows	Net flows
Interest rate	**Ps 398**	**Ps (362)**	**Ps 36**
Foreign currency forward contracts:	Purchase	Sale	Net
Market value	Ps 10	Ps (33)	Ps (23)
Contract price	(11)	34	23
Net position	**Ps (1)**	**Ps 1**	**Ps -**
Call options	Initial premium	Fair value adjustment	Premium fair value
Interest rate	Ps 188	Ps 1	Ps 189
Indexes	247	(6)	241
Swaptions	1	1	2
Net position	**Ps 436**	**Ps (4)**	**Ps 432**
Net asset position			**Ps 468**
Put options	Initial premium	Fair value adjustment	Premium fair value
Interest rate	Ps 178	Ps 4	Ps 182
Indexes	254	(5)	249
Swaptions	11	5	16
Net liability position	**Ps 443**	**Ps 4**	**Ps 447**

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	2004		
Swaps	Receivable flows	Deliverable flows	Net flows
Interest rate	Ps 49	Ps (44)	Ps 5
Net asset position	**Ps 49**	**Ps (44)**	**Ps 5**

Instrument Foreign currency forward contracts :	Purchase	Sale	Net
Market value	Ps 706	Ps (706)	Ps -
Contract price	(708)	717	9
Net liability position	**Ps (2)**	**Ps 11**	**Ps 9**

Options	Initial premium	Fair value adjustment	Premium fair value
Currency	Ps 1	Ps (1)	Ps -
Net liability position	**Ps 1**	**Ps (1)**	**Ps -**

Swaps designated as hedging

Underlying	Receivable contract value	Deliverable contract value	Receivable flows	Deliverable flows	Net position
TIIE/IRS (Interest Rate Swap)	Ps 13,326	Ps 13,325	Ps 52	Ps 59	Ps (6)
USLI/IRS (Libor Interest Rate Swap)	875	875	12	13	(1)
IMPL - US/CS (Cross Currency Swap, US Dollar fix rate)	2,184	2,645	22	58	(497)
TIIE - EU/CS (Cross Currency Swap, Euro fix rate)	1,321	1,375	7	52	(99)
TIIE - US/CS (Cross Currency Swap, US Dollar Fix rate)	9,543	9,980	67	222	(592)
TIIE - US/BS (Cross Currency Swap, variable rate)	2,127	2,200	3	6	(76)
Total	**Ps 29,376**	**Ps 30,400**	**Ps 163**	**Ps 410**	**Ps (1,271)**

Options designated as hedging

	Underlying	Reference Amount	Premium paid/received	Fair value
Purchase	TIIE/CAP	1,321,000	126	7
	TIIE/OSE-F (European Swaption – Physical Delivery)	10,500	19	(18)
		1,331,500	**145**	**(11)**
				Ps 134
Sale	TIIE/CAP	1,305,000	98	30
		1,305,000	**98**	**30**
				Ps 128

Transactions entered into for hedging purposes have maturities from 2006 to 2018 and are intended to mitigate the financial risk derived from long-term loans offered by the Financial Group at fixed rates, as well as the exchange rate risk generated by market instruments in the Financial Group's portfolio.

The book value of collateral used to ensure compliance with obligations derived from interest rate swap contracts as of December 31, 2005, is (thousands) USD 27,294. In the case of currency swaps, the collateral value as of December 31, 2005, is (thousands) USD 1,034,232 and (thousands) € 109,645, represented by debt instruments (UMS and PEMEX).

9] LOAN PORTFOLIO

As of December 31, 2005 and 2004, the loan portfolio by loan type is as follows:

	Current portfolio		Past-due portfolio		Total	
	2005	2004	2005	2004	2005	2004
Commercial loans						
Denominated in domestic currency						
Commercial	Ps 42,411	Ps 33,957	Ps 594	Ps 578	Ps 43,005	Ps 34,535
Rediscounted portfolio	8,059	6,882	1	2	8,060	6,884
Denominated in USD						
Commercial	7,367	6,891	76	71	7,443	6,962
Rediscounted portfolio	19	37	-	-	19	37
Total commercial loans	**57,856**	**47,767**	**671**	**651**	**58,527**	**48,418**
Loans to financial institutions	1,964	411	-	-	1,964	411
Consumer loans						
Credit cards	6,227	3,868	212	170	6,439	4,038
Other consumer loans	9,284	7,874	200	179	9,484	8,053
Housing loans	23,782	19,062	767	844	24,549	19,906
Loans to government entities	15,217	19,157	-	13	15,217	19,170
Loans to FOBAPROA or IPAB	161	7,150	-	-	161	7,150
	56,635	**57,522**	**1,179**	**1,206**	**57,814**	**58,728**
	Ps 114,491	**Ps 105,289**	**Ps 1,850**	**Ps 1,857**	**Ps 116,341**	**Ps 107,146**

Interest income and commissions segmented by loan type is as follows:

	2005			2004
	Interest	Commissions	Total	Total
Commercial loans				
Denominated in national currency	Ps 6,903	Ps 233	Ps 7,136	Ps 5,234
Denominated in foreign currency	85	1	86	76
Total commercial loans	**6,988**	**234**	**7,222**	**5,310**
Housing loans	2,896	196	3,092	2,206
Loans to government entities	1,721	14	1,735	5,873
Consumer loans	2,864	120	2,984	2,364
Total	**Ps 14,469**	**Ps 564**	**Ps 15,033**	**Ps 15,753**

As December 31, 2005 and 2004, loans granted by economic sector are as follows:

	2005		2004	
	Amount	Concentration percentage	Amount	Concentration percentage
Private (companies and individuals)	Ps 58,522	50.30%	Ps 48,410	45.18%
Financial institutions	1,964	1.69%	411	0.38%
Credit card and consumption	15,923	13.69%	12,091	11.28%
Housing	24,549	21.10%	19,906	18.59%
Federal Government Loans	15,216	13.08%	19,171	17.90%
Loans to FOBAPROA or IPAB	162	0.14%	7,149	6.67%
Other past-due loans	5	0.00%	8	0.00%
	Ps 116,341	**100.00%**	**Ps 107,146**	**100.00%**

Loan support programs

The Financial Group participates in different loan support programs established by the Federal Government and Mexican Bankers' Association, as detailed below:

a) Support Program for Housing Loan Debtors and the Agreement on Benefits for Housing Loan Debtors.
b) Agreement on Agrarian and Fishery Sector Financing (FINAPE).
c) Benefits Program for Business Loan Debtors.
d) Acuerdo de Apoyo Financiero y Fomento a la Micro, Pequeña y Mediana Empresa (FOPYME).
e) Agreement on the Financial Support and Promotion of Micro, Small and Medium Companies (FOPYME).

Furthermore, in December 1998, the Federal Government and Banking Sector published a new and definitive debtor support plan known as "Punto Final", which, as of 1999, replaced the benefits formerly granted by Housing Loan Debtor support programs. In the case of FOPYME and FINAPE, these support plans were replaced in 1999 and 2000, respectively, and beginning in 2001 the benefits established by original support programs continued to be applied.

The "Punto Final" plan defines housing loan discounts, which are determined based on the outstanding loan balance recorded at November 30, 1998, without considering late payment charges. In the case of FOPYME and FINAPE loans, the discount is applied to payments and the discount percentage is determined based on the recorded loan balance at July 31, 1996, regardless of whether the balance has been subsequently modified.

In the case of borrowers participating in the above programs, the amount of principal and accrued interest denominated in pesos is converted to the initial UDI value; interest is then set at an agreed-upon reference rate.

The trusts administering each of the aforementioned UDI programs issued long-term fiduciary securities to the Federal Government with fixed and variable interest rates depending on the characteristics of each trust (this interest rate must be less than that collected from borrowers). Similarly, the Financial Group received federal bonds known as "Special Cetes" from the Federal Government, which are tied to the Cetes interest rate.

These federal bonds will mature based on the fiduciary securities issued by the trust to the Federal Government. Loan payments received by the trust are used to pay the principal and interest of the fiduciary securities; at the same time, the Federal Government executes a transaction for the same amount to pay the principal and accrued interest on the Special Cetes.

In the event of noncompliance with the payment obligations established for the restructured loans under the UDI trusts, a portion of the fiduciary securities and Special Cetes will generate interest at a rate equivalent to the UDI value. This characteristic was included in October 2002 to reflect the fact that the UDI programs were created to support debtors in compliance with their agreements. The Financial Group continues to manage and evaluate the risk derived from any possible credit loss related to the programs. If a particular loan is fully reserved, fiduciary securities will continue to generate interest at regular rates.

Commission regulations require that the Financial Group consolidate the balances of trusts holding restructured loans in UDIs, so as to reflect the operating fund, which consists of an interest rate swap contracted with the Federal Government.

As of December 31, 2005 and 2004, the balances of the respective trust balances are comprised as follows:

	2005	2004
Banks	Ps 17	Ps 17
Government securities	4	4
Current loan portfolio	1,164	1,305
Past-due loan portfolio	386	458
Accrued interest on loans	3	4
Past-due interest	14	16
Allowance for loan losses	(669)	(652)
Total assets	**Ps 919**	**Ps 1,152**
Investment in trusts assets	Ps 893	Ps 1,137
Deferred tax liabilities	26	15
Total liabilities	**Ps 919**	**Ps 1,152**

Policies and procedures for granting loans

The granting, control and recovery of loans are regulated by the Financial Group's Credit Manual, which has been authorized by the Board of Directors. Accordingly, administrative portfolio control is performed in the following areas:

I. Business Management (includes corporate, commercial, business, governmental and consumer banking), primarily through the branch network.
II. Operations Management.
III. General Comprehensive Risk Management.

Similarly, the Financial Group has manuals establishing the policies and procedures to be utilized for credit risk management purposes.

The structure of the credit management process is based on the following stages:

a) Product design
b) Promotion
c) Evaluation
d) Formalization
e) Operation
f) Administration
g) Recovery

Procedures have also been implemented to ensure that amounts related to the past-due portfolio are timely transferred and recorded in the books and records and those loans with recovery problems are properly and timely identified.

The Financial Group Treasury Department is the central unit responsible for balancing resource requirement and eliminating the interest rate risk derived from transactions entered into at fixed rates through the use of hedging and arbitrage strategies.

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10] LOANS RESTRUCTURED IN UDIS

As of December 31, 2005 and 2004, the total amount of the loan portfolio restructured in UDIs is as follows:

	2005	2004
Current portfolio	Ps 1,164	Ps 1,305
Current accrued interest	3	4
Past-due portfolio	386	458
Past-due accrued interest	14	16
	Ps 1,567	**Ps 1,783**

11] FOBAPROA-IPAB TRANSACTIONS

As part of the measures implemented to offset 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, and established the creation of IPAB to replace FOBAPROA, for the sole purpose of administering transactions entered into under "Portfolio Capitalization and Acquisition Programs" (PCCC).

The Bank Savings Protection Law enacted on January 20, 1999, established an option for banks that had participated in the PCCC to exchange their FOBAPROA promissory notes for IPAB promissory notes under similar conditions.

In June 2002, IPAB notified banks participating in the PCCC of its intention to adopt certain procedures and conditions that would be applicable to them regarding the mechanism under which FOBAPROA promissory notes would be exchanged for their IPAB counterparts.

IPAB is also required to apply a series of preventive measures to avoid financial problems that could be faced by financial credit institutions, while ensuring such institution's compliance with their depositors.

In exchange for the portfolio assigned to FOBAPROA, promissory notes were issued to the Financial Group with 10-year maturities as of the transaction date. The Financial Group maintained its obligation to share 29%, 25% and 0% of the loss suffered by FOBAPROA derived from the portfolio transferred to Trusts 1989-0, 1990-4 and 1991-2, respectively. Consequently, these percentages have been maintained in the new trusts created under the contract to exchange FOBAPROA promissory notes for IPAB obligations, which was executed on July 12, 2004.

As payment for these transactions FOBAPROA-IPAB collection rights have been recognized, which, at December 31, 2005 and 2004, are composed as follows:

Transactions	2005	2004
Trust 1989-0	Ps -	Ps 3,557
Trust 1990-4	1,732	5,006
Trust 1991-2	13	1,378
Cash flows owed to IPAB	(14)	(173)
Shared loss and incentive arrangement	(1,570)	(2,618)
	Ps 161	**Ps 7,150**

The characteristics of each of the aforementioned IPAB obligations are detailed below:

Promissory note	Period	Expiration	Rate	Interest paid
Trust 1989 – 0	10 years	2005	CETES 91 days – 1.35	Capitalizable
Trust 1990 – 4	10 years	2006	CETES 91 days – 1.35	Capitalizable
Trust 1991 - 2	10 years	2006	CETES 91 days	Capitalizable

IPAB payment obligations and instruments have the same characteristics in terms of their duration and interest rates as FOBAPROA promissory notes. Similarly, the loss sharing percentages and the incentive arrangement established in the contracts originally executed with FOBAPROA have been maintained.

As disclosed in Note 2, during 2005, the GEL audits were concluded, which resulted in an adjustment of Ps 100 with regards to the accounts receivable from IPAB.

Furthermore, as disclosed in Note 2, during 2005 the Financial Group received payments from IPAB totaling Ps 6,970, net of the aforementioned discounts.

Cash flow participation and portfolio assignment arrangement

The Commission defined regulations for the recording, valuation, presentation and disclosure of transactions entered into with FOBAPROA, regarding the loan portfolio cash flow participation arrangement. The Commission determined that the aforementioned arrangement did not represent the sale of assets because the Financial Group conserves certain loan portfolio rights that partially guarantee the promissory notes received as payment, and will subsequently deliver portfolio cash flows to FOBAPROA.

Consequently, cash flows derived from the loan portfolio, awarded goods and those received in trust in the name of FOBAPROA and the obligation to deliver such cash flows were recorded in the Financial Group's consolidated financial statements. As the respective net asset and liability balances are presented in the consolidated financial statements, only the promissory notes and collection rights received as payment are disclosed.

The value of assets whose cash flows are payable to FOBAPROA-IPAB and the respective allowance for loan losses are as follows:

	2005	2004
Loan portfolio	Ps 1,646	Ps 9,637
Foreclosed assets	721	1,267
Allowance for loan losses	(1,519)	(7,447)
	Ps 848	**Ps 3,457**

12] SALE OF THE IPAB-BANCRECER PORTFOLIO TO BANCO JP MORGAN, S. A., INSTITUCIÓN DE BANCA MÚLTIPLE, JP MORGAN GRUPO FINANCIERO, DIVISIÓN FIDUCIARIA (BANCO JP MORGAN)

On December 22, 2004, the IPAB-Bancrecer Promissory Note (loan contract executed between IPAB and Banco de México to capitalize Bancrecer) was sold for the amount of Ps 45,940 (nominal value) to a Trust held by JP Morgan Bank, through which the Financial Group transferred its ownership of interest collection and capital amortization rights to enable the issuance of Securitization Certificates (BANORCB 04) with a value of Ps 45,940 (nominal value). These instruments, which were issued for a five-year period accrue interest at the average daily Interbank Equilibrium Interest Rate (TIIE) rate plus 0.40 basis points, which will be paid monthly, while principal will be paid in one lump-sum.

This issuance received mxAAA, Aaamx and AAA(mex) ratings from Standard & Poor's, Moody's and Fitch, respectively. The transaction amount was paid to the Financial Group, which maintained almost all the securities in its own position by acquiring the Securitization Certificates (BANORCB04) and entering into repurchase transactions with qualifying investors. As of December 31, 2005, the Financial Group holds Ps 22,492 of the aforementioned Securitization Certificates (BANORCB04) under the heading of "Debtor balances from repurchase transactions".

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13] ALLOWANCE FOR LOAN LOSSES

The Financial Group's portfolio classification, which serves as the basis for recording the allowance for loan losses, is detailed below:

	2005				
		Required allowances for losses			
	Loan portfolio	Commercial portfolio	Consumer portfolio	Mortgage portfolio	Total
Exempt portfolio	Ps 1,311	Ps -	Ps -	Ps -	Ps -
Risk A	38,242	-	68	73	141
Risk A1	39,017	193	-	-	193
Risk A2	28,103	265	-	-	265
Risk B	4,666	-	117	103	220
Risk B1	5,895	147	-	-	147
Risk B2	385	22	-	-	22
Risk B3	276	41	-	-	41
Risk C	517	-	161	50	211
Risk C1	170	39	-	-	39
Risk C2	140	56	-	-	56
Risk D	765	50	281	208	539
Risk E	496	254	35	204	493
Unclassified	(17)	-	-	-	-
Swaps held for hedging purposes	(44)	-	-	-	-
	Ps 119,922	**Ps 1,067**	**Ps 662**	**Ps 638**	**Ps 2,367**
Recorded allowance					3,067
Additional allowance					**Ps 700**

	2004				
		Required allowances for losses			
	Loan portfolio	Commercial portfolio	Consumer portfolio	Mortgage portfolio	Total
Exempt portfolio	Ps 14,414	Ps -	Ps -	Ps -	Ps -
Risk A	26,140	-	49	57	106
Risk A1	23,108	120	-	-	120
Risk A2	31,359	266	-	-	266
Risk B	4,896	1	112	100	213
Risk B1	6,060	149	-	-	149
Risk B2	318	16	-	-	16
Risk B3	863	141	-	-	141
Risk C	475	-	135	56	191
Risk C1	302	56	-	-	56
Risk C2	376	15	-	-	15
Risk D	788	42	244	224	510
Risk E	600	351	19	213	583
Unclassified	(133)	-	-	-	-
	Ps 109,566	**Ps 1,157**	**Ps 559**	**Ps 650**	**Ps 2,366**
Recorded allowance					2,832
Additional allowance					**Ps 466**

The total portfolio balance used as the basis for the classification above includes amounts related to irrevocable loans, letters of credit and guarantees, which are recorded in memorandum accounts.

As of December 31, 2005 and 2004, the estimated allowance for loan losses is determined based on portfolio balances at those dates.

As of December 31, 2005 and 2004, the allowance for loan losses includes a reserve for 100% of delinquent interest owed.

As of December 31, 2005 and 2004, the allowance for loan losses represents 166% and 153%, respectively, of the past-due portfolio.

The estimated allowance includes the classification of loans granted in foreign currency, which are evaluated at the exchange rate in effect as of December 31, 2005.

Rollforward of allowance for loan losses

A rollfoward of the allowance for loan losses is detailed below:

	2005	2004
Balance at the beginning of the year	Ps 2,832	Ps 4,684
Credit portfolio reserve charged to the results of operations	1,307	1,063
Reversal of allowances cancelled in 2003	-	267
Debt forgiveness and write-offs	(1,136)	(2,799)
Restatement effects	(79)	(242)
Valuation in national currency, foreign currency and UDIs	10	60
Rebates granted to housing debtors	(115)	(124)
UDI trust reserve charged to the results of operations	37	45
Advantages from FOPYME and FINAPE programs	(3)	(6)
Recovery of loans	261	-
Cancellation of reserves	-	(154)
Other	(47)	38
Year end balance	**Ps 3,067**	**Ps 2,832**

14] CREDIT ASSET PORTFOLIO

As of December 31, 2005 and 2004, the loan investment portfolio balance is comprised as follows:

	2005	2004
Bancrecer I	Ps 273	Ps 356
Bancomer II	9	18
Bancomer III	198	212
Bancomer IV	834	-
Bital I	403	434
Bital II	161	177
Banamex mortgage	434	-
Confia III	115	128
GMAC Banorte	331	-
Real property trusts	138	-
Santander	123	415
Serfin	208	472
GMAC Bancen	6	-
Total	**Ps 3,233**	**Ps 2,212**

In December 2004, cash flow assignment contracts were executed between Banorte as the assignee and Banco del Centro, S.A. (Bancen) as the assignor, regarding the ownership of cash flow rights derived from the administration and collection of seven loan portfolios identified as Bancrecer I, Bancomer II, Bancomer III, Bital I, Bital II, Confía III and Santander.

These contracts will remain in effect until all the loans are collected, recovered or restructured, or the respective assets are either sold or settled.

Furthermore, in 2005, Banorte acquired cash flow rights from unrelated entities derived from the administration and collection of three loan portfolios identified as Bancomer IV, Banamex Hipotecario and GMAC Banorte. Similarly, in 2005, Bancen acquired cash flow rights from unrelated entities derived from the administration and collection of a portfolio identified as GMAC Bancen.

For the year ended December 31, 2005, the Financial Group recognized income from portfolios of Ps 717, together with the respective amortization of Ps 476, the effects of which were recognized under the "Commissions and tariffs collected" and "Commissions and tariffs paid" headings, respectively, in the consolidated statement of income. For the year ended December 31, 2004, the Financial Group recognized income of Ps 235, together with the respective amortization of Ps 463.

On October 27, 1999, in compliance with the basis for public bids and IPAB instructions, the fiduciary division of Banca Serfin, S. A., Institución de Banca Múltiple, Grupo Financiero Serfin (Serfin) selected Banorte to supervise the administration, recovery and collection of loans and goods included in the Tramos I and II commercial portfolios and Tramo III mortgage portfolio. The aforementioned basis established that Banorte was entitled to propose a third-party for the execution of the respective contract and in February 2000, Serfin executed a contract with Bancen, through which the latter and its fiduciary division assigned rights derived from the portfolio cash flows of Tramos I, II and III, for the net amount of Ps 20,931, at nominal value, to Bancen, in exchange for a payment of Ps 2,481, at nominal value.

Among other issues, this contract also establishes how cash flows generated by the administration and collection activities performed by Bancen will be distributed:

- 100% for Bancen and 0% for IPAB, until 50% of the investment is recovered.
- 80% for Bancen and 20% for Serfin, until 100% of Bancen's investment is recovered.
- 70% for Bancen, until obtaining a TIR (internal rate of return in dollars) equal to 10% of the investment; the remaining 30% will be paid to Serfin.
- 60% for Bancen, until obtaining a TIR equal to 20% of the investment; the remaining 40% will be paid to Serfin.
- 40% for Bancen, until obtaining a TIR equal to 30% of the investment; the remaining 60% will be paid to Serfin.
- 40% of any remaining cash flows after paying the above amounts; the assumption established in this clause will not be applicable until the contract is terminated.

The contract has a four-year duration as of its execution date or that of any noncompliance involving the obligations assumed by Bancen under the contract that adversely affects the rights of Serfin.

During 2003, Bancen renegotiated the amendment of the portfolio administration contract executed with the fiduciary division of Serfin, which included the retroactive effect of administering additional assets of approximately Ps 2,800, including the shares, securities and real property fiduciary rights delivered to Bancen in February 2000.

Similarly, in 2004, Bancen obtained a two-year extension from IPAB for the administration and collection of this trust, to which the same conditions are applicable. The only exception is the fact that Bancen is entitled to a maximum of 50% of distributed cash flows. This contract will terminate in February 2006.

An amendment agreement will be signed for the contract extension period.

15] OTHER ACCOUNTS RECEIVABLE, NET

As of December 31, 2005 and 2004, the other accounts receivable balance is as follows:

	2005	2004
Loans to officers and employees	Ps 1,092	Ps 1,039
Debtors from liquidation settlement	826	694
Sundry debtors	689	973
Taxes receivable	149	118
Other	119	195
	2,875	**3,019**
Allowance for doubtful accounts	(90)	(76)
	Ps 2,785	**Ps 2,943**

16] FORECLOSED ASSETS, NET

As of December 31, 2005 and 2004, the foreclosed asset balance is as follows:

	2005	2004
Personal property	Ps 132	Ps 157
Real property	445	485
Goods pledged for sale	232	272
	809	**914**
Allowance for losses on foreclosed assets	(363)	(539)
	Ps 446	**Ps 375**

17] PROPERTY, FURNITURE AND FIXTURES, NET

As of December 31, 2005 and 2004, the property, furniture and fixtures balance is comprised as follows:

	2005	2004
Furniture and equipment	Ps 2,765	Ps 2,697
Office equipment	4,640	4,812
Installation costs	1,361	1,414
	8,766	**8,923**
Less -Accumulated depreciation and amortization	3,084	2,809
	Ps 5,682	**Ps 6,114**

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18] PERMANENT STOCK INVESTMENTS

Investments in unconsolidated subsidiaries and associated companies are valued according to the equity method, as detailed below:

	2005	2004
Sólida Administradora de Portafolios, S. A. de C. V.	Ps 629	Ps 609
Seguros Banorte Generali, S. A. de C. V.	601	393
Siefore Banorte Generali, S. A. de C. V. (SIEFORE)	460	383
Pensiones Banorte Generali, S. A. de C. V.	163	117
Fianzas Banorte, S. A. de C. V.	106	82
Banorte Investment funds	78	71
Controladora Prosa, S. A. de C. V.	48	54
Bolsa Mexicana de Valores, S. A. de C. V.	31	26
Servicio Pan Americano de Protección, S. A. de C. V.	26	103
Bancen Investment Funds	17	15
Other	67	78
	Ps 2,226	**Ps 1,931**

As of December 31, 2005 and 2004, the investment in shares of Servicio Pan Americano de Protección, S. A. de C. V. is presented net of an impairment reserve of Ps 77 and Ps 73, respectively.

19] DEFERRED INCOME TAXES AND EMPLOYEE STATUTORY PROFIT SHARING

The tax incurred by the Financial Group is calculated based on the tax result of the year and current enacted tax regulations. However, due to temporary differences affecting the recognition of revenues and expenses for accounting and tax purposes and differences between accounting and tax balance sheet accounts, the Financial Group has recognized a recoverable net deferred tax asset of Ps 403 and Ps 697 as of December 31, 2005 and 2004, respectively, as detailed below:

	2005			2004		
	Temporary differences	Deferred effect		Temporary differences	Deferred effect	
		ISR	PTU		ISR	PTU
Allowance for loan losses (nondeductible)	Ps 59	Ps 16	Ps -	Ps 38	Ps 11	Ps -
Tax loss carryforwards	416	117	-	2,307	714	-
Shared FOBAPROA loss	1,570	455	-	2,239	659	-
Recoverable asset tax (IMPAC)	2	2	-	1	1	-
Security valuation deficit	-	-	-	645	194	64
Excess of tax over book value of foreclosed and fixed assets	847	237	83	430	129	-
PTU incurred in 2005 for settlement in 2006	644	187	-	-	-	-
Other assets	524	152	50	401	120	37
Total assets	**4,062**	**1,166**	**133**	**6,061**	**1,828**	**101**
Excess of book over tax value of fixed assets and prepaid expenses	605	268	26	1,909	564	73
Unrealized excess value from SIEFORE investments	88	25	-	65	19	-
ISR payable trusts	90	26	-	44	14	-
Portfolio acquisition	1,355	393	136	1,755	527	-
Cost of sundry sales	63	18	-	116	35	-
Other liabilities	13	4	-	-	-	-
Total liabilities	**2,214**	**734**	**162**	**3,889**	**1,159**	**73**
Net asset (liability)	**Ps 1,848**	**Ps 432**	**Ps (29)**	**Ps 2,172**	**Ps 669**	**Ps 28**
Total net deferred asset			**Ps 403**			**Ps 697**

As discussed in Note 27, as of January 1, 2005, Article 10 and Temporary Article 2 of the Mexican Income Tax Law were amended, whereby the income tax rate will be gradually reduced from 30% in 2005 to 29% in 2006 and 28% as of 2007 and thereafter. In accordance with Mexican Bulletin D-4, "Accounting for Income Tax, Tax on Assets and Employee Statutory Profit Sharing", and based on projections of the reversal of temporary differences and tax loss carryforwards, the respective balance was adjusted according to the enacted rates expected to be in effect when such amounts reverse or are recovered.

The Provisions issued by the Commission in 2004 establish that credit institutions can recognize the accrued financial effect derived from the initial application of the changes in enacted rates in stockholders' equity, under the "Result from prior years" heading. Furthermore, in compliance with Commission requirements, in 2005, Banorte and Bancen recognized a deferred income tax benefit of Ps 151 derived from the reserve created for holding foreclosed assets with a credit to the "Retained earnings from prior years" heading in stockholders' equity.

According to management's projections, the deferred tax balance derived from net operating tax loss carryforwards will be recovered before their legal expiration period, between 2006 and 2012.

20] OTHER ASSETS

As of December 31, 2005 and 2004, other assets are comprised as follows:

	2005	2004
Plan assets held for employee pension plans	Ps 1,694	Ps 1,529
Provision for employee retirement obligations	(1,605)	(1,416)
Other amortizable expenses	1,573	2,059
Accumulated amortization of other deferred expenses	(714)	(825)
Inventories from storage	180	116
Preoperating expenses (net)	72	144
Goodwill	59	77
Guarantee deposits	31	30
Restricted cash to cover the contingency reserve	3	3
Provision for contingencies	(3)	(3)
Other	2	1
	Ps 1,292	**Ps 1,715**

21] DEPOSITS

Liquidity coefficient

The "Investment regime for transactions in foreign currency and conditions to be fulfilled during the term of transactions in such currency", designed for credit institutions by Banco de México, establishes the mechanism for determining the liquidity coefficient of liabilities denominated in foreign currency.

In accordance with such regime, during 2005 and 2004 the Financial Group generated a liquidity requirement of Ps 42,726 and Ps 10,293 thousands, respectively, and held investments in liquid assets of USD 234,033 and USD 247,548 thousands, holding a surplus of USD 191,307 and USD 237,255 thousands, respectively.

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Deposits

As of December 31, 2005 and 2004, liabilities derived from traditional deposits consist of the following:

	2005	2004
Immediately due and payable deposits		
Checking accounts earning no interest	Ps 28,426	Ps 25,478
Checking accounts earning interest	24,052	20,176
Checking accounts in US dollars	4,015	4,676
Checking accounts in US dollars for individual residents of the Mexican border	2,281	2,252
Savings accounts	4	4
Demand deposit accounts	16,679	14,326
IPAB checking accounts	584	257
	Ps 76,041	**Ps 67,169**
Time deposits		
Over-the-counter promissory notes	47,525	44,640
Money market promissory notes	2,974	11,295
Fixed-term deposits	9,203	7,607
Time deposits from banks	329	328
Provision for interest	1,366	1,094
	Ps 61,397	**Ps 64,964**
	Ps 137,438	**Ps 132,133**

The funding rates which the Financial Group uses as reference are: a) for Mexican pesos, Interbank Interest Rate (TIIE), Average Cost of Funds (CCP) and; b) for foreign currency, the London Interbank Offered Rate (LIBOR).

These liabilities earn interest depending on the type of instrument and average balance held in the investments. The average interest rates and their currency of reference are shown below:

BANORTE

Immediately due and payable deposits:

	2005				2004			
Foreign exchange	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Mexican pesos and UDIs	1.14%	1.34%	1.36%	1.21%	1.59%	1.81%	1.32%	1.82%
Foreign currency	0.78%	0.80%	0.86%	0.89%	0.61%	0.70%	0.75%	0.85%

Time deposits:

	2005				2004			
Foreign exchange	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
General public								
Mexican pesos and UDIs	6.24%	6.36%	6.92%	6.78%	4.75%	5.23%	5.72%	6.39%
Foreign currency	1.17%	1.31%	1.54%	1.62%	0.42%	0.64%	0.83%	1.12%
Money market								
Mexican pesos and UDIs	9.97%	12.88%	12.29%	11.02%	7.52%	8.12%	8.60%	9.14%

BANCEN

Time deposits:

Currency	2005 1Q	2005 2Q	2005 3Q	2005 4Q	2004 1Q	2004 2Q	2004 3Q	2004 4Q
Money market								
Mexican pesos and UDIs	9.16%	9.80%	9.72%	8.78%	6.76%	6.46%	7.15%	8.34%

As of December 31, 2005 and 2004, the terms at which these deposits are negotiated are as follows:

	2005 From 1 to 179 days	2005 From 6 to 12 months	2005 Over 1 year	2005 Total
Demand deposits				
Checking accounts earning no interest	Ps 28,426	Ps -	Ps -	Ps 28,426
Checking accounts earning interest	24,052	-	-	24,052
Checking accounts in US dollars	4,015	-	-	4,015
Checking accounts in US dollars for individua residents of the Mexican border	2,281	-	-	2,281
Savings accounts	4	-	-	4
Demand deposit accounts	16,679	-	-	16,679
IPAB checking accounts	584	-	-	584
	Ps 76,041	**Ps -**	**Ps -**	**Ps 76,041**
Money market promissory notes	46,974	292	3,233	50,499
Fixed term deposits	8,468	565	170	9,203
Time deposits from banks	0	0	329	329
Provision for interest	158	8	1,200	1,366
	Ps 55,600	**Ps 865**	**Ps 4,932**	**Ps 61,397**
	Ps 131,641	**Ps 865**	**Ps 4,932**	**Ps 137,438**

	2004 From 1 to 179 days	2004 From 6 to 12 months	2004 Over 1 year	2004 Total
Immediately due and payable deposits				
Checking accounts earning no interest	Ps 25,478	Ps -	Ps -	Ps 25,478
Checking accounts earning interest	20,176	-	-	20,176
Checking accounts in US dollars	4,676	-	-	4,676
Checking accounts in US dollars for individual residents of the Mexican border	2,252	-	-	2,252
Savings accounts	4	-	-	4
Demand deposit accounts	14,326	-	-	14,326
IPAB checking accounts	257	-	-	257
	Ps 67,169	**Ps -**	**Ps -**	**Ps 67,169**
Money market promissory notes	Ps 51,054	Ps 1,252	Ps 3,629	Ps 55,935
Fixed term deposits	6,682	737	188	7,607
Time deposits from banks	-	-	328	328
Provision for interest	150	50	894	1,094
	Ps 57,886	**Ps 2,039**	**Ps 5,039**	**Ps 64,964**
	Ps 125,055	**Ps 2,039**	**Ps 5,039**	**Ps 132,133**

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22] INTERBANK AND OTHER LOANS

The loans received from other banks as of December 31, 2005 and 2004 are as follows:

	Denominated in					
	Mexican pesos		US dollars		Total	
	2005	2004	2005	2004	2005	2004
Bank deposits and loans	Ps 612	Ps 2,986	Ps 1,019	Ps -	Ps 1,631	Ps 2,986
Foreign bank deposits and loans	-	-	955	1,342	955	1,342
Rediscounted portfolio loans	11,933	10,491	416	1,568	12,349	12,059
Issue of CPOs	-	-	-	106	-	106
Call money	1,471	3,258	-	-	1,471	3,258
FOVI rediscounts	3,076	3,912	-	-	3,076	3,912
Provision for interest	67	28	21	13	88	41
Total	**Ps 17,159**	**Ps 20,675**	**Ps 2,411**	**Ps 3,029**	**Ps 19,570**	**Ps 23,704**

These liabilities earn interest, depending on the type of instrument and the average balance of the loans. Average interest rates are shown below:

BANORTE

	2005				2004			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Call money								
Mexican pesos and UDIs	9.14%	9.68%	9.66%	8.88%	5.98%	6.60%	7.22%	8.26%
Other interbank loans								
Mexican pesos and UDIs	8.04%	8.73%	7.67%	8.12%	7.28%	7.83%	6.91%	9.07%
Foreign currency	4.89%	5.00%	5.82%	5.62%	4.57%	4.56%	4.36%	4.80%

BANCEN

	2005				2004			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Call money								
Mexican pesos and UDIs	8.92%	-	9.84%	8.37%	5.50%	6.34%	7.02%	8.67%
Other interbank loans								
Mexican pesos and UDIs	4.79%	3.58%	-	-	6.55%	3.90%	2.53%	7.65%
Foreign currency	8.52%	9.17%	9.45%	9.59%	7.38%	7.07%	7.49%	8.31%

As of December 31, 2005 and 2004, the terms at which financial liabilities are traded are as follows:

	2005			2004
	Short-term	Long-term	Total	Total
Bank loans and deposits	Ps 967	Ps 664	Ps 1,631	Ps 2,986
Foreign bank loans and deposits	98	857	955	1,342
Rediscounted portfolio loans	5,478	6,871	12,349	12,059
Issue of CPOs	-	-	-	106
Call money	1,471	-	1,471	3,258
FOVI rediscounts	-	3,076	3,076	3,912
Provision for interest	88	-	88	41
	Ps 8,102	**Ps 11,468**	**Ps 19,570**	**Ps 23,704**

23] EMPLOYEE RETIREMENT OBLIGATIONS

The Financial Group recognizes the liabilities for pension plans and seniority premium by using the financing method known as the "Projected unit credit method", which considers the benefits accrued at the valuation date and the benefits generated during the year.

The amount of current and projected benefits as of December 31, 2005 and 2004, relative to the defined benefit pension plan and seniority premiums, determined by independent actuaries, is analyzed below:

	2005			
	Pension plan	Seniority premiums	Medical services	Total
Projected benefit obligation (PBO)	Ps (646)	Ps (94)	Ps (944)	Ps (1,684)
Plan assets	651	125	424	1,200
Funded (unfunded) status	**5**	**31**	**(520)**	**(484)**
Transition asset (obligation)	80	(16)	434	498
Unrecognized plan amendments	(32)	(3)	-	(35)
Unrecognized actuarial (gains) losses	137	7	(18)	126
Net projected asset (liability)	**Ps 190**	**Ps 19**	**Ps (104)**	**Ps 105**
Current benefit obligation (CBO)	**Ps 617**	**Ps 81**	**Ps -**	**Ps 698**

	2004			
	Pension plan	Seniority premiums	Medical services	Total
Projected benefit obligation (PBO)	Ps (599)	Ps (101)	Ps (870)	Ps (1,570)
Plan assets	653	121	348	1,122
Funded (unfunded) status	**(54)**	**(20)**	**522**	**448**
Transition asset (obligation)	(84)	14	(444)	(514)
Unrecognized plan amendments	22	3	-	25
Unrecognized actuarial (gains) losses	(85)	(22)	25	(82)
Net projected asset (liability)	**Ps (201)**	**Ps (25)**	**Ps 103**	**Ps (123)**
Current benefit obligation (CBO)	**Ps 527**	**Ps 62**	**Ps -**	**Ps 589**

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The Financial Group has a net accounting provision of zero as the Plan assets exceed the labor obligation, which is used to meet the above-mentioned obligations, in accordance with Bulletin D-3 and amounts to Ps 1,605 (Ps 1,416 in 2004). The net projected asset is recorded in the consolidated balance sheets under the heading of "Other assets".

For the years ended December 31, 2005 and 2004, net periodic cost is comprised as follows:

	2005	2004
Service cost	Ps 53	Ps 56
Interest cost	79	70
Expected return on plan assets	(61)	(57)
Amortization:		
Transition liability	28	26
Plan amendments	(1)	(1)
Net periodic cost	**Ps 98**	**Ps 94**

The rates used in the calculation of the projected benefit obligation and return on plan assets are shown below:

	2005	2004
Discount rate	5.50%	5.50%
Rate of wage increase	1.00%	1.00%
Rate of increase in costs and expenses of other postretirement benefits	2.00%	2.00%
Expected long-term rate of return on plan assets	6.50%	6.50%

As of 2005 the liability for remunerations at the end of the work relationship (severance indemnities) was included in the Financial Group's consolidated financial statements as shown below:

Projected benefit obligation (PBO)	Ps (129)
Plan assets	-
Unfunded status	**(129)**
Transition obligation	113
Unrecognized actuarial gains	(2)
Net projected liability	**Ps (18)**

The net periodic cost for 2005, adjusted for inflation, is shown below:

Service cost	Ps 23
Interest cost	6
Amortization of transition obligation	12
Net periodic cost	**Ps 41**

The balance of the employee retirement obligations presented in this note refer to the Financial Group's defined benefit pension plan, relative to the employees who decided to remain enrolled.

Furthermore, the Financial Group has an optional defined contribution pension plan, which replaced the defined benefit pension plan. The participating employees in the new plan were enrolled voluntarily, for which reason there are certain employees who preferred to remain enrolled the previous plan denominated "Defined benefit pension plan" and which as of December 31, 2005 has the amount of Ps 550, recorded under the heading of "Other assets".

Those employees who decided to enroll in the defined contribution pension plan are entitled to receive a benefit for past services, by allocating 50% immediately, while the remaining 50% will be amortized over 10 years (receiving the first payment at the initiation date of the new plan).

The labor obligations derived from the defined contribution pension plan do not require an actuarial valuation as established in Bulletin D-3, because the cost of this plan is equivalent to the Financial Group's contributions made to the plan's participants.

The initial allocation of the benefit for prior services was financed by the defined benefit fund associated with the early discharge of obligations, recognized under the guidelines of Bulletin D-3.

24] SUBORDINATED DEBENTURES

	2005	2004
Senior subordinated debentures, maturing in 2014, denominated in US dollars, at an interest rate of 5.875%, payable semiannually with a final principal payment upon maturity	Ps 3,180	Ps 3,430
BANORTE 02D debentures, maturing in November 2012, at an annual interest rate of 8% for the first 10 semiannual periods and subject to review for the next 10 semiannual periods, which will not be less than 10% a year	1,191	1,283
Accrued interest payable and hedging swaps	183	31
	Ps 4,554	**Ps 4,744**

The costs related to these debentures are amortized using the straight-line method over the term of the debt.

25] TRANSACTIONS AND BALANCES WITH SUBSIDIARIES AND ASSOCIATED COMPANIES

Balances with subsidiaries and associated companies as of December 31, 2005 and 2004 are comprised as follows:

	Revenues		Accounts receivable	
	2005	2004	2005	2004
Arrendadora Banorte, S. A. de C. V.	Ps 77	Ps 62	Ps 886	Ps 603
Casa de Bolsa Banorte, S. A. de C. V.	325	52	-	-
Banco del Centro, S. A.	1,328	196	2,154	1,580
Almacenadora Banorte, S. A. de C. V.	6	8	107	115
Factor Banorte, S. A. de C. V.	51	40	662	179
Inmobiliaria Bancrecer, S. A. de C. V.	-	-	-	236
Inmobiliaria Innova, S. A. de C. V.	-	-	-	81
Inmobiliaria Banorte, S. A. de C. V.	-	-	-	25
Inmobiliaria Bra, S. A. de C. V.	-	-	2	-
Créditos Pronegocio, S. A. de C. V.	19	-	287	-
	Ps 1,806	**Ps 358**	**Ps 4,098**	**Ps 2,819**

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	Expenses		Accounts payable	
	2005	2004	2005	2004
Grupo Financiero Banorte, S. A. de C.V.	Ps 7	Ps 5	Ps 63	Ps 60
Arrendadora Banorte, S. A. de C.V.	30	69	14	51
Casa de Bolsa Banorte, S. A. de C.V.	2,269	1,373	-	4
Banco del Centro, S. A.	193	6	385	1,776
Banorte Generali, S. A. de C.V. AFORE	-	-	2	2
Almacenadora Banorte, S. A. de C.V.	4	3	4	71
Factor Banorte, S. A. de C.V.	-	-	40	37
Inmobiliaria Banorte, S. A. de C.V.	63	50	150	44
Constructora Primero, S. A. de C.V.	26	24	89	17
Inmobiliaria Bancrecer, S. A. de C.V.	48	34	56	31
Inmobiliaria Innova, S. A. de C.V.	19	10	107	27
Inmobiliaria Banormex, S. A. de C.V.	3	1	5	6
Inmobiliaria Finsa, S. A. de C.V.	8	2	16	18
Inmobiliaria Bra, S. A. de C.V.	18	14	9	6
Inmuebles de Occidente, S. A. de C.V.	4	2	11	13
Inmuebles de Tijuana, S. A. de C.V.	-	-	3	3
Créditos Pronegocio, S. A. de C.V.	1	-	1	-
	Ps 2,693	**Ps 1,593**	**Ps 955**	**Ps 2,166**

Pursuant to article 73 of the Mexican Financial Group Law, the loans granted by the Financial Group to related parties (belonging to the financial sector or not) cannot exceed 65% of the basic portion of their net capital. As of December 31, 2005 and 2004, the amount of the loans granted to related parties is Ps 6,082 and Ps 3,889, respectively, representing 51% and 42%, respectively, of the basic portion of their net capital at such dates.

Sale of portfolio packages between related parties:

In February 2003 Banorte sold Ps 1,925 (nominal value) of its own portfolio (with interest) to its subsidiary Sólida Administradora de Portafolios, S. A. de C. V. ("Sólida") at a price of Ps 378 (nominal value). Of this transaction, Ps 1,891 (nominal value) related to past-due amounts and Ps 64 (nominal value) to the current portfolio. The transaction was recorded based on figures as of August 2002, for which reason the final amount affecting the February 2003 balance sheet was Ps 1,856 (nominal value), considering the collections made since August 2002. In conjunction with the sold portfolio, Ps 1,577 (nominal value) of the associated allowance for loan losses was transferred as well.

In official letter 601-II-323110 dated November 5, 2003, the Commission set forth the accounting criteria to be applied to this transaction and issued a series of rulings whereby the Financial Group must provide detailed information on the activities of this transaction throughout its duration, on the understanding that this transaction was a one-time event and not a recurring portfolio transfer procedure.

Pursuant to the foregoing, below is a summary of the activity of the loan portfolio sold to Sólida since August 2003 and as of December 31, 2004 and 2005:

	Mexican pesos			Foreign currency value			Total		
Type of portfolio	Aug 02	Dec 04	Dec 05	Aug 02	Dec 04	Dec 05	Aug 02	Dec 04	Dec 05
Current portfolio									
Commercial	Ps 5	Ps 4	Ps 2	Ps 5	Ps -	Ps -	Ps 10	Ps 4	Ps 2
Mortgage	54	107	89	-	-	-	54	107	89
	59	**111**	**91**	**5**	**-**	**-**	**64**	**111**	**91**
Past-due portfolio									
Commercial	405	317	418	293	236	148	698	553	566
Consumer	81	77	75	-	-	-	81	77	75
Mortgage	1,112	708	588	-	-	-	1,112	708	588
	1,598	**1,102**	**1,081**	**293**	**236**	**148**	**1,891**	**1,338**	**1,229**
	Ps 1,657	**Ps 1,213**	**Ps 1,172**	**Ps 298**	**Ps 236**	**Ps 148**	**Ps 1,955**	**Ps 1,449**	**Ps 1,320**
Allowance for loan losses (1)									
Commercial	Ps 326	Ps 315	Ps 402	246	Ps 219	Ps 140	Ps 572	Ps 534	Ps 542
Consumer	77	77	74	-	-	-	77	77	74
Mortgage	669	634	536	-	-	-	669	634	536
	Ps 1,072	**Ps 1,026**	**Ps 1,012**	**Ps 246**	**Ps 219**	**Ps 140**	**Ps 1,318**	**Ps 1,245**	**Ps 1,152**

(1) Allowances required based on the classification methodology applied by the Financial Group.
(2) Banorte holds 99.99% of the stockholders' equity of Sólida.

As of December 31, 2005, the composition of the Banorte loan portfolio, including the loan portfolio sold to Sólida, is as follows:

	Mexican pesos		Foreign currency value		Total	
Type of portfolio	Dec 05	Dec 04	Dec 05	Dec 04	Dec 05	Dec 04
Commercial loans	Ps 43,505	Ps 35,609	Ps 7,387	Ps 6,928	Ps 50,892	Ps 42,537
Loans to finance entities	2,849	884	803	237	3,652	1,122
Consumer loans	12,891	11,738	1	3	12,892	11,741
Housing mortgage loans	23,663	18,932	-	-	23,663	18,932
Loans to government agencies	14,645	18,704	522	399	15,167	19,103
IPAB credits	161	7,150	-	-	161	7,150
Current portfolio	**97,714**	**93,017**	**8,713**	**7,567**	**106,427**	**100,584**
Commercial loans	865	708	223	307	1,088	1,015
Consumer loans	472	426	-	-	472	426
Loans to government agencies	-	13	-	-	-	13
Housing mortgage loans	1,342	1,535	-	-	1,342	1,535
Past-due portfolio	**2,679**	**2,682**	**223**	**307**	**2,902**	**2,989**
Total portfolio	**100,393**	**95,699**	**8,936**	**7,874**	**109,329**	**103,573**
Allowance for loan losses	3,631	3,447	330	445	3,961	3,855
Net portfolio	**Ps 96,762**	**Ps 92,252**	**Ps 8,606**	**Ps 7,424**	**Ps 105,368**	**Ps 99,718**
Portfolio reserves					136.49%	128.97%
% of past-due portfolio					2.65%	2.88%

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26] INFORMATION BY SEGMENT

To analyze the financial information of the Financial Group, the data of the most representative segments as of December 31, 2005 are presented, without considering the eliminations relative to the consolidation of the financial statements.

The balances by service sector of the Financial Group are as follows:

Banking Sector:	2005
Net income	Ps 5,411
Stockholders' equity	18,770
Total portfolio	111,777
Past-due portfolio	1,770
Allowance for loan losses	2,967
Total net assets	182,607

Brokerage Sector:	
Net income	Ps 74
Stockholders' equity	549
Portfolio in custody	119,411
Total net assets	899

Long Term Savings Sector:	
Net income	Ps 765
Stockholders' equity	2,342
Total net assets	13,036

Auxiliary Organizations Sector:	
Net income	Ps 182
Stockholders' equity	814
Total portfolio	6,605
Past-due portfolio	66
Allowance for loan losses	93
Total net assets	7,368

The current loan portfolio, grouped by economic sector and geographical location, is as follows:

	2005				
	Geographical location in Mexico				
Economic Sector	North	Center	West	South	Total
Agriculture	Ps 1,582	Ps 1,206	Ps 523	Ps 403	Ps 3,714
Mining	42	13	8	18	81
Manufacturing	5,344	2,662	1,429	369	9,804
Construction	1,599	1,454	286	236	3,575
Public utilities	24	8	1	-	33
Commerce, restaurants and hotels	4,353	3,388	2,461	2,248	12,450
Transportation and communications	2,587	886	113	274	3,860
Financial services	6,280	4,497	605	1,412	12,794
Communal, social and personal services	1,524	4,721	462	599	7,306
Business, professional and civic groups	9	216	21	2	248
Public administration services	4,707	4,385	821	4,704	14,617
International organization services	2	-	1	-	3
Credit card					6,225
Consumer					9,303
Housing mortgage					23,783
Credits to FOBAPROA or IPAB, ADE, FOPYME and FINAPE					319
Consumer					(17)
Hedging swaps					(43)
Loans from Arrendadora Banorte					2,306
Loans from Factor Banorte					3,806
Loans from Pronegocio Banorte					324
Current loan portfolio					**Ps 114,491**

	2004				
	Geographical location in Mexico				
Economic Sector	North	Center	West	South	Total
Agriculture	Ps 1,085	Ps 699	Ps 456	Ps 294	Ps 2,534
Mining	49	72	9	4	134
Manufacturing	6,132	2,564	1,126	328	10,150
Construction	1,623	1,302	293	149	3,367
Public utilities	2	6	1	-	9
Commerce, restaurants and hotels	4,388	3,317	2,145	863	10,713
Transportation and communications	2,449	321	63	80	2,913
Financial services	4,496	5,132	489	208	10,325
Communal, social and personal services	1,238	1,381	354	283	3,256
Business, professional and civic groups	12	1	27	1	41
Public administration services	4,223	4,398	632	4,079	13,332
International organization services	2	-	-	-	2
Credit cards					3,865
Consumer					7,875
Housing mortgage					19,064
Credits to FOBAPROA or IPAB, ADE, FOPYME and FINAPE					12,933
Hedging swaps					(84)
Loans from Arrendadora Banorte					1,727
Loans from Factor Banorte					3,133
Current loan portfolio					**Ps 105,289**

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The past-due loan portfolio, grouped by economic segment and geographical location, is summarized as follows:

	2005				
	Geographical location in Mexico				
Economic Sector	North	Center	West	South	Total
Agriculture	Ps 15	Ps 34	Ps 33	Ps 1	Ps 83
Mining	1	-	2	-	3
Manufacturing	47	66	61	7	181
Construction	6	33	2	1	42
Commerce, restaurants and hotels	54	67	62	10	193
Transportation and communication	1	18	1	3	23
Financial services	6	1	5	-	12
Communal, social and personal services	9	31	4	4	48
Business groups	1	-	-	-	1
Credit card					213
Consumer					199
Housing mortgage loans					767
Other					5
Loans from Arrendadora Banorte					32
Loans from Factor Banorte					33
Loans from Pronegocio Banorte					15
Total past-due portfolio					**Ps 1,850**

	2004				
	Geographical location in Mexico				
Economic Sector	North	Center	West	South	Total
Agriculture	Ps 47	Ps 9	Ps 26	Ps 1	Ps 83
Mining	1	-	-	-	1
Manufacturing	65	60	50	4	179
Construction	26	6	3	2	37
Commerce, restaurants and hotels	81	46	94	13	234
Transportation and communications	7	10	3	-	20
Financial services	6	-	-	-	6
Communal, social and personal services	19	13	4	4	40
Business groups	-	5	-	-	5
Public administration services	9	-	-	-	9
International organization services	1	-	-	-	1
Other past-due debts					8
Credit card					170
Consumer					179
Housing mortgage loans					844
Loans from Arrendadora					17
Loans from Factor					26
Past-due loan portfolio					**Ps 1,857**

Deposit accounts grouped by product and geographical location are as follows:

	2005						
	Geographical location in Mexico						
Product	Monterrey	Mexico City	West	Northwest	Southeast	Treasury and other	Total
Checking accounts earning no interest	Ps 7,058	Ps 9,455	Ps 3,828	Ps 3,712	Ps 3,873	Ps 70	Ps 27,996
Checking accounts earning interest	5,805	13,428	3,686	4,374	4,767	75	32,135
Savings	1	1	-	-	-	-	2
Current account pesos and preestablished	1,669	2,750	1,023	1,564	1,427	46	8,479
Non interest bearing demand deposits, USD	85	197	65	346	114	-	807
Interest bearing demand deposits, USD	1,491	1,787	468	2,080	214	(1)	6,039
Over the counter promissory notes	6,260	13,592	4,664	3,995	4,781	171	33,463
Time deposits, US dollars	1,631	2,194	1,452	763	607	13	6,660
Money desk customers	3,602	5,004	2,905	1,147	1,200	-	13,858
Financial intermediary	-	-	-	-	-	6,235	6,235
FOBAPROA checking, earning interest	598	-	-	-	-	1,171	1,769
Hedging swaps	-	-	-	-	-	(5)	(5)
Total deposits	**Ps 28,200**	**Ps 48,408**	**Ps 18,091**	**Ps 17,981**	**Ps 16,983**	**Ps 7,775**	**Ps 137,438**

	2004						
	Geographical location in Mexico						
Product	Monterrey	Mexico City	West	Northwest	Southeast	Treasury and other	Total
Checking accounts, no interest	Ps 7,631	Ps 8,329	Ps 4,564	Ps 3,174	Ps 1,245	Ps (22)	Ps 24,921
Checking accounts earning interest	2,190	9,968	3,837	2,538	1,685	(1)	20,217
Savings	1	1	1	-	-	-	3
Current account pesos and preestablished	3,533	4,912	2,442	2,403	866	156	14,312
Non interest bearing demand deposits, USD	113	98	130	228	12	-	581
Interest bearing demand deposits, USD	1,748	2,011	663	2,269	66	1	6,758
Over the counter promissory notes	5,568	12,139	5,574	3,490	2,426	-	29,197
Time deposits, US dollars	2,397	2,267	1,741	842	245	14	7,506
Money desk customers	4,537	4,430	3,996	1,183	798	-	14,944
Financial intermediary	-	-	-	-	-	12,343	12,343
FOBAPROA checking, earning interest	257	-	-	-	-	1,095	1,352
Hedging swaps	-	-	-	-	-	(1)	(1)
Total deposits	**Ps 27,975**	**Ps 44,155**	**Ps 22,948**	**Ps 16,127**	**Ps 7,343**	**Ps 13,585**	**Ps 132,133**

27] TAX ENVIRONMENT

The Financial Group and its subsidiaries are subject to ISR and IMPAC. ISR is calculated by considering certain effects of inflation as taxable or deductible, such as depreciation calculated on values in constant pesos, and the effect of inflation on certain monetary assets and liabilities is accrued or deducted through the annual adjustment for inflation.

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The corporate tax rate is 30%, and based on amendments to the tax regulations approved by the Federal Congress enacted in 2005, the rate will decrease to 29% in 2006 and to 28% for 2007 and thereafter.

Furthermore, IMPAC is incurred at the rate of 1.8% on the average net amount of assets not subject to brokerage (at restated values) and of certain liabilities, and is paid only on the amount by which it exceeds ISR for the year. Any payment made can be recovered against the amount by which ISR exceeds IMPAC over the next 10 fiscal years. For the year 2005, the Financial Group incurred ISR.

Accounting-tax reconciliation

The principal items affecting the determination of the tax result of the Financial Group and its subsidiaries were the annual adjustment for inflation, the deduction of the allowance for loan losses, without exceeding 2.5% of the average loan portfolio, the deduction of the reserve for shared losses with IPAB and the valuation of financial instruments.

Tax loss carryforwards and recoverable IMPAC

The Financial Group utilized tax loss carryforwards during the year, recording a deferred tax benefit of Ps 801.

Employee statutory profit sharing

The Financial Group and its subsidiaries determine employee statutory profit sharing based on the treatment established in the guidelines set forth by the Mexican Constitution.

28] STOCKHOLDERS' EQUITY

At the Stockholders' Ordinary General Meetings held on April 28 and October 6, 2005, the following resolutions were adopted, among others:

a) To transfer the net income for the year ended 2004 of Ps 2,697 (Ps 2,621 at nominal value) to retained earnings from prior years, and increase the legal reserve by Ps 134 (Ps 131 at nominal value) equivalent to 5% of net income for the year.
b) Declare cash dividends of Ps 637 (Ps 631 at nominal value).
c) Increase common stock by Ps 5,332 (Ps 5,298 at nominal value) by capitalizing results from prior years.

As a result of the above resolutions, the Financial Group's common stock as of December 31, 2005 and 2004 is comprised as follows:

	Number of shares at par value of Ps 3.50					
	2005			2004		
	Common stock	Shares issued (not subscribed)	Paid-in capital	Common stock	Shares issued (not subscribed)	Paid-in capital
Series "O"	2,018,554,148	-	2,018,554,148	504,586,887	-	504,586,887

	Historical amounts					
	2005			2004		
	Common stock	Shares issued (not subscribed)	Paid-in capital	Common stock	Shares issued (not subscribed)	Paid-in capital
Series "O"	Ps 7,065	-	Ps 7,065	Ps 1,766	-	Ps 1,766
Restatement to pesos of December 31, 2005			4,052			4,018
			Ps 11,117			**Ps 5,784**

Restrictions on profits

Stockholders' equity, except restated paid-in capital and tax retained earnings, will be subject to a tax payable by the Financial Group at the rate in effect when the dividend is distributed. Any tax paid on such distribution may be credited against the income tax payable of the year in which the tax on the dividend is paid and the two fiscal years following such payment.

The Financial Group's net profit is subject to the requirement that at least 5% of net income of each year be transferred to the legal reserve until the reserve equals 20% of capital stock at par value. The legal reserve may not be distributed to the stockholders during the life of the Financial Group, except in the form of a stock dividend.

Capital reserves

In accordance with official letter No. 601-II-77797 dated October 16, 2000, in which the Commission authorized Banorte, on a one-time basis and as an exception, to affect capital reserves and establish the allowance for loan losses determined to cover contingencies for loss sharing and the "Incentive arrangement" related to the "Arrangement for sharing loan portfolio flows with FOBAPROA". In accordance with the creation of such reserves, deferred taxes were recorded directly in the "Capital reserves" account in stockholders' equity.

Pursuant to the expiration of the trust contract number 1989-0, during November 2005 Banorte canceled part of the respective loss sharing reserve, recognizing the cancellation of deferred taxes which it had created in the "Capital reserves" account, in the amount of Ps 178.

Capitalization ratio

The capitalization rules for financial institutions establish requirements for specific levels of net capital, as a percentage of assets subject to both market and credit risk; however, in order to calculate net capital, deferred taxes will represent a maximum of 20% of basic capital.

The capitalization ratios of Banorte and Bancen as of December 31, 2005 were 15.01% and 24.41% of total risk (market and credit), respectively, and 18.7% and 103.43% of credit risk, respectively, which in both cases exceed the current regulatory requirements.

The amount of net capital, divided by basic and complementary capital, is detailed below:

Net capital:

	Banorte	Bancen
Basic capital:		
Stockholders' equity	Ps 14,537	Ps 4,233
Deduction of investments in shares of finance entities	77	447
Deduction of investments in shares of nonfinance entities	643	-
Deduction of deferred taxes	455	116
Preoperating expenses, other intangibles	667	-
Basic capital without deferred tax assets	**12,695**	**3,670**
Deferred assets	455	116
Subordinated debentures	1,198	-
Subtotal basic capital	**14,348**	**3,786**
Complementary capital:		
Capitalization instruments	3,251	-
Allowance for loan losses	570	18
Subtotal complementary capital	**3,821**	**18**
Net capital	**Ps 18,169**	**Ps 3,804**

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Assets subject to risk are detailed below:

Assets subject to market risk

Banorte	Positions weighted by risk	Capital requirement
Transactions in Mexican pesos, with nominal interest rates	Ps 1,187	Ps 14,835
Transactions in UDIs or Mexican pesos, with real interest rates	21	265
Transactions in foreign currency or indexed to foreign exchange rates with interest rates	411	5,138
Transactions in UDIs or Mexican pesos with yields referenced to the National Consumer Price Index	-	1
Transactions in foreign currency or indexed to foreign exchange rates	59	743
Transactions with shares or with yields referenced to the price of a share, group of shares or share index	8	95
	Ps 1,686	**Ps 21,077**

Bancen	Positions weighted by risk	Capital requirement
Transactions in Mexican pesos with nominal interest rates	Ps 928	Ps 11,596
Transactions in UDIs or Mexican pesos with real interest rates	15	188
Transactions in foreign currency or indexed to foreign exchange rates with interest rates	-	5
Transactions in UDIs or Mexican pesos with yields referenced to the National Consumer Price Index	-	1
Transactions in foreign currency or indexed to foreign exchange rates	3	40
Transactions with shares or with yields referenced to the price of a share, group of shares or share index	6	76
	Ps 952	**Ps 11,906**

Assets subject to credit risk

Banorte	Assets weighted by risk	Capital requirement
Group II (weighted at 20%)	Ps 731	Ps 9,132
Group III (weighted at 100%)	6,877	85,966
Other	391	4,883
	Ps 7,999	**Ps 99,981**

Bancen	Assets weighted by risk	Capital requirement
Group II (weighted at 20%)	Ps 55	Ps 690
Group III (weighted at 100%)	239	2,988
Other	-	-
	Ps 294	**Ps 3,678**

29] FOREIGN CURRENCY POSITION

As of December 31, 2005 and 2004, the Financial Group holds certain assets and liabilities in foreign currency, mainly US dollars, converted at the exchange rate issued by Banco de México of Ps 10.6344 and Ps 11.1495 per US Ps 1.00, respectively, as shown below:

	Thousands of US dollars	
	2005	2004
Assets	1,727,135	1,729,882
Liabilities	1,679,789	1,694,385
Net asset position in US dollars	**47,346**	**35,497**
Net asset position in Mexican pesos	**Ps 503**	**Ps 396**

30] POSITION IN UDIS

As of December 31, 2005 and 2004, the Financial Group holds certain assets and liabilities denominated in UDIs, converted to Mexican pesos based on the current equivalency of Ps 3.637532 and Ps 3.534716, per UDI, respectively, as shown below:

	Thousands of UDIs	
	2005	2004
Assets	176,722	124,455
Liabilities	94,541	96,474
Net asset position in UDIs	**82,181**	**27,981**
Net asset position in Mexican pesos	**Ps 299**	**Ps 99**

31] NET INCOME PER SHARE

Net income per share is the result of dividing net income by the weighted average number of shares outstanding during the year of the Financial Group.

Below is a summary of the results prior to December 31, 2005 and 2004:

	2005			2004
	Income	Weighted average share	Net income per share	Net income per share
Net income per share	Ps 5,719	664,262,673	Ps 8.6091	Ps 5.1953

32] PREVENTIVE AND SAVINGS PROTECTION MECHANISM

In December 1998, the Federal Congress approved a draft law establishing the gradual elimination of FOBAPROA as of January 1, 1999, and the creation of IPAB, which assumed the assets of FOBAPROA, and the obligations assumed by the latter as a result of the bank clean-up process.

Pursuant to Temporary Article 5 of the Bank Savings Protection Law, on July 18, 1999 IPAB issued the general rules for implementation of the PCCC, which were applied to those institutions that elected to terminate the contracts executed with FOBAPROA and to subsequently execute contracts of the New Program with IPAB.

As a result of the changes described above, the New Program Contract was executed with IPAB, which allow IPAB to perform the GEL Audits of all loans generating resources for IPAB.

During 2005 and 2004, the amount of contributions to IPAB payable by the Financial Group for fees amounted to Ps 601 and Ps 782, respectively.

33] RISK MANAGEMENT

The information presented below is unaudited and might differ from its presentation with the financial statements.

Credit risk

Credit Risk is the risk that the customers will not comply with their payment obligations; therefore, adequate risk management is essential to maintain a high quality loan portfolio.

The credit risk management objectives in Grupo Financiero Banorte (GFNorte) are as follows:

- Improve the quality, diversification and composition of the loan portfolio to optimize the risk-return ratio.
- Provide senior management with reliable and timely information to support decision-making in credit matters.
- Provide the business departments with clear and sufficient tools to support credit placement and follow up.
- Support the creation of economic value for shareholders by means of efficient credit risk management.
- Define and constantly update the regulatory framework for credit risk management.
- Comply with the credit risk management reporting requirements established by the relevant authorities.
- Perform risk management in accordance with best practices; implementing models, methodologies, procedures and systems based on the latest international advances.

Individual credit risk

The Financial Group segments the loan portfolio into two large groups (the consumer and corporate portfolios).

Individual credit risk for the consumer portfolio is identified, measured and controlled by means of a parametric system (scoring) which includes models for each of the consumer products: mortgage, automotive, payroll credit, personal and credit card.

Individual risk for the corporate portfolio is identified, measured and controlled by means of the Target Markets, the Risk Acceptance Criteria and the Banorte Internal Risk Classification (CIR Banorte).

The Target Markets and Risk Acceptance Criteria are tools which, together with the Internal Risk Classification, form part of the credit strategy of GFNorte and support the estimate of the credit risk level.

The Target Markets are activities selected by region and economic activity - supported by economic studies and portfolio behavior analyses - in which Banorte wishes to place credits.

The Risk Acceptance Criteria are parameters which describe the risks identified by industries, facilitating an estimate of the risk involved for GFNorte in granting a credit to a customer depending on the economic activity which it performs. The types of risks evaluated in the Risk Acceptance Criteria are the financial risk, operating risk, market risk, company lifecycle risk, legal and regulatory risk, credit history and quality of management.

The CIR Banorte is in line with the "General Regulations applicable to the classification methodology for the loan portfolio of credit institutions" issued by the National Banking and Securities Commission on August 20, 2004. The CIR Banorte has been certified by the CNBV and by an international external auditor since 2001.

The CIR Banorte is applied to a commercial portfolio equal to or exceeding an amount equivalent in Mexican pesos to 900,000 UDIs at the classification date.

Portfolio credit risk

GFNorte has designed a portfolio credit risk methodology which, while also including the best and most current international practices with regard to identification, measurement, control and follow up, has been adapted to function within the context of the Mexican financial system.

The credit risk methodology identifies the exposure of all the loan portfolios of GFNorte (including those of Banco Mercantil de Norte and Banco del Centro), overseeing risk concentration levels based on risk classifications, geographical regions, economic activities, currencies and type of product, for the purpose of ascertaining the portfolio profile and taking actions to diversify it and maximize profit with the lowest possible risk.

The calculation of loan exposure involves the generation of the cash flow from each of the loans, both in terms of principal and interest, for their subsequent discount. This exposure is sensitive to market changes, and facilitates the performance of calculations under different economic scenarios.

Apart from considering loan exposure, the methodology takes into account the probability of default, the recovery level associated with each customer and the sorting of the borrowers based on the Merton model. The probability of default is the probability that a borrower will not comply with its debt obligation to GFNorte on the terms and conditions originally agreed. The probability of default is based on the transition matrixes which GFNorte calculates as of the migration of the borrowers to different risk classification levels. The recovery level is the percentage of the total exposure that is expected to be recovered if the borrower defaults on its obligations. The sorting of the borrowers based on the Merton model is intended to tie the future behavior of the borrower to credit and market factors on which, using statistical techniques, the borrower's "credit health" depends.

The primary results obtained are the expected loss and unexpected loss over a one-year horizon. The expected loss is the median of the distribution of losses of the loan portfolio, which enables a measurement of the average loss expected in the following year due to noncompliance or variations in the credit status of the borrowers. The unexpected loss is an indicator of the loss expected under extreme circumstances, and is measured as the difference between the maximum loss based on the distribution of losses, at a specific confidence level, which in the case of GFNorte is 95%, and the expected loss.

The results obtained are used as a tool for better decision-making in granting loans and portfolio diversification, in accordance with the global strategy of GFNorte. The individual risk identification tools and the portfolio credit risk methodology are reviewed and updated periodically to incorporate new techniques that can support or strengthen them.

As of December 31, 2005, the total portfolio of the Financial Group's banks is Ps 111,458. The expected loss represents 1.9% and the unexpected loss represents 4.0% of the total portfolio. The average of the expected loss was 2% during the period from October to December 2005.

General rules for the diversification of risk in performing asset and liability transactions applicable to credit institutions:

In March 2003, the CNBV issued the "General rules for risk diversification in performing asset and liability transactions applicable to credit institutions", which is of mandatory application as of 2003.

These regulations require that banks perform an analysis of the borrowers and/or loans they hold to determine the amount of their "Common Risk". Also, banks must have the necessary documentation to support that a person or group of persons represents a common risk in accordance with the assumptions established under such Rules.

Banks, in granting financing to a person or group of persons representing common risk, must adjust to the maximum financing level resulting from applying to basic capital a factor tied to the banks' capitalization level.

Furthermore, in terms of securing public resources, the Financial Group's banks should diversify their risks, ensuring an adequate composition of liabilities based on the placement of the resources secured.

In compliance with the risk diversification rules for asset and liability transactions, below is a summary of the information relative to Banco Mercantil del Norte (in millions of Mexican pesos):

Basic capital as of September 30, 2005	Ps 13,747
I. Financing whose individual amount represents more than 10% of basic capital:	
Credit transactions	
Number of financings	2
Amount of financings taken as a whole	Ps 3,863
% in relation to basic capital	28%
Money market transactions	
Number of financings	9
Amount of financings taken as a whole	Ps 18,059
% in relation to basic capital	131%
II. Maximum amount of financing with the 3 largest debtors and common risk groups.	Ps 8,812

Also, below is the respective information on Banco del Centro:

Basic capital as of September 30, 2005	Ps 3,794
I. Financings whose individual amount represents more than 10% of basic capital:	
Credit transactions	
Number of financings	0
Amount of financings taken as a whole	Ps 0
% in relation to basic capital	0%
Money market transactions	
Number of financings	2
Amount of financings taken as a whole	Ps 1,104
% in relation to basic capital	29%

Market risk

Value at Risk

The exposure to market risk is determined through the calculation of the Value at Risk ("VaR"). The meaning of the VaR under this method is the potential one day loss which could be generated in the valuation of the portfolios at a given date. This methodology is used both for the calculation of market risk and for the establishment and control of internal limits.

The banking sector and the Financial Group's securities subsidiary ("Casa de Bolsa") apply the nonparametric historical simulation method to calculate the VaR, considering for such purpose a 99% confidence level, using the 500 immediate historical scenarios, multiplying the result by a security factor that ensures the coverage of unforeseen volatilities in the primary risk factors affecting such portfolios, which is established based on the behavior of the principal risk factors.

Such methodology is applied to all financial instrument portfolios within and beyond the scope, including money market and treasury transactions, capital, foreign exchange and derivatives held for trading and hedging purposes, which are exposed to variations in their value due to changes in the risk factors affecting their market valuation (domestic and foreign interest rates, exchange rates and indexes, among others).

The average VaR of the portfolio for the October to December 2005 quarter is Ps 333.

	4Q04	1Q05	2Q05	3Q05	4Q05
Total VaR *	250	273	298	372	333
Net capital **	18,108	19,150	20,331	21,763	22,411
VaR /Net capital	1.38%	1.43%	1.47%	1.71%	1.49%

* Quarterly average
** Sum of net capital at the close of the quarter for the banking sector and the global capital of Casa de Bolsa.

Also, the average of the VaR for the risk factor of the portfolio of instrument described for the banking sector and Casa de Bolsa behaved as follows during the fourth quarter of 2005:

Risk factor	VaR
Domestic interest-rate	273
Foreign interest rate	233
Exchange rate	187
Capital	4
Foreign currency bond prices	162
Total VaR	332

The VaR for each of the risk factors presented is determined by simulating 500 historical scenarios of the variables comprising each of such factors, maintaining constant the variables that affect the other risk factors shown. By the same token, the consolidated VaR for the Financial Group considers the correlations of all the risk factors influencing the valuation of the portfolios, for which reason the arithmetical sum of the VaR factor does not match.

Backtesting analysis

To validate the effectiveness of the measurements of the calculation of the daily VaR as a measurement of market risk, the Backtesting analysis is updated each week. This analysis makes it possible to compare the estimated results through the VaR with the actual results generated.

Sensitivity analyses and tests under extreme conditions

To improve analysis and obtain the impact of any movements in risk factors, sensitivity analyses and tests under extreme conditions are performed periodically. These analyses foresee potential situations in which the Financial Group might suffer extraordinary losses from the valuation of the financial instruments in which it holds positions.

Liquidity and balance sheet risk

In order to provide a measurement of liquidity risk in the banking sector and provide follow-up consistently, the banks support each other in the use of financial ratios, which include the Liquidity Ratio (Liquid Assets/Liquid Liabilities). Liquid assets include funds available, marketable securities and securities available for sale. By the same token, liquid liabilities include immediately due and payable deposits, immediately due and payable interbank loans and short-term loans.

To quantify and follow up on the liquidity risk for its dollar portfolio, the banking sector uses the criteria established by Banco de México for the determination of the Liquidity Ratio, which facilitates an evaluation of the differences between the flows of assets and liabilities in different time periods, thus generating a healthier distribution of terms for these assets.

Also, to prevent concentration risks in relation to payment terms and dates for each of the banks in the banking sector, gap analysis is performed to match the resources with the funding sources, which detects any concentration in a timely fashion. These analyses are performed separately by currency (Mexican pesos, foreign currency and UDIs).

Furthermore, balance sheet simulation analyses are prepared for each of the banks in the banking sector, which provides either a systematic or dynamic evaluation of the future behavior of the balance sheet. The base scenario is used to prepare sensitivity analyses for movements in domestic, foreign and real interest rates. Also, tests are performed under extreme conditions to evaluate the result of extreme changes in interest, funding and exchange rates.

As an evaluation measure of the effectiveness of the simulation model, the projections are periodically compared with real data. Using these tests, the assumptions and methodology used can be evaluated and, if necessary, adjusted.

Operating risk

As of January 2003, the banking sector of the Financial Group established a formal operating risk department denominated "Operating Risk Management Department" as part of its Risk Management Strategy. The department prepared an implementation master plan

(2004-2007) in accordance with the requirements of the local regulator, and approved by the Risk Policies Committee (CPR). The plan generally covers the corporate management of operating risk, the recording of loss events and the calculation of the capital requirement for operating risk.

The master plan consists of the following phases:

a. Close coordination with the Controllership, Internal Audit and the Risk Analysis areas,
b. Identify the main sources of information,
c. Creation of data base,
d. Determine the type of software for operating risk management and for calculation of the capital requirement for operating risk,
e. Acquire and develop software,
f. Install the software and perform tests, and
g. Generate reports through the management information system.

As the cornerstone of operating risk management, and bearing in mind the Basle II Agreement, the Financial Group has begun to record events that result in a real or potential economic loss, in order to have the bases to be able to calculate the capital requirement.

The Operating Risk department coordinates with the Internal Audit and Controllership departments in order to promote and provide support in the other two key areas, which are to ensure effective internal control to establish procedures for processes and their compliance, and permanent audit supervision. Coordination also takes place with the Business, Technology and Operations departments, which continually develop Operating Risk mitigation strategies.

Risk management model

The banks of the Financial Group have defined objectives, which are achieved through different plans, programs and projects. Compliance with such objectives may be adversely affected due to operating risks, for which reason a methodology must be in place to manage them within the organization. Consequently, operating risk management is now an institutional policy defined and supported by senior management.

To perform Operating Risk Management, each of the operating risks involved in the processes must be identified in order to analyze them. In this regard, the risks identified are processed in order to eliminate or mitigate them (seeking to reduce their severity or frequency) by defining tolerance levels, as the case may be. Work is currently under way on the development of an Institutional Operating Risk Management Model, in which the first step is the recording of operating loss events.

Recording of events

Given the inherent nature of operating risk, an historical database must be in place containing the operating events experienced by the Institution in order to be able to determine the respective trends, frequency, impact and distribution.

To record operating loss events, a system has been developed internally known as the "Operating Loss and Events Capture System" (SCERO). This system enables the central information supplier areas to directly record such events online, which are classified by type of event in accordance with the following categories (in line with those proposed by the Basle II Agreement):

Types of events	Descripción
Internal fraud	Actions intended to defraud, illegally seize ownership or evade the regulations, law or policies of the Financial Group involving at least one internal party.
External fraud	Actions taken by third parties intended to defraud, illegally seize ownership or evade the law.
Labor relations	Actions inconsistent with laws or employment, health or safety agreements, or which result in the payment of claims for damages to personnel or discrimination claims.
Practices with customers	Negligence or unintentional breaches which prevent compliance with professional obligations with customers or due to the nature or design of a product or service.
Damage to assets	Damage or loss to physical assets due to natural disasters or other events.
System failures	Interruption in business activities due to information systems failures.
Execution, delivery and processes	Failures in processing of transactions or in process management and in relations with counter-parties and suppliers.

Technology risk

Technology risk forms an inherent part of operating risk, for which reason its management is performed throughout the entire organization. The Technology and Operations departments carry out the functions established by the Commission in terms of technology risk management related to the establishment of controls, the evaluation of weaknesses and potential contingency plans.

To address the operating risk caused by high impact external events, the banks of the Financial Group are working on a project to improve their Business Continuity Plan (BCP) and Business Recovery Plan (BRP) based on a same-time data replication system at an alternate computer site. The project leader is the Controllership Executive Management, due to its association with processes, procedures and regulatory compliance. However, the areas of Technology and Operations, Business, and ARO Leadership are also significantly involved. Independently of the above, the services of an internationally recognized external supplier are also contracted to provide support for critical business systems, thus ensuring the continuity of operations in the event of a contingency or disaster.

Legal risk

As part of the Financial Group's Legal Risk Management, a detailed record is kept of legal, administrative and tax issues (positive or negative), which includes an estimate of contingencies by the attorneys handling the issues based on their knowledge of each case. This facilitates the creation of accounting provisions necessary to meet any estimated contingencies.

The Legal Risk must be measured as an inherent part of Operating Risk in order to understand and estimate its impact. Therefore, those legal issues which result in real operating losses are recorded in the SCERO in accordance with a predetermined classification.

Based on the statistics of the current legal issues and real loss events, the Financial Group can identify specific legal or operating risks, which are analyzed in order to eliminate or mitigate them in an attempt to reduce or limit their future occurrence or impact.

34] MEMORANDUM ACCOUNTS

	2005	2004
Banks customers (current accounts)	Ps 14	Ps 8
Settlement of customer transactions	(125)	10
Customer valuables received in custody	118,902	109,872
Customer repurchase agreements	25,276	30,145
Customer call option transactions	157	0
Managed trusts	2,771	1,750
	Ps 146,995	**Ps 141,785**
Third-party guarantees granted	Ps 27	Ps 62
Other contingent obligations	1,137	8,447
Opening of irrevocable credits	2,170	2,361
Amounts committed in transactions with the IPAB	598	431
Deposits of assets	735	663
Financial Group securities delivered into custody	212	261
Financial Group government securities held in custody	372	47
Assets in trusts or under mandate	67,776	63,233
Managed assets in custody	83,348	78,808
Investment banking transactions on account of third parties (net)	89,945	82,985
	Ps 246,320	**Ps 237,298**
Securities to be received in repurchase agreements	Ps 239,825	Ps 149,818
Less: Repurchase agreements from creditors	(240,087)	(149,817)
	Ps (262)	**Ps 1**
Repurchase agreements from debtors	Ps 71,091	Ps 52,495
Less: securities to be delivered in repurchase agreements	(71,006)	(52,523)
	Ps 85	**Ps (28)**

35] COMMITMENTS

As of December 31, 2005 and 2004, the Financial Group had the following contingent obligations and commitments:

Through Banorte and Bancen, it has commitments for third-party guarantees granted, other contingent obligations and opening of credits totaling Ps 3,334 (Ps 10,869 in 2004), which are recorded in memorandum accounts. Also, through Casa de Bolsa it has entered into commitments through the execution of securities brokerage contracts.

36] CONTINGENCIES

There are lawsuits filed against the Financial Group in the regular course of its operations, which according to its attorneys, as of December 31, 2005 represent a potential adverse effect of Ps 116 (mainly against its subsidiary Banorte), of which the Financial Group has recorded approximately 80%. The Financial Group expects to know the outcome of the potential adverse effects of the remaining portion during 2006.

Furthermore, contingencies may arise due to differences in taxes derived from a potential review of the tax returns filed by the Financial Group and differences in the interpretation of legal provisions between the Financial Group and the tax authorities.

CONSOLIDATED FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004 (IN MILLIONS OF MEXICAN PESOS OF PURCHASING POWER OF DECEMBER 31, 2005, EXCEPT PER SHARE AMOUNTS)

37] PRINCIPAL HEADINGS OF THE CONSOLIDATED INCOME STATEMENTS

	2005	2004
Interest income	**Ps 35,322**	**Ps 26,121**
Interest on current loan portfolio	14,219	14,957
Commercial loans	5,973	4,040
Loans to finance entities	230	243
Consumer loans	2,813	2,206
Housing mortgage loans	2,847	2,002
Loans to government agencies	1,717	5,851
Credits to the IPAB or FOBAPROA	639	615
Interest collected on past-due loan portfolio	250	226
Past-due commercial loans	146	129
Past-due consumer loans	51	40
Past-due housing mortgage loans	49	55
Past-due loans to government agencies	4	2
Interest income and returns from investments in securities	15,595	5,741
Interest income and returns on repurchase agreements and securities loans	144	186
Interest income on funds available	2,523	1,462
Commissions receivable for credit operations (adjustment to yield)	564	570
Premiums receivable	1,506	2,354
Foreign exchange gains	22	12
Increase from restatement of interest income	499	613
Interest expense	**21,928**	**15,836**
Interest expense on immediately due and payable deposits	778	841
Interest expense on time deposits	4,077	5,770
Interest payable on interbank and other loans	1,585	1,722
Commissions payable on deposit transactions (adjustments to cost)	118	89
Interest on subordinated debentures	274	330
Interest and returns payable on repurchase transactions and securities loans	8	14
Premiums payable	14,787	6,525
Foreign exchange losses	6	184
Increase from restatement of interest expense	295	361
Monetary position result, net (financial margin)	**(147)**	**(141)**
Monetary position result from positions generating a financial margin (net)	(146)	(140)
Increase from restatement of monetary position result (financial margin)	(1)	(1)
FINANCIAL MARGIN	**13,247**	**10,144**
Provision for loan losses	**1,445**	**1,227**
FINANCIAL MARGIN ADJUSTED FOR CREDIT RISKS	**Ps 11,802**	**Ps 8,917**

	2005	2004
Commissions and tariffs collected	**Ps 6,629**	**Ps 6,100**
Commissions and tariffs paid	**1,498**	**994**
Income from brokerage transactions	**1,037**	**914**
Income from revaluation to fair value and decreases from securities valued at cost	12	16
Income from purchase and sale of securities and derivative financial instruments	738	723
Income from purchase and sale of foreign exchange	270	152
Increase from restatement of result from brokerage	17	23
TOTAL INCOME (EXPENSES) FROM OPERATIONS	**17,970**	**14,937**
Administrative and promotional expenses	**11,116**	**11,508**
INCOME FROM OPERATIONS	**6,854**	**3,429**
Other income	**2,900**	**2,260**
Other expenses	**1,859**	**2,297**
INCOME BEFORE INCOME TAX AND EMPLOYEE PROFIT-SHARING (PTU)	**7,895**	**3,392**
Total current income tax and PTU	**2,287**	**512**
Current income tax	1,608	237
Current asset tax	0	32
Current PTU	652	235
Increase from restatement in current income tax and PTU	27	8
Total deferred income tax and PTU	**(24)**	**223**
Deferred income tax	(29)	221
Deferred income tax and PTU benefit	5	2
INCOME BEFORE EQUITY IN EARNINGS OF SUBSIDIARIES AND ASSOCIATED COMPANIES	**5,632**	**2,657**
Equity in earnings of subsidiaries and associated companies	**403**	**229**
Income of the year of subsidiaries and associated companies	419	245
Dividends from permanent investments valued at cost	0	1
Amortization of goodwill	(16)	(16)
Income from restatement of equity in the results of subsidiaries and associated companies	0	(1)
INCOME BEFORE MINORITY INTEREST	**6,035**	**2,886**
Minority interest	**(316)**	**(189)**
Net income	**Ps 5,719**	**Ps 2,697**

38] SUBSEQUENT EVENTS

On January 26, 2006, the Financial Group signed an agreement for a strategic alliance with the Inter National Bank (INB) as part of its plan to participate in the United States banking system and also serve the Mexicans located in that country. The Boards of Directors of both institutions unanimously approved the transaction.

The Financial Group will acquire 70% of INB for USD 259 million, which will be provided by the Financial Group's own resources, and will also have the option of purchasing the remaining 30% of capital. The management of INB will continue to operate the acquired bank in conjunction with the Financial Group, once the regulatory authorities in Mexico and the United States grant the respective authorizations. The transaction is expected to close during the fourth quarter of 2006.

INB has total assets of USD 1,090 million, deposits of USD 940 million and a total loan portfolio of USD 680 million. The bank has 14 branches, 11 in McAllen, Texas, and three more in El Paso, Texas, with a total of 278 employees, most of whom are bicultural and bilingual.

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