GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.

Sociedad Controladora Filial

AND SUBSIDIARIES

Consolidated Financial Statements

December 31, 2004 and 2003

(With Independent Auditors' Report Thereon)

(Free Translation from Spanish Language Original)

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Independent Auditors' Report
(Free translation from Spanish language original)

The Board of Directors and Stockholders
Grupo Financiero Scotiabank Inverlat, S. A. de C. V.
Sociedad Controladora Filial:

We have examined the accompanying consolidated balance sheets of Grupo Financiero Scotiabank Inverlat, S. A. de C. V. and Subsidiaries ("the Group") as of December 31, 2004 and 2003 and the related consolidated statements of income, changes in stockholders' equity and changes in financial position for the years then ended. These consolidated financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

As explained in note 2 to the consolidated financial statements, the Group is required to prepare and present its consolidated financial statements in accordance with the accounting criteria established by the National Banking and Securities Commission ("the Banking Commission") for financial group holding companies in Mexico, which in general conform to accounting principles generally accepted in Mexico, issued by the Mexican Institute of Public Accountants. These accounting criteria include particular rules, which in certain respects differ from such principles.

As discussed in note 3 to the consolidated financial statements, the new *"General Provisions Applicable to Loan Portfolio Rating Methodology"* issued by the Banking Commission for credit institutions, including foreclosed assets (the "Provisions") came into effect on December 1, 2004. The adoption of said Provisions did not entail any charge to income because the increases in specific reserves of $311 million pesos were transferred from global reserves. As regards foreclosed assets, the effect of $91 million pesos arising from the adoption of the Provisions was recorded by reducing the unappropriated retained earnings in accordance with the established option.

(Continued)

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Grupo Financiero Scotiabank Inverlat, S. A. de C. V. and Subsidiaries as of December 31, 2004 and 2003, and the results of their operations, the changes in their stockholders' equity and the changes in their financial position for the years then ended, in conformity with the accounting criteria established by the Banking Commission for financial group holding companies in Mexico, as described in note 2 to the consolidated financial statements.

KPMG CARDENAS DOSAL, S. C.

Alejandro De Alba Mora

February 11, 2005

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
(Sociedad Controladora Filial)
AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2004 and 2003

(Millions of constant Mexican pesos as of December 31, 2004)

Assets	**2004**	**2003**
Cash and cash equivalents (note 5)	$ 19,186	17,981
Investment securities (note 6):		
Trading	10,239	8,737
Available-for-sale	149	107
Held-to-maturity	3,502	10,037
	13,890	18,881
Securities and derivatives transactions:		
Debit balances of repurchase/resell agreements (note 7)	24	35
Securities lending (note 7)	8	–
Derivative financial instruments (note 8)	12	22
Unassigned securities pending settlement (note 9)	–	2
	44	59
Current loan portfolio (note 10):		
Commercial loans	19,835	19,558
Financial institutions	7,692	1,634
Consumer loans	11,928	11,017
Residential mortgages	12,935	9,650
Government entities	16,660	15,342
IPAB	–	2,973
Total current loan portfolio	69,050	60,174
Past due loan portfolio (note 10):		
Commercial loans	724	1,022
Consumer loans	182	112
Residential mortgages	820	1,852
Other past-due debt	19	22
Total past due loan portfolio	1,745	3,008
Total loan portfolio	70,795	63,182
Less:		
Allowance for loan losses (note 10 h)	3,298	3,777
Loan portfolio, net	67,497	59,405
Other accounts receivable, net	1,880	1,999
Foreclosed assets (note 11)	277	523
Premises, furniture and equipment, net (note 12)	2,076	2,103
Permanent investments in shares (note 13)	467	505
Deferred taxes (note 18)	41	–
Other assets:		
Other assets, deferred charges and intangibles	347	301
Total assets	$ 105,705	101,757

Liabilities and Stockholders' Equity	**2004**	**2003**
Deposit funding (note 14):		
Demand deposits	$ 35,100	40,772
Time deposits	44,375	40,779
	79,475	81,551
Bank and other loans (note 15):		
Due on demand	4,677	79
Short-term	935	704
Long-term	4,615	5,184
	10,227	5,967
Assigned securities pending settlement (note 6)	312	157
Securities and derivatives transactions:		
Credit balances of repurchase/resell agreements (note 7)	15	33
Derivative financial instruments (note 8)	4	2
Unassigned securities pending settlement (note 9)	–	3
	19	38
Other accounts payable:		
Income tax and employee statutory profit sharing	106	456
Sundry creditors and other accounts payable	3,563	3,477
	3,669	3,933
Deferred taxes (note 18)	–	209
Deferred credits	335	504
Total liabilities	94,037	92,359
Stockholders' equity (note 19):		
Paid-in capital:		
Capital stock	4,050	4,050
Earned capital:		
Statutory reserves	225	129
Unappropriated retained earnings	4,286	2,554
Unrealized gain from valuation of available-for-sale securities	9	3
Gain from holding nonmonetary assets:		
From valuation of premises, furniture and equipment	3	1
From valuation of permanent investments in shares	728	742
Net income	2,367	1,919
	7,618	5,348
Total stockholders' equity	11,668	9,398
Commitments and contingencies (note 22)		
Total liabilities and stockholders' equity	$ 105,705	101,757

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
(Sociedad Controladora Filial)
AND SUBSIDIARIES

Consolidated Balance Sheets, continued

December 31, 2004 and 2003

(Millions of constant Mexican pesos as of December 31, 2004)

Memorandum accounts

Transactions on behalf of third parties	2004	2003
Customer current accounts-		
Customer banks	$ 7	18
Settlement of customer transactions	12	8
	19	26
Customer securities (note 20):		
Customer securities in custody	109,939	98,335
Guarantee securities and documents	1,287	1,203
	111,226	99,538
Transactions on behalf of customers-		
Customer repurchase/resell agreements (note 20)	43,579	28,245
Customer securities loan transactions	14	–
Managed trusts	46	44
Investments on behalf of customers, net (note 20)	71,015	49,571
Other memorandum accounts	45,197	8,002
	159,851	85,862
Total for third parties	$ 271,096	185,426

Transactions for own account	2004	2003
Memorandum accounts-		
Guarantees issued (note 20)	$ 300	92
Irrevocable lines of credit (note 20)	1,124	614
Assets in trust or under mandate (note 20)	59,815	57,820
Assets in custody or under management (note 20)	83,314	71,170
Securities in custody	662	696
Government securities in custody	121	4
Pledged securities	523	181
Securities held overseas	11	15
Other contingent liabilities	1,001	1,055
	146,871	131,647
Repurchase/resell agreements (note 7):		
Securities receivable	81,106	66,665
Less - Creditors under repurchase agreements	81,090	66,665
	16	–
Debtors under resell agreements	37,659	38,958
Less - Securities deliverable	37,666	38,956
	(7)	2
Net repurchase/resell agreements	9	2
Total for own account	$ 146,880	131,649

"These balance sheets, consolidated with those of the financial and other entities comprising the Group that are subject to consolidation, were prepared in accordance with the accounting criteria for financial group holding companies issued by the National Banking and Securities Commission based on Article 30 of the Law that Regulates Financial Groups, which are of a general and mandatory nature and have been applied on a consistent basis. Accordingly, they reflect the transactions carried out by the Holding Company and the financial and other entities comprising the Group that are subject to consolidation, through the dates noted above. Furthermore, these transactions were carried out and valued in accordance with sound practices and the applicable legal and administrative provisions.

These consolidated balance sheets were approved by the Board of Directors under the responsibility of the following officers.

The Group's historical capital stock amounts to $3,110,694,442 pesos".

Anatol von Hahn General Director	Jean-Luc Rich Deputy General Director Group Finance	Ken Pflugfelder Deputy Divisional Director Group Audit	Jesús Eduardo Velázquez Reyes Director of Group Accounting

See accompanying notes to consolidated financial statements.

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
(Sociedad Controladora Filial)
AND SUBSIDIARIES

Consolidated Statements of Income

Years ended December 31, 2004 and 2003

(Millions of constant Mexican pesos as of December 31, 2004)

		2004	2003
Interest income (note 21)	$	13,249	12,766
Interest expense (note 21)		(7,853)	(7,767)
Monetary position loss, net		(394)	(197)
Financial margin		5,002	4,802
Provision for loan losses (note 10h)		(550)	(109)
Financial margin after provision for loan losses		4,452	4,693
Commissions and fee income		1,956	1,605
Commissions and fee expense		(399)	(387)
Financial intermediation income (note 21)		772	905
Total operating income		6,781	6,816
Administrative and promotional expenses		(5,741)	(5,334)
Net operating income		1,040	1,482
Other income (note 21)		1,361	1,033
Other expense (note 21)		(75)	(232)
Income before taxes and employee statutory profit sharing (ESPS)		2,326	2,283
Current income tax (IT), asset tax and ESPS (note 18)		(164)	(425)
Deferred IT and ESPS (note 18)		249	56
Income before equity in the results of operations of non-consolidated subsidiaries and associated companies		2,411	1,914
Equity in the results of operations of non-consolidated subsidiaries and associated companies, net		(44)	5
Net income	$	2,367	1,919

"These statements of income, consolidated with those of the financial and other entities comprising the Group that are subject to consolidation, were prepared in accordance with accounting criteria for financial group holding companies issued by the National Banking and Securities Commission based on Article 30 of the Law that Regulates Financial Groups, which are of a general and mandatory nature and have been applied on a consistent basis. Accordingly, they reflect the revenues and costs relating to the transactions carried out by the Holding Company and the financial and other entities comprising the Group that are subject to consolidation, for the years noted above. Furthermore, these transactions were carried out and valued in accordance with sound practices and the applicable legal and administrative provisions.

These consolidated statements of income were approved by the Board of Directors under the responsibility of the following officers".

Anatol von Hahn
General Director

Jean-Luc Rich
Deputy General Director Group Finance

Ken Pflugfelder
Deputy Divisional Director Group Audit

Jesús Eduardo Velázquez Reyes
Director of Group Accounting

See accompanying notes to consolidated financial statements.

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
(Sociedad Controladora Filial)
AND SUBSIDIARIES

Consolidated Statements of Changes in Stockholders' Equity

Years ended December 31, 2004 and 2003

(Millions of constant Mexican pesos as of December 31, 2004)

		Earned capital						
					Gain from holding non-monetary assets			
	Capital stock	Statutory reserves	Unappropriated retained earnings	Unrealized gain from valuation of available-for-sale securities	From valuation of premises, furniture and equipment	From valuation of permanent investments in shares	Net income	Total stockholders' equity
Balances at December 31, 2002	$ 4,050	64	1,310	–	1	748	1,309	7,482
Changes resulting from stockholders' resolutions:								
Resolution passed at the Ordinary and Special General Stockholders' Meetings of April 29, 2003:								
Appropriation of net income for 2002	–	65	1,244	–	–	–	(1,309)	–
Changes related to the recognition of comprehensive income (note 19b):								
Valuation of subsidiaries and associated entities	–	–	–	–	–	(6)	–	(6)
Valuation of available-for-sale securities	–	–	–	3	–	–	–	3
Net income	–	–	–	–	–	–	1,919	1,919
Total comprehensive income	–	–	–	3	–	(6)	1,919	1,916
Balances at December 31, 2003	4,050	129	2,554	3	1	742	1,919	9,398
Changes resulting from stockholders' resolutions:								
Resolution passed at the Ordinary General Stockholders' Meeting of April 30, 2004:								
Appropriation of net income for 2003	–	96	1,823	–	–	–	(1,919)	–
Changes related to the recognition of comprehensive income (note 19b):								
Effect from change in accounting policy – Initial recognition of application of the new provisions on reserves for foreclossed assets and assets received in lieu of payment (notes 3 and 11)	–	–	(91)	–	–	–	–	(91)
Valuation of subsidiaries and associated entities	–	–	–	–	–	(14)	–	(14)
Valuation of available-for-sale securities	–	–	–	6	–	–	–	6
Valuation of premises, furniture and equipment	–	–	–	–	2	–	–	2
Net income	–	–	–	–	–	–	2,367	2,367
Total comprehensive income	–	–	(91)	6	2	(14)	2,367	2,270
Balances at December 31, 2004	$ 4,050	225	4,286	9	3	728	2,367	11,668

"These statements of changes in stockholders' equity, consolidated with those of the financial and other entities comprising the Group that are subject to consolidation, were prepared in accordance with the accounitng criteria for financial group holding companies isued by the National Banking and Securities Commission based on Article 30 of the Law that Regulates Financial Groups, which are of a general and mandatory nature and have been applied on a consistent basis. Accordingly, they reflect all the stockholders' equity account entries relating to the transactions carried out by the Holding Company and the financial and other entities comprising the Group that are subject to consolidation, for the years noted above. Furthermore, these transactions were carried out and valued in accordance with sound practices and the applicable legal and administrative provisions.

These consolidated statements of changes in stockholders' equity were approved by the Board of Directros under the responsibility of the following officers".

Anatol von Hahn
General Director

Jean-Luc Rich
Deputy General Director Group Finance

Ken Pflugfelder
Deputy Divisional Director Group Audit

Jesús Eduardo Velázquez Reyes
Director of Group Accounting

See accompanying notes to consolidated financial statements.

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
(Sociedad Controladora Filial)
AND SUBSIDIARIES

Consolidated Statements of Changes in Financial Position

Years ended December 31, 2004 and 2003

(Millions of constant Mexican pesos as of December 31, 2004)

		2004	2003
Operating activities:			
Net income	$	2,367	1,919
Income statement items not requiring (providing) funds:			
Provision for loan losses		550	109
Equity in results of operations of non-consolidated subsidiaries and associated companies, net of dividends received		44	(5)
Allowance for foreclosed ásset impairments		45	–
Valuation of securities under repurchase/resell agreements, derivative transactions and investment securities		(5)	8
Available-for-sale securities impairment		–	32
Deferred income tax and employee statutory profit sharing		(249)	(56)
Depreciation and amortization		132	193
		2,884	2,200
Changes in items related to operations:			
(Decrease) increase in operating liabilities:			
Deposit funding		(2,076)	11,272
Bank and other loans		4,260	(4,503)
Other, net		(146)	1,077
(Increase) decrease in operating assets:			
Loan portfolio		(8,642)	(4,473)
Investment securities		4,995	(3,059)
Securities, derivatives transactions and assigned securities pending settlement		158	115
Funds provided by operating activities		1,433	2,629
Investing activities:			
Acquisition of premises, furniture and equipment, net		(103)	(43)
Decrease (increase) in foreclosed assets		110	(94)
Increase in permanent investments in shares		(20)	(15)
Increase in other assets and deferred credits, net		(215)	(14)
Funds used in investing activities		(228)	(166)
Increase in cash and equivalents		1,205	2,463
Cash and equivalents:			
At beginning of year		17,981	15,518
At end of year	$	19,186	17,981

"These statements of changes in financial position, consolidated with those of the financial and other entities comprising the Group that are subject to consolidation, were prepared in accordance with the accounting criteria for financial group holding companies issued by the National Banking and Securities Commission based on Article 30 of the Law that Regulates Financial Groups, which are of a general and mandatory nature and have been applied on a consistent basis. Accordingly, they reflect all the sources and applications of funds relating to the transactions carried out by the Holding Company and the financial and other entities comprising the Group that are subject to consolidation, for the years noted above. Furthermore, these transactions were carried out and valued in accordance with sound practices and the applicable legal and administrative provisions.

These consolidated statements of changes in financial position were approved by the Board of Directors under the responsibility of the following officers".

Anatol von Hahn
General Director

Jean-Luc Rich
Deputy General Director Group Finance

Ken Pflugfelder
Deputy Divisional Director Group Audit

Jesús Eduardo Velázquez Reyes
Director of Group Accounting

See accompanying notes to consolidated financial statements.

These consolidated financial statements have been translated from the Spanish language original solely for the convenience of foreign/English-speaking readers.

(1) Description of business and significant transactions-

Description of business-

Grupo Financiero Scotiabank Inverlat, S. A. de C. V. ("the Holding Company") is a subsidiary of The Bank of Nova Scotia (BNS), which owns 97.3% of its capital stock; it is authorized to buy and administer the voting stock issued by financial and brokerage entities, auxiliary credit organizations, and other entities primarily engaged in providing complementary or auxiliary services to one or more of such financial entities.

At December 31, 2004 and 2003, the Holding Company and its subsidiaries (the Group) includes Scotiabank Inverlat, S. A., Institución de Banca Múltiple, Grupo Financiero Scotiabank Inverlat (the Bank), a multiple service banking institution that, among other activities, accepts deposits from the general public, grants and receives loans, engages in securities transactions and provides trust services; Scotia Inverlat Casa de Bolsa, S. A. de C. V. Grupo Financiero Scotiabank Inverlat (the Brokerage Firm), which acts as intermediary in securities and financial transactions; and Scotia Fondos, S. A. de C. V., Sociedad Operadora de Sociedades de Inversión, Grupo Financiero Scotiabank Inverlat (the Mutual Fund Management Company), which acts as a mutual fund management company in conformity with applicable laws.

Significant transactions-

On April 30, 2003, BNS acquired from the Institute for the Protection of Bank Savings (IPAB) 36% of the shares representing the capital stock of the Holding Company. On March 23, 2004, BNS acquired 6.3% of the Group's capital stock, thus holding 97.3% of equity; the remaining 2.7% is held by minority stockholders.

On September 1, 2003, the Bank acquired consumer car loans (approximately 50,000) at an agreed-upon price of $3,978 (nominal), whose contract value was $3,879 (nominal) (see note 10c).

On December 1, 2003, the Bank sold its credit card acquiring business ("the acquiring business") to First Data Merchant Services México, S. de R. L. de C. V. (FDMS) at an agreed-upon price of USD 8,200,000 (see note 21c). Settlement of this transaction is to be made by a payment of USD 200,000 in December 2003 and two payments of USD 4,000,000 each in March 2004 and 2005. On January 22, 2004, Scotia Servicios de Apoyo, S. A. de C. V. (Scotia Servicios), a subsidiary of the Bank, which holds 99.9% of its capital stock, was incorporated. Its primary activity is to act as intermediary between Promoción y Operación, S. A. de C. V. (PROSA, processor) and FDMS.

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(2) Summary of significant accounting policies-

(a) Financial statement presentation and disclosures-

The accompanying consolidated financial statements have been prepared, based on the applicable banking legislation, in conformity with the accounting criteria for financial group holding companies in Mexico, established by the National Banking and Securities Commission ("the Banking Commission"). The Banking Commission is responsible for the inspection and supervision of financial group holding companies and for reviewing their financial information.

The accompanying consolidated financial statements include the financial statements of the Holding Company, the Bank, the Brokerage Firm and the Mutual Fund Management Company. All significant intercompany transactions and balances have been eliminated in consolidation.

The consolidated financial statements also include the financial statements of the Bank's UDI Trusts (restructured loan portfolio), created for the purpose of managing restructured loans through Federal Government support programs (see note 10f), where the Bank acts as grantor and trustee and the Federal Government is the beneficiary. The trusts have been valued and presented in conformity with the accounting rules prescribed by the Banking Commission.

In general, the accounting criteria established by the Banking Commission conform to accounting principles generally accepted in Mexico ("Mexican GAAP"), issued by the Mexican Institute of Public Accountants (IMCP) and include particular rules relating to accounting, valuation, presentation and disclosure, which depart from such principles - see paragraphs (c), (d), (f) and (m) of this note.

For cases not contemplated therein, the accounting criteria include a process which provides for the supplementary use of other accounting principles and standards, in the following order: Mexican GAAP; International Accounting Standards issued by the International Accounting Standards Committee; accounting principles generally accepted in the United States of America (US GAAP); or in cases not covered by these principles and standards, any other formal and recognized accounting standard that does not contravene the general criteria of the Banking Commission.

The accompanying consolidated financial statements are expressed in millions of Mexican pesos of constant purchasing power, using the Investment Unit (UDI) value. The UDI is a unit of measurement whose value is determined by the Banco de México (Central Bank) based on inflation. UDI values at December 31 are shown on the next page.

(Millions of constant Mexican pesos as of December 31, 2004)

December 31	UDI	Annual inflation
2004	$ 3.5347	5.45%
2003	3.3520	3.91%
2002	3.2258	5.58%

For purposes of disclosure in the notes to the consolidated financial statements, pesos or "$" refers to Mexican pesos, and when reference is made to dollars or "USD", it means dollars of the United States of America.

Assets and liabilities related to the purchase and sale of foreign currencies, investment in securities, securities repurchase/resell agreements and derivative financial instruments are recognized in the consolidated financial statements on the day the transactions are entered into, regardless of the settlement date.

The 2003 consolidated financial statements include certain reclassifications to conform to the classifications used in 2004.

(b) Cash and equivalents-

Cash and equivalents consist of cash on hand, precious metals (coins), deposits with banks, 24 and 48-hour foreign currency purchase and sale transactions, derivatives margin accounts, bank loans with original maturities of up to three days ("Call Money") and deposits with Banco de México, which include the statutory monetary deposits that, in conformity with the Law, the Bank is required to maintain in that Central Bank in order to regulate the liquidity in the money market. Such deposits have no maturity and bear interest at the average bank funding rate.

The receivables associated with 24 and 48-hour foreign currency sales are recorded in "Other accounts receivable", while the obligations arising from such foreign currency purchases are recorded in "Sundry creditors and other accounts payable".

(c) Investment securities-

Investment securities consist of equities, government securities and bank promissory notes, listed and unlisted, classified into three categories according to management's investment intentions, as follows:

Trading securities-

Trading securities are bought and held principally to be sold in the near term. Debt securities are initially recorded at cost and subsequently marked to market using information provided by an independent price vendor. When a fair and representative market value cannot be determined, the most recent fair value is used or otherwise the security is carried at cost plus accrued interest.

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Equity securities are valued at the lower of information provided by an independent price vendor, by applying the equity method, or, as an exception, at cost restated for inflation using UDI factors, or estimated net realizable value. Valuation adjustments are reflected in results of operations.

On value date transactions, where the amount of trading securities is insufficient to cover the amount of securities deliverable in the securities purchase and sale transactions, the credit balance is shown as a liability under "Assigned securities pending settlement".

All rights and obligations arising from 24 and 48-hour securities sales and purchases, respectively, (value date transactions), are recorded in "Other accounts receivable" and "Sundry creditors and other accounts payable", respectively. Securities receivable and deliverable for such transactions are reported in "Investment securities" and marked to market.

Available-for-sale securities-

Securities not classified as trading, but which are not intended to be held to maturity. Available-for-sale securities are initially recorded at cost and valued in the same manner as trading securities, except that the mark-to-market adjustments are reported in stockholders' equity under "Unrealized gain (loss) from valuation of available-for-sale securities", which upon a sale, are cancelled in order to recognize the difference between the proceeds and the acquisition cost in results of operations. If there is pervasive evidence that a security represents a high credit risk and/or estimated value has decreased, the book value is written down through a charge to operations. According to Mexican GAAP, the unrealized gain or loss from valuation of available-for-sale securities is recognized in the current year's results of operations.

Held-to-maturity securities-

Held-to-maturity securities are debt securities that the Group has the intent to hold until maturity, and which have defined payments and maturity of more than 90 days. Held-to-maturity securities are recorded at acquisition cost and interest is recognized in income as earned.

Transfers between categories-

Transfers between categories, except transfers to trading securities category, and held-to-maturity securities to available-for-sale category, require express authorization from the Banking Commission. Any unrealized gain or loss from valuation of available-for sale securities is cancelled and recognized in income upon transferring available-for-sale securities to the trading category. For transfers of available-for-sale securities to the held-to-maturity category, any unrealized gain or loss from valuation of available-for-sale securities is amortized in income over the remaining term of the instrument.

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(d) Securities under repurchase/resell agreements-

Securities under repurchase/resell agreements are stated at fair value using information provided by an independent price vendor, and the obligations or rights from the commitment to repurchase or to resell are stated at their net present value at maturity. The net assets and liabilities are reported in the consolidated balance sheet after individually offsetting the restated values of the securities receivable or deliverable and the repurchase/resell agreement commitment of each transaction. Repurchase/resell agreements where the Group is the repurchasing and reselling party with the same entity cannot be offset. Repurchase/resell agreement presentation differs from Mexican GAPP, which requires reporting balances separately and offsetting only similar transactions with the same counterparty. Interest and premiums are reported in the results of operations under "Interest income" and "Interest expense", while both realized and unrealized gains or losses from these transactions are reported under "Financial intermediation income, net".

Beginning September 3, 2004, in conformity with Circular 1/2003 issued by the Central Bank, the parties to repurchase/resell agreements maturing in more than three days are required to contractually secure such transactions in the event of value fluctuations resulting in an increase in the net exposure exceeding the maximum amount agreed upon by the parties. The guarantees granted (without transfer of title) are recorded in the securities portfolio as restricted or pledged trading securities, or in other restricted cash equivalents if granted in cash deposits. Guarantees received not representing a transfer of title are recorded in memorandum accounts as assets in custody or under management. Such guarantees are valued in conformity with the current rules for investment securities, cash equivalents and assets in custody or under management, respectively.

Securities under repurchase/resell agreements that cannot be renegotiated are reported as secured borrowing or lending transactions. Premiums are recognized in income as earned using the straight-line method over the term of the transaction.

(e) Transactions with derivative financial instruments-

Transactions with derivative financial instruments comprise those carried out for trading or hedging purposes, the accounting treatment of which is described below:

Futures and forward contracts – The net market value of the future price of the contracts is presented in the consolidated balance sheet with a corresponding charge or credit to results of operations, except in the case of transactions designated as hedges where gains or losses are recorded as deferred credits or debits, and are amortized using the straight-line method over the term of the underlying instrument, and are reported together with the primary position.

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Swaps – Rights or obligations arising from the exchange of cash flows or asset yields (swaps) are recorded as assets or liabilities. The assets and liabilities derived from the swaps for trading purposes are marked to market, reporting the net value of the swap on the consolidated balance sheet, while the related gains or losses are recognized in income, except in the case of interest rate swaps designated as hedges where gains or losses are recorded as deferred credits or debits, and amortized using the straight-line method over the term of the underlying instruments, and are reported together with the primary position.

Options – Put and call option obligations (premiums collected) and rights (premiums paid) are recorded at the contract value and marked to market, recognizing relevant gains or losses in operations. Premiums collected or paid are recognized in "Financial intermediation income, net" when the option expires.

(f) Unassigned securities pending settlement-

Unassigned securities pending settlement are transactions for which there is an obligation to make an outright purchase or sale of securities within 24 to 96 hours, and under repurchase/resell agreements until September 2, 2004 by reason of implementation of the Central Bank's Circular 1/2003, where the characteristics of the relevant securities are unknown at the time the transaction is entered into. The Group records an asset for the securities receivable or the contracted amount receivable, and a liability for the contracted amount payable or the securities deliverable. The securities receivable or deliverable are marked to market, with a corresponding charge or credit to results of operations in "Financial Intermediation Income, net". The amount receivable or payable is recorded at the contracted amount. Debit and credit balances of each transaction are offset individually. Under Mexican GAAP balances are reported separately and the offsetting of similar transactions with the same counterparty is required. Once the characteristics of the securities are known, the transactions are transferred to "Assigned securities pending settlement".

The net debit or credit balances resulting from offsetting are reported in the consolidated balance sheet as an asset or liability under "Unassigned securities pending settlement".

(g) Clearing accounts-

Amounts receivable or payable for investment securities, securities repurchase/resell agreements, securities loans and/or derivative financial instruments which have expired but have not been settled at the balance sheet date, as well as the amounts receivable or payable for purchase or sale of foreign currencies which are not for immediate settlement or those with a same day value date, are recorded in clearing accounts.

(Continued)

The debit and credit balances of clearing accounts resulting from the purchase or sale of foreign currencies may be offset providing a contractual right to offset exists, and it is the intention to settle on a net basis, or realize the asset and settle the liability simultaneously. Assets and liabilities of similar transactions or arising from the same contract may also be offset, provided that they have the same maturity and are settled simultaneously.

(h) Past due loans and interest-

Outstanding loans and interest balances are classified as past due according to the following criteria:

Commercial loans with one principal amortization and interest payment – 30 or more days after due date.

Commercial installment loans – 90 or more days after the first unpaid installment of principal and interest.

Commercial loans with one principal amortization and periodic interest payments – 30 or more days after due date in the case of the principal payment and 90 or more days after due date in the case of interest payments.

Revolving credits, credit cards and other – When unpaid for two normal billing cycles or when 60 or more days past due.

Residential mortgage loans – 90 or more days after the due date of the first unpaid installment on outstanding balance (60 days in 2003).

Overdrafts for checking accounts without lines of credit – When the overdraft occurs.

In addition, a loan is classified as past due when the debtor files for bankruptcy protection.

Past due loans are reclassified as current when the past due principal and interest has been fully paid by the debtor, except for restructured loans or renewals, which are transferred once a satisfactory payment pattern has been established. Up until 2003, loans were reclassified from past due to current once a satisfactory payment pattern has been established.

(i) Allowance for loan losses-

An allowance for loan losses is maintained which, in management's opinion, is sufficient to cover credit risks associated with the loan portfolio, guarantees issued and irrevocable loan commitments. The allowance is established as explained on the next page.

(Millions of constant Mexican pesos as of December 31, 2004)

Rated commercial portfolio – Studies are conducted to classify the loan portfolio using the internal rating model applicable to the Bank's commercial loans. The Banking Commission's official document No. 601-II-360447 dated November 30, 2004 authorized the renewal of the Bank's internal rating model for a two-year period, beginning December 1, 2004. The internal rating model complies with the methodology prescribed by the Ministry of Finance and Public Credit (SHCP), and follows the provisions set forth by the Banking Commission for loan rating.

In compliance with the General Provisions applicable to the Loan Portfolio Rating Methodology for Credit Institutions ("the Provisions"), published in the Federal Official Gazette on August 20, 2004, the Bank, based on the results from its internal rating model, references its ratings to those of the "Provisions" so as to validate the adequacy of the allowance. Loans extended to Federal and Municipal Entities, self-paying Investment Projects, trustees acting under Trusts and "structured" loan schemes which permit an evaluation of the related risk, are individually rated in conformity with the methodologies prescribed by said "Provisions" (see note 23).

Rated residential mortgage and consumer loans – These loans are parametrically evaluated. Beginning in December 1, 2004, the "Provisions" establish new rules for establishing reserves to recognize potential loan losses arising from the passage of time.

Until November 30, 2004, these loans were rated in conformity with the provisions set forth by the Banking Commission's Circulars 1449, 1493, 1494 for consumer loans, and 1460 for residential mortgage loans, and relevant amendments.

The allowance percentages are determined based on the risk levels, according to the following table:

Risk level	**Range of allowance percentages**
A - Minimum	0.5 – 0.9
B - Low	1 – 19.9
C - Medium	20 – 59.9
D - High	60 – 89.9
E - Loss	90 – 100.0

General reserves – In conformity with the "Provisions", allowances resulting from risk level A (A, B and C1 in 2003) are regarded as general reserves.

Specific reserves – Allowances resulting from risk levels B, C, D and E (C-2, D and E in 2003).

(Continued)

Impaired loan portfolio – For financial statement disclosure purposes, commercial loans rated as having risk levels C, D and E are regarded by the Bank as impaired loans, without giving consideration to improvements in risk levels resulting from the secured portion of the loan.

Exempt portfolio – consists mainly of loans to government entities, including the IPAB, which are not rated.

Additional reserves – are established for those loans, which in management's opinion, may give rise to concerns in the future given the particular situation of the customer, the industry or the economy. In addition, allowances are made for past-due interest and other items that in management's opinion could result in a loss.

Global reserves – are established to cover inherent losses in the loan portfolio, but which cannot be identified with any individual loan.

Loans considered unrecoverable are written off against the allowance when their collection is determined to be impractical. Recoveries on loans previously written off are credited to the allowance.

(j) Other accounts receivable-

Reserves are established through a charge to operations for accounts receivable arising from non-credit transactions that are not recovered within 30 days.

(k) Foreclosed assets or assets received in lieu of payment-

Foreclosed assets are stated at the lower of the adjudicated value or net realizable value. Assets received in lieu of payment are stated at the lower of the appraisal value or the price agreed upon by the parties. Any shortfall between the appraisal value and the balance due is written off against the allowance for loan losses. Assets under enforceable promise to sell are recorded at the agreed-upon selling price, with any gain or loss in relation to the latest asset value being recognized in deferred credits or in operations for the year, respectively. Income from rents of foreclosed assets is reported by reducing the asset value.

Foreclosed assets are written down to reflect any impairment in value through a charge to results of operations for the year. Beginning December 1, 2004, the Bank creates additional reserves on a quarterly basis to recognize potential impairment in asset value resulting from the passage of time, in conformity with the "Provisions" referred to in (i) above. The reserves are established based on the table shown on the next page.

(Millions of constant Mexican pesos as of December 31, 2004)

<table>
<tr><th rowspan="2">Months elapsed from foreclosure or received in lieu of payment</th><th colspan="2">Reserve percentage</th></tr>
<tr><th>Premises</th><th>Chattels, receivables and investment securities</th></tr>
<tr><td>Over: 6</td><td>0%</td><td>10%</td></tr>
<tr><td>12</td><td rowspan="2">10%</td><td>20%</td></tr>
<tr><td>18</td><td>45%</td></tr>
<tr><td>24</td><td>15%</td><td>60%</td></tr>
<tr><td>30</td><td>25%</td><td rowspan="6">100%</td></tr>
<tr><td>36</td><td>30%</td></tr>
<tr><td>42</td><td>35%</td></tr>
<tr><td>48</td><td>40%</td></tr>
<tr><td>54</td><td>50%</td></tr>
<tr><td>60</td><td>100%</td></tr>
</table>

(l) Premises, furniture and equipment-

Premises, furniture and equipment are initially recorded at their acquisition cost, and restated for inflation based on factors derived from value of the UDI.

Depreciation and amortization are calculated on the restated asset values using the straight-line method over the estimated useful lives of the assets.

The Group evaluates periodically the values of premises and leasehold improvements, to determine whether there is an indication of potential impairment. Recoverability of assets is measured by a comparison of the carrying amount of an asset to future net revenues expected to be generated by the asset. If the carrying amount exceeds its estimated net revenues, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of are reported in the financial statements at the lower of the carrying amount or realizable value.

(m) Permanent investments in shares-

Investments in affiliated companies are accounted for by the equity method. Equity of the Group in the results of operations of affiliated entities is recognized in operations for the year, whereas equity in the increase or decrease in other stockholders' equity accounts is recognized in the Group's stockholders' equity under "Gain from holding non-monetary assets from valuation of permanent investment in shares".

(Continued)

This caption includes permanent investments in shares of issuing companies where the Group has no significant influence, which are valued at cost and adjusted for inflation by applying the National Consumer Price Index (INPC) issued by Banco de México. Valuation adjustments are recognized in the Group's stockholders' equity under "Gain from holding non-monetary assets from valuation of permanent investments in shares". When the valuation of the investment is consistently below the adjusted cost, the investment is written down to its realizable value through a charge to results of operations.

In order to operate, the Brokerage Firm must purchase and hold one share in the Bolsa Mexicana de Valores, S. A. de C. V. (Mexican Stock Exchange), Cebur, S. A. de C. V., S. D. Indeval, S. A. de C. V. and Contraparte Central de Valores de México, S. A. de C. V. As required by the Banking Commission, these permanent investments in shares are valued using the equity method based on the most recent financial statements available; under Mexican GAAP such investments would be accounted for at the lower of cost restated for inflation or realizable value, when the investing entity has no significant influence.

The investment in the shares corresponding to the fixed capital of mutual funds is accounted for based on the stockholders' equity of the mutual funds using the equity method, which is equal to the market price published by the price vendor. The difference between the nominal value and the price at the valuation date is recorded in results of operations under "Equity in the results of operations of non-consolidated subsidiaries and associated companies, net".

(n) Income tax (IT) and employee statutory profit sharing (ESPS)-

Deferred income tax as well as deferred ESPS are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. A deferred tax asset is not recognized for the tax loss carryforwards since utilization is contingent upon compliance with all conditions agreed upon with the IPAB (see note 18). The effect is recognized as realized.

Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in results of operations for the period enacted.

Deferred ESPS, in certain subsidiaries, is recognized for timing differences from the reconciliation of book income to income for ESPS purposes, on which it may reasonably be expected that a future liability or benefit will arise and there is no indication that the liabilities or benefits will not materialize.

(Continued)

(o) Deposit funding-

Deposit funding comprises demand and time deposits from the general public, as well as money market funding. Interest is charged to expense on the accrual basis. For instruments sold at a price other than face value, the difference is recognized as a deferred charge or credit and amortized on the straight-line basis over the term of the respective instrument.

(p) Bank and other loans-

Bank and other loans comprise short and long-term loans from domestic and foreign banks, loans obtained through credit auctions with the Central Bank and development fund financing. In addition, this caption includes loans rediscounted with agencies specializing in financing economic, productive or development activities. Interest is recognized on the accrual basis.

(q) Pensions, seniority premiums and post-retirement benefits-

As provided for by a collective bargaining agreement, all employees who are 60 years old (65 years old for the Brokerage Firm) with 5 years of service (10 years for the Brokerage Firm) or 55 years old with 35 years of service are eligible under the established non-contributory pension plans. The plans also cover seniority premium benefits to which employees are entitled in accordance with the Federal Labor Law.

The net periodic cost and accrued liabilities for pensions and seniority premiums are determined by independent actuaries using the projected unit credit method and real interest rates in accordance with Bulletin D-3 of Mexican GAAP issued by the IMCP.

Similarly, the cost, accrued liabilities and funding of the post-retirement benefits arising from the medical expenses plan, food vouchers and life insurance for retirees are recorded based on independent actuarial calculations.

Other compensation to which employees may be entitled in case of separation or disability, are expensed when payable.

(r) Restatement of capital stock, statutory reserves and unappropriated retained earnings-

This restatement is determined by multiplying stockholder contributions and retained earnings by UDI factors, which measure accumulated inflation from the dates contributed or generated through the most recent year end. The resulting amounts represent the constant value of stockholders' equity.

(Continued)

(s) ***Gain or loss from holding non-monetary assets-***

The gain or loss from holding non-monetary assets represents the difference between the specific valuation of these assets and their cost restated based on the value of the UDI.

(t) ***Monetary position gain or loss-***

The Group recognizes in results of operations the effect (gain or loss) in the purchasing power of its monetary position, which it determines by multiplying the difference between monetary assets and liabilities at the beginning of each month by inflation through year end. The aggregate of these results represents the monetary gain or loss for the year arising from inflation, which is reported in results of operations for the year.

The gain or loss arising from interest-bearing monetary assets and liabilities is included in the consolidated statement of income as part of the "Financial margin", while the gain or loss from all other monetary items is presented in "Other income".

(u) ***Revenue recognition-***

Interest on loans granted is recorded in income as earned. Interest on past due loans is not recognized in income until collected.

Fees and interest collected in advance are recorded as "Deferred credits" and recognized in results of operations as earned.

Fees related to the issuance of credit cards and services rendered are recorded in income upon collection, whereas those corresponding to commercial, personal and mortgage loans are deferred and recognized in income using the straight-line method over the shorter of the term of the loan or three years.

Fees earned on trust activities are recognized in income as earned. Fees not collected within 90 days (180 days in 2003) are fully reserved.

Fees collected from customers on the purchase and sale of equities are recorded in income when contracted. Premiums on securities resell agreements and interest from investments in fixed income instruments are recognized in income as earned. Premiums earned on repurchase/resell agreements are calculated based on the present value of the price at maturity.

(Continued)

(v) Customer securities-

Customer securities in custody, guarantee or under the Group's administration are recorded in the respective memorandum accounts at market value, representing the maximum expected amount for which the Group is obligated to its clients against a future eventuality.

(w) Foreign currency transactions-

The accounting records are maintained in both Mexican pesos and foreign currencies. For financial statement presentation purposes, currencies other than dollars are translated to dollars as established by the Banking Commission, and the dollar equivalent, together with dollar balances, is then translated into Mexican pesos using the exchange rate determined by Banco de México. Foreign exchange gains and losses are charged to results of operations for the year. Until 2003, the unrealized gain or loss from the structural hedge (see note 4) was deferred and reported in the consolidated balance sheet under "Deferred credits".

(x) UDI Trusts-

Asset and liability accounts of the loan portfolio restructured in UDI Trusts are expressed in Mexican pesos by applying the UDI value determined by Banco de México at the end of each month. Income and expense accounts are stated in Mexican pesos by applying the average UDI value.

(y) Contributions to the Institute for the Protection of Bank Savings (IPAB) and to the Reserve Fund-

Among other provisions, the Bank Savings Protection Law created the IPAB, which purpose is to establish a system to protect the savings of the public and regulate the financial support granted to banking institutions in order to comply with this objective.

According to the Law, IPAB will guarantee depositors' accounts as follows:

Year	Guaranteed amount
2003	10 million UDIS
2004	5 million UDIS
2005	400 thousand UDIS

The other assets caption includes contributions to the self-regulatory reserve fund, created by the stock market community, intended for supporting and contributing to the strengthening of the stock market.

(Continued)

(z) ***Contingencies-***

Liabilities for loss contingencies are recorded when it is probable that a liability has been incurred and the amount thereof can be reasonably estimated. When a reasonable estimation cannot be made, qualitative disclosure is provided in the notes to the consolidated financial statements. Contingent revenues, earnings or assets are not recognized until their realization is virtually assured.

(aa) ***Use of estimates-***

The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements, and the reported amounts of income and expenses during the reporting period. Actual results may differ from those estimates and assumptions.

(3) Accounting change-

General Provisions Applicable to Loan Portfolio Rating Methodology ("the Provisions")-

The Provisions superseded the Banking Commission's Circulars 1449, 1460, 1480, 1493, 1494, 1496 and 1514, and relevant amendments, and establish a new loan portfolio rating methodology and rules for establishing allowances to recognize potential impairment of foreclosed assets or assets received in lieu of payment resulting from the passage of time (see note 2k).

The adoption of the aforementioned Provisions resulted in additional allowances of $266 and $45 from the rating of commercial and retail loans, respectively. This situation did not entail any charge to income for the year because of the transfer from global to specific reserves. In the case of foreclosed assets, the negative effect of $91 arising from the adoption of the Provisions was recorded in unappropriated retained earnings in accordance with the established option.

(4) Foreign currency position-

Central Bank regulations require that banks and brokerage firms maintain balanced positions in foreign currencies within certain limits. The short or long foreign currency positions permitted by the Central Bank for banks is equal to a maximum of 15% of the basic capital (15% of global capital for brokerage firms).

(Continued)

The Bank has been authorized by the Central Bank to maintain a long position in excess of this limit as capital hedge by USD50 million in 2004 and 2003. Accordingly, as of December 31, 2004 and 2003, the Bank's long position is within the authorized limits. At December 31, 2004 and 2003, the maximum long and short positions authorized by the Central Bank for the Brokerage Firm is $144 and $115, respectively, that is equivalent to 15% of the Brokerage Firm's global capital which is $958 and $767 in each year.

The consolidated foreign currency position at December 31, 2004 and 2003 stated in millions of US dollars is analyzed as follows:

	2004	2003
Assets	963	1,184
Liabilities	(905)	(1,111)
Long position	58	73

At December 31, 2004, the long foreign currency position consists of 97% in US dollars, 2% in euros and 1% in other foreign currencies.

At December 31, 2004 and 2003, the exchange rate of the peso to the dollar was $11.15 and $11.24, respectively.

(5) Cash and equivalents-

Cash and equivalents at December 31, 2004 and 2003, are analyzed as follows:

	2004	2003
Cash on hand	$ 1,435	1,446
Deposits with domestic and foreign banks	4,866	3,287
Deposits with Banco de México	12,032	9,677
Clearing house margin account	149	121
Three-day interbank call money	885	3,841
24 and 48-hour foreign currency sales	(888)	(1,290)
Other funds available	112	158
Restricted funds:		
24 and 48-hour foreign currency purchases	595	741
	$ 19,186	17,981

(Continued)

According to Central Bank regulations, the Bank is required to maintain statutory monetary deposits with the Central Bank to regulate the liquidity in the financial system. Such deposits have no maturity and bear interest at the average bank funding rate. At December 31, 2004 and 2003, the statutory monetary deposits with the Banco de México amount to $10,064 and $8,254, respectively.

At December 31, 2004 and 2003, the Group had the following three-day bank ("Call money") loans:

	2004			2003		
Institution	**Amount**	**Rate**	**Term**	**Amount**	**Rate**	**Term**
Banco Mercantil del Norte, S. A.	$ 195	8.70%	3 days	37	6.10%	2 days
BBVA Bancomer, S. A.	650	8.70%	3 days	2,098	6.10%	2 days
HSBC México, S. A.	40	8.70%	3 days	–	–	–
Banco Inbursa, S. A.	–	–	–	1,582	6.15%	2 days
Banco Nacional de Obras y Servicios Públicos, S.N.C.	–	–	–	34	6.10%	2 days
Banco JP Morgan, S. A.	–	–	–	77	6.12%	2 days
Ixe Banco, S. A.	–	–	–	13	6.10%	2 days
	$ 885			3,841		

Foreign currency receivable and deliverable in connection with the purchases and sales to be settled within 24 and 48 hours (expressed in millions of pesos) are analyzed as follows:

	Receivable		Deliverable	
	2004	**2003**	**2004**	**2003**
Dollar	$ 518	737	808	1,276
Other currencies	77	4	80	14
	$ 595	741	888	1,290

(Millions of constant Mexican pesos as of December 31, 2004)

(6) Investment securities-

(a) Composition-

At December 31, 2004 and 2003, the Group's investment securities are as follows:

		2004	2003
Trading (short term):			
Debt securities:			
Government securities (see note 7)	$	8,932	5,974
Bank promissory notes		1,131	2,382
Treasury bills (CETES)		124	8
Value date transactions		(96)	–
Mutual fund shares		73	300
Other		75	73
		10,239	8,737
Available-for-sale (long term):			
Shares		149	107
Held-to-maturity (long term):			
Special CETES of the UDI Trusts:			
Domestic productive plant		793	817
States and municipalities(1)		(20)	127
Residential mortgages		1,358	1,434
		2,131	2,378
M bonds*		1,084	–
M3 bonds*		–	2,072
M5 bonds		–	4,938
MYRAS		250	543
Hedging swaps (see note 8)		–	12
Hedging futures (see note 8)		–	(3)
Other		37	97
		3,502	10,037
Total investment securities	$	13,890	18,881

* and (1) see next page.

(Millions of constant Mexican pesos as of December 31, 2004)

* At December 31, 2004 and 2003, the Bank has issued guarantees on held-to-maturity securities of $735 and $231, respectively, to comply with the provisions of the Central Bank's telefax Circular 21/2003, which sets forth the procedures for guaranteeing compliance with additional settlement obligations of institutions participating in the Extended Use Electronic Payment System (SPEUA). The amount of guarantees issued at December 31, 2004 and 2003, represents 90% and 30% of the largest risk exposure limits established with respect to other participating institutions. Such percentage will increase 5% monthly until reaching 125%, as required by the aforementioned Circular.

(1) The negative balance of Special CETES of States and municipalities is a result of the swap liability exceeding the assets..

(b) Issuers over 5% of the Bank's net capital-

At December 31, 2004, investments in other than Mexican government debt securities of the same issuer do not exceed 5% of the Bank's net capital.

At December 31, 2003, investments in other than Mexican government debt securities classified as "Trading securities" of the same issuer, in excess of 5% of the Bank's net capital, are as follows:

Issue	Thousands of certificates	Rate	Term (days)	Amount
IINBURSA04094	303,270	6.17%	2	$ 316
IINBURSA04143	162,869	6.17%	2	169
IINBURSA04154	285,448	6.17%	2	295
IINBURSA04204	59,548	6.17%	2	61
	811,135			841
INAFIN04035	189,183	6.17%	2	198
INAFIN04041	276,222	6.17%	2	290
INAFIN03525	22,549	6.10%	2	24
	487,954			512
	1,299,089			$ 1,353

(c) Issuers in excess of 5% of the Brokerage Firm's global capital-

At December 31, 2004 and 2003, investments in debt securities of the same issuer in excess of 5% of the Brokerage Firm's global capital are shown on the next page.

(Millions of constant Mexican pesos as of December 31, 2004)

Issue	Certificates	Rate	Term (days)	Amount
December 31, 2004				
INGBANK 05011	142,415,657	8.75%	3	$ 142
INAFIN 05015	415,156,810	8.80%	22	414
December 31, 2003				
IBANAMEX 04014	201,745,712	6.15%	2	$ 212
IBANOBRA 03525	107,549,982	6.10%	2	113

(d) Analysis of significant "held-to-maturity" investment securities-

At December 31, 2004, investments in Mexican government M bonds are analyzed as follows:

Issue	Coupon rate	Amount	Unexpired term (days)
M 081224	8.00%	$ 405	1,454
M 101223	8.00%	378	2,183
M 131219	8.00%	301	3,275
		$ 1,084	

At December 31, 2003, investment in Mexican government M3 and M5 bonds are analyzed as follows:

Issue	Coupon rate	Amount	Unexpired term (days)
M3 051229	9.00%	$ 2,072	729
M5 050512	14.50%	$ 1,549	498
M5 060302	13.50%	2,908	792
M5 060824	10.50%	481	967
		$ 4,938	

(Continued)

(Millions of constant Mexican pesos as of December 31, 2004)

(e) Assigned securities pending settlement-

At December 31, 2004 and 2003, assigned securities pending settlement are analyzed as follows:

Issuer	Series	Number of certificates	Average rate	Term (days)	Amount
December 31, 2004					
Sales:					
BI Cetes	050623	15,000,000	8.42%	171	$ 144
BI Cetes	050331	10,000,000	8.76%	87	98
BI Cetes	051124	5,000,000	8.50%	325	47
M Bonds	231207	150,000	9.99%	6,911	12
M0 Bonds	110714	100,000	8.91%	2,383	11
					$ 312
December 31, 2003					
Sales:					
BI Cetes	040513	7,725,135	6.25%	2	$ 82
M0 Bonds	101223	200,000	8.49%	2	20
M0 Bonds	110714	331,618	8.35%	2	41
M0 Bonds	121220	130,000	8.61%	2	14
					$ 157

(7) Securities under repurchase/resell agreements-

At December 31, 2004 and 2003, the Group's repurchase/resell agreements are analyzed on the next page.

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Notes to Consolidated Financial Statements

(Millions of constant Mexican pesos as of December 31, 2004)

	2004			
	Receivables under resell agreements	**Securities deliverable**	**Asset**	**Liability**
Purchases:				
Net asset positions	$ 23,357	(23,353)	4	–
Net liability positions	14,302	(14,313)	–	(11)
	$ 37,659	(37,666)	4	(11)
	Securities receivable	**Payables under repurchase agreements**		
Sales:				
Net asset positions	$ 57,559	(57,539)	20	–
Net liability positions	23,547	(23,551)	–	(4)
	$ 81,106	(81,090)	20	(4)
			$ 24	(15)
			$	9

	2003			
	Receivables under resell agreements	**Securities deliverable**	**Asset**	**Liability**
Purchases:				
Net asset positions	$ 29,623	(29,609)	14	–
Net liability positions	9,335	(9,347)	–	(12)
	$ 38,958	(38,956)	14	(12)
	Securities receivable	**Payables under repurchase agreements**		
Sales:				
Net asset positions	$ 55,412	(55,391)	21	–
Net liability positions	11,253	(11,274)	–	(21)
	$ 66,665	(66,665)	21	(21)
			$ 35	(33)
			$	2

(Continued)

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Notes to Consolidated Financial Statements

(Millions of constant Mexican pesos as of December 31, 2004)

At December 31, 2004 and 2003, the net positions by type of security are as follows:

	Debit balances		Credit balances	
Securities	**Weighted average term (days)**	**Net position**	**Weighted average term (days)**	**Net position**
December 31, 2004				
Government:				
CETES	122	$ 1	93	1
Itbonos	19	8	26	2
Ipabonos	25	8	15	7
LS Bondes	98	1	134	1
Bonds	7	6	6	4
		$ 24		15
December 31, 2003				
Government:				
CETES	18	$ 2	27	2
Itbonos	13	1	14	–
Ipabonos	15	8	17	8
LS Bondes	69	5	13	3
LT Bondes	3	1	5	1
Bonds	6	17	4	18
		34		32
Bank:				
Promissory notes	5	1	5	1
		$ 35		33

(Continued)

At December 31, 2004, 246,943 government BI CETES, issue 050203, in the amount of $2,449 (thousand) classified as trading securities have been pledged by the Group for repurchase/resell agreements of over three days.

The Group has received the following pledged securities for repurchase/resell agreements of over three days, which are recorded in the memorandum account "Assets in custody and under management".

	Issue	Number of certificates	Market value
Itbonos	090625	356,472	$ 35
Ipabonos	070524	30,199	3
BI Cetes	050203	246,943	3
BI Cetes	050929	241,919	2
			$ 43

Securities lending and borrowing:

At December 31, 2004, the Group had entered into secured lending and borrowing transactions as follows:

	Number of certificates	Market value
Securities receivable:		
Naftrac 02	649,700	$ 8
Securities deliverable:		
Naftrac 02	50,000	$ (1)

The loans mature on January 4 and 5, 2005.

For the secured borrowing transactions, securities in the amount of $746 (thousand) have been pledged.

(8) Derivative instruments-

Trading:

At December 31, 2004 and 2003, derivative financial instruments for trading purposes are analyzed on the next page.

(Millions of constant Mexican pesos as of December 31, 2004)

	2004		2003	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Foreign currency and interest rate futures and forward contracts	$ 11	–	–	(1)
Interest rate swaps	–	(1)	1	–
Foreign currency options	–	(2)	1	(1)
Mexican stock exchange index (IPC) futures and options and interest rate futures	1	(1)	20	–
	$ 12	(4)	22	(2)

At December 31, 2004, the Group has recorded the obligation related to a dollar exchange rate "call" for a two million dollar notional amount (short option, obligation to sell if the option is exercised) with a $1 premium as valued on the same date, with no hedge (call option). As of December 31, 2003, options are balanced since for each buy option there is a sell option; accordingly, the Group's operation is limited to negotiating the contract premiums, which are included in the consolidated statement of income under "Financial intermediation income, net".

Hedge transactions:

Derivative transactions for hedging purposes are presented in the consolidated balance sheet together with the primary position they cover. At December 31, 2004 and 2003, derivative financial instruments for hedging purposes are analyzed as follows:

Derivative	Primary position	Fair value 2004	Fair value 2003
Interest rate swaps (sold)	Loan portfolio	$ (6)	–
Interest rate swaps (bought)	Held-to-maturity securities (note 6)	–	12
Interest rate futures	Held-to-maturity securities (note 6)	–	(3)

Notional amounts:

The following notional amounts of contracts represent the derivatives volume outstanding and do not represent the potential gain or loss associated with the market risk or credit risk of such instruments. The notional amounts represent the amount to which a rate or price is applied to determine the amount of cash flows to be exchanged. Notional amounts of the derivative financial instruments at December 31, 2004 and 2003 are as shown on the next page.

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Type of instrument		2004 Hedging purposes	2004 Trading purposes	Total
Interest rate:				
Bought:				
Futures (traded on MexDer, the Mexican derivatives market)	$	–	18,075	18,075
Swaps		–	1,350	1,350
	$	–	19,425	19,425
Sold:				
Futures	$	–	100	100
Swaps		728	2,424	3,152
	$	728	2,524	3,252
Sold:				
Swaps (in millions of dollars)		36	–	36
IPC (Mexican stock exchange index):				
Bought:				
Futures	$	189	41	230
Options		–	1	1
	$	189	42	231
Sold:				
Futures	$	22	7	29
Options		–	491	491
	$	22	498	520
Foreign exchange (in millions of dollars):				
Bought:				
Futures		–	16	16
Forwards		–	580	580
Options		–	1	1
		–	597	597
Sold:				
Futures		–	15	15
Forwards		–	568	568
Options		–	3	3
		–	586	586

(Continued)

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Type of instrument		2003 Hedging purposes	2003 Trading purposes	2003 Total
Interest rate:				
Bought:				
Futures (traded on MexDer, the Mexican derivatives market)	$	35,642	1,898	37,540
Swaps		949	475	1,424
	$	36,591	2,373	38,964
Sold:				
Futures	$	–	949	949
Swaps		–	137	137
	$	–	1,086	1,086
Sold:				
Swaps (in millions of dollars)		–	5	5
IPC (Mexican stock exchange index):				
Bought:				
Futures	$	91	17	108
Sold:				
Options	$	–	153	153
Foreign exchange (in millions of dollars):				
Sold:				
Futures		–	6	6
Forwards		–	180	180
Options		–	1	1
		–	187	187
Sold:				
Futures		–	7	7
Forwards		–	179	179
Options		–	1	1
		–	187	187

(Continued)

(Millions of constant Mexican pesos as of December 31, 2004)

Since 2001, the Bank's management designed a hedging strategy to minimize the adverse effects on the financial margin of a potential decrease in interest rates. Accordingly, derivative instruments were entered into in which fixed and variable interest rates were to be received and paid, respectively. By late 2003, there were indications of an upward trend in interest rates; therefore, a decision was made to sell most of the derivative hedging instruments in 2004.

The contribution to the derivative instruments margin from the hedging position is estimated at $16 for the year ended December 31, 2004 (unaudited figure).

(9) Unassigned securities pending settlement-

At December 31, 2003, the net positions of unassigned securities pending settlement are as follows:

	2003			
	Receivables under resell agreements/ securities receivable	Securities deliverable/ payables under repurchase agreements	Asset	Liability
Direct:				
Sales:				
Net asset positions	$ 34	(32)	2	–
Purchases:				
Net asset positions	$ 16	(16)	–	–
Net liability positions	198	(201)	–	(3)
	$ 214	(217)		
			$ 2	(3)

At December 31, 2003, the net positions of unassigned securities pending settlement are as follows:

	2003					
	Debit balances			Credit balances		
Securities	Average term (days)	Average rate	Net position	Average term (days)	Average rate	Net position
Government	5	7.75%	$ 2	4	7.12%	$ 3

(Continued)

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(10) Loan portfolio-

(a) Classification of loan portfolio by currency-

At December 31, 2004 and 2003, the classification of loans into current and past-due by currency, which includes the restructured portfolio in UDI Trusts, is analyzed as follows:

	2004		2003	
	Current	**Past due**	**Current**	**Past due**
Pesos:				
Commercial loans	$ 14,329	455	12,310	683
Financial institutions	7,687	–	1,598	–
Consumer loans	11,928	182	11,017	112
Residential mortgages	10,050	325	6,821	750
Government entities	16,445	–	15,113	–
IPAB	–	–	2,973	–
Other past due debt	–	19	–	22
	60,439	981	49,832	1,567
Foreign currency:				
Commercial loans	5,506	269	6,802	326
Financial institutions	5	–	36	–
	5,511	269	6,838	326
Denominated in UDIS:				
Commercial loans	–	–	446	13
Residential mortgages	2,885	495	2,829	1,102
Government entities	215	–	229	–
	3,100	495	3,504	1,115
	$ 69,050	1,745	60,174	3,008
	$ 70,795		63,182	

(Continued)

(Millions of constant Mexican pesos as of December 31, 2004)

(b) Classification of loan portfolio by economic sector-

At December 31, 2004 and 2003, credit risk (loans, guarantees and irrevocable lines of credit) classified by economic sector and the percentage of concentration are analyzed as follows:

	2004		2003	
	Amount	**%**	**Amount**	**%**
Community, social and personal services, mainly government entities	$ 20,496	28	18,625	29
Construction and housing	14,807	20	12,705	20
Financial, insurance and real estate services	6,996	10	4,832	8
Manufacturing	11,326	16	8,126	13
Commerce and tourism	5,008	7	6,223	10
Consumer loans and credit cards	12,112	17	11,130	17
Agriculture, forestry and fishing	584	1	711	1
Transportation, warehousing and communication	697	1	1,340	2
Other	193	–	196	–
	$ 72,219	100	63,888	100

Credit risk is disclosed in the consolidated balance sheet as follows:

	2004	2003
Recorded as assets:		
Current loan portfolio	$ 69,050	60,174
Past due loan portfolio	1,745	3,008
	70,795	63,182
Recorded in memorandum accounts:		
Guarantees	300	92
Irrevocable lines of credit	1,124	614
	1,424	706
	$ 72,219	63,888

(Continued)

(c) ***Acquisition of consumer loans-***

On September 1, 2003, the Bank acquired consumer loans (car loans) at an agreed-upon price of $3,978 (nominal) from a non-bank bank (SOFOL) which contract value was $3,879 (nominal). The purchase price was determined on the basis of discounted cash flows of the loans, which resulted in a difference of $99 (nominal) between the present value of the loan portfolio and the agreed-upon price; this difference was recorded as a deferred charge and credit of $172 and $73 (nominal), respectively, depending on whether the contractual value of each of the loans was lower or higher than the agreed-upon price. Deferred credits and charges are amortized over a term equal to the remaining life of the loans. At December 31, 2004 the amortized deferred charge and credit amounts are $69 and $35, respectively ($72 and $28, respectively in 2003).

Settlement terms consist of a payment equal to 85.3% of the agreed-upon price on execution of the agreement, with the remainder payable from December 2004 through the loan maturity dates. On September 27, 2004, the Bank made a partial prepayment of $253.

The SOFOL is charged with managing the loan portfolio and sends the necessary information to the Bank on a daily basis for accounting purposes. For this service the Bank pays an annual fee of 1%, computed on the outstanding average balance of the loan portfolio.

At December 31, 2004 and 2003, the outstanding balance of this portfolio amounts to $900 and $3,179, respectively.

(d) ***Loan to IPAB-***

On July 29, 2000, a $15,000 loan was granted to the IPAB. The loan was documented by four promissory notes of $3,750 each, with final settlement in 2004 but with the right of prepayment. The promissory notes bore interest at the 28-day TIIE plus 0.30%; principal and interest were payable semiannually and monthly, respectively. During 2004 and 2003 the IPAB made payments of capital of $2,812 and $4,219, and interest of $72 and $360, respectively. The loan was fully repaid on July 1, 2004.

(Continued)

(Millions of constant Mexican pesos as of December 31, 2004)

(e) ***Loans to government entities-***

At December 31, 2004 and 2003, loans granted to government entities are analyzed as follows:

		2004	2003
Highway construction loans	$	5,349	5,625
Loans to the Federal District government		7,767	7,133
Autonomous entity loan		1,001	1,055
Receivables under financial support programs		333	381
UDI restructured loans for supporting Mexican states and municipalities		215	229
Other		1,995	919
Total loans to government entities	$	16,660	15,342

Highway construction loans:

These loans, granted for construction of highways, were rescued by the Mexican government in 1997 and restructured in bonds. The bonds, which were issued as of September 1, 1997, mature in 15 years and are redeemable on August 31, 2012. The principal is repayable in quarterly installments, with a grace period of 10 years, starting in 2007 and bears interest at the arithmetic average of the 91-day TIIE and 91-day CETES rates.

Loans to the Federal District government:

The balance of loans granted to the Federal District government is composed of loans bearing interest at rates between TIIE + 0.20% and TIIE + 0.40%, which are analyzed as follows:

Starting date	Maturity date		December 31, 2004	December 31, 2003
September 18, 2001	August 31, 2015	$	3,001	3,164
January 1, 2002	August 29, 2015		2,496	2,631
September 30, 2002	September 30, 2016		63	68
September 11, 2002	September 12, 2016		1,207	1,270
December 13, 2004	December 31, 2011		1,000	-
		$	7,767	7,133

(Continued)

(Millions of constant Mexican pesos as of December 31, 2004)

Mexican government support programs:

As a result of the economic crisis in 1995, the Mexican government and the Asociación de Banqueros de México, A. C. (the Mexican Bankers' Association) established loan support programs and agreements, to assist debtors of credit institutions in meeting their obligations. The programs and agreements established were as follows:

- Immediate Support Program for Bank Debtors (ADE).
- Credit Support Program for the Domestic Productive Plant (PACPPN).
- Financial Support and Promotion for Micro, Small and Medium-sized Companies (FOPYME).
- Financial Support to the Agricultural, Cattle-raising and Fishery Sector (FINAPE).
- Additional Benefits to Housing Loan Debtors (BADCV).

Subsequently, other programs were established such as the Benefits for Bank Debtors of the Agricultural, Cattle-raising and Fishery Sector, the Benefits for Corporate Loan Debtors and the Agreement for Benefits to Housing Loan Debtors ("Punto Final").

The financial support programs and agreements consist of discounts granted to debtors, which are generally absorbed proportionately by the Mexican government and the Bank, in accordance with the terms of each program. Certain discounts are conditional subject to the net cash flows contributed by the Bank to the specific economic sector. As of December 31, 2004 and 2003, receivables from the Mexican government in connection with discounts granted are as follows:

	2004	2003
Unconditional receivables:		
Related to BADCV and BADCVF	$ 333	378
Related to FOPYME	–	1
Related to FINAPE	–	2
	$ 333	381

The Bank's cost associated with the various debtor support programs and agreements for the years ended December 31, 2004 and 2003, is shown on the next page.

(Millions of constant Mexican pesos as of December 31, 2004)

	2004	2003
FOVI	$ 38	43
Residential mortgages	21	26
FOPYME	–	1
FINAPE	–	1
	$ 59	71

(f) ***UDI Trusts restructured loans-***

The Bank participated in several loan-restructuring programs established between the Mexican government and the Mexican banks. The Bank underwrote restructuring programs that consisted mainly of changing peso-denominated loans to UDIS through trusts created with funding provided by the Central Bank at preferential interest rates. At December 31, 2004 and 2003, the outstanding balances of restructured loans under UDI Trusts are analyzed as follows:

	2004		
	Loan portfolio		Average annual
	Current	Past due	interest rate
States and municipalities	$ 215	–	6.45%
Residential mortgages	2,779	491	9.04%
Individual loans	106	3	9.57%
	$ 3,100	494	

	2003		
	Loan portfolio		Average annual
	Current	Past due	interest rate
Domestic productive plant	$ 447	13	6.20%
States and municipalities	229	–	7.50%
Residential mortgages	2,711	1,089	8.91%
Individual loans	117	13	9.61%
	$ 3,504	1,115	

(Continued)

(Millions of constant Mexican pesos as of December 31, 2004)

(g) ***Additional loan portfolio information-***

Annual weighted lending rates:

Annual weighted loan rates during 2004 and 2003 were as follows:

	2004	**2003**
Commercial loans	7.56%	7.34%
Personal loans	14.73%	14.60%
Credit card	25.15%	23.85%
Residential mortgages	11.16%	11.52%

Loans rediscounted with recourse:

The Mexican Government has established certain funds to promote the development of specific areas of the agriculture, cattle-raising, industrial and tourism sectors, which are managed by the Central Bank, Nacional Financiera, S.N.C., Banco Nacional de Comercio Exterior (Bancomext) and Fideicomisos Instituidos en Relación con la Agricultura (FIRA) by rediscounting loans with recourse. At December 31, 2004 and 2003, the amount of loans granted under these programs aggregated $3,630 and $5,447, respectively, and the related liability is included in "Bank and other loans" (see note 15).

Restructured loans:

At December 31, 2004 and 2003, restructured loans and renewals are analyzed as follows:

	2004		
	Current loans	**Past due loans**	**Total**
Commercial loans	$ 6,226	43	6,269
Residential mortgages	39	13	52
	$ 6,265	56	6,321

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	2003		
	Current loans	Past due loans	Total
Commercial loans	$ 6,699	350	7,049
Government entities	230	–	230
Residential mortgages	2,862	1,112	3,974
	$ 9,791	1,462	11,253

For the years ended December 31, 2004 and 2003, no past due interest was capitalized.

During the year ended December 31, 2004, a commercial loan totaling $396 (nominal) was restructured by modifying the term and the interest rate, granting a reduction of $56. During the year ended December 31, 2003, there were no material restructures in commercial loans, and no cases in residential mortgages and consumer loans.

Risk concentration:

At December 31, 2004, balances due from four debtors individually exceed 10% of the Bank's basic capital (three in 2003). The balance of those loans as of December 31, 2004 and 2003 is $5,112 and $2,865, or 55.94% and 38.90% of the basic capital, respectively. The balance of the loans granted to the three largest debtors as of December 31, 2004 amount to $4,150.

Past due loan portfolio:

The table shown on the next page analyzes past due loans at December 31, 2004 and 2003, from the date the loans went past due.

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December 31, 2004

		1 to 180 days	181 to 365 days	1 to 2 years	Over 2 years	Total
Commercial*	$	133	3	415	173	724
Consumer		160	22	–	–	182
Residential mortgages		120	92	122	486	820
Other past due debt		11	3	2	3	19
	$	424	120	539	662	1,745

December 31, 2003

		1 to 180 days	181 to 365 days	1 to 2 years	Over 2 years	Total
Commercial*	$	55	420	158	389	1,022
Consumer		66	7	1	38	112
Residential mortgages		875	110	121	746	1,852
Other past due debt		3	1	1	17	22
	$	999	538	281	1,190	3,008

* Includes commercial loans, loans to financial institutions and government entities.

The movement of the past due loan portfolio for the years ended December 31, 2004 and 2003 is summarized on the next page.

(Millions of constant Mexican pesos as of December 31, 2004)

	2004	2003
Balance at beginning of year	$ 3,008	3,340
Settlements	(118)	(501)
Write-offs and debt reductions	(657)	(374)
Transfers (to) from current portfolio	(390)	577
Foreign exchange loss	(98)	(34)
	$ 1,745	3,008

Nominal interest on the past due loan portfolio not recognized in results of operations for the year ended December 31, 2004 amounted to $163 ($220 in 2003).

Impaired loans:

The balance of impaired commercial loans as of December 31, 2004 and 2003 is $1,361 and $1,978, of which $630 and $956 are recorded in current loans, and $731 and $1,022 are past due loans, respectively.

(h) Allowance for loan losses-

As explained in notes 2(i) and 23(c), the loan portfolio is classified and an allowance is established to provide for credit risks associated with the collection of the Bank's loan portfolio.

At December 31, 2004 and 2003, the allowance for loan losses classified between general and specific reserves according to the criteria mentioned in note 2(i), is as follows:

	2004		2003	
Loan portfolio	General	Specific	General	Specific
Commercial	$ 170	930	632	634
Consumer	56	289	243	9
Residential mortgages	38	688	207	690
	$ 264	1,907	1,082	1,333
	$ 2,171		2,415	

(Continued)

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At December 31, 2004, the graded loan portfolio is classified as follows:

Degree of risk	Graded loan portfolio: Commercial*	Consumer	Residential mortgages	Total
A-1/A	$ 12,298	11,063	10,957	34,318
A/2	11,639	–	–	11,639
B-1/B	3,587	686	1,902	6,175
B-2	421	–	–	421
B-3	233	–	–	233
C-1/C	401	181	208	790
C-2	319	–	–	319
D	74	149	341	564
E	371	32	358	761
Total portfolio graded	$ 29,343	12,111	13,766	55,220

At December 31, 2004, the allowance for loan losses is summarized as follows:

Degree of risk	Allowance for loan losses: Commercial*	Consumer	Residential mortgages	Total
A-1/A	$ 61	56	38	155
A/2	109	–	–	109
B-1/B	124	69	43	236
B-2	32	–	–	32
B-3	31	–	–	31
C-1/C	137	82	48	267
C-2	191	–	–	191
D	44	107	239	390
E	371	31	358	760
Total portfolio graded	$ 1,100	345	726	2,171
Additional reserves (including, among other items, past due interest and reserve for yield on highway bonds of $232)				675
Global reserves (see note 23b)				452
Total allowance for loan losses				$ 3,298

* Includes commercial, financial institutions and government entities.

(Continued)

(Millions of constant Mexican pesos as of December 31, 2004)

At December 31, 2003, the graded loan portfolio is classified as follows (nominal):

	Graded loan portfolio			
Degree of risk	Commercial*	Consumer	Residential mortgages	Total
A - Minimum	$ 21,223	9,429	7,764	38,416
B - Low	825	742	2,154	3,721
C - Medium	1,258	135	284	1,677
D - High	4	69	892	965
E - Loss	519	9	–	528
Total portfolio graded	$ 23,829	10,384	11,094	45,307

At December 31, 2003, the allowance for loan losses is summarized as follows:

	Allowance for loan losses			
Degree of risk	Commercial*	Consumer	Residential mortgages	Total
A - Minimum	$ 141	47	34	222
B - Low	64	74	107	245
C - Medium	472	61	85	618
D - High	4	49	624	677
E - Loss	519	9	–	528
Total portfolio graded	$ 1,200	240	850	2,290

Additional reserves (including, among other items, past due interest and reserve for yield on highway bonds of $232)	693
Global reserves	599
Total allowance for loan losses	3,582
Restatement for inflation	195
	$ 3,777

* Includes commercial, financial institutions and government entities.

(Continued)

(Millions of constant Mexican pesos as of December 31, 2004)

The movement of the allowance for loan losses for the years ended December 31, 2004 and 2003 (nominal) is summarized below:

	2004	2003
Balance at beginning of year	$ 3,582	3,687
Provisions charged to results of operations	550	103
Recoveries	218	246
Write-offs and debt reductions	(1,117)	(542)
Other	65	88
Subtotal	3,298	3,582
Restatement for inflation	–	195
Balance at year end	$ 3,298	3,777

(11) Foreclosed assets-

At December 31, 2004 and 2003, foreclosed assets are as follows:

	2004	2003
Premises	$ 369	445
Chattels	7	8
Securities	3	6
Assets under enforceable promise to sell	58	74
Income from foreclosed assets	(11)	(10)
	426	523
Allowance for impairment of assets	(149)	–
	$ 277	523

The movement of the allowance for impairment of assets for the year ended December 31, 2004 (nominal) is analyzed as follows:

Balance at beginning of year	$ –
Transfer of provision recorded in liabilities	13
Additional provisions for the passage of time:	
Charged to unappropriated retained earnings (see note 3)	91
Charged to operations for the year	45
Balance at year end	$ 149

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(12) Premises, furniture and equipment-

Premises, furniture and equipment at December 31, 2004 and 2003 are analyzed as follows:

	2004	2003	Annual depreciation rate
Office premises	$ 1,934	1,927	Various
Office furniture and equipment	564	529	10%
Computer equipment	643	685	30%
Transportation equipment	22	26	25%
Telecommunications equipment	120	118	10%
Leasehold improvements	332	300	10%
Construction in progress	1	10	
	3,616	3,595	
Accumulated depreciation and amortization	(1,540)	(1,492)	
	$ 2,076	2,103	

Depreciation and amortization charged to income in 2004 and 2003 amounted to $132 and $193, respectively.

(13) Permanent investments in shares-

Permanent investments in shares, classified by activity, are analyzed as follows:

	2004	2003
MexDer transactions	$ 252	175
Security and protection	84	200
Banking related services	62	57
Brokerage related services	45	44
Mutual funds	20	19
Other	4	10
	$ 467	505

(Continued)

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(14) Deposit funding-

At December 31, 2004 and 2003, time deposits are composed of the following:

		2004	2003
General public	$	40,880	37,359
Money market		3,495	3,420
	$	44,375	40,779

The average weighted interest rates on deposit balances during the years ended December 31, 2004 and 2003 are as follows:

	2004 Rates		2003 Rates	
	Pesos	Dollars	Pesos	Dollars
Demand deposits	1.78%	0.61%	1.97%	0.56%
Savings deposits	0.73%	–	1.28%	–
Time deposits	5.25%	0.74%	4.53%	0.73%
Money market	6.23%	–	6.89%	–

At December 31, 2004, the money market funding consists primarily of Mexican peso promissory notes with interest payable at maturity and terms ranking from 1 to 999 days (1 to 728 days in 2003) and CEDES time deposits with terms ranking from 60 to 999 days (60 to 899 days in 2003).

(15) Bank and other loans-

At December 31, 2004 and 2003, bank and other loans are analyzed as follows:

		2004	2003
Due on demand and short-term:			
Pesos:			
Banco de México [1]	$	4,500	–
Development banks*		410	75
Development agencies*		281	309
Accrued interest		7	11
Total due on demand and short-term in pesos, carried forward	$	5,198	395

* [1] – see next page.

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		2004	2003
Due on demand and short term in pesos, brought forward	$	5,198	395
Denominated in dollars:			
Foreign banks		99	327
Development agencies*		85	55
Development banks – interbank (2)		223	–
Accrued interest		7	6
Total due on demand and short-term		5,612	783
Long-term:			
Pesos:			
Development banks*		623	471
Development agencies*		3,758	4,228
		4,381	4,699
Denominated in dollars:			
Development banks*		–	11
Development banks – interbank (2)		223	474
Development agencies*		11	–
Total long-term		4,615	5,184
Total bank and other loans	$	10,227	5,967

* Secured by loans granted under the respective programs (see note 10g).

(1) At December 31, 2004, the loans from Banco de México had average terms of 9 days.

(2) The balance at December 31, 2004 and 2003 is composed of two loans granted by Bancomext for USD20 million each that mature in July 2005 and August 2007, bearing interest at LIBOR plus 1.3% and 1.5%, plus the equivalent to the income tax rate, respectively. Interest is payable semi-annually in January and July and February and August, respectively. During 2004 and 2003, interest was paid of USD 1,097 (thousand) and USD 1,282 (thousand), respectively.

(Continued)

(Millions of constant Mexican pesos as of December 31, 2004)

At December 31, 2004 and 2003, current average annual interest rates are as follows:

	2004 rates		2003 rates	
	Pesos	Foreign currency	Pesos	Foreign currency
Banco de México	8.65%	–	–	–
Development banks	11.12%	3.50%	10.37%	2.77%
Development agencies	8.16%	2.49%	5.75%	1.22%
Foreign banks	–	2.40%	–	1.25%

(16) Pensions, seniority premiums and post-retirement benefits-

The components of the net periodic cost for the years ended December 31, 2004 and 2003 are as follows (nominal):

	2004		2003	
	Pensions and seniority premiums	Medical benefits, food vouchers & life insurance for retirees	Pensions and seniority premiums	Medical benefits, food vouchers & life insurance for retirees
Service cost	$ 55	32	49	23
Interest cost	82	50	78	33
Return on plan assets	(85)	(39)	(77)	(34)
Amortization of variances in assumptions and experience	1	14	1	2
Net periodic cost	$ 53	57	51	24

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At December 31, 2004 and 2003, benefit obligations are analyzed as follows (nominal):

	2004		2003	
	Pensions and seniority premiums	Medical benefits, food vouchers & life insurance for retirees	Pensions and seniority premiums	Medical benefits, food vouchers & life insurance for retirees
Projected benefit obligations (PBO)	$ 1,809	1,105	1,716	711
Plan assets at market value	1,831	865	1,689	746
PBO in excess of (less than) plan assets	(22)	240	27	(35)
Unamortized items:				
Prior services and plan modifications	(13)	–	(13)	–
Variances in assumptions and experience	35	(307)	(14)	(29)
Transition asset	–	67	–	64
Net projected asset (liability)	$ –	–	–	–

Rates used in the actuarial projections are:

	2004	2003
Yield on plan assets	5.0%	5.0%
Discount rate	5.0%	5.0%
Rate of increase in compensation	1.0%	1.0%
Medical expense increase rate	3.0%	3.0%
Estimated inflation rate	4.0%	4.4%

In fiscal 2004, the amortization period for unamortized items is 16.9 years for pensions, medical benefits, food vouchers and life insurance for retirees, and 8.6 years for seniority premiums.

(Continued)

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(17) Related-party transactions-

During the normal course of business, the Group carries out transactions with related parties. According to the Group's polices, the Bank's Board of Directors authorizes all credit transactions with related parties, which are granted at market rates with guarantees and terms in accordance with sound banking practices.

At December 31, 2004 and 2003, principal balances with related parties are for bank loans granted of $773 and $346, respectively, and bank loans received of $32, in 2003. Principal income and expense items arising from related-party transactions in the years ended December 31, 2004 and 2003 were the interest earned and payable on these loans.

(18) Income tax (IT), asset tax (AT), and employee statutory profit sharing (ESPS)-

Under current Mexican tax law, corporations must pay the grater of IT or AT. For determining taxable income for IT purposes, there are specific rules relating to the deductibility of expenses and the recognition of the effects of inflation.

On May 19, 2004, the Bank was awarded a favorable court ruling on a proceeding with respect to articles 16 and 17, last paragraph of the IT Law passed in 2003. Accordingly, the Bank may determine its profit sharing basis using the taxable income as determined under article 10 of the abovementioned Law. Consequently, the basis for calculating employee statutory profit sharing will be the same as that used to determine IT payable.

Current IT, AT and ESPS expense:

The current IT, AT and ESPS expense in the consolidated statement of income is analyzed as follows:

	2004		2003	
	Taxes	ESPS	Taxes	ESPS
Bank and subsidiaries	$ 44	–	29	260
Brokerage Firm	84	25	80	24
Other subsidiaries	3	1	6	–
Restatement for inflation	6	1	4	22
	$ 137	27	119	306
	$ 164		425	

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The AT Law establishes a 1.8% tax rate on restated assets, less certain liabilities. AT payable in excess of IT for the year may be recovered in the ten succeeding years, restated for inflation, provided that IT exceeds AT in any of such years. Due to uncertainty of its recovery, the AT for 2004 and 2003 of \$16 and \$29 (nominal), respectively, was charged to results of operations for those years.

Following is a condensed reconciliation between the Group's consolidated accounting income and taxable income for IT and ESPS purposes (nominal):

	2004		2003	
	IT	ESPS	IT	ESPS
Income before taxes, ESPS and equity in the results of operations of non consolidated subsidiaries and associated companies (excluding ESPS for those entities with no employees)	$ 2,326	294	2,165	2,131
Accounting effects of inflation	383	32	194	170
Tax effects of inflation	(410)	(39)	38	(22)
Valuation of financial instruments	(116)	(18)	23	23
Depreciation and amortization	46	(8)	62	(7)
Non-deductible expenses	841	18	507	499
Recoveries and other	(623)	(15)	12	44
Taxable income before tax loss carryforwards	2,447	264	3,001	2,838
Utilization of prior years' tax loss carryforwards	(2,098)	–	(2,749)	–
Taxable income	$ 349	264	252	2,838
IT payable at 33% and 34%	$ 115		86	
ESPS payable at 10%		$ 26		284

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Deferred IT and ESPS:

The deferred IT and ESPS income for the years ended December 31, 2004 and 2003 comprises the following:

	2004	2003
Valuation of financial instruments	$ 15	(2)
Expense accruals	51	60
Premises, furniture and equipment	(10)	32
Unearned fees collected	(15)	17
Foreclosed assets	38	–
Other	37	(4)
	116	103
Decrease (increase) in valuation allowance	133	(47)
	$ 249	56

The deferred tax asset (liability) at December 31, 2004 and 2003 comprises the following:

	2004	2003
Valuation of financial instruments	$ (6)	(21)
Expense accruals and other	168	117
Premises, furniture and equipment	(192)	(182)
Unearned fees collected	72	87
Foreclosed assets	42	4
Other	(1)	(39)
	83	(34)
Valuation allowance	(42)	(175)
	$ 41	(209)

(Continued)

Other considerations:

According to the IT Law, tax losses, restated for inflation, may be carried forward to offset the taxable income of the ten succeeding years. At December 31, 2004, there are tax loss carryforwards which originated from 1995 through 2000; however, as a result of the agreement between the Bank of Nova Scotia ("BNS") and IPAB, the Group shall not benefit from tax losses sustained in fiscal years between June 30, 1996 and December 31, 1999 without the prior written consent of the IPAB. Should the Bank derive any economic benefit from the carryforwards of such tax losses, the IPAB will be paid an amount similar to the economic benefit received.

For the years ended December 31, 2004 and 2003, tax losses carryforwards of $2,098 and $2,747 (nominal), respectively, were utilized which resulted in tax benefits of $692 and $934 (nominal) respectively, reported in the statement of income as a reduction of current income tax expense. The Bank does not recognize the potential AT benefit that as of December 31, 2004 and 2003 amounts to $146 and $130, respectively, because its realization depends on first utilizing all of the tax loss carryforwards.

In conformity with the IT Law as amended, the IT rate for fiscal 2005 will change from 32% to 30%, and will continue to decrease one percentage point per year to 28% in 2007.

In accordance with Mexican tax law, the tax authorities may examine transactions carried out during the five years prior to the most recent income tax return filed.

Corporations carrying out transactions with related parties, whether domestic or foreign, are subject to certain requirements as to the determination of prices, since such prices must be equivalent to those that would be used in arm's-length transactions.

(19) Stockholders' equity-

(a) Structure of capital stock-

At December 31, 2004 and 2003, the authorized capital stock is represented by 3,306,531,531 common, registered shares with no par value, divided into 1,818,592,342 Series "F" shares and 1,487,939,189 Series "B" shares.

(Continued)

The minimum fixed portion of capital stock is represented by 3,018,866,182 subscribed and paid shares - 1,660,376,400 Series "F" and 1,358,489,782 Series "B" shares. 287,665,349 shares - 158,215,942 Series "F" and 129,449,407 Series "B" shares, have not been paid and are held as treasury stock.

(b) Comprehensive income-

The comprehensive income reported in the consolidated statement of changes in stockholders' equity represents the results of the Group's activities during the year and includes the net income, plus the result of the valuation of available-for-sale securities and of non-monetary assets (premises, furniture and equipment and permanent investments in shares), and in 2004 the effect of the changes in accounting policy for foreclosed assets that was charged to unappropriated retained earnings as described in note 3.

(c) Restrictions on stockholders' equity-

No individual or entity may acquire direct or indirect control of Series "B" shares in excess of 5% of the Group's paid-in capital, through one or more simultaneous or successive transactions of any kind. If deemed appropriate, the SHCP may authorize the acquisition of a higher percentage, provided that it does not exceed 20% of the capital stock.

In conformity with the General Corporation Law, five percent of the Holding Company's net income for the year must be appropriated to the statutory reserves until such reserves reach 20% of the paid-in capital.

At December 31, 2004, stockholder contributions restated as provided for by the tax law aggregate $5,369, and may be reimbursed to the stockholders tax-free, to the extent that the tax basis of such contributions equal or exceed stockholders' equity.

Distributions in excess of the tax basis retained earnings (CUFIN) account, which at December 31, 2004 amounts to $2,850, are subject to income tax, payable by the Holding Company on behalf of the stockholders.

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The unappropriated retained earnings of subsidiaries may not be distributed to the Holding Company's stockholders until these are received by way of dividends from the subsidiaries. Also, unrealized gains from the valuation of investments in securities and derivative financial instruments may not be distributed until realized.

(d) ***Capitalization-***

The SHCP requires credit institutions to maintain a minimum capital as a percentage of assets at risk. The percentage is calculated based on the assigned risk in conformity with the rules established by Banco de México. Information relating to the Bank's capitalization follows:

Capital as of December 31:

	2004	2003
Stockholders' equity	$ 10,554.0	8,423.8
Investments in financial service entities and their holding companies	(255.9)	(179.3)
Investments in other companies	(50.2)	(85.5)
Intangible assets and deferred assets	(316.7)	(222.1)
Basic capital (Tier 1)	9,931.2	7,936.9
Excess of allowance for loan losses over past due portfolio – Supplementary capital (Tier 2)	238.4	574.0
Net capital (Tier 1 + Tier 2)	$ 10,169.6	8,510.9

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Assets at risk as of December 31, 2004:

	Risk weighted assets	Capital requirement
Market risk:		
Transactions in Mexican pesos at nominal interest rates	$ 15,697.6	1,255.8
Transactions in Mexican pesos at real interest rates or denominated in UDIS	26.3	2.1
Foreign currency transactions at nominal interest rates	162.5	13.0
Positions in UDIS or with returns linked to INPC	0.7	–
Foreign currency positions or with exchange rate indexed returns	1,225.0	98.0
Equity positions or with returns indexed to the price or a single share or group of shares	277.5	22.2
Total market risk	17,389.6	1,391.1
Credit risk:		
Group II (weighted at 20%)	2,489.5	199.2
Other (weighted at 50%)	16.3	1.3
Other (weighted at 10%)	389.3	31.1
Group III (weighted at 100%)	48,215.8	3,857.3
Other (weighted at 112%)	3,956.6	316.5
Total credit risk	55,067.5	4,405.4
Total market and credit risk	$ 72,457.1	5,796.5

Capitalization indices as of December 31:

	2004	2003
Capital to credit risk assets:		
Basic capital (Tier 1)	18.0%	16.4%
Supplementary capital (Tier 2)	0.4%	1.2%
Net capital (Tier 1 + Tier 2)	18.4%	17.6%

(Continued)

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	2004	2003
Capital to market and credit risk assets:		
Basic capital (Tier 1)	13.7%	13.2%
Supplementary capital (Tier 2)	0.3%	0.9%
Net capital (Tier 1 + Tier 2)	14.0%	14.1%

Capital adequacy is projected and monitored by the Strategic Planning function, which considers the various established limits vis-à-vis the net capital, with a view to avoiding any possible capital shortfalls and to taking any necessary measures to ensure that the capital is maintained at an adequate and sound level.

At December 31, 2004, the net capital structure improved as a result of the increase in stockholders' equity, which resulted mainly from the year's net income.

(20) Memorandum accounts-

Transactions on behalf of third parties-

(a) Customer securities-

The funds managed by the Brokerage Firm following customer instructions for investing in various financial instruments of the Mexican financial system are recorded in memorandum accounts.

Funds under management at December 31, 2004 and 2003 are as follows:

	2004	2003
Mutual funds	$ 13,374	13,643
Government securities	49,083	39,263
Equities and other	47,482	45,429
	$ 109,939	98,335

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Securities received as collateral at December 31, 2004 and 2003 are analyzed as follows:

		2004	2003
Government securities	$	945	899
Fixed-income debt securities		175	1
Equities		92	224
Mutual fund shares		75	79
	$	1,287	1,203

(b) Securities under repurchase/resell agreements-

At December 31, 2004 and 2003, securities under repurchase/resell agreements are as follows:

	2004			2003	
	Securities		Fair value	Securities	Fair value
Abs	–	$	–	40,425	7
Bban	4,804		1	4,804	1
Bpas	168,676,258		16,851	72,684,230	8,205
Bpat	38,560,827		3,848	11,163,303	1,657
Brem	114,589,803		11,425	57,007,951	6,548
Cetes	323,986,087		3,192	671,960,477	5,819
Ipas	6,300,000		631	–	–
LS	23,669,079		2,412	88,887	1,322
Lt	5,225,699		532	4,041,873	1,196
Mbon	27,017,233		2,959	2,906,062	1,911
Prlv	1,728,173,238		1,720	2,182,190,655	1,579
Udibono	18,135		8	–	–
		$	43,579		28,245

(Continued)

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(c) ***Investments on behalf of customers-***

As of December 31, 2004 and 2003, funds managed by the Bank following customer instructions for investment in different instruments of the Mexican financial system are recorded in memorandum accounts and are analyzed as follows:

		2004	2003
Equities and other	$	36,752	31,710
Government securities		27,940	10,998
Mutual funds		6,228	6,303
Bank securities not issued by the Bank		95	560
	$	71,015	49,571

The amount of any funds invested in the Group's own instruments forms part of the liabilities included in the consolidated balance sheet.

Transactions for own account-

(d) ***Irrevocable lines of credit and guarantees issued-***

At December 31, 2004, the Bank had irrevocable commitments to grant loans for $1,124, and had issued guarantees for $300 ($614 and $92, respectively, in 2003).

Allowances created at December 31, 2004 and 2003 for letters of credit and guarantees amount to $8 and $5, respectively, and are included in the allowance for loan losses.

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(e) ***Assets in trust or under mandate-***

The Bank's trust activity, recorded in memorandum accounts as of December 31, 2004 and 2003, is analyzed as follows:

		2004	2003
Trusts:			
Administrative	$	55,293	52,783
Guarantee		3,963	4,442
Investment		–	3
Other		84	72
		59,340	57,300
Mandates		475	520
	$	59,815	57,820

Trust revenue for the years ended December 31, 2004 and 2003 amounted to $83 and $114, respectively.

(f) ***Assets in custody-***

In this account, the Bank records property and securities in custody, guarantee or under management. As of December 31, 2004 and 2003, this account consists of:

		2004	2003
Securities in custody:			
Safe deposit box	$	819	906
General safe box		184	85
Investment		136	182
Other		945	934
		2,084	2,107
Securities in guarantee		38,795	30,226
Securities under management:			
Securities		39,619	35,860
Other		2,816	2,977
		42,435	38,837
	$	83,314	71,170

(Continued)

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(21) Additional information on operations and segments-

(a) Financial margin-

For the years ended December 31, 2004 and 2003, the financial margin consists of the following elements:

Interest income:

Interest income (nominal) for the years ended December 31, 2004 and 2003 is composed of the following:

		2004	2003
Cash and equivalents	$	721	612
Investment securities		500	933
Interest and premiums collected on securities purchased under agreement to resell		5,638	5,560
Loan portfolio		5,897	4,775
Other, including restatement for inflation		493	886
	$	13,249	12,766

An analysis of the loan portfolio interest and commission income by type of loan is shown below, for the years ended December 31, 2004 and 2003 (nominal):

		2004		2003	
		Current	Past due	Current	Past due
Commercial	$	2,036	5	1,224	5
Financial institutions		197	–	144	–
Consumer		1,796	15	1,185	7
Residential mortgages		1,269	7	877	17
Government entities		510	–	955	–
IPAB		61	–	360	–
Other past due debt		–	1	–	1
	$	5,869	28	4,745	30
		$ 5,897		4,775	

For the years ended December 31, 2004 and 2003, consumer loan interest income includes fees that represent a yield adjustment of $190 (thousand) and $166 (thousand), respectively.

For the years ended December 31, 2004 and 2003, total interest income includes interest denominated in foreign currency amounting to 28 and 26 million dollars, respectively.

Interest expense:

Interest expense (nominal) for the years ended December 31, 2004 and 2003 is comprised of the following:

		2004	2003
Demand deposits	$	552	565
Time deposits		1,733	1,535
Bank and other loans		508	477
Interest and premiums paid on securities sold under agreements to repurchase		4,812	4,652
Other, including restatement for inflation		248	538
	$	7,853	7,767

For the years ended December 31, 2004 and 2003, total interest expense includes interest denominated in foreign currency amounting to 1 and 3 million dollars, respectively.

(b) Financial intermediation income-

For the years ended December 31, 2004 and 2003, financial intermediation income is analyzed on the next page (nominal).

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		2004	2003
Valuation result:			
Investment securities	$	(2)	6
Securities repurchase/resell agreements		7	(4)
Trading derivatives		(2)	(2)
Unassigned securities pending settlement		1	(7)
Foreign currencies and precious metals		93	7
		97	–
Result from purchases and sales:			
Investment securities		358	476
Trading derivatives		6	14
Hedging derivatives		–	31
Foreign currencies and precious metals		290	322
		654	843
Restatement for inflation		21	62
	$	772	905

(Continued)

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(c) ***Other income-***

For the years ended December 31, 2004 and 2003, other income is analyzed as follows (nominal):

		2004	2003
Recoveries:			
Own residential mortgage support programs	$	3	19
Other		194	73
Income from sales of assets foreclosed or received in lieu of payment		117	94
Monetary position result arising from items not related to the financial margin		(21)	(33)
Sale of the acquiring business (see note 1)		–	85
Income from loan insurance		270	142
FDMS transactions		122	103
Distribution of mutual fund shares		70	73
Loans to employees		36	35
Food vouchers		36	27
Other, including restatement for inflation		534	415
	$	1,361	1,033

(d) ***Other expense-***

For the years ended December 31, 2004 and 2003, other expense is composed of the following (nominal):

		2004	2003
Write-offs and miscellaneous losses	$	68	189
Other, including restatement for inflation		7	43
	$	75	232

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(e) ***Financial ratios-***

Following are some principal quarterly financial ratios as of and for the years ended December 31, 2004 and 2003:

	2004			
	Fourth	**Third**	**Second**	**First**
Past due loan portfolio/Total loan portfolio	2.5%	2.6%	3.3%	3.4%
Allowance for loan losses/Past due loan portfolio	189.0%	204.2%	179.8%	178.1%
Operating efficiency (*administrative and promotional expenses/average total assets*)	6.9%	6.2%	5.6%	5.4%
ROE (*annualized net income for the quarter/ average stockholders' equity*)	26.6%	21.6%	23.7%	20.5%
ROA (*annualized net income for the quarter/ average total assets*)	3.0%	2.4%	2.5%	2.0%
Net capital/Assets at credit risk	18.5%	19.4%	19.6%	18.7%
Net capital/Assets at credit and market risks	14.0%	16.2%	15.8%	15.0%
Liquidity (*liquid assets/liquid liabilities*)	72.6%	76.9%	67.9%	60.5%
Financial margin after allowance for loan losses/Average earning assets	4.2%	5.1%	5.2%	5.0%

	2003			
	Fourth	**Third**	**Second**	**First**
Past due loan portfolio/Total loan portfolio	4.8%	4.9%	5.7%	5.5%
Allowance for loan losses/Past due loan portfolio	125.6%	124.0%	118.8%	126.1%
Operating efficiency (*administrative and promotional expense/average total assets*)	5.9%	5.8%	6.0%	5.9%
ROE (*annualized net income for the quarter/ average stockholders' equity*)	20.0%	23.6%	30.4%	19.2%
ROA (*annualized net income for the quarter/ average total assets*)	1.8%	2.2%	2.8%	1.6%
Net capital/Assets at credit risk	17.6%	17.2%	17.8%	17.2%
Net capital/Assets at credit and market risks	14.2%	12.2%	13.2%	13.3%
Liquidity (*liquid assets/liquid liabilities*)	65.0%	54.2%	47.6%	45.2%
Financial margin after allowance for loan losses/Average earning assets	5.1%	6.3%	5.2%	5.3%

(Continued)

(22) Commitments and contingencies-

(a) Litigation-

The Group is involved in a number of lawsuits and claims arising in the normal course of business. It is not expected that the final outcome of these matters will have a significant adverse effect on the Group's financial position and results of operations. Certain cases are covered by an indemnity clause of the agreement with the IPAB.

The Bank is awaiting official notification of the final resolution on the proceeding (*amparo*) that was filed against the adjustments ordered by the Banking Commission on accounting imbalances in certain UDI Trusts. These imbalances arose from changes in the terms requested by the debtors for residential mortgage loan restructuring processes carried out by the Bank in 1997. In such restructuring process, all relevant benefits were granted in conformity with each program and the new terms, including any additional benefits which were granted with the Bank's own funds. The court dismissed the Bank's appeal, because, among other things, it considered that the adjustments resulted from a contractual relationship under which the Bank had failed to advise of the changes in a timely manner. The adjustment and the contractual penalty amount to $121, which has been provided for as of December 31, 2004, with $101 included in global reserves and $20 included in provisions for miscellaneous obligations.

<u>*Creditable VAT claim*</u>

During 2004 the Bank and the Brokerage Firm obtained favorable final resolutions as to the method used to determine the recoverable value-added tax (VAT) factor. Such decision confirms the right to fully recover the VAT paid during the period from January 1, 2003 to July 31, 2004, which amounts to $479 and $22 for the Bank and the Brokerage Firm, respectively ($317 and $15 after IT effect, respectively). The recoverable VAT is recorded in memorandum accounts in the case of the Bank, and will be recognized by both in results of operations upon collection.

(b) Personnel benefits-

Those arising from the obligations mentioned in the last paragraph of note 2(q).

(Continued)

(c) Responsibility agreement-

The Holding Company has entered into an agreement with its subsidiaries, whereby it undertakes to be jointly and severally responsible for compliance with the obligations that according to the applicable provisions are inherent to the activities of each of the Group's financial entities. In addition, the Holding Company agrees to unlimited and several responsibility for the losses of each and every one of these financial entities.

(23) Risk management-

The purpose of the comprehensive risk management function is to identify and measure risks, monitor the impact that these risks may have on the operations and control their effects on income and shareholder value by applying the best mitigating strategies available, and the incorporation of a risk culture in daily transactions.

The ultimate purpose of the Group is to generate shareholder value by maintaining the organization's stability and creditworthiness. Sound financial management increases the profitability of performing assets, helps maintain appropriate liquidity levels and provides control over exposure to losses.

In compliance with the provisions issued by the Banking Commission and the guidelines established by BNS, the Group continues to implement a series of actions designed to strengthen the comprehensive risk management function and thus identify and measure, monitor, transfer and control the credit, liquidity and market risk exposure and other risks arising from day-to-day transactions, including compliance with regulatory requirements and other legal matters.

The Board of Directors is responsible for establishing the Group's risk management policies as well as the overall risk level to which the Group is exposed and for approving related policies and procedures, at least once a year. The Board of Directors is also responsible for establishing the structure of limits for the various types or risks; such limits may be based on value-at-risk, volumetric or notional amounts and are established in relation to the Group's stockholders' equity. Furthermore, pursuant to the policies in force, the Board of Directors entrusts the implementation of the procedures designed to measure, manage and control risks to the Risk Management Committee and the Comprehensive Risk Management Unit (UAIR).

In turn, the Risk Management Committee assigns responsibility for monitoring the compliance with the policies and procedures for market and liquidity risks to the Asset-Liability and Risk Committee (CAPA). Furthermore, the Comprehensive Risk Management Unit has policies in place for reporting and correcting any deviations from the specified limits. Such deviations must be reported to the Risk Management Committee and the Board of Directors.

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(a) *Market risk-*

The purpose of the market risk management function is to identify, measure, monitor, and control risks arising from interest and exchange rate and market price fluctuations and other risk factors that are present in the money, foreign exchange, capital and derivative instruments markets, in which the Group maintains positions for its own account.

The CAPA performs weekly reviews of the various activities that represent market risks for the Group, focusing on the management of assets and liability positions reported in the consolidated balance sheet in connection with credit, funding and investing, as well as securities trading activities.

Derivative instruments are valuable risk management tools for the Group and its customers. The Group uses derivative instruments to control the market risk originating from its funding and investing activities, as well as to reduce funding-related costs. To control interest rate risks inherent in fixed-rate loans, the Group enters into interest rate swaps and futures and forward contracts. Forward foreign exchange contracts are also used to control exchange rate risks. The Group trades derivative instruments on behalf of its customers and also maintains positions for its own account.

Market risk management in securities trading activities- The Group's securities trading activities are directed primarily to providing service to its customers. Accordingly, to meet its customers' demand, the Group maintains positions in financial instruments and holds inventory of financial instruments for trading purposes. Access to market liquidity is available through offers to buy from and sell to other intermediaries. Even though these two activities represent transactions the Group carries out for its own account, they are essential to allow customers access to markets and financial instruments at competitive prices. In addition, the Group has treasury positions invested in the money and capital markets so that surplus cash generates the maximum yields in the Group's income. In general, trading positions are taken in liquid markets, which avoid high costs at the time such positions are liquidated. The trading securities portfolio (fixed and variable income and derivative instruments) is marked to market on a daily basis.

The Group applies a series of techniques designed to assess and control the market risks to which it is exposed in the normal course of its activities. The Risk Committees both of the Group in Mexico and of BNS in Toronto and the Board of Directors authorize individual limit structures for each of the financial instruments traded in the markets and by business unit. The limit structure considers mainly volumetric or notional amounts for value at risk, stop loss, diversification, stress, intraday, marketability, precious metals, and other limits.

The value at risk (VaR) is an estimate of the potential loss of value within a specific level of statistical confidence that might arise from maintaining a specific position during a specific period of time (the holding period) under normal market conditions. VaR is calculated daily on all of the Group's risk-exposed financial instruments and portfolios using the Risk Watch methodology developed by Algorithmics.

VaR is calculated using the historical simulation method, with a 300-working day time span. In order to conform to the measurement methodologies used by BNS, the Group calculates VaR considering a 99% confidence level and a 10-day holding period.

Since VaR is used to estimate potential losses under normal market conditions, stress testing is performed monthly assuming extreme conditions, with the purpose of determining risk exposure under unusually large market price fluctuation (volatility changes and the correlation among risk factors). The Risk Committee has approved the stress limits and scenarios.

For purposes of marking the Group's positions to market, a price vendor has been contracted to determine prices using technical and statistical methods as well as valuation models authorized by the Banking Commission. During 2004 the authorized limits and the average and maximum VaR levels (in millions of nominal pesos, except for foreign currency forwards and futures which are expressed in millions of collars) are as follows (unaudited data):

Market	Average position	Maximum position	Average limit	Average VaR	VaR limit
Money market	49,334	66,172	85,000	62.5	130.0
Capital market[3]	64	192	240	4.7	30.0
Forward foreign exchange contracts (USD)[2]	793	1,499	1,700		
Foreign exchange futures[1]	1,647	3,111	10,000		
Foreign exchange (USD)	6	32	35	1.1	30.0
Foreign currency options (USD)	5	19	60	0.2	3.0
Interest rate swaps	3,069	5,537	8,000	3.1	11.5
Interest rate futures[1]	72,382	182,754	245,000		
IPC futures[1]	1,732	2,667	4,000		
IPC options[1]	864	1,704	2,000		

(1), (2) and (3) see next page.

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(1) The position and limit are expressed in number of contracts traded in MexDer.
(2) The Forwards position is a gross position (long + short) and Foreign Exchange position is net (long - short).
(3) In 2004 the Brokerage Firm issued IPC warrants averaging $1,020 million pesos (notional) with a maximum of $1,568 million pesos.

The Group's average global VaR (unaudited) during 2004 was $65.10 million pesos and the global VaR as of December 31, 2004 (unaudited) was $41.59 million pesos.

Market risk management in lending and borrowing activities – The interest rate risk originating from lending and borrowing activities is assessed weekly through analyses of the interest rate gaps derived from funding and investing activities. This weekly supervision function is supported by a risk assessment process, which includes simulation models and sensitivity analyses.

Simulation models help the Group assess interest rate risks dynamically. These models are applied mainly to the balance sheet position and consider hypotheses with respect to growth, mix of new activities, interest rate fluctuations, maturities and other related factors.

(b) Liquidity risk-

The Group's liquidity risks result from the funding, borrowing and securities trading transactions, such as demand deposits, maturities of time deposits, drawing against credit lines, settlement of transactions involving securities, derivative instruments and operating expenses. The liquidity risk is reduced to the extent that the Group is able to obtain funds from alternative financing sources at an acceptable cost.

Among the factors that are implicit in the strategy applied to liquidity risk management are assessing and anticipating commitments payable in cash, controlling asset and liability maturity gaps, diversifying sources of funding, establishing prudential limits and assuring immediate access to liquid assets.

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(c) ***Credit risk-***

Transactions with customers originate credit risk exposure. Such exposure is recorded in balance sheet and memorandum accounts. Exposure to credit risk recorded in the balance sheet consists primarily of loans granted, while that recorded in memorandum accounts includes guarantees issued, as well as any other financial instrument whereby a credit is extended to a third party.

The Group has developed policies and procedures to manage its loan portfolio risk level and composition, with the purpose of quantifying and managing the loan portfolio-related to credit risks and reducing the risk of loss resulting from a customer's failure to comply with the agreed terms.

Policies and procedures for granting, controlling and collecting loans, as well as evaluating and monitoring credit risk and the methods used to identify current or past due impaired commercial loans- The Group's credit risk management is based on the application of well-defined strategies to control this type of risk. Among these are the centralization of credit processes, the diversification of the portfolio, improved credit analysis, strict supervision and a credit risk-scoring model.

The Group has three different levels of credit authorizations: The Board of Directors, Credit Committee and the Credit Department. Each level is defined depending on the amount of the transaction, the type of borrower and the purpose for which the funds will be used.

The business areas prepare and structure the different proposals, which are analyzed and authorized by the Credit Department, or, if applicable, recommended to the corresponding authorization level, thus ensuring an appropriate separation between loan origination and the authorization of transactions.

The business areas also continually evaluate the financial situation of each customer, conducting an in-depth review and analysis of the inherent risk in each loan at least once a year. Should any impairment in a customer's financial situation be detected, the customer's grade is immediately revised. In this way, the Group identifies the changes that occur in the risk profile of each customer. Such reviews consider the overall credit risk, including derivative transactions and foreign exchange exposure. In the case of risks above the acceptable level, additional reviews are carried out more frequently, at least once a quarter.

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Loan risk concentrations- The Group has implemented policies and procedures to maintain a sound and diversified portfolio with a prudent and controlled risk. Among such policies are the setting of credit risk exposure limits, considering business units, currency, term, sector, etc. The limits are submitted annually to the Board of Directors for approval and their behavior is monitored and reported to the Risk Committee on a monthly basis.

Methodology used to determine allowances for loan losses- The Group uses a credit risk classification system derived from the BNS methodology in order to identify the level of risk of loans as well as to ensure that the yields from each loan are proportionate to the risk assumed. This also includes systems and strategies to grant loans and monitor the loan portfolio. These systems, processes and strategies are used in more than 50 countries. The Group also takes advantage of BNS experience in portfolio grading, estimating allowances and losses, adapted as appropriate to the laws and needs of the Mexican market.

This model considers the following risk factors: country risk, financial behavior, debt coverage, debtor management, overall strength (the customer's relation to the economic environment, competitiveness, strengths and weaknesses), account management, industry conditions and payment experience.

Such factors constitute an evaluation of the customer's risk profile and the result is obtained by applying an algorithm that considers such elements. This algorithm is the result of BNS experience, its statistical analysis and adaptation to the Mexican market.

The internal grading system (classified by "IG Codes") uses eight grades considered to be acceptable (IG 98 to IG 77), five to reflect a higher than normal risk (IG 75 to IG 60) and four considered to be unacceptable (IG 40 to IG 20). A correlation has been established between the internal grades and the levels of risk provided for by the Banking Commission's *General Provisions Applicable to the Loan Portfolio Rating Methodology* published in the Federal Official Gazette on August 20, 2004 ("the Provisions").

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(Millions of constant Mexican pesos as of December 31, 2004)

Through official document number 601-II-360447 dated November 30, 2004; the Banking Commission renewed the Bank's authorization to continue using its internal loan portfolio grading model for a two-year period beginning December 1, 2004. The internal grading model is applicable to the entire loan portfolio, except for loans granted to Federal and Municipal Entities, self-paying Investment Projects, trustees acting for Trusts, and "structured" loan schemes which permit the assessment of the related risk, which are individually graded in accordance with the methodologies prescribed in articles 24, 26 and 27 of the Provisions. From December 2004 loans are graded and provided for in accordance with articles 38 and 43 of the aforementioned Provisions.

The chart below shows the correlation between the internal grades and those established in the aforementioned Provisions:

Grade	IG Code	Banking Commission
Excellent risk	98	A-1
Very good risk	95	A-1
Good risk	90	A-1
Satisfactory risk	87	A-1
High adequate risk	85	A-2
Medium adequate risk	83	A-2
Low adequate risk	80	B-1
Medium risk	77	B-1
High moderate risk	75	B-2
Medium moderate risk	73	B-2
Low moderate risk	70	B-3
Watch list	65	C-1
Special supervision	60	C-1
Sub-standard	40	C-2
High impairment	22	C-2
Doubtful recovery	21	D
Non-performing	20	E

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<u>*Description of each risk level:*</u>

Excellent Risk: Borrowers with the highest credit rating, outstanding financial structure and solid/consistent profitability. Their capacity for the timely repayment of debt is outstanding, which provides them with unrestricted access to the money and capital markets as well as to alternative financing sources. Management has sufficient experience and optimum performance. These borrowers are not vulnerable to changes in the environment of the country or of their economic sector.

Very Good Risk: Borrowers with a solid financial structure that generate sufficient funds and liquidity to cover short- and long-term debts; however, they depend on the Bank to a greater extent than excellent risk borrowers. The management team is competent, with the capacity to easily overcome moderate setbacks. They operate in a stable or growing economic sector.

Good Risk: Borrowers with a good financial structure, with consistent earnings and reliable cash flow. Their capacity to cover and service the debt is good. The management team has shown to be good, with adequate capabilities in critical areas. The characteristics of the economic sector and the country's economy are sound, without indications that may adversely affect them.

Satisfactory Risk: Borrowers with adequate financial structure and repayment ability. Their earnings are consistent with the industry average; but they are more susceptible to adverse economic conditions than borrowers in higher ratings. Management is competent and has the support of stockholders. The industry where they operate may be subject to cyclical trends.

High Adequate Risk: Borrowers who still have satisfactory ability to repay their loans and an adequate financial structure; their earnings are consistent, but below the industry average. Management team's capabilities to obtain profitable and efficient results are very satisfactory. The industry where they operate may be subject to cyclical trends.

Medium Adequate Risk: Borrowers whose timely repayment of principal and interest thereon is still guaranteed; however, their earnings are currently below the industry average, which suggests that their continued strength may be at risk. Management may be family-owned or professional and performance is fairly satisfactory, with management initiatives being supported by stockholders. The industry where they operate may be subject to cyclical trends.

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Low Adequate Risk: Borrowers whose financial structure, profitability and current funding are generally adequate. Operating cash flow are at the break-even point and show adequate levels to cover the debt; however, earnings are below the industry average. Management may have problems in overcoming setbacks, but it is still considered adequate. The industry where they operate may be subject to cyclical trends or be affected by applicable regulations.

Medium Risk: Borrowers that can easily meet their loan commitments in the short-term but whose payments in the long term are potentially uncertain; with growing leverage and lower debt capacity. Management meets the minimum risk criteria. The industry where they operate may be subject to cyclical trends or be affected by macroeconomic changes.

High Moderate Risk: Borrowers face a slight decrease in earnings, although they have good potential for successfully overcoming these difficulties. Operating cash flows are at the break-even point and suffice to timely meet their debt payments, but with a certain descending trend. Management shows mixed operating results and long-term prospects. The industry where they operate shows growth problems.

Medium Moderate Risk: Borrowers face growth problems or weak capitalization, have regular potential for successfully overcoming these difficulties, and although they are currently meeting their payment obligations in a timely manner; however, their funds rarely come from alternative sources and therefore their sustained repayment capacity is contingent. Management evidences certain weaknesses that make stockholders skeptical, to a certain degree, of their performance.

Low Moderate Risk: Borrowers whose financial structure shows clear signs of weakness that may adversely affect their capacity or willingness to meet their long-term payment obligations. They regularly use alternative funding sources, and payments are generally late. Management shows certain noteworthy weaknesses and share ownership may be concentrated in one single individual. The industry sector in which they operate is highly susceptible to changes in macroeconomic conditions.

Watch List: Borrowers whose financial structure is weak, the debt position is unbalanced and debt is overextended. They regularly require funding from non-routine sources, and repayment performance is weak. These borrowers meet the Bank's minimum acceptable requirements. Management performance is poor. Borrowers are vulnerable to any business and/or industry problems.

Special Supervision: Borrowers who have cash flow and liquidity problems that may require funding from alternative sources to prevent defaulting on their loans. Urgent changes are required in how the business is managed and its direction in order to combat the deterioration, which probably can be corrected in the medium term. Both the country and industry environment are frail. These customers definitely have unacceptable risks.

Sub-standard: Borrowers whose future feasibility is uncertain unless there are changes in their business activities, market conditions and management. Customers in this category call for substantial reorganization. Repayment history is bad and their loans are currently past due. The industry in which they operate faces temporary problems.

High Impairment: Borrowers with clear financial problems that put at risk compliance with the service of their debt, are susceptible to file bankruptcy proceedings, have defaulted on their payments and are highly dependent on alternative sources for meeting their loan repayment commitments. Management problems threaten the borrower's ability to continue as a going concern and so the impairment is deemed permanent. Viability of the industrial sector relies on structural changes.

Doubtful Recovery: Borrowers with permanent financial problems. Businesses in this category are likely to have ceased operating and so their payment performance is practically non-existent. Payments are up to one year past due and considered as doubtful recovery. Management is deficient and unreliable and the industry where they operate has been permanently affected.

Non-performing: Borrowers who have ceased making loan repayments and whose situation does not allow for restructuring. Management is ineffective or has shown clear signs of dishonesty. The industry where they operate faces permanent problems and so it is practically impossible to maintain the loan as a performing asset.

Part of the portfolio is exempt from grading, examples are: Mexican government sovereign debts, highway loan guaranteed by the Mexican government, and IPAB loans not arising from portfolio sales. No allowances are required for this portfolio.

The Group has implemented the CreditMetrics® methodology and adapted it to the conditions in Mexico. This methodology measures and controls the credit risk of the different segments of the loan portfolio.

- This methodology includes estimating expected and unexpected losses using measurements of the probability of the occurrence of credit events (transition matrices), including likelihood of non-compliance.

- A level of confidence of 99.75% over a one-year period is used to determine unexpected losses *("Credit VaR")*.

- The correlation between different economic sectors is used to measure the effect of the concentration in the commercial loan portfolio. Constant correlation assumptions consistent with international practices are made for the retail loan portfolio (credit card, personal and residential mortgage loans).

- Furthermore, stress testing is performed regularly as to both expected and unexpected losses.

<u>*Credit culture*</u>- To create and promote a credit culture, the Group has permanent training programs for personnel involved in the loan origination and authorization processes. Among such programs is required advanced training in commercial banking practices that provides support tools for the analysis and evaluation of credit risks, as well as decision-making workshops.

<u>*Implementation of prudent credit criteria*</u>- In accordance with the *Prudent Credit Provisions*, the Group has established control measures to timely identify, measure and limit the taking of risks derived from the credit activity in its different phases, which are documented in the Credit Policies and Procedures Manual and are constantly reviewed and updated, as well as submitted for approval by the Board of Directors annually.

(d) Operational risk-

In conformity with the *Prudent Provisions for Comprehensive Risk Management* applicable to credit institutions, published in the Federal Official Gazette on July 1, 2004, operational risk is a non-discretionary risk, which is defined as the potential loss resulting from internal control failures or deficiencies, errors in transaction processing or storage or in data transmission, as well as adverse administrative or legal resolutions, frauds or theft and includes, among other things, technological risk and legal risk on the understanding that:

1. Technological Risk is the potential loss arising from damage, interruption, alteration or failures as a result of use of or reliance on hardware, software, systems, applications, networks and any other data distribution channel for providing banking services to the institution's customers.

2. Legal Risk is defined as the potential loss resulting from failure to comply with applicable legal and administrative provisions, issuance of adverse administrative and judicial resolutions and penalties, in connection with the transactions carried out by the institutions.

Operational risk is inherent in all of the Group's businesses and key supporting activities, and may result in a potential financial loss, regulatory penalty and/or damage to the Group's reputation.

Operational risk losses can be categorized within the following types:

- Errors or failures in transaction processes, such as error in the amount paid to a customer and payments made to incorrect parties, that cannot be recovered;
- Legal liability arising from failure to comply with legal or contractual obligations, labor and social security laws;
- Fines and penalties for failure to comply with regulations or legislation;
- Losses resulting from fraud, theft or unauthorized activities; and loss of or damage to assets resulting from natural disasters, acts of terrorism (Barzon) or war, or other accidents.

The Group has established the following operational risk management policies to comply with the provisions set forth in the *Prudent Provisions for Comprehensive Risk Management*:

- Policies for Operational Risk Management - These policies primarily promote the risk management culture, particularly as to operational risk, so that the Group can measure, identify, monitor, limit, control and disseminate the operational risks inherent in the day-to-day activities.
- Policies for Obtaining Operational Risk Information - These policies define the requirements for reporting the information that supports the measuring processes, including the scope, functions and responsibilities of the units providing the information, as well as its classification and specific characteristics.

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Additionally, the Group has a structured methodology in place to identify and evaluate the operational risks to which it is exposed. The objectives of the methodology are as follows:

- Prioritize significant operational risks
- Establish explicit criteria to promote awareness of operational risks
- Establish plans to mitigate risks
- Comply with the requirements as established by Article 23, section I of the *Prudent Provisions for Comprehensive Risk Management*

Also, regular audits are performed by an experienced independent internal audit department, including comprehensive reviews of the design and operation of the internal control systems in all business and support groups; new products and systems, and the reliability and integrity of data processing operations.

Recognizing the need for a coordinated approach with respect to the emergence of new methodologies and advances in the area of operational risk, the Group has created an Operational Risk Sub-Committee with the overall responsibility for operational risk management.

This unit works together with groups of specialists and the business areas and has been instrumental in the preparation and application of new methods to identify, measure, value and manage operational risk. The initiatives includes the definition of a framework for identifying risks and the preparation of a centralized database of operating losses to assist in quantifying operational risk.